“The Distributitional Consequences of Government Spending”
Santanu Chatterjee and Stephen Turnovsky
Comments by Felix Rioja
Georgia State University
Relationship to literature

- Large literature on public investment and growth
  - Barro (1990); Glomm and Ravikumar (1994); Fisher and Turnovsky (1998); Rioja (1999)

- "evidence on the link between public investment and inequality is sparse, inconclusive, and largely anecdotal" (p.1)
Models must have heterogenous agents to figure out how public investment affects inequality.

This paper is the first to use a heterogenous agents model to analyze this question, so it makes an excellent contribution.
Motivation

Regardless of model, what is the intuition for the effect of public investment on distribution?
- Intro should discuss potential channels (story) at the beginning.

Within the model, what is the intuition?
- Is it that the rich own more capital so they benefit more from roads?
- Why is it that the return to capital is such an important determinant of inequality (Atkinson 2003)?
What country/group is the model parameterized to?

With $\alpha=0.6$ and $\epsilon=0.6$, the elasticity of public capital $\alpha(1-\epsilon)$ is 0.24

If calibrating to OECD, this is a little too high

If calibrating to developing countries, ok, though still on the higher side

There are more recent studies than the cited Gramlich (1994)

  * Bom and Ligthart (2009) list 67 papers that estimate this parameter. Range: 0.08 to 0.22

“A=0.6 yields a plausible growth rate of 2.29%”
  * Why not calibrate A to the average OECD growth rate?
Questions

• Symmetrical distribution of wealth from the model? Actual distribution is not.
  • US: Bottom 40% owns 1% of wealth; Top 20% owns 84%

Can the model be calibrated so the actual distribution of income is matched in the benchmark?
  ◦ Garcia–Peñalosa and Turnovsky (2006) do that using Romer’s endogenous growth model
Overall the paper is very innovative and makes an excellent contribution!