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# INTRODUCTION

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The November 1992 presidential election ended twelve years of divided government in Washington, and raised the possibility of important new initiatives on many dimensions, including tax policy. The new political climate raises new opportunities and challenges for researchers and policy advisors in the tax policy field. There is active discussion of many potential tax reforms, including incremental investment tax credits and changes in the structure of federal income tax rates. The coming debate on the distributional and efficiency effects of such proposals will inevitably draw heavily on economic analyses by both academics and policy makers.

To encourage interaction between these groups, for the last seven years the NBER has sponsored an annual Tax Policy and the Economy Conference in Washington, D.C. The conference facilitates communication between academics engaged in tax policy research, and those in industry and government who are directly involved in the tax policy-making process. The conference is devoted to the presentation of new research findings of relevance for tax policy.

The five papers in this volume represent a cross section of some of the best applied research that bears on tax policy deliberations. Each paper provides new data, and new insights, on questions of ongoing national importance. In several cases, the research papers were motivated by suggestions or questions at previous Tax Policy and the Economy meetings.

The first paper, Bronwyn Hall's study of "R&D Tax Policy During the Eighties: Success or Failure?" suggests that tax incentives have important effects on corporate R&D spending. This paper begins by summarizing how the various tax reforms of the 1980s affected the after-tax price of R&D investment. Hall then uses a large panel data set on individual firm R&D spending, as well as new estimates of the firm-level tax incentive for such spending, to explore how changes in the after-tax cost of R&D projects affects corporate investment. The empirical findings suggest that a 1 percent reduction in the cost of R&D raises firm outlays by about 1 percent in the first two years after the policy takes effect. The spending change would be even larger in the longer run, and there is some evidence that spending became more sensitive to tax incentives in the late 1980s. These results suggest that the R&D tax credit and other tax incentive policies have a large positive effect on corporate R&D spending.

Leslie Papke's paper on "What Do We Know About Enterprise Zones?" provides important evidence on the likely impact of current proposals for a set of federal enterprise zones. Papke describes what the traditional theory of tax incidence implies about the gains and losses from a system of enterprise zones, and she then describes several types of prior empirical evidence on the effect of such zones. After a review of both British experience with enterprise zones in the early 1980s, and U.S. state experience, the paper reports new findings on the employment and economic growth effects of enterprise zones in Indiana. The study finds a weak reduction in unemployment rates in the Indiana enterprise zones but no evidence of an increase in per capita income for enterprise zone residents. Because enterprise zones reduce tax revenue, the results imply that these zones are a relatively expensive way to improve the economic circumstances of enterprise zone residents.

The third paper, by B. Douglas Bernheim and John Scholz, explores several issues relating to "Private Saving and Public Policy." The paper evaluates the adequacy of individual saving for retirement by constructing an elaborate simulation model for household wealth accumulation and consumption. This model shows that many households do not save enough to avoid substantial reductions in their standard of living after they retire. By contrasting the simulation results with actual patterns of wealth accumulation, the authors conclude that more-educated households prepare better for their retirement, and respond more to saving incentives, than less-educated households. These findings suggest that a program like the current system of IRAs, which targets incentives for relatively low-income households but provides a small saving incentive for high-income groups, may not increase saving by as much as several alternative policies. Bernheim and Scholz sketch one such policy that provides both a "floor" and a "ceiling" on the amount of saving households at different income levels must do before they can avail themselves of targeted saving incentives.

Patricia Anderson and Bruce Meyer's paper, "The Unemployment Insurance Payroll Tax and Interindustry and Interfirm Subsidies," reports new evidence on the pattern of cross-subsidy effects that result from the current system of unemployment insurance finance. The authors use previously unexploited data on firm unemployment compensation contributions and benefit claims to measure the level and persistence of cross-subsidies. The findings suggest that the unemployment insurance system generates chronic subsidies to some industries. The authors conclude by calculating the "deadweight loss," or reduction in economic efficiency, associated with these cross-subsidies.

The final paper, by Daniel Feenberg and me, examines "Income Inequality and the Incomes of Very High-Income Taxpayers." This study explores the changing share of adjusted gross income (AGI) reported by taxpayers in the top one-half of 1 percent of the income distribution. The income share of this group increased during the 1980s and rose particularly rapidly in the years 1986–1988. The rise in income inequality appears both for AGI and for most income components, and in particular is not attributable to high capital gains realizations in the years surrounding the Tax Reform Act of 1986. The paper concludes that at least part of the increase in income concentration in the post-1986 period was due to reductions in marginal tax rates, which raised the incentive for high-income households to report current taxable income rather than engage in tax avoidance activities.

There is an important symbiosis between policy making and scholarship in the tax policy field. NBER researchers, and academic researchers more generally, often find research topics in the ongoing debates that take place in Washington and state capitals. In turn, many of the estimates of behavioral elasticities, and the vocabulary that guides policy debates, are derived from academic research. The papers in this year's *Tax Policy and the Economy* volume suggest that this interaction is healthy and ongoing.

# ACKNOWLEDGMENTS

Many individuals played a key role in planning and organizing the *Tax Policy and the Economy* meeting. Martin Feldstein, president of the NBER, and Geoffrey Carliner, executive director, have been active supporters of this annual conference for the last seven years. Deborah Mankiw, the NBER's director of Corporate and Foundation Relations, and Amy Curran helped throughout the conference planning process. Candace Morrissey managed the daunting task of ensuring that the five conference papers were prepared on time and in a format that was acceptable for publication. Several members of the NBER Conference Department, Conference Director Kirsten Davis, Lauren Lariviere, and Robert Shannon, oversaw the logistics of our Washington conference with extraordinary efficiency.

I am also grateful to each of the conference paper authors for striving to communicate their important research findings to a largely nonacademic audience. I appreciate their efforts and willingness to participate in this very important opportunity for interchange between academics and policy makers.