The 29th annual NBER Tax Policy and the Economy (TPE) conference was held on September 18, 2014, at the National Press Club in Washington, DC. This year’s conference featured a collection of papers that demonstrates the breadth of expertise of NBER researchers, both in terms of methodological approach and in terms of topics.

The first two papers in this volume focus on tax expenditures, a topic of recurring interest in the tax policy community and which has been the subject of prior TPE papers. Former NBER President Martin Feldstein presented estimates of how much revenue the federal government could raise by limiting tax expenditures in various ways. After discussing the substantial fiscal imbalance faced by the United States and the constraints on addressing it via reductions in discretionary spending or increased tax rates, he outlines the budgetary and economic effects of limiting tax expenditures. As a base case, Professor Feldstein examines a cap on deductions and exclusions that limits an individual’s tax reduction to 2% of adjusted gross income (AGI). Given varying marginal tax rates, this corresponds to a different amount fraction of income that can be deducted: for example, a taxpayer facing a 25% marginal rate would be limited to deductions and exclusions equal to 8% of AGI (0.25 *.08 = .02). In comparison, a taxpayer with a marginal rate of 40% would be limited to deductions and exclusions equal to 5% of AGI (0.4 *.05 = .02). Assuming this basic cap were applied to all itemized deductions except for charitable gifts, Professor Feldstein calculates that this cap would have raised $141 billion in 2013, or about 1% of gross domestic product (GDP). Over a ten-year budget window, he calculates that this would raise about $1.8 trillion of revenue. He also provides calculations indicating that such a cap would raise the progressivity
of the individual income tax. The paper goes on to explore variations on this base case and to discuss the political economy of its implementation.

Among the many deductions and exclusions in the US tax code are tax credits for households that pay tuition and fees for higher education. The second paper in this volume, by George Bulman and Caroline Hoxby, makes use of a substantial expansion in the availability of education tax credits in 2009 to identify whether tax credits have a significant causal effect on college attendance and related outcomes. The authors discuss the two traditional justifications for large expenditures in this area: (1) the return on investment in human capital (such as through higher future earnings) and (2) the incidence of the credits being akin to a “middle-class tax cut.” To understand the empirical validity of these justifications, the authors use two statistical methods (regression kinks and simulated instruments) to identify causal effects on college attendance, the type of college attended, tuition paid, and the receipt of financial aid. The evidence strongly suggests that these tax credits have negligible causal effects on the outcomes of interest, a finding that is especially important in light of the fact that the cost of these programs in 2011 was approximately $25 billion. Although not the focus of this paper, the authors’ use of extremely rich micro tax data illustrates the valuable insights that come from the ability to study administrative data sets.

The next two chapters turn the focus from education to the interaction of health insurance and employment. Casey Mulligan discusses how the Affordable Care Act (ACA) introduces or expands taxes on income and on full-time employment. He calculates the tax wedge between the supply and demand of labor that is created by various provisions of the ACA and how this varies across household characteristics. By showing the effect of these wedges on household budget constraints, Professor Mulligan shows that the taxes on full-time work are large and economically significant, especially for young and less educated workers. He concludes that when the ACA is fully implemented, these taxes will amount to the equivalent of earnings from five hours of work each week. This work will undoubtedly be influential in guiding future empirical work assessing the longer-term labor supply consequences of the ACA.

The next paper in this volume is one of the first to explore the labor market consequences of the ACA empirically, and, to our knowledge,
the very first to do so using tax data. Bradley Heim, Ithai Lurie, and Kosali Simon focus on the “young adult” provision of the ACA that allows young adults to be covered by their parents’ insurance policies. Using a panel of all US tax records from 2008–2012, the authors compare young adults whose parents have access to benefits to young adults without such access. They also compare young adults just under the age threshold to otherwise similar young adults just over the age threshold. The authors examine a comprehensive set of labor market outcomes, including employment status, educational enrollment, and wages. Despite the fact that other research has documented a large effect of the ACA on insurance coverage, these authors find no meaningful impact on labor market outcomes for the newly insured.

The last paper in this volume is a more conceptual treatment of labor supply decisions. Louis Kaplow explores how we should think about labor supply in the presence of myopic decision makers. He begins by noting that one of the leading justifications for social insurance systems, such as Social Security, is that myopic individuals may fail to save adequately on their own. If so, however, then this suggests that these same myopic individuals should not be modeled as perfectly foresighted optimizers when it comes to making labor supply or retirement decisions. Professor Kaplow identifies some of the key conceptual challenges to analyzing policy in this context, such as considering whether a myopic individual might view payroll taxes as a pure tax despite the future benefits to which they lead. He considers a range of cases, and finds that in most of the cases considered, savings policies do not operate like a pure tax. He also finds that labor supply can be increased, rather than decreased, in some models. His paper highlights the need for empirical work to determine how myopic preferences affect savings and labor supply decisions, and thus how these factors interact with public policy changes.

Taken together, these papers underscore why rigorous and careful economic analysis is essential to the design and analysis of public policies. Economic models, such as that of Mulligan and Kaplow in this volume, provide new insights into how individuals may react to policy changes. Careful empirical work using IRS data, including that of Bulman and Hoxby, and that of Heim, Lurie, and Simon, can often uncover surprising relations between policies and behavior that can and should guide future policy development. Still other research, such as that of Feldstein, can demonstrate the fiscal and distributional changes
of potential policy reforms. The NBER looks forward to continuing to promote and disseminate rigorous and policy-relevant research in the future.

Endnote

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