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Introduction

The past year witnessed one of the most sweeping reforms of the federal income tax system since its inception. Tax policy issues commanded the attention of policy makers, the media, and the public. Although the new tax code enacted in 1986 will not take full effect for several years, attention is already turning to further tax reform efforts. Some observers anticipate the need for new measures to increase revenues. Others see the need to reform the tax system to accommodate ongoing changes in the economy. Tax policy debates will be with us for years to come.

Economic research can make an important contribution to tax policy debates. It can quantify the impact of potential tax changes on economic behavior and can isolate the many indirect effects that tax policies have on economic efficiency and equity. All too often, however, the results of economic tax policy research are not presented in a way that is accessible to policy makers, businessmen, lawyers, and others involved in the formulation of tax policy.

In an effort to communicate research results the NBER is initiating a series of annual conferences and publications on "Tax Policy and the Economy." The current volume is the first in this series. Unlike many other Bureau publications, this series is nontechnical and is written not only for academics but also for the broader tax policy community. Although the papers included here do not endorse particular policies, they provide valuable input for both public and private decision making.

This inaugural issue of *Tax Policy and the Economy* contains six studies of diverse tax policy issues. Each paper brings together new data to examine aspects of an important policy issue. I shall briefly describe each of the papers beginning with Alan Auerbach's and James Poterba's study, "Why Have Corporate Tax Revenues Declined." This paper examines the striking decline in corporate tax revenues as a share of GNP. Corporate tax burdens relative to GNP are only about one-third as great as they were in 1960. Auerbach and Poterba show that less than half of this decline is due to changes in tax rules. Declining corporate profits have had a greater impact on revenue collections than all legislative changes taken together. Even after the 1986 Tax Reform Act is phased in, corporate tax burdens relative to profits will be light by historical standards.

In recent years there has been an increase in share repurchases and mergers. John Shoven's paper, "New Developments in Corporate Finance and Tax Avoidance: Some Evidence," examines the effect of this trend on tax collections. He concludes that these devices have helped and will continue to help corporate shareholders escape the double taxation of dividends. These financial devices may have also cost the Treasury a significant amount of money—perhaps as much as $25 billion in 1985.

In "Amnesty, Enforcement, and Tax Policy" Herman Leonard and Richard Zeckhauser review the experience of several states with tax amnesty programs and consider the likely effects of a federal tax amnesty program. The authors stress that a de facto amnesty already exists, because the IRS currently waives about half the penalties it could collect from delinquent taxpayers. They conclude that a full-scale tax amnesty, coupled with stricter enforcement procedures, would raise revenue in the short run and would enhance future efforts to enforce the income tax by getting more taxpayers on the rolls. However, they caution that there are long-term risks. An amnesty might change attitudes toward the income tax and therefore undermine the voluntary compliance that ensures the success of the current program.

"The 1983 Increase in the Federal Cigarette Excise Tax" by Jeffrey Harris explores the economic effects of tobacco taxation. He considers what effect these taxes have on the market for cigarettes and their ultimate impact on health. In particular, he examines what effect the recent hike in the federal excise tax on cigarettes had on prices. Over the last five years the price of a pack of cigarettes rose by 36 percent (adjusted for inflation). This price increase was much greater than the increase in the tax burden on cigarettes. Harris argues, however, that much of it may nonetheless have been caused by the recent tax increase, since it provided a focal point that facilitated collusion among cigarette producers. Harris finds that the tax increase considerably reduced the number of smokers, and he concludes that it almost certainly avoided a substantial amount of disease.

Douglas Bernheim's study "Does the Estate Tax Raise Revenue?" suggests that the federal estate tax could conceivably reduce federal tax revenues. Because of its many exemptions and the tax avoidance schemes that are legally permissible, the tax raises only a small amount of revenue (approximately $6 billion in 1985). The estate tax also encourages people to take avoidance actions, such as making gifts to their children, that reduce income tax collections. But standard estimates of the revenue raised by the estate tax do not include its negative impact on income tax collections. Bernheim presents data suggesting that the reduction in income tax revenues caused by the estate tax approximately offsets the revenue it generates directly.

The final paper by Michael Boskin and Douglas Puffert shows that the redistributions between married workers and single workers in the Social Security system dwarf the much discussed "marriage tax" effects of the individual income tax. Social Security results in very large redistributions from married women who work to married women who do not, and provides very low rates of return for women who are divorced or widowed. The authors also demonstrate that for many individuals Social Security benefits and contributions are weakly related.

Acknowledgments

The authors and I are indebted to the people at the NBER who made this volume and the conference upon which it is based possible. NBER president Martin Feldstein conceived the idea of starting a series of annual volumes communicating the results of economic research on tax policy to a wide audience, and he has supported this project throughout. Deborah Mankiw administered the organization of the conference and this volume with great skill and good cheer. There would be no volume without her efforts. Kirsten Foss Davis and Ilana Hardesty did a fine job of handling the logistics of the conference itself. Merri Ansara and Jane Konkel typed and retyped the manuscripts under great time pressure. Finally, I am grateful to the authors of the papers presented here, whose research has set a high standard for future volumes in this series.

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