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INTRODUCTION

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The last year has witnessed the most active tax policy debate since the deliberations leading up to the Tax Reform Act of 1986. Marginal tax rates on high-income individuals have increased substantially. Top rates for 1993 are closer to those that prevailed before TRA86 than when the 1986 Act was fully phased in in 1988. The Clinton Administration proposed, and Congress debated, a substantial, new energy excise tax, but the tax bill that was ultimately enacted included only an increase in the existing federal excise tax on gasoline. Proposals for health-care reform that are just beginning to receive detailed attention include a variety of new explicit and implicit taxes.

Against the background of this turbulent tax policy year, the NBER sponsored the eighth annual Tax Policy and the Economy conference in Washington, D.C. The conference is designed to encourage interaction between academics engaged in tax policy research, and those in industry and government who are directly involved in the tax policy-making process. The papers presented at this conference, and published in this volume, present a range of new research findings that are relevant for tax policy. Some papers are immediately relevant to current policy debate, while others present work that is sure to attract attention in future debates.

In the first paper, Janet Currie reports new evidence on the relative success of cash transfers to parents, and of in-kind transfers to children, in raising the well-being of children. She begins by summarizing the substantial volume of existing work on how transfer programs effect the welfare of their recipients. She identifies several quantifiable measures of children's welfare, such as indicators of health status and test-score performance at various ages, and focuses her investigation on the link between program receipt and these measures. She finds that programs aimed directly at children, such as Head Start or Medicaid, have larger effects on children's welfare than more general programs that provide cash assistance to parents.

The second paper, by Gilbert Metcalf, addresses a long-standing issue in tax policy analysis: how does shifting from an annual to a life-cycle perspective affect calculations of tax incidence? Metcalf concentrates on how the two approaches to incidence analysis differ in their estimates of the burdens of a value added tax. He argues that because lifetime consumption as a fraction of lifetime income is much more constant across income classes than the ratio of annual consumption to annual income across annual income classes, a value added tax, even without substantial exemptions for necessities, is less regressive than calculations based on the annual incidence concept would suggest.

James Hines, the author of the third paper, investigates the effect of an intricate set of tax rules, those relating to the international allocation of R&D expenses incurred by multinational corporations, on the level of R&D activity in the United States. Hines begins by summarizing the aggregate data on the changes since 1986 in the allocation of R&D by multinational firms based in the United States. He argues that there are no substantial changes, despite the fact that standard analyses of the 1986 Tax Reform Act's effect on R&D allocation rules suggest important incentives for offshore R&D. He attributes the small response to another important feature of the tax system, the favorable tax treatment of royalty income received by U.S. firms with excess foreign tax credits. For such firms, the incentives for offshore R&D were reduced by TRA86. Heterogeneous firms, some facing incentives for more offshore R&D, and others for less, aggregate to generate a very small net effect on the allocation of R&D, even though individual firms may be sensitive to these tax incentives.

The last two papers are concerned with various aspects of energy taxes. The policy attention devoted to energy taxes during the last year is unlikely to abate in future years, as tax policy is used increasingly to achieve environmental as well as revenue objectives. One of the papers on energy taxation, that by Lawrence Goulder, presents important new findings on how various energy taxes as well as other tax policies affect the environment. This paper exploits a rich new database linking the outputs of various industries to emissions of different pollutants. It couples this information to a computable general equilibrium model of the U.S. economy, yielding a computational model that incorporates considerable detail on the structure of tax policy and generates highly disaggregated estimates of the environmental effects of various policies. The paper calibrates the net reduction in energy consumption and pollutant emissions associated with a switch from income to energy taxation. It also demonstrates that introducing an energy tax in an economy with pre-existing distortions such as the current tax code yields a substantially smaller welfare improvement than introducing the same tax in an undistorted economy.

Julio Rotemberg and Michael Woodford are the co-authors of the second paper on energy taxation, which is the final paper in the volume. Their paper represents an important step beyond previous analyses of the macroeconomic effects of energy taxes. Most earlier work evaluates energy taxes in models with a perfectly competitive energy sector. The authors argue that some degree of imperfect competition is a much more plausible assumption, and they show that this leads to substantial changes in the economic consequences of energy taxes. In particular, their analysis shows that the reduction in gross domestic product (GDP) associated with a carbon tax or a BTU tax is much larger than in standard calculations.

The links between policy making and scholarly research are closer in the field of tax policy than in many other areas of economics. Scholars working on tax policy issues often find research topics in the ongoing debates that take place in Washington and state capitals. These debates, in turn, are often sparked or at least fed by the research findings of academic studies. The papers in this volume represent an important testament to this ongoing interaction.

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