Optimal taxation with public good provision for reduction of envy[*]

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Abstract

We examine optimal taxation and public good provision by a government which takes reduction of envy into consideration as one of the constraints. We adopt the notion of extended envy-freeness proposed by Diamantaras and Thomson (1990), called λ-equitability. Different from the existing paper by Nishimura (2003a,b), this paper introduces public good provision by the government into his model, and analyzes both pure public good case and excludable public good case. Under the provision of pure public good, we show that distorting original Samuelson is desirable in order to relax the equitability as well as self-selection constraints. On the other hand, under the provision of excludable public good, the effect of λ-equitability appears not only the provision rule for public good but also the pricing rule for user fees.