Inequality, Business Cycles, and Growth: A Unified Theory of Fiscal Stabilization Policies
Wangner & Gaillard
Discussion

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The Question and the Framework

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  (ii) Innovation & growth: top taxes $\Rightarrow$ less innovation $\Rightarrow$ weaker growth

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⇒ ***Contribution:*** a unified HANK-G framework combining
- endogenous growth via entrepreneurial innovation
- nominal rigidities (sticky wages) generating demand-driven cycles
- heterogeneous households (differ in MPC *and* in innovation)

  - Tractable ***four-equations*** representation:
  dynamic IS, endogenous growth (EG), NK Phillips curve, and a Taylor rule

Theory: Three Stabilization Regimes

- Progressive financing acts through ***two opposing forces***:
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⇒ Three regimes (needs persistence $\rho > 0$ and income risk $s < 1$):

1. Dovish + progressive: output ↑ *and* growth ↑ (no trade-off)
2. More hawkish: output ↑ but growth ↓ (short- vs long-run ***trade-off***)
3. Insufficiently progressive: output ↓ and growth ↓ (ineffective on both)

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  - output multiplier $\mathcal{M}_y = 1.07$, growth multiplier $\mathcal{M}_g = -0.11$
  - switch time ≈ 8 quarters; permanent output loss $\approx -0.12\%$
  - welfare still $+0.37\%$ CEV, but gains concentrated at the bottom
  - robust across Taylor rules, rigidities, persistence, elasticities, incidence

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$\Rightarrow$ ***Welfare-maximizing incidence:*** tax the upper-middle class ($\sim$70th pctile)
- $\mathcal{M}_y = 1.22$, $\mathcal{M}_g = +0.02$, long-run output $+0.06\%$
- CEV $+0.60\%$ ($+62\%$ vs. progressive), and a ***Pareto improvement*** (every household gains, even those taxed)

How robust is the trade-off?

- In the paper, innovation and growth arise as follows:
- ▷ ***Toy model:*** investment I_t ($\downarrow$ w/ taxation)

$$g_{t+1} = \frac{A_{t+1}}{A_t} = 1 + \psi \frac{I_t}{A_t}$$

- ▷ ***Quantitative model:*** entrepreneur's investment x_{it} ($\downarrow$ w/ taxation), successful innovation with prob. $\zeta(x_{it}) = 1 - \exp(-\gamma x_{it})$

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- How are those responses calibrated?
  - Akcigit et al.: elasticity $\varepsilon_{P,1-\tau}$ of patents to P90 net-of-tax rate
  - Over the estimated range, the trade-off can disappear:
    $\varepsilon_{P,1-\tau} = 0.1 \;\rightarrow\; \mathcal{M}_g = 0.01$ vs. $\varepsilon_{P,1-\tau} = 0.5 \;\rightarrow\; \mathcal{M}_g = -0.19$
  - Parameter estimated for ***permanent*** tax changes; here the experiment is ***transitory***

Beyond the trade-off: recessions? government debt? R&D subsidy?

- The paper considers government / redistribution shocks:
  - Primarily, large expansions occur in ***recessions***, where monetary policy is already accommodative
  - More households are HtM, and aggregate demand is lower than "normal"
  - Possible experiments: government spending during TFP / demand (β) shocks?

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- Could a fiscal expansion be coupled with an R&D subsidy?
  - Fiscal expansion is *indirect*:
    tax on rich households $\rightarrow$ investment/R&D $x \rightarrow$ innovation A_{t+1}
  - R&D subsidy is *direct* and has pw

Models of innovation and growth

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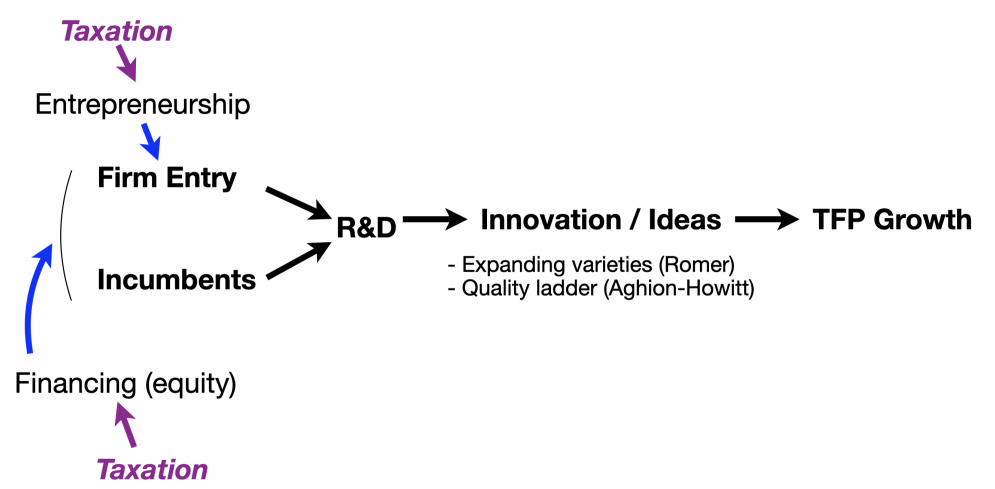


How taxation affects innovation

- Financing
  - Taxation and valuation: McGrattan, Prescott (2005)
  - Tax and asset pricing: Sialm
  - Taxation and corporate behavior: Maydew, Shackelford, Zhang
  - Fiscal policy, financial institutions and asset prices: Mainardi (2026)
- Taxation and innovation
  - Optimal corporate taxation and R&D: Akcigit, Hanley, Stantcheva (2022)
  - Taxation and the international mobility of inventors: Akcigit, Baslandze, Stantcheva (2016)
- Entrepreneurship
  - On the nature of entrepreneurship: Bhandari, McGrattan, et al. (2026)
  - What motivates entrepreneurs? Catherine (2022)
  - Transformative and subsistence entrepreneurs: Akcigit, Alp, Pearce, Prato (2025)
- Taxation and entrepreneurship
  - Entrepreneurial taxation with endogenous entry: Scheuer (2014)
  - Capital gains taxes and entrepreneurship: Azevedo, Scheuer, Smetters, Yang (2025)
  - Heterogeneous responses to capital gains taxation: Mainardi (2026)

Who Innovates? Transformative vs Subsistence Entrepreneurs (Akcigit et al.)

Figure 2: R&D Worker and Entrepreneur by IQ

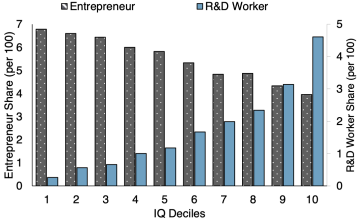


Figure 3: IQ and Entrepreneurship

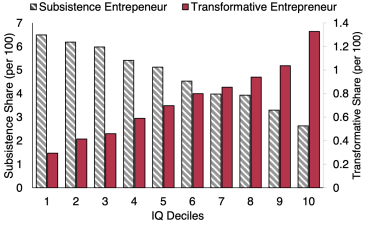
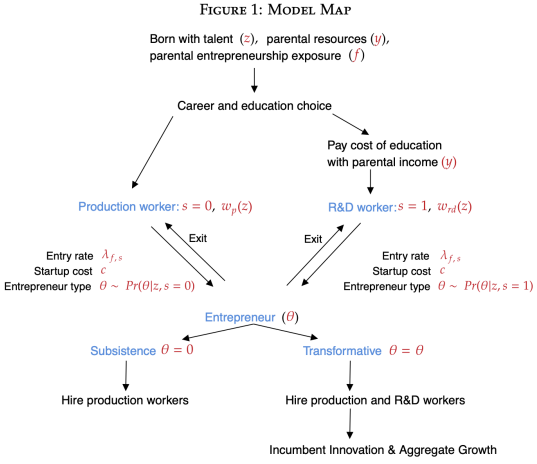
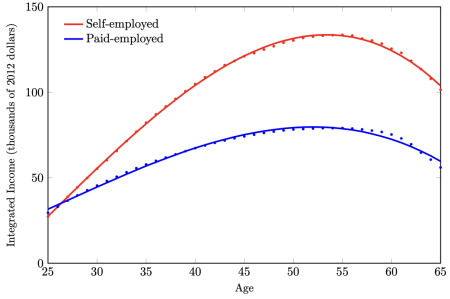


Figure 1: Model Map



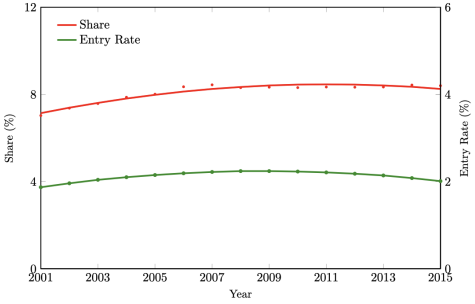
Who Innovates? On the Nature of Entrepreneurship (Bhandari et al.)

Figure 2: Estimated Income Profiles for Self- and Paid-Employed



Notes: The figure shows integrated income $Y_G(a)$ at each age a for two aggregated groups $\mathcal{G}$: individuals in the tried-self-employment subgroup (or "self-employed") and individuals in the primarily paid-employed subgroup (or "paid-employed"). Integrated income is defined in equation (9). See details of the group assignment in Section 4.2 and the estimation procedure in Section 4.1.

Figure 7: Self-Employment Shares and Entry Rates, 2000-2015



Notes: The figure shows two time series: (i) the share of the total population in IRS sample (C) of Table 1 categorized as self-employed using criteria (3) and (ii) the fraction of individuals whose status is paid- or non-employed in year $t-1$ and self-employed in year t. Age and time effects are extracted using the procedure outlined in Section 4.1.