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INTRODUCTION

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NBER started the *Tax Policy and the Economy* conference seventeen years ago to communicate current academic research findings in the areas of taxation and government spending to policy analysts in both the government and the private sector. In the almost two decades since then, *Tax Policy and the Economy* papers have addressed a wide range of issues. Some have had immediate bearing on current policy debate; others have focused on more long-range issues that underlie many aspects of policy discussion.

The six papers in this year's volume span a range of topics. They touch on both taxation and government expenditure programs. They include issues that have recently ascended to an important place in legislative discussions, as well as other topics that are of long-standing interest. They touch on federal policy concerns, as well as issues that affect state and local governments.

The first paper, David Figlio's "Fiscal Implications of School Accountability Initiatives," explores how the No Child Left Behind Act of 2001 may affect state and local education finance. This legislation mandates annual student assessments in several elementary school grades. It also requires states to develop systems of rewards and penalties, some of which are financial, that are linked to district performance. These accountability measures will affect both federal and state financial aid to local school districts. They will also raise a host of difficult issues that involve the measurement of student performance, such as which students should be included in the group that is evaluated, and how to control for differences in the student population across school districts. Figlio's paper offers a first glance at many of the complex fiscal issues associated with this legislation.

The second paper, by Edward L. Glaeser and Jesse M. Shapiro, addresses "The Benefits of the Home Mortgage Interest Deduction." One of the traditional arguments made in support of the home mortgage interest deduction is that homeownership generates social benefits. Yet there is remarkably little evidence on the potential magnitude of such benefits. The authors review a range of different factors that might generate externalities, either positive or negative, associated with homeownership. They point out that it is extremely difficult to disentangle any positive effects of higher homeownership rates in particular communities from benefits that are caused by other factors correlated with the rate of homeownership. They nevertheless present tantalizing correlations among various activities, such as involvement in the community and investment in home maintenance, and the homeownership fraction in the community. They do not offer an estimate of the net social externality associated with increases in homeownership. They do emphasize, however, that the mortgage interest deduction largely subsidizes incremental housing expenditure by people who are already homeowners, rather than the decision to become a homeowner for people on the rent / own margin. The time series of homeownership rates and the net tax subsidy to homeownership shows stable movements in the homeownership rate, even though the net subsidy has varied substantially.

The third paper is by Matthew D. Shapiro and Joel Slemrod: "Did the 2001 Tax Rebate Stimulate Spending? Evidence from Taxpaper Surveys." The paper presents important new findings from the University of Michigan's Survey of Consumers, the household survey that underlies the widely followed index of consumer sentiment. The survey asked households during the summer of 2001 what they planned to do with the income tax rebates that were enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001. A year later, the survey asked a retrospective question about the use of these rebates. Shapiro and Slemrod present summary information on how households used the rebate, and they link their findings to the potential impact of the rebate on aggregate macroeconomic activity. Their key finding is that only about one household in four reported using the rebate mostly to increase spending. This is not inconsistent, however, with an aggregate marginal propensity to consume out of the rebate of roughly one-third.

Jagadeesh Gokhale and Laurence J. Kotlikoff are the authors of the fourth paper, "Who Gets Paid to Save?" This paper presents new evidence on how the tax system subsidizes, and burdens, personal saving. Conventional wisdom holds that households should take maximum advantage of opportunities for tax-deferred saving through 401(k) plans, individual retirement accounts, and related saving vehicles. The authors call this conclusion into question by pointing out that, for some workers, the marginal tax rate on income received after retirement may be higher than the marginal tax rate while they are working. Several factors make it more likely that a household will face this situation. If asset returns are favorable, some high-saving workers may have higher incomes iin retirement than during their working lifetimes. Many workers have larger deductions when working than when retired. Because higher-income social security recipients are taxed on a higher fraction of their social security benefits, higher payouts from retirement accounts can substantially increase a household's income tax liability. The authors do not evaluate the number of households who are likely to face the high marginal tax rates that they describe, but they offer an important lesson on how various tax code provisions can interact, often in surprising ways, to determine the net tax burden on various activities.

The fifth paper, by Julie H. Collins and Douglas A. Shackelford, is "Do U.S. Multinationals Face Different Tax Burdens Than Other Companies?" This paper uses accounting data from a large sample of multinational firms to investigate the effect of the location in which a firm is incorporated, and the lines of business the firm is involved in, on its overall tax burden. By comparing firms in the same industry, with operations in various countries and headquarters in different countries, the authors provide estimates of the tax rate consequences of being a U.S.-based as opposed to a foreign-based company. Their estimates suggest that U.S. firms do face somewhat higher tax burdens than their competitors from several other industrialized nations. The authors also point out, however, that a number of nontax factors also affect firm location and corporate control decisions, so that even when other countries exhibit lower tax rates, there may be other reasons for firms to locate in those countries.

The final paper, Mihir A. Desai's "The Divergence Between Book Income and Tax Income," studies the relationship between income reported to shareholders in corporate reports, and income reported on corporate income tax returns. The decline in corporate income tax revenues as a share of federal tax receipts, and as a share of corporate earnings, has attracted substantial scrutiny from tax policymakers. In a highly visible debate, policy analysts have tried to evaluate the role of corporate tax shelters in reducing tax revenue relative to corporate sales and profits. Desai's paper provides new insight on this issue by investigating how book income and tax income compare for firms of different sizes. The relationship between book income and tax income was tighter in the early 1990s than in the latter part of the decade, particularly for small firms. These results suggest that firms have adopted new strategies for reducing their tax liability. Corporate tax benefits associated with employee stock option grants and related compensation grants can explain a substantial share of the divergence between book income and tax income.

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 for various participants in the policy process who are concerned with tax and expenditure program design.

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 seventeen-year history. Jennifer Dayton Barucci 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 Professor Randy Kroszner, who is currently on leave from the University of Chicago Graduate School of Business to serve on the President's Council of Economic Advisers. He delivered a fascinating set of luncheon remarks at the conference at which these papers were presented. Randy focused his discussion on both the near-term macroeconomic and fiscal outlook, and on a range of important questions regarding the government's role in financial and insurance markets.

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 their willingness to participate in this very important opportunity for interchange between academics and policymakers.