Fiscally Stable Income Distributions under Majority Voting and Bargaining Sets

Jean-Michel GRANDMONT, CNRS-CREST, Paris and ICEF,
Venice International University, Italy.

Abstract

We explore two variants of the Bargaining Set in a simple majority game on income distributions in order to understand the apparent stability of tax schedules in democratic societies, despite the fact that the core of such games is empty (no majority Condorcet winner). Those variants are sharper than in the literature (Mas-Colell (1989), Shitovitz (1989), Zhou (1994)), by requiring that counterobjections try to garantee their initial income levels to all members of the minority who stand to lose in an objection. A ...rst variant de...nes as usual an income disbribution to be stable if there is no objection against it that is "justi...ed", i.e. for which there is no counterobjection satisfying the above requirement. A second variant alllows objecting majorities to look one more step ahead. An objection is "weakly justi...ed" if, whenever there is a counterobjection, the objecting majority can beat it while guaranteeing their income levels to all its members. An income distribution is stongly stable if there is no weakly justi...ed objection against it.

These two variants generate sharper solution sets than when applied to large market games as in Mas-Colell (1989), Shitovitz(1989). An income distribution is stable if and only if its Lorenz curve has no point in common with the graph C of $f : [1/2, 1] \to [0, 1]$, with $f(b) = 1 - 1/(2b)$, for $b > 1/2$. It is strongly stable if and only if it is the egalitarian one.

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