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Democratic public good provision

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Abstract

This paper analyzes an overlapping generation model of redistribution and public good provision under repeated voting. Expenditures are financed through age-dependent taxation that distorts human capital investment. Taxes redistribute income both across skill groups and across generations. We focus on politico-economic Markov equilibria and contrast these with the Ramsey allocation under commitment. The model features indeterminate equilibria, with a key role of forward-looking strategic voting. Due to the lack of commitment to future policies, the tax burden may be on the wrong side of the dynamic Laffer curve. Moreover, restrictions on government policies can in some cases be welfare improving.

JEL classification: D72; D78; E62; H21; H41; H53

Keywords: Markov equilibrium; Political economy; Redistribution; Repeated voting; Multiple equilibria; Public good; Ramsey taxation

1. Introduction

This paper proposes a dynamic theory of public good provision when taxation and the allocation of government expenditure are determined in repeated elections. We consider an environment where government expenditure is financed by income taxation and the tax rates can vary across age groups. Since voters are heterogenous in human capital and earnings but benefit equally from public good provision, they have conflicting interests on government expenditure. The theory predicts rich dynamic interactions between economics and politics: distortionary taxation, which

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