This year marks the twenty-fifth anniversary of the NBER’s Tax Policy and the Economy conference. Originally conceived by then-NBER President Martin Feldstein as a way for NBER researchers to communicate their findings to the policy community, this conference has become an important venue for interaction between academics and those involved in the policy making process. In those 25 years, NBER researchers have produced and presented 137 policy-relevant research papers spanning a wide range of topics in areas of taxation, social insurance, savings incentives, environmental policy, and many, many others.

It was especially fitting for this twenty-fifth anniversary conference to have the involvement of four individuals who were instrumental to the first volume in this series. Martin Feldstein, who as NBER president provided the inspiration for this conference series, was an author in this year’s conference. Lawrence Summers, the first conference organizer, was our luncheon speaker. Jim Poterba, who was an author of one of the papers presented at the first conference and a long-time organizer of the conference, returned this year as NBER president to introduce our luncheon speaker. John Shoven, who also authored a paper in the first volume, was also an author at this year’s conference. I am grateful for their continued participation in this conference.

Five papers were presented at this year’s conference. James Sallee began by presenting his paper “The Taxation of Fuel Economy.” He provides a review of the many existing policies that are designed to improve vehicle fuel economy, ranging from subsidies for specific technologies to tax incentives targeted at automakers or consumers. He points out the unintended consequences that arise from these policies, such as opportunities for “gaming” the system. He then discusses how the same improvement in fuel efficiency could be achieved at lower social cost if policy makers were to directly tax fuel. These insights are quite important.
given that the personal transportation sector accounts for 20% of U.S. greenhouse gas emissions and 40% of petroleum consumption in the United States.

The next two papers discussed important aspects of our largest social insurance programs. Katherine Baicker and Jonathan Skinner, in their paper “Health Care Spending Growth and the Future of U.S. Tax Rates,” use a life cycle model of labor supply and saving to analyze how future increases in aggregate health care expenditures will affect future tax rates required to support Medicare and Medicaid. They calculate that, over the next 50 years, marginal tax rates on the highest income group could rise as much as 70%, depending on the progressivity of future tax changes. They also calculate that the efficiency costs of these tax increases could lower GDP by 11% by 2060. To put this into perspective, they note that for every tax-financed dollar increase in health care spending, the spending in non–health care sectors would decline by more than $2. Using data from OECD countries, however, the authors also provide suggestive evidence that the rising tax burden associated with paying for tax-financed public health expenditures may serve to reduce the growth in health care spending.

Gopi Shah Goda, John Shoven, and Sita Nataraj Slavov then presented their research on “Implicit Taxes on Work from Social Security and Medicare.” They show how there is a substantial implicit tax on work from Social Security for many workers who are nearing retirement age due to several features of the benefit formula that result in additional work translating into little or no incremental benefits. Similarly, they show that the “Medicare as second payer” policy, which requires Medicare to be a secondary payer for Medicare-eligible workers who work for an employer with a health plan (and 20+ workers), also imposes a large implicit tax on workers because they forgo the Medicare benefits that they would have received if they had not been working. The authors then analyze alternative policies—including modifications to the Social Security benefit formula and elimination of the Medicare as secondary payer policy—and find that the implicit taxes could be reduced by as much as 45%.

The final two papers analyzed the implications of large and sustained budget deficits on the economy. Ray Fair, in his paper “Possible Macroeconomic Consequences of Large Future Federal Government Deficits,” uses a multicountry macroeconomic model to analyze the consequences of large future deficits. He offers a sobering assessment of the macroeconomic implications of our baseline fiscal situation, as well as the impact of various alternative policy responses. He has a number of highly relevant policy findings, including the fact that it does not appear that the
United States can inflate its way out of a high debt/GDP situation and a finding that a tax increase (or reduction in transfer payments) necessary to stabilize the debt/GDP ratio comes at a nontrivial loss of real output. His model also analyzes the relative impact of Fed policy (which he finds is of limited efficacy in the model), sales taxes, personal income taxes, and reductions in transfer payments.

Martin Feldstein also analyzes the long-run impact of sustained deficits in his paper “Preventing a National Debt Explosion.” After reviewing the causes of our current fiscal situation—including both a rising long-term deficit driven by government-financed entitlement programs and the current and persistent gap between spending and revenue in the rest of the budget—he discusses the economic and national security risks associated with high and growing debt levels. He then analyzes a number of policy responses for reducing the long-term debt burden, including a reduction in near-term spending; substantial changes in the way Social Security, Medicare, and Medicaid are financed; and significant reductions in tax expenditures such as the child tax credit, the mortgage interest deduction, and the exclusion of employer-provided health insurance. He concludes with an examination of the U.S. historical experience, noting that past episodes of large and rising debt burdens were typically followed by periods during which the debt-to-GDP ratio was ultimately reduced through a combination of policy responses and economic growth.

These five papers illustrate the tremendous value that NBER researchers can provide to the policy community, helping to inform important policy debates with rigorous economic analysis while avoiding make specific policy recommendations. The NBER looks forward to continuing its interactions with the policy community at future Tax Policy and the Economy conferences.