

## **Introduction, Volume 24**

By Jeffrey R. Brown

This year's Tax Policy and the Economy conference, which was held at the National Press Club on September 24, 2009, occurred in the midst of a period of tremendous economic change. Since the last TP&E conference was held one year ago, we have experienced the deepest global recession since the Great Depression, witnessed an historic U.S. presidential election, watched the U.S. government take a major ownership stake in the U.S. automobile industry, seen the Federal Reserve and U.S. Treasury undertake unprecedented actions in an attempt to stabilize credit and financial markets, watched Congress pass a large economic stimulus bill, and debated far-reaching reform of the health care industry. These and numerous other changes have been so profound that economists, policymakers and ordinary citizens are already referring to life "before" and "after" the end of calendar year 2008 as if they are different worlds.

In times such as these, high quality, policy relevant academic research has never been more important. This year's Tax Policy and the Economy conference continues the 24-year tradition of facilitating timely interaction between leading NBER researchers and the Washington, D.C. policy community. Indeed, it is notable that Lawrence Summers, the NBER researcher who served as the first organizer of this conference and as the first editor of this volume, now serves as President Obama's economic advisor and Director of the National Economic Council. Numerous other contributors to past issues of Tax Policy and the Economy also hold positions of tremendous influence throughout the U.S. government, including our lunch speaker at this year's conference, Austan Goolsbee.

This year's conference included six papers on topics ranging from topics as broad as the relative efficacy of tax cuts versus spending increases as a form of economic stimulus, to targeted analysis of the Low Income Housing Tax Credit. These papers, which appear in the six subsequent chapters of this volume, illustrate depth and breadth of the research capabilities of NBER research associates.

The first paper in this volume is entitled "Investment in Energy Infrastructure and the Tax Code." Its author, Gib Metcalf, reviews the complex array of tax incentives for energy investment in the U.S. and constructs estimates of the effective tax rates for a wide range of capital investments in the energy sector. He documents substantial heterogeneity in these effective tax rates. He then examines in detail the relationship between investment in wind generation capital and the user cost of capital, finding an elasticity of investment with respect to the user cost of capital in the range of -1 to -2. This paper illustrates that energy sector capital investment is sensitive to tax treatment. He also specifically demonstrates that the federal production tax credit has played an important role in stimulating investment in wind over the past two decades.

Two papers at the conference examined different aspects of policies designed to provide fiscal stimulus. In the first of these papers, "Large Changes in Fiscal Policy: Taxes versus Spending," Alberto Alesina and Silvia Ardagna use panel data on OECD countries

from 1970 to 2007 to examine fiscal stimuli and fiscal adjustments. In an important finding, the authors show that tax cuts are more likely to increase growth than spending increases. They also show that fiscal adjustments based on spending cuts and no tax increases are more likely to reduce deficit-to-GDP and debt-to-GDP ratios than fiscal adjustments based on tax increases. Their findings differ from the predictions of a standard Keynesian model and underscore the important role for supply side impacts of fiscal policy, including the role of investment expenditures.

In another paper on fiscal stimulus, “Household Response to the 2008 Tax rebates: Survey Evidence and Aggregate Implications,” Claudia Sahm, Matthew Shapiro and Joel Slemrod use survey evidence to examine how recipients of the 2008 tax rebates altered their behavior in response to the receipt of the rebate. Among their many findings are that only one-fifth of respondents reported that the rebates led them to mostly increase spending, while over half said they would use it primarily to pay off debt. Given that much of the rhetoric used to support this policy prior to its passage was that tax rebates targeted at the low end of the income distribution would be more stimulative than rebates aimed at higher earners, it is particularly interesting that the authors find that lower income individuals were *less* likely to report using the rebate for spending. While the ultimate stimulus effect per dollar of rebate turned out to be modest, the fact that the aggregate rebate was large and distributed over a short period of time suggests that it had a non-trivial effect on total spending in the second and third quarters of 2008.

The conference also included two papers examining policies targeted at individuals at the low-end of the income distribution. In “Trends in the Level and Distribution of Income Support,” Karl Scholz and Robert Moffitt trace the substantial changes over the last quarter century in the relative importance of means-tested and social insurance programs. While they find that transfer program expenditures in total rose from 1984 to 2004, they also find that this increase was very unevenly spread across income and demographic groups. For example, they show that rising Social Security retirement benefits, Social Security disability benefits, Supplemental Security Income and health programs have led to a large increase in expenditures on very poor elderly, disabled and childless families. At the same time, however, they found that very poor single parents and very poor two-parent households experienced declines in expenditures. They also find that one- and two-parent households further up the income scale experienced increases, largely due to the expansion of the Earned Income Tax Credit (EITC). On net, they find substantial redistribution over time away from very poor one- and two-parent households and towards near-poor and non-poor one- and two-parent households as well as toward the elderly, disabled and childless.

Bruce Meyer provided additional analysis of the EITC in his paper “The Effects of the EITC and Recent Reforms.” After reviewing how the EITC operates and describing the characteristics of the recipients, this paper examines how the EITC affects poverty rates, the income distribution and labor supply. He shows, for example, that in 2007 the EITC lifted just over 4.5 million people above the poverty line, reducing the overall poverty rate by 18 percent. The paper also discusses several problems with the EITC, including the predicted negative effect on hours worked, complicated marriage incentives that

encourage marriage for some and discourage it for others, and the issue of noncompliance (e.g., not paying taxes that are due). He closes the paper by examining the likely effects of the American Recovery and Reinvestment Act of 2009.

The final paper in this volume, by Mihir Desai, Dhammika Dharmapoula and Monica Singhal, is “Tax Incentives for Affordable Housing: The Low Income Housing Tax Credit.” This program is a novel tax expenditure program that uses “investable” tax credits to incentivize the production of low-income rental housing. In addition to explaining the complex structure of the program, the authors discuss that the program has grown into the largest sources of new affordable housing in the U.S. In addition to providing new estimates of the magnitude of the tax expenditures on this program, the authors discuss how the program is priced as well as the efficiency and distributional aspects of the program.

While NBER research papers do not make policy recommendations, the rigorous research on these and related topics is exceedingly relevant and informative for those in the policy-making community who do design, evaluate and implement policy. The NBER looks forward to continuing its fruitful interactions with the policy community at future Tax Policy and the Economy conferences.