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Financing of Public Goods through Taxation in a General Equilibrium Economy: Experimental Evidence

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Highlights

- In a dynamic general equilibrium public goods game with long-term investment opportunities endogenous determination of rates of taxation chosen by majority vote remain at an intermediate level between finite- and infinite-horizon optima, dropping marginally from around 20 to around 15 percent over time.
- The experimental economies sustain public goods at levels between the finite- and infinite-horizon optima.
- Both the payoff efficiency and production of private goods are higher when taxes are set endogenously instead of being exogenously fixed at the infinite horizon optimum level. When the tax is adapted to the finite horizon optimum each period, efficiency and production remain high especially in the latter half of each session.
- When subjects can choose between voluntary anonymous contributions and taxation, 23 out of 24 majority votes favor taxation.

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