The annual NBER Tax Policy and the Economy conference began as a vehicle for communicating current findings from NBER research in the areas of taxation and government spending to policy analysts in both the government and the private sector. It has now been emulated in other fields, with new research meetings on health policy and innovation policy, designed to achieve similar objectives. Tax Policy and the Economy papers have addressed a wide range of issues. The six papers in this year’s volume are no exception. They touch on both taxation and government expenditure programs, and they include discussion of both very current policy topics and issues of long-standing and ongoing interest.

The first paper, Robert Moffitt’s “Economic Effects of Means-Tested Transfers in the U.S.,” provides a wide-ranging analysis of government programs that provide income or in-kind assistance to individuals and families who satisfy particular income constraints. The paper summarizes the results of a recent NBER study on how these programs affect incentives for labor supply, for changes in family status, and for a range of other behaviors. This recent research concludes that these programs have important effects on their potential and actual recipients.

In “Taxes and Health Insurance,” Jonathan Gruber explores the many channels through which the income and payroll tax system affects the demand for health insurance. The paper begins by describing the key behavioral elasticities that are needed to evaluate potential tax reforms. These are the price sensitivity of insurance demand by individuals, the price sensitivity of employers’ decisions about whether or not to offer health insurance, and the price sensitivity of worker’s discrete decision whether or not to purchase health insurance conditional on it being
offered by the employer. Gruber then surveys the existing empirical literature that bears on each of these issues, and he uses mid-range estimates from these studies to describe how potential changes in the federal income tax might affect health insurance coverage. He concludes that removing the current income tax subsidy to employer-provided health insurance, while leaving other tax subsidies, such as those through the payroll tax, in place, could reduce the number of persons with health insurance by nearly fourteen million.

In “Defined Contribution Pensions: Plan Rules, Participant Choices, and the Path of Least Resistance,” James Choi, David Laibson, Brigitte Madrian, and Andrew Metrick analyze the heterogeneity in the retirement saving plans that firms offer their workers. They not only describe the plan-to-plan variation, but they also use this variation to investigate how various plan features affect voluntary enrollment and contribution decisions. They identify a number of plan features that are correlated with high levels of participation in, and contributions to, retirement saving plans. These include automatic enrollment programs and allowing a relatively large fraction of salary to be subject to an employer matching contribution. The paper concludes that a significant population of employees simply adopt the default option that their employer offers, with respect to both the fraction of their salary that they contribute to the plan and the asset allocation they choose within the plan. This suggests that it is important for firms to carefully evaluate the default options that they offer in their retirement plans.

In the fourth paper, Charles McLure tackles the very current issue of taxing e-commerce. In his paper on “Thinking Straight about the Taxation of Electronic Commerce: Tax Principles, Compliance Problems, and Nexus,” McLure places the Internet Tax Freedom Act in context by describing the general problem of taxing sales in an economy with multiple jurisdictions. The need to determine whether a seller has nexus in a given jurisdiction, which is central to the taxation of electronic commerce, arises in many other settings as well. The paper outlines general rules for designing a sales tax that minimizes economic distortions, and then explains the set of tax rules on Internet commerce that would be most consistent with these principles.

The last two papers address issues related to social security policy. Ronald Lee and Ryan Edwards, in their paper on “The Fiscal Effects of Population Aging in the U.S.: Assessing the Uncertainties,” present important evidence on the uncertainties associated with demographic projections. They note that most current projections of how aging will affect federal spending rely on scenario analyses that make a fixed set of assumptions about key parameter values, such as birth rates and migration
rates, and then evaluate the long-run fiscal consequences of various government policies. Lee and Edwards present an alternative methodology for addressing these issues, using stochastic simulation. Their results highlight the potential uncertainties associated with any single-scenario description of the long-run prospects for a given fiscal policy. They also suggest that it is risky to advertise policy reforms, such as an increase of a given amount in the payroll tax, as "fixes" for problems such as the potential insolvency of the Social Security Trust Fund. The uncertainty of future birth rates and death rates means that there is still a chance that such policies will result in an excess, or a shortfall, of resources for public programs.

Finally, in the last paper, "Potential Paths of Social Security Reform," Martin Feldstein and Andrew Samwick consider a number of potential reforms of the current social security system. Each reform combines a system of personal retirement accounts with a variant of the current defined benefit system. The paper evaluates how each of the various reforms would affect the benefits available to future retirees. It also considers how the reforms would affect national saving and the solvency of the social security trust fund. The paper addresses the risk of individual account investments and presents evidence on the range of possible benefit outcomes under different assumptions about the long-run average return on corporate equities.

The papers in this volume illustrate the type of policy-relevant research that is carried out by the affiliates of the NBER Public Economics Program. Each of the papers 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 who are concerned with tax and expenditure program design.
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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 sixteen-year history. Jennifer Dayton did an outstanding job in updating the invitation list and in disseminating information about the conference to potential participants. The members of the NBER Conference Department, notably Lita Kimble, Rob Shannon, and Conference Department Director Carl Beck, handled 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 R. Glenn Hubbard, the Chairman of the President's Council of Economic Advisers, for delivering a fascinating set of luncheon remarks at the conference at which these papers were presented. Glenn explained how the tragic terrorist attacks of September 11 had raised new questions about the appropriate role of government in the economy, and he sketched many individual contexts in which there is ongoing debate about the government's role.

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 policymakers.