
The Impact of Local Income Inequality on Local Redistribution through Public Goods: Evidence from French Municipalities

Brice Fabre*^{1,2}

¹Ecole d'Économie de Paris - Paris School of Economics (EEP-PSE) – Ecole d'Économie de Paris – 48 boulevard Jourdan 75014 Paris, France

²Aix-Marseille School of Economics (AMSE) – Ecole Centrale Marseille (ECM), Ecole des Hautes Etudes en Sciences Sociales (EHESS), Centre national de la recherche scientifique (CNRS) – GREQAM, Centre de la Charité, 2 rue de la Charité, 13236 Marseille Cedex 02, France

Abstract

This paper brings new evidence on the impact of income inequality on public redistribution. I estimate for France the impact of income inequality at the municipal level on in-kind redistribution decided by municipalities. While previous papers suffer from a lack of data, I exploit a new panel dataset on indicators of individuals' pre-tax income distribution for 1,900 municipalities over the period 2002-2011. I measure redistribution using a database on the whole structure of municipal accounts over the same period. After controlling for municipal fixed-effects and the persistence of redistribution outcomes, I find that an increase by 1% of income inequality leads to an increase in the net value of municipal facilities between 0.06% and 0.17% (depending on the inequality measure). My results suggest that these additional facilities are funded through higher local tax rates. Under the assumption that municipal facilities are available to everyone in the same way, this corresponds to an increase in public redistribution decided by municipal elected officials. While the standard Political Economy literature predicts a decisive weight of the median voter or the middle class, I find that effects of income inequality are only driven by the bottom of income distribution.

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*Speaker