

Representative Democracy and Marginal Rate Progressive Income Taxation*

Oriol Carbonell-Nicolau[†] and Esteban F. Klor[‡]
Department of Economics, New York University

June 2000

Abstract

This paper develops a political economy model that is consistent with the fact that democracies have a preference for increasing marginal tax rates on income. We present a model in which there is an exogenous set of political parties with preferences over the set of admissible tax schedules. This set contains virtually any increasing and piecewise linear continuous function. Each party decides whether or not to present a candidate for election. There is a fixed cost of running. The elected candidate implements one of her preferred tax policies. Our main results provide conditions under which a Strong Nash Equilibrium exists, and a tax schedule with increasing marginal tax rates is implemented in some Nash Equilibria and in any Strong Nash Equilibrium.

Keywords: Representative democracy; Marginal rate progressive income taxation.

JEL classification: D72

*We are indebted to Efe Ok for extraordinary guidance. We would also like to acknowledge useful suggestions received from William Baumol, Jean-Pierre Benoît, and especially Antonio Merlo and Ignacio Ortuno-Ortín. Support from the C.V. Starr Center for Applied Economics at New York University is gratefully acknowledged. We are responsible for all remaining errors.

[†]E-mail: oc213@nyu.edu

[‡]E-mail: efk201@nyu.edu