Introduction

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The six papers in this issue of Tax Policy and the Economy are all directly related to important issues concerning U.S. taxation and transfers.

In the first paper, Karen Dynan and Douglas Elmendorf report the results of a new study of the effects of automatic fiscal stabilizers during economic downturns, focusing specifically on the Great Recession and the COVID recession. The authors motivate their study by noting that high rates of unemployment persisted long after the Great Recession began and that the COVID recession was followed by a surge in inflation to its highest level in four decades, raising the important question of whether alternative fiscal stimulus policies in those two recessions might have altered those outcomes. The authors begin by discussing the relative merits of automatic stabilizers versus discretionary fiscal stimulus during recessions, explaining that both have the potential for positive effects but also have a number of possible costs as well, which they analyze in detail. After presenting the key design issues that must be addressed for any automatic stabilizer, Dynan and Elmendorf turn to projecting the effects of a specific additional stabilizer that would provide direct payments to individuals (like the Economic Impact Payments during the COVID recession), "turning on" when the unemployment rate rises sufficiently above its recent level and making payments calibrated in amount to close part of the emerging output gap. Incorporating assumptions drawn from the economics literature about how changes in aggregate demand affect output, inflation, and unemployment, the authors estimate economic outcomes if this stabilizer had been used instead of the actual discretionary stimulus. They show that the stabilizer would have provided more sustained stimulus after the Great Recession, producing a faster decline in unemployment without raising inflation. After the COVID recession, the stabilizer would have generated much lower inflation than was observed, albeit with a somewhat slower reduction in unemployment. The cumulative budgetary cost of the stabilizer across the two recessions would have been notably smaller than the cost of the discretionary fiscal actions taken. However, the authors caution that their stabilizer would not have targeted support to the households, businesses, and state and local governments most affected in each period, nor would it have responded as quickly during the abrupt onset of the COVID recession as actual policy did. The authors conclude by emphasizing that their estimates are suggestive rather than definitive given the large degree of uncertainty about the effect of fiscal stimulus on aggregate demand and the effect of increases in demand on output and inflation, and that alternative assumptions about these relationships could produce differing results.

Alan J. Auerbach and William Gale conduct a new study of the federal budget, both reviewing its history and looking ahead to how the budget is likely to evolve over the next three decades, as well as discussing its implications and possible solutions to the challenges the U.S. is likely to face. Reviewing past trends, the authors show that the unified deficit, which includes Social Security and net interest payments, fluctuated without an underlying upward or downward trend from 1962 to 2000, but then started a steady upward trend thereafter, with noticeable jumps during the Global Financial Crisis and the COVID-19 Pandemic, reaching 6.4 percent of GDP in 2024 and resulting in a ratio of net debt to GDP of 97.8 percent at the end of that year. Auerbach and Gale show that the steady rise in the debt-to-GDP ratio over the last 25 years has been a result of a combination of tax cuts, spending increases, economic downturns, and higher interest rates on the debt. After reviewing the details of how the budget process works and concluding that changes in the budget process, while not helpful, have not been a major cause of worsening fiscal outcomes, the authors provide new projections of the debt-to-GDP ratio, estimating it to rise to 127 percent in ten years (in 2034) and to 183 percent in thirty years (in 2054), both considerably higher than projected in March 2025 because of the enactment of the One Big Beautiful Bill Act (OBBBA) in July 2025. Auerbach and Gale estimate the 2054 ratio to be 199 percent if the temporary provisions of the OBBBA are made permanent. The authors then review the existing thinking on how higher debt affects the economy, including its possible effects in reducing national saving and future output and the possible offsets to those reductions arising from an increase in borrowing from abroad but which increases future payments from domestic to foreign individuals, also reviewing past work suggesting that a 199 percent debt-to-GDP ratio in 2054 could reduce economic growth by 1 to 2 percent per year and reduce GDP in that future year by 6 to 7 percent. The authors end by arguing that the high projected debt will constrain future policy actions and could lower the political and military standing of the U.S. in the world, and that reducing the primary deficit (which excludes interest payments) will be challenging economically and politically but not impossible. They discuss possible solutions in the form of fiscal consolidation – tax increases and spending reductions – and explain why inflating the currency or defaulting on the debt would not solve the problem.

The third paper, by Beatrice Ferrario and Stefanie Stantcheva, provides new evidence on how Americans think about health care and insurance, seeking to understand how U.S. citizens perceive and understand public policies related to health insurance and how their support for expanded health insurance might be altered. The authors design and implement two large-scale Social Economics surveys and experiments on a representative sample of the U.S. population in

2019 and 2025, with the questions designed to elicit not only respondents' factual knowledge about the health care system and health insurance policies but also their understanding of the mechanisms at play and the efficiency and distributional implications. The surveys also extract people's first-order considerations that come to mind when they are prompted to think about health insurance and its goals or shortcomings, as well as including questions on people's policy views. The authors' analysis of the survey data shows that respondents consistently emphasize costs, affordability, and access as their main concerns, and that there is broad agreement about efficiency-related effects, with most believing that expanding coverage increases preventative care use, reduces job-lock and improves overall health. But perceptions diverge on broader "spillover" benefits such as reduced disease spread and better community health, which Democrats tend to view more positively. Views on equity are also largely aligned, but partisan gaps are much larger when it comes to policy preferences, with Democrats showing stronger support for single-payer systems, expanded coverage, and greater government involvement and with Republicans expressing more satisfaction with the current system and preferring limited government roles. These differences stem less from contrasting efficiency or fairness beliefs and more from fundamentally different views of government and its proper scope. Experimental evidence generated by the analysis underscores the power of concrete, program-specific information, for abstract messages about efficiency or equity in 2019 had little effects whereas targeted information about Medicare and Medicaid in 2025 significantly increased support for more government-provided health insurance and expansion of existing programs, including among Republicans. Overall, the results suggest that detailed, positive program-based information can meaningfully shift public attitudes toward greater acceptance of government-provided health insurance, perhaps because such information can address the differences in views about government itself.

Jonathan Hartley, Kevin Hasset, and Joshua Rauh are interested in the investment response to corporate taxation and, in particular, how fixed investments respond to changes to the user cost of capital. They use the Tax Cut and Jobs Act of 2017 as a quasi-experimental source of variation in user costs across different asset classes. The law included reductions in the top marginal corporate tax rate, automatic expensing for some forms of capital expenditure for five years, and new deductions for pass-through entities. The responses to these changes are important for revenue forecasts of the policy, as reductions in revenue due to lower rates may be offset by investment increases.

As is commonly the case with federal tax reforms, one may be hesitant to use aggregate trends in outcomes to assess impact of a reform, due to the potential of confounding macroeconomic trends. To address this issue, the authors use variation in the user cost of capital over time and between different asset classes. This approach builds on prior work that has leveraged major tax reforms as natural experiments to isolate causal impacts of these policies. The authors gather data on investment and capital stock across different asset classes using data from the Bureau of Economic Analysis (BEA). In particular, they compare investment rates in the years 2018 to 2023, relative to the baseline year of 2016, prior to TCJA, correlating changes in investment with changes in user costs. They find, on average in the years following the TCJA, a 1.86 percentage point increase in investment for every 1 percentage point decrease in user costs. Their results imply an elasticity of -2.11, which is larger than the range of estimates typically found in similar studies, -0.5 to -1.0, and 3 times as large as the value typically used by the Congressional Budget Office (CBO), -0.7. The chapter additionally assesses whether these responses are more likely to be driven by marginal tax rate changes or bonus depreciation rules, both which affect the user cost of capital, and find evidence consistent with a larger role for the latter.

While there is a wealth of research and literature on the topic of identity, within and especially outside of the field of economics, there has been much less work at the intersection of tax policy and identity. Joel Slemrod's chapter delves into this topic. The chapter begins by establishing a working definition of identity for the purposes of the essay, following most closely models of identity as a set of constraints on choices driven by shared group norms and the potential utility cost of deviating from said norms for one's identity group.

The essay focuses in particular on racial, religious, and gender identity, providing numerous historical examples of direct and indirect taxation based on identity. The review includes, for example, poll taxes in the United States intended to disenfranchise Black American voters; taxes targeting religion, including numerous governments—Roman, English, French—levying taxes specifically on Jews; and tax policies with implications for gender, including rules regarding married couples—heterosexual and same-sex—or credits earmarked specifically for mothers. The historical examples highlight an important distinction regarding these policies: they are at times directly based on identity and elsewhere indirectly affecting specific identities via attributes and choices that are highly correlated with identity.

Shifting to contemporary tax policies, the chapter engages with arguments raised by that race-neutral tax policies in the US can differentially impact Black and White families due to systematic differences in ability to pay conditional on taxable income. The chapter reviews a number of empirical studies finding differential incidence of taxes and credits by race that may support this hypothesis. In the area of religion, tax exemptions for religious entities are explored as a potential means of favoring some religious identities over others. Finally, the chapter reviews work that shows how tax credits that target children interact with gender norms of child custody to differentially impact women who are single parents.

The chapter next turns to a discussion of positive and normative implications for taxation in light of the role that identity may play in behavior and politics. On the positive side, theories of identity have ambiguous predictions for how (1) taxation may affect the strength of one's identification with a specific group and (2) how the strength of one's identification with a group may affect preferences over redistribution. On the normative side, the essay contrasts the typical approach to tax analysis that features an "anonymous" social welfare function, generally ignoring identity, with alternative proposals that make space for some incorporation of identity into optimal tax design. The essay, meant to raise as many questions as it does answer them, concludes by outlining a number of new avenues for research on this topic given the limited attention it has received thus far in the tax policy literature.

A key determinant of the impact of the transfer programs is the take-up of eligible participants. Marianne Bitler, Jason Cook, Chloe East, Sonya R. Porter, and Laura Tiehen examine how administrative burdens, in particular, related to geographic proximity, may affect public benefit take-up. Their analysis speaks to a debate within the literature on the effects of enrollment burdens. On the one hand, there is a strand of literature that posits that enrollment costs may help to deter applicants who are not the target of the benefit programs, while another strand of the literature raises concerns that administrative barriers may in fact screen out those most in need.

The chapter focuses on the Supplemental Nutrition Assistance Program (SNAP), one of the most universal means-tested transfer programs. Take-up is of particular concern in this place because SNAP can involve a long and complex application process, both for initial applicants and those renewing eligibility, and the modal form of enrollment is in-person. The authors estimate the effect of SNAP office openings and closings on participation at the census tract level. They draw on administrative Census data on the universe of SNAP recipients, which includes home address, income, and other demographics. These data are combined with hand-collected data on the opening and closings of all SNAP offices in 27 states. The study sample is then restricted to the state of Indiana, where SNAP offices are rented, and therefore open and close frequently due to the expiration of leases. This provides a plausibly exogenous source of office location.

Estimating event studies around either the opening or closing of the office nearest to a census tract, the authors indeed find that an opening is associated with a significant decrease in travel time to the nearest office and a closing results in a sizable increase in the travel time. Next, they find that an opening is associated with a 20 percent increase in participation at the tract level, although the estimates have limited precision. In the case of a closing, the authors find a statistically significant decrease in participation of seven to nine percent over the next two years. The effects are concentrated in urban areas, and there is suggestive evidence that a closing also has negative spillover effects on receipt of Temporary Assistance for Needy Families (TANF).