

Contents

<i>List of Tables</i>	ix
<i>List of Figures</i>	xi
<i>Acknowledgements</i>	xiii

I Introduction

1 Introduction	3
1.1 Outline of the Book	8
2 Alternative Choice Mechanisms	13
2.1 Choice of Public Goods and Transfer Payment	16
2.1.1 Majority Voting	18
2.1.2 A Social Welfare Function	24
2.1.3 Stochastic Voting	31
2.2 Choice of Education and Transfer Payment.	38
2.2.1 Majority Voting	40
2.2.2 A Social Welfare Function	42
2.2.3 Stochastic Voting	43
2.3 Conclusions	44

II Voting Models

3 Transfer Payments and Public Goods	49
3.1 The Basic Model	52
3.1.1 Individual Consumption and Labour Supply	52
3.1.2 The Government Budget Constraint.	55
3.1.3 Indirect Utility	56

3.2	Collective Choice	57
3.2.1	Majority Voting	57
3.2.2	Numerical Examples	61
3.3	Voters Care About Inequality	63
3.3.1	Numerical Examples	66
3.4	Data and Empirical Results	68
3.4.1	The Data	68
3.4.2	Regression Results	74
3.5	Conclusions	75
4	The Role of Home Production	77
4.1	The Framework of Analysis	80
4.2	The Majority Choice of Tax Rate	84
4.2.1	The Median Voter's Choice	85
4.2.2	Variations in Beta	87
4.3	Voting on the Composition of Expenditure	91
4.4	An Endogenous Wage Rate Distribution	94
4.5	Conclusions	97
5	An Overlapping Generations Framework	99
5.1	Evidence on Expenditure Ratios	103
5.2	The Model	105
5.2.1	The Environment	105
5.2.2	The Social Contract	106
5.2.3	The Voting Equilibrium	108
5.2.4	Comparative Statics	111
5.3	Further Empirical Examination	113
5.3.1	Sensitivity to Parameter Values	113
5.3.2	Cross-country Comparisons	117
5.4	Conclusions	122

III Optimal Choice

6	The Optimal Expenditure Composition	127
6.1	The General Case	129
6.2	Cobb–Douglas Preferences	131
6.2.1	Indirect Utility Functions	131
6.2.2	The Government Budget Constraint	133
6.2.3	The Optimal Composition	134
6.3	The Welfare-weighted Average Wage	136

6.4 The Approximation for \bar{w}_A 140

6.5 Some Numerical Examples 141

6.6 Conclusions 144

7 Education, Public Goods and Transfers 147

7.1 The Framework of Analysis 149

7.1.1 Individual Maximisation 149

7.1.2 Education and Wage Rates. 150

7.1.3 The Government Budget Constraint. 153

7.2 The Optimal Composition of Expenditure. 154

7.2.1 Solving the First-order Conditions. 155

7.3 The Welfare Weights. 159

7.4 Numerical Examples 161

7.4.1 Calibration of the Model 161

7.4.2 Comparative Statics 162

7.5 Conclusions 169

8 The Overlapping Generations Context 173

8.1 The Economic Environment 176

8.2 The Utilitarian Optimal Choice 177

8.3 Approximating the Optimal Expenditure Ratio. 181

8.3.1 Testing the Approximation. 182

8.3.2 Comparative Static Properties of the Model 183

8.4 Implicit Inequality Aversion 186

8.5 Conclusions 193

IV A General Equilibrium Model

9 A General Equilibrium OLG Model 197

9.1 The Economic Environment 200

9.1.1 The Consumption Side 200

9.1.2 The Government 203

9.1.3 The Production Side 204

9.2 Equilibrium with Exogenous Government Policy. 205

9.3 Collective Choice 206

9.3.1 Single-peakedness of Preferences 206

9.3.2 Majority Voting Equilibrium. 208

9.3.3 Some Comparative Statics 210

9.3.4 Numerical Illustrations 212

9.4 An Interest Income Tax 213

9.5 Conclusions	218
<i>Bibliography</i>	221
<i>Index</i>	233