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# Income redistribution and public goods provision under tax competition\*

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## Abstract

A standard result in existing literature is that public goods are under-provided under tax competition (see Zodrow and Mieszkowski, 1986). This paper shows that introducing redistribution concerns changes the result. Capital mobility reduces income redistribution by increasing the efficiency costs of capital taxation. If public goods have positive distributional effects, providing more public goods counteracts the negative effects of capital mobility. Moreover, under the condition that labor income and capital income are positively correlated, less income redistribution through capital taxation can be compensated by stronger taxation of labor income. As a result, a higher level of public goods is desirable if capital mobility increases.

*JEL classification:* H2, F2, H4

*Keywords:* public goods, redistribution, tax competition

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