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INTRODUCTION

The Tax Policy and the Economy conference is a unique NBER undertaking, now in its eleventh year, which seeks to communicate new research findings in the areas of taxation and government spending to interested policymakers in industry, government, and academia. The range of issues that are currently being discussed in Washington and state capitols, including fundamental reform of the tax system and sweeping revisions in entitlement programs for low-income households and for the elderly, underscore the importance of bringing timely research to bear on policy debates.

The five studies in this volume exemplify the type of research that combines a concern for central policy issues with an application of state-of-the-art research tools. Each paper relates to some aspect of fundamental tax reform or entitlement reform, and provides important information that should be of value to policy analysts and scholars alike.

The first two papers, "Distributional Implications of Introducing a Broad-Based Consumption Tax," by William Gentry and R. Glenn Hubbard, and "Distributional Effects of Adopting a National Retail Sales Tax," by Daniel Feenberg, Andrew Mitrusi, and me, are concerned with the incidence of fundamental tax reform. The first paper strives to clarify the difference between the tax treatment of capital income under income and consumption taxes. The authors argue that both income and consumption taxes tax the components of capital income that result from luck and from successful risk-taking. Only the riskless return to capital is taxed under the income tax but excluded from the tax base consumption taxation. This insight has immediate implications for the distribution of tax burdens across income groups. Gentry and Hubbard argue that the riskless return to capital is distributed more evenly across income classes than the return to luck or risk-taking. This suggests that the distribution of tax burdens under a consumption tax may be less regressive than many analyses suggest.

The second paper also considers the potential replacement of the current income tax system with a consumption-based tax system, in this case a national retail sales tax. This paper develops a new household-level data base that includes information on household income, consumption spending, and income tax filing status. This data base can be used to contrast the distributional burdens of taxing income, or its components, and consumption, or its components. The comparisons in this paper focus on long-run incidence, and neglect any changes in asset values that might be associated with the transition from an income tax to a consumption tax. There are two central sets of findings, one focusing on the distribution of taxes across households ranked by total consumption spending, the other on the distribution across income classes. The results show that when households are ranked by consumption spending, the tax burden on households at the bottom and middle of the consumption distribution rises, while tax burden on those with the highest total consumption outlays declines. A similar but more striking pattern emerges when households are ranked by income rather than total consumption spending. One conclusion of this analysis is that the distributional comparisons between income taxes and retail sales taxes depend critically on the provisions of the retail sales tax plan. When the retail sales tax is coupled with a plan for lump-sum transfers that provide households with an amount equal to the tax burden on consumption equal to the poverty level, the tax burden on low-consumption and low-income households is substantially reduced and in many cases falls below that under the current income tax.

The next two papers consider various aspects of health insurance reform. "Health Expenditure Persistence and the Feasibility of Medical Savings Accounts," by Matthew Eichner, Mark McClellan, and David Wise, presents data on the year-to-year correlation of health expenditures for a sample of individuals enrolled in the health insurance plan at a large firm. This degree of correlation is a critical determinant of the operational effects of a system of medical savings accounts, since these plans are likely to work well if individuals who have substantial medical expenses in one year have low expenses in other years, and are thereby able to build up account balances to cover their medical costs. The authors find a relatively low level of persistence across years, and present evidence on the fraction of individuals who would accumulate substantial balances in these accounts because they would experience relatively few expensive medical episodes during their contribution phase. This study represents one of the few data-based analyses of the operation of medical savings accounts.

David Bradford and Derek Max's study of "Implicit Budget Deficits:

The Case of a Mandated Shift to Community-Rated Health Insurance," applies the methods of intergenerational incidence analysis to policy proposals for changing the pricing of health insurance. Bradford and Max point out that community rating, which would eliminate the variation in health insurance premiums by age, would constitute a substantial tax on currently-young individuals. While it may be true that over a lifetime the average premium under the status quo and a system of community rating are similar, it is nevertheless the case that older individuals at the time of a switch to community rating benefit from a reduction in their health insurance costs that will never be offset by higher premiums at a later date. The result is a transfer of resources from younger individuals to these older insured individuals. Bradford and Max show that this transfer can be substantial, and argue that it must be recognized in any analysis of health insurance reform options.

The final paper, Jonathan Gruber's study of "Health Insurance for Poor Women and Children in the U.S.: Lessons from the Past Decade," is a critical summary of what is known about the impact of publicly-provided health insurance on low-income households. During the last decade, there have been a number of substantial changes in the structure of public health insurance programs. These reforms, primarily federal reforms in the state-administered Medicaid program, have extended public health insurance coverage to groups such as low-income children. These reforms provide a powerful opportunity to assess the impact of such reforms on the take-up of public health insurance benefits, the utilization of health care given the availability of public insurance, and ultimately on the health status of individuals who are covered by Medicaid expansions. Gruber's paper synthesizes the available information on these issues, and evaluates the cost-effectiveness of Medicaid program expansions in contrast to other public programs that are designed to save lives.

These five papers represent important contributions to the ongoing public policy dialogue on the design of tax and expenditure programs. They reflect an opportunistic sampling of ongoing research projects in the academic community, as well as suggestions from industry and government participants in previous conferences. The quality of the papers in this volume, and the reception that they received at the Washington conference where they were presented, suggest that the dialogue between academic public finance researchers and the policy-making community is alive and well.

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I am also grateful to Alicia Munnell, of the Council of Economic Advisers, who delivered the luncheon address at our conference. Her talk provided an important perspective on the relationship between scholarly research and the tax policy-making process.

Finally, I wish to thank each of the authors whose papers are included in this volume for striving to communicate their important research findings in a readable and clear fashion. I appreciate their efforts and willingness to participate in this very important opportunity for interchange between academics and policy-makers.