Introduction

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This volume represents the nineteenth installment of the NBER's *Tax Policy and the Economy* conference series. This series communicates current academic research findings in the areas of taxation and government spending to policy analysts in government and the private sector. *Tax Policy and the Economy* papers address issues that have an immediate bearing on current policy debates as well as questions that are of longer-term interest. All of the research described at *Tax Policy and the Economy* meetings has some connection to public policy. The five papers in this year's volume include research on expenditure policy as well as the economic effects of taxation.

The first paper is Ann Dryden Witte's study of "The Structure of Early Care and Education in the United States: Historical Evolution and International Comparison." This paper summarizes the wide range of federal as well as state and local programs that offer benefits to pre-kindergarten children in the United States. It shows that there can be substantial differences in the treatment of very similar children who reside in different states, live in families with slightly different incomes, or are slightly different ages. The paper tracks total expenditures on early childhood programs and compares the structure of programs in the United States with the structure of those in several European nations. The paper reviews a number of studies of the benefits of early childhood intervention and concludes that developing programs with systematic early childhood benefits would improve the average elementary school performance of the target population and might have other economic benefits as well.

Jonathan Gruber prepared the second paper, which addresses the broad question of "Tax Policy for Health Insurance." The paper uses a large micro-simulation model to compute the "buck for the bang" associated with several different health insurance reform proposals. It considers narrowly targeted as well as broadly targeted programs to expand tax incentives for employees to purchase health insurance and for employers to offer health insurance to their employees. It contrasts the average cost per incremental beneficiary for these programs with the average cost of a targeted government-provided health insurance program. The latter involves substantially smaller outlays per beneficiary than any of the tax incentive programs because it is more accurately targeted to the population that needs insurance coverage. The paper demonstrates that targeted policies are much more cost-effective than broader-based policies, and it presents estimates of the differences in cost across different policy options. The paper presents estimates of the extent to which individuals and firms will respond to various government incentive programs and of the degree to which subsidized programs supplant pre-existing insurance in the target population.

The third paper, by James R. Hines Jr., asks, "Do Tax Havens Flourish?" The paper presents detailed information on the rate of economic growth since 1982 in countries with low marginal corporate income tax rates, "tax havens," and comparable nations with higher tax rates. The paper offers two important insights on economic activity in tax haven nations. First, these countries have grown faster on average than other nations. Even after controlling for the level of economic activity in 1982 and for country size, countries identified as tax havens display a higher rate of economic growth during the last two decades. Second, while the government sector's share of gross domestic product (GDP) and the tax share of GDP in tax havens are similar to the averages for the rest of the world, regression analysis that includes controls for other country characteristics suggests that tax havens have somewhat lower levels of both. This raises the question of whether more rapid growth is due only to lower corporate income tax rates or to other factors as well.

The next paper, by Michelle Hanlon and Terry Shevlin, is also concerned with issues related to corporate taxation. "Book-Tax Conformity for Corporate Income: An Introduction to the Issues" offers a careful analysis of several issues that arise in conjunction with proposals to reduce or eliminate the disparity between corporations' book and tax income. Book income is the financial measure that firms report to their investors; tax income is the basis for corporate tax liability calculations. A number of studies have shown that book and tax income have diverged in recent years, with tax income lagging behind book income. This accounts in part for the weak performance of corporate tax receipts during this time period. The authors argue that requiring conformity of book and tax income will raise a host of difficult challenges for the practice of accounting as political actors concerned with revenue yields become involved in setting accounting standards. They also note that tax and book accounting measures currently convey different types of information to capital market participants and that some of this information would be lost in a system with full conformity.

The last paper addresses a long-standing question in taxation economics, namely, the effects of double taxation on corporate dividends. Randall Morck explores the justifications for taxing intercorporate dividends in his paper, "How to Eliminate Pyramidal Business Groups: The Double Taxation of Intercorporate Dividends and Other Incisive Uses of Tax Policy." He tracks the early history of the intercorporate dividend tax in the United States, a tax enacted in the mid-1930s. Morck compares the structure of corporations in the United States and in other nations that do not tax intercorporate dividends, and shows that while pyramidal structures in which one firm owns a large equity stake in many other firms do not exist in the United States, they do exist almost everywhere else. The United States is also one of the very few countries that taxes intercorporate dividends. The paper demonstrates that pyramidal structures were actually common in the United States prior to the taxation of intercorporate dividends but that they largely vanished when the intercorporate dividend tax was introduced.

Each of these papers illustrates the type of policy-relevant research that is carried out by the affiliates of the NBER Public Economics Program. Each provides important background information for policy analysis, without making recommendations about the merits or demerits of particular policy options. I hope that each of these papers will provide useful input to various participants in the policy process.

Acknowledgments

In planning and organizing this year's *Tax Policy and the Economy* conference and the associated volume, I have incurred debts to many individuals. Martin Feldstein, President of the NBER, has been an active supporter of this conference throughout its history. Conference Department Director Carl Beck, Lita Kimble, and Rob Shannon did an outstanding job in updating the invitation list, disseminating information about the conference, and handling conference logistics with efficiency and good cheer. Helena Fitz-Patrick oversaw the publication process with outstanding attention to detail and with exceptional speed and efficiency.

I am also grateful to Dr. Douglas Holtz-Eakin, the Director of the Congressional Budget Office, for delivering a fascinating set of luncheon remarks at the conference where these papers were presented. Doug's remarks focused on the role of economic research in informing tax policymaking. He also provided a long list of topics that require further research and on which tax economists and other researchers could conduct future studies.

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 the research community and policymakers.