

Emmanuel Saez

Emmanuel Saez has distinguished himself through definitive contributions to the field of Public Economics. His work attacks policy questions from both theoretical and empirical perspectives, on the one hand refining the theory in ways that link the characteristics of optimal policy to measurable aspects of the economy and of behavior, while on the other hand undertaking careful and creative empirical studies designed to fill the gaps in measurement identified by the theory. Through a collection of interrelated papers, he has brought the theory of taxation closer to practical policy making, and has helped to lead a resurgence of academic interest in taxation.

Optimal Tax Theory

The theory of optimal income taxation, which seeks to determine the structure of the best possible income tax system in light of the possibility that taxation may discourage work, was largely dormant for many years. Saez has been the most important figure in rejuvenating this line of research. His work has induced many public economists to reconsider the applicability of this relatively theoretical branch of knowledge to practical policy making. In a collection of papers on various aspects of the income tax system, he has derived relatively simple relationships between policy prescriptions and measurable economic parameters. He provides numerical simulations based on careful parameterizations and, in other work, sets about measuring the key parameters. Unlike many others who have worked in this area, Saez straddles the great divide between theory and empirics and brings the two noticeably closer together. His work usefully illuminates questions concerning issues such as the appropriate marginal tax rate for high income taxpayers, the structure of income transfer programs, the treatment of capital income, and the taxation of married couples.

Measurement of Income and Wealth Distributions

One of Saez's most important practical contributions involves the measurement of the distributions of income and wealth in the U.S. and other countries, including Canada, Japan, Spain, and Switzerland. This research also analyzes the evolution of those distributions over time. It ties in with Saez's theoretical work on the design of direct tax systems, which identifies distributional parameters such as the thickness of the high-income tail as important determinants of optimal policy, but is also of considerable independent interest.

As an example, in one widely cited article, Saez and his coauthor Thomas Piketty use income and estate tax returns to assemble highly detailed data on various aspects of the U.S. income distribution spanning the period 1913 through 1998. No one had previously compiled information on the U.S. income distribution spanning such a long period using sources that are either as reliable or as homogenous. Saez and Piketty find that top income shares display a U-shaped pattern over the course of the century, contrary to the Kuznets hypothesis. Their analysis ties that finding to a reduction in the concentration of capital income coinciding with the Great Depression and continuing through World War II, followed by an increase in the concentration of wage income starting in the 1960s.

Behavioral Responses to Taxation

Saez has written a series of important articles measuring the effects of changes in marginal tax rates on household decisions that affect taxable income. A number of those investigations are motivated by his interest in measuring the key parameters in optimal income tax formulas, and with evaluating the behavioral distortions created by income tax systems. One of the challenges in estimating the effects of marginal tax rates on decisions affecting taxable income is to find a good source of variation in tax rates. Each of Saez's papers on this topic identifies a different source of variation in marginal tax rates, and uses it to estimate behavioral responses. For example, in one article, he identifies responses to changes in marginal tax rates

using the changes that occur when inflation shifts a taxpayer from one tax bracket to another. He finds that taxpayers do report less income when their tax rates are higher, though the effect is much smaller than was previously thought, and the elasticity of wage income in particular is close to zero. Saez's work in this area stimulated a great deal of subsequent interest concerning issues related to the salience of various tax provisions in the minds of taxpayers.

Retirement Plans

Another line of Saez's work examines the behavior of participants in employee-directed retirement plans. For example, an article with Esther Duflo reports the results of a unique field experiment, in which a random sample of employees in some departments of a major university were provided with monetary incentives to attend a benefits fair. The incentives increased attendance of both the targeted employees and employees in the same departments who were not targeted, and significantly raised enrollment in tax deferred accounts for both groups. Thus, the effects of the intervention appear to have been transmitted through social channels. In another article, Saez examines the effects of presentation and information on the take-up of financial subsidies for retirement saving in a large randomized experiment carried out with H&R Block. He finds that subsidies are particularly effective when characterized as a matching contributions. Thus, both pure incentives and the presentation of those incentives affect consumer choices.