The Economics of Taxation

Second Edition

Bernard Salanié
Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>ix</td>
</tr>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>Some History</td>
<td>2</td>
</tr>
<tr>
<td>Current Tax Systems</td>
<td>5</td>
</tr>
<tr>
<td>Overview of the Book</td>
<td>8</td>
</tr>
<tr>
<td>References</td>
<td>11</td>
</tr>
</tbody>
</table>

I The Effects of Taxation 13

1 Distortions and Welfare Losses 15
1.1 The Effects of Taxation 17
1.1.1 Labor Supply 18
1.1.2 The Effects of Taxation on Savings 25
1.1.3 Taxation and Risk-Taking 30
1.2 Welfare Losses 33

2 Tax Incidence 41
2.1 Partial Equilibrium 43
2.1.1 The Effect of Payroll Taxes 43
2.1.2 The General Analysis of Partial Equilibrium 45
2.2 General Equilibrium 49
2.2.1 The No-Taxation Economy 50
2.2.2 Introducing Taxes 51
2.2.3 General Remarks 53
2.2.4 Infinitesimal Analysis 54
2.2.5 Final Remarks 60
II  Optimal Taxation  63

3  Indirect Taxation  67
   3.1  Ramsey's Formula  67
       3.1.1  An Informal Approach  67
       3.1.2  The General Model  68
       3.1.3  Some Special Cases  73
   3.2  Productive Efficiency  77

4  Direct Taxation  83
   4.1  The Emergence of the Model  83
   4.2  Mirrlees's Model  87
       4.2.1  The Two-Type Case  88
       4.2.2  The Rawlsian Case  94
       4.2.3  The General Approach  97
       4.2.4  The Quasi-linear Case  101
   4.3  Generalizations  107
       4.3.1  Heterogeneous Preferences and the Extensive Margin  108
       4.3.2  Endogenous Wage Rates  111
       4.3.3  The Income Tax as an Insurance Device  114
   4.4  Simulations  115

5  Mixed Taxation  123
   5.1  The Negative Income Tax  124
   5.2  Is Indirect Taxation Useful?  125
   5.3  Criticisms  129

6  Risk and Time  133
   6.1  Taxing Savings in a Riskless Economy  135
   6.2  A Stochastic Economy  137
   6.3  The Inverse Euler Condition  139
   6.4  Discouraging Savings  142
   6.5  Optimal Taxes  144
       6.5.1  Zero Aggregate Wealth Taxes  146
       6.5.2  Introducing Productive Capital  147
       6.5.3  Illustrations  149

7  Corrective Taxes  153
   7.1  Pigovian Taxation in Partial Equilibrium  154
IV Appendixes 219

A Some Basic Microeconomics 221
A.1 Consumer Theory 221
   A.1.1 Hicksian and Marshallian Demands 221
   A.1.2 The Slutsky Equations 223
   A.1.3 Interpretation 224
A.2 Producer Theory 224
   A.2.1 The Producer’s Problem 225
   A.2.2 Factor Demands 225
   A.2.3 The Special Case of Constant Returns 227

B Optimal Control 229

Index 233