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INTRODUCTION

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The specter of an election-year recession has brought tax reform, or more accurately tax reduction, to the center stage of policy debate. Only five years after thinking that the Tax Reform Act of 1986 would end discussions of tax reform for at least a decade, virtually all of the issues from 1986—tax incentives for saving, the structure of marginal tax rates, capital gains relief, and the investment tax credit—are being reconsidered. The debates turn critically on economic analyses of the incentive, distributional, and efficiency effects of potential reforms. These are precisely the issues that are considered in the papers in this volume.

In November 1991, NBER researchers met in Washington, D.C., for the sixth annual Tax Policy and the Economy conference. This conference is designed to facilitate interaction between academic researchers and the tax policy community, and to present research findings that are relevant to current policy discussions. The five papers in this volume present new research results that have an important bearing on personal and corporate tax policy.

The first paper, "Government Policy and Retirement Saving" by Steven Venti and David Wise, considers the hotly debated question of whether universal IRAs in the early 1980s encouraged personal saving. Venti and Wise present new data from household surveys to show that most of the households who contributed to IRAs had limited non-IRA assets. This argues against the view that IRA contributions were simply transfers from other tax-disfavored saving vehicles. They also show that the financial holdings of IRA contributors grew much faster than those of noncontributors, again suggesting that IRAs were successful in encouraging personal saving.

My paper, "Why Didn't the Tax Reform Act of 1986 Raise Corporate Taxes?," studies the behavior of corporate tax receipts since 1986. The Tax Reform Act of 1986 was projected to raise corporate taxes by more than $120 billion over the 1986 to 1991 period. Actual federal corporate tax receipts in the last five years have fallen far short of these projections. The paper explores the factors that contributed to this shortfall. The most important is lower-than-expected corporate profits. The predicted rates of corporate profits when the 1986 Tax Reform Act was enacted were high by historical standards, and the U.S. economy in the late 1980s did not experience total returns on corporate capital as high as the forecasts would have suggested. This reduction in pretax returns has been compounded by an increase in corporate interest payments as a share of corporate operating income, and a rise in the income reported through S rather than C corporations, in the years since 1986. Both of these changes are likely to be due in part to the changes in tax incentives in the 1986 Tax Reform Act.

Lawrence Goulder's paper considers "Carbon Tax Design and U.S. Industry Performance." The carbon tax is the policy instrument most frequently suggested as a means to reduce U.S. emissions of carbon dioxide as part of a global campaign to reduce the potential problem of global warming. Goulder's paper uses a sophisticated general-equilibrium model of the U.S. economy to study how different ways of implementing a carbon tax would affect different industries. The results suggest that the burden of a carbon tax will be highly concentrated on a few industries involved in production or heavy utilization of carbon fuels. The precise cost of the carbon tax for a given industry, however, is quite sensitive to whether the tax is imposed on production of carbon fuels or on the consumption of these fuels. Goulder also demonstrates that many of the distortionary effects of the carbon tax could be offset by using the revenues from the tax to reduce the rates of existing distortionary taxes.

The fourth paper, by Joel Slemrod, presents important information on income inequality, an increasingly focal issue in tax policy debate. In "Taxation and Inequality: A Time Exposure Perspective," Slemrod uses data from a data set that follows the same taxpayers in several successive years. He finds that the federal income tax slightly reduces inequality. The equalizing effect of the tax system has not changed significantly over time, according to Slemrod's results. The inequality of pre-tax and post-tax incomes has, nevertheless, risen sharply during the last two decades, largely as a result of increasingly unequal distribution of wage and salary income. In contrast to previous studies, which argue that annual income varies for a variety of transitory reasons, Slemrod finds that conclusions about inequality are not significantly affected by focusing on a household's average income over a period of several years.

The final paper, by Alan Auerbach, Jagadeesh Gokhale, and Laurence Kotlikoff, examines "Social Security and Medicare Policy from the Perspective of Generational Accounting." These authors have developed a powerful analytical tool, generational accounting, for synthesizing the effects of complex tax and expenditure policies on individuals of different ages. They apply their framework to study how current proposals for changing the benefits and financing of transfer programs to the elderly, Medicare and Social Security, would affect the welfare of current and future generations. They find that continuation of current trends in Medicare spending, or the failure to accumulate a substantial Social Security trust fund, can substantially alter the intergenerational distribution of the burdens implied by current transfer programs. Either of these scenarios would shift much larger tax burdens to future generations than current policy, or more optimistic assumptions about health care costs, suggest.

The research presented in this volume exemplifies the important interaction between policy-making and academic research. NBER researchers take many of their cues for topics to study from the ongoing tax policy debates in Washington and state capitals. In return, much of the statistical and analytical work that provides the basis for tax policy debates is the result of academic research. The quality of the research presented at this year's Tax Policy and the Economy meeting suggests that this symbiotic tradition is alive and well.

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