

The Economics of Taxation

Bernard Salanie

The MIT Press
Cambridge, Massachusetts
London, England

Contents

Foreword	ix
Introduction	1
I The Effects of Taxation	13
1 Tax Incidence	15
1.1 Partial Equilibrium	16
1.1.1 The Effect of Payroll Taxes	16
1.1.2 The General Analysis of Partial Equilibrium	
1.2 General Equilibrium	23
1.2.1 The No-Taxation Economy	23
1.2.2 Introducing Taxes	24
1.2.3 General Remarks	26
1.2.4 Infinitesimal Analysis	27
1.2.5 Final Remarks	33
2 Distortions and Welfare Losses	35
2.1 The Effects of Taxation	38
2.1.1 Labor Supply	38
2.1.2 The Effects of Taxation on Savings	45
2.1.3 Taxation and Risk-Taking	49
2.2 Welfare Losses	52
2.3 Conclusion	57
II Optimal Taxation	59
3 Indirect Taxation	63
3.1 Ramsey's Formula	63
3.1.1 An Informal Approach	63
3.1.2 The General Model	64

3.1.3	Some Special Cases	69
3.2	Productive Efficiency	73
4	Direct Taxation	79
4.1	The Emergence of the Model	79
4.2	Mirrlees's Model	83
4.2.1	The Rawlsian Case	84
4.2.2	The General Approach	87
4.2.3	The Quasi-linear Case	91
4.3	Generalizations	96
4.4	Simulations	103
5	Mixed Taxation	111
5.1	The Negative Income Tax	111
5.2	Is Indirect Taxation Useful?	113
5.3	Criticisms	117
6	The Taxation of Capital	121
6.1	Applying Classical Results	123
6.2	The Overlapping Generations Model	124
6.3	The Zero Capital Taxation Result	126
6.4	Capital Accumulation	129
6.5	Capital Taxation with an Infinite Horizon	137
6.6	The Incidence of Capital Taxation	141
6.7	Conclusion	142
7	Criticisms of Optimal Taxation	147
7.1	Horizontal Equity	149
7.2	Tax Reforms	152
7.3	Administrative and Political Issues	155
III Some Current Debates		159
8	Low-Income Support	161 [^]
8.1	Measuring Poverty	162
8.2	Private Charity and Public Transfers	163
8.3	The Main Benefits	166
8.3.1	Guaranteed Minimum Income	167
8.3.2	The Negative Income Tax	168
8.3.3	Low-Wage Subsidies	168
8.3.4	The Minimum Wage	170

8.4	The Lessons from Theory	171
8.4.1	The Negative Income Tax	171
8.4.2	Low-Wage Subsidies	176
8.4.3	The Guaranteed Minimum Income	179
8.4.4	The Minimum Wage	179
8.5	Empirical Evaluations	181
8.6	Recent Reforms	184
9	The Consumption Tax	187
9.1	Equivalences between Taxes	187
9.2	The Comprehensive Income Tax	188
9.3	The Consumption Tax in Practice	190
10	Environmental Taxation	193
10.1	Optimal Green Taxes	196
10.1.1	The First-Best Case	196
10.1.2	The Second-Best Case	198
10.2	Is There a Double Dividend?	200

Appendixes

A	Some Basic Microeconomics	207
A.1	Consumer Theory	207
A.1.1	Hicksian and Marshallian Demands	207
A.1.2	The Slutsky Equations	209
A.1.3	Interpretation	210
A.2	Producer Theory	211
A.2.1	The Producer's Problem	211
A.2.2	Factor Demands	211
A.2.3	The Special Case of Constant Returns	213
B	Optimal Control	215
	Index	219