

Place-Based Redistribution

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ABSTRACT

Place-based redistribution is ubiquitous but has traditionally enjoyed little support among economists. We develop a class of spatial equilibrium models characterizing the equity-efficiency tradeoff that arises when taxes and transfers are indexed to location. Transfers from one region to another are found to be welfare improving under empirically plausible assumptions on preference heterogeneity, even in an environment with optimal place-blind income taxes. A calibration shows that optimal place-based redistribution may be substantial.