Issue Five April 2005

PDF | Print | E-mail

Contents

PRESIDEN*T'S MESSAGE*

Our program chair, James Mackie, and his committee have put together an outstanding program for the Spring Symposium, with the theme of “Big Ideas Amid Big Deficits.” Sessions relate to the President’s two major domestic initiatives–tax reform and social security–as well as compliance, fiscal pressures, the recently passed corporate tax bill, and tax shelters. You can find details of the program, as well as the excellent Friday afternoon State Tax Program focusing on multistate tax agreements arranged by Gary Cornia, on the NTA web site (http://www.ntanet.org). Our speaker for Thursday lunch is George Yin, Chief of Staff of the Joint Committee on Taxation; Charles McLure is the luncheon speaker for the state session on Friday. PLEASE REGISTER BY MAY 10 (April 21 is the cutoff date for the for NTA hotel rate).

We were all saddened by the untimely loss of David Bradford. Joel Slemrod, our vice president, has written a memorial to him, which appears in this newsletter. The fundamental tax reform session at the Spring Symposium on May 19 is dedicated to David, who played such an important role in this area, from overseeing the Treasury blueprints for tax reform study to formulating his own consumption tax proposal, the X-tax.

The Spring Symposium will also be the occasion of the first presentation of our new award for outstanding public service, named in honor of Bruce Davie and Al Davis. The award will be announced at lunch, but will presented at the Thursday evening cocktail party, which will be in honor of the winner. Please make plans to join us there.

We are also moving forward to the November 17-19 meetings in sunny Miami, ably chaired by John Diamond. Matt Murray is planning a new innovation: a session featuring student authors and discussants. So all of you professors out there: encourage your students to submit papers or paper ideas for consideration. You can send them tommurray1@utk.edu. Once the papers are chosen, we will send out a call for student discussants. We also remind you that the deadline for the general call for papers and sessions for the fall meetings, which is posted in the NTA web site and has been sent by e-mail, is May 1.

We have kudos (see below) for several of our members: Jim Poterba, Lil Mills, George Plesko, and Rosanne Altshuler. Please let NTA know is there is a special achievement or good news that we can share with other members.
Following this message is a special article on a hot topic–social security reform–that I hope you find interesting and informative. Finally, please remember to share with us any ideas about how to make the NTA Network more useful to members.
Jane Gravelle

Reminders
ANNUAL SPRING SYMPOSIUM, May 19-20, 2005
STATE-LOCAL TAX PROGRAM, May 20, 2005, Noon-5:00 PM
Holiday Inn Capitol Washington DC
Make hotel reservations directly at 202-479-4000 by April 21. Registration: Symposium $175, State Tax $50, $200 if attending both programs. **Program and forms** at www.ntanet.org, or contact NTA at **202-737-3325 ornatltax@aol.com**. Print version will be mailed.
98TH ANNUAL CONFERENCE ON TAXATION, CALL FOR PAPERS DEADLINE MAY 1, 2005
November 17-19, 2005, Hyatt Regency, Miami, Florida
John Diamond, Program Chair, jdiamond@rice.edu. For details, see Call for Papers at www.ntanet.org.
OUTSTANDING DOCTORAL DISSERTATIONS, DEADLINE JUNE 1, 2005. Application and nomination forms may be downloaded from www.natnet.org. For further information, contact the National Tax Association at 202-737-3325 or natltax@aol.com

The $600 Billion Number

*Jagadeesh Gokhale and Kent Smetters**

The Social Security and Medicare Trustees released their reports on March 23, 2005, that showed that both programs face serious challenges. According to the Trustees, Social Security, in particular, faces a present value infinite-horizon imbalance equal to $11.1 trillion and Medicare's shortfall is a whopping 7 times larger. In other words, these programs could be placed on a financially sustainable course with an immediate injection of another $81.6 trillion into their Trust Funds–funds that we clearly don't have. The required resources must be raised by changes to the programs' tax or spending policies in the future.
The key question is not whether but when and how urgently such adjustments are needed. To answer that, we must focus on the cost of delaying policy adjustments.
Let's focus on Social Security for the moment (the argument applies equally to Medicare). That program's $11.1 trillion imbalance grew by about $600 billion over the previous year due to interest costs on the outstanding balance. This interest cost, which was anticipated in the previous year's report, has garnered a considerable amount of attention after being popularized by the President in his pitch for personal accounts. Paul Krugman, in particular, wrote that "anyone who repeats the $600 billion line is helping to spread a lie." In its unsigned op-ed on March 24, the *New York Times*, for example, writes, "the difference between this year's $11 trillion eye-popper and last year's number–$600 billion–is being used as evidence of a scary deterioration in Social Security's finances. That's just wrong. The two monster numbers are actually the same quantity–different ways of expressing an unchanging level of debt at two different points in time."
To be sure, emphasis on the $600 billion interest costs must be balanced against the fact the economy is also growing. If the economy (more specifically, the payroll tax base) does grow at the rate of interest (or faster), then the government can run a Ponzi game: It can borrow funds for current spending, and pay them off from larger future tax revenues without increasing tax rates. As MIT Nobel Laureate Paul Samuelson once wrote in 1967, "Social Security is squarely based on what has been called the eighth

wonder of the world–compound interest. A growing nation is the greatest Ponzi game ever contrived." Of course, if the conditions required for a Ponzi game actually held then Dr. Krugman and the NYT should hardly be complaining about the recent (or any) increases in deficits either. They cannot have it both ways.

The condition required for a government-operated Ponzi game, though, has never held in the United States on a risk-adjusted basis. The potential for such a Ponzi game is just a theoretical quirk that every economics graduate student studies but few economists take seriously. Under normal economic conditions, such a Ponzi game is not viable because interest costs grow faster than the economy. In other words, there really *is* a cost to delaying action on entitlement reforms.

The cost of delay can be properly measured by asking how much payroll taxes would have to be increased or benefits reduced immediately and forever to make Social Security and Medicare financially sustainable–and examining how the size of these adjustment changes if action is delayed. According to the Trustees' own calculations, placing Social Security and Medicare on a sustainable course would require increasing payroll taxes from their current rate of 15.3 percent of wages to about 36.1 percent of wages–an increase of about 136 percent. And, for each 5 years that we delay action, the required immediate and permanent payroll tax hike increases by about 10 percent–or about 1.5 percent of wages–not a minor increment.

But that's not all: This calculation unrealistically assumes that people would continue to work just as hard after a delayed but larger adjustment as if the adjustment were implemented immediately. The Social Security and Medicare Trustees don't provide calculations that account for this "feedback" effect of policy delays on labor supply. Nor do the Trustees provide the information needed to calculate the alternative policy of reducing benefits immediately and forever–although, based on our calculations, we suspect that the number is more than 50 percent.

Regardless of the merits of personal accounts, there is no question that the cost of delays in reforming our entitlement programs is substantial.

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*Jagadeesh Gokhale is a senior economist at the CATO Institute. Kent Smetters is an associate professor at The Wharton School.

Remembering David Bradford

David F. Bradford died on February 22 from injuries sustained from a fire in his home two weeks earlier. David received his Ph.D. from Stanford in 1966, and for most of his career was at the Woodrow Wilson School at Princeton; since 1993 he was also an adjunct professor at NYU School of Law. Although he later became best known for his foundational work on consumption taxation, David also made important contributions to a wide range of other topics in public finance. For example, his work with William Baumol in the late 1960s was one of the important contributions to the emerging theory of optimal taxation, and his 1981 paper on the effects of a tax on corporate distributions was very influential in the early days of the development of the "new" view of dividend taxation.

David's research focus was forever changed by his first (from 1991 to 1993 he was a member of the CEA) stint in the federal government, when in 1975-76 he served as Deputy Assistant Secretary for Tax Policy (Tax Analysis) at the Treasury Department. During this time he headed up the Treasury inquiry into fundamental tax reform that resulted in the classic report *Blueprints for Basic Tax Reform*. This report laid out detailed prototypes for both a consumption tax and a comprehensive income tax, and argued that a comprehensive consumption base has advantages over an income base in terms of both the equity of the ideal form of the base and the relative ease with which the ideal could be approximated by simple, practical rules. From that point on much of David's intellectual effort went toward addressing theoretical and practical questions regarding consumption taxation, including how to tax financial

services, transition issues and, most recently, international issues. He came to champion what he called the X-tax, a version of the Hall-Rabushka flat tax that features graduated tax rates applied to the personal tax base. While it is accurate to say that David was a consumption-tax advocate, he was always intellectually rigorous and honest in assessing the case. His 1986 book *Untangling the Income Tax* is still well worth reading, as are his articles collected in *Taxes, Wealth, and Saving.* I was asked to write a blurb for the jacket of his collected works, and what I wrote sums up how I, and many others in our community, regarded him: “David F. Bradford is the deepest thinker, bar none, among public finance economists. His writings on consumption taxation and saving are consistently insightful, important, and elegant.”
In addition to being an exemplary scholar, David was a wonderful human being. I will never forget the encouragement he gave me when I was a new assistant professor, and the seriousness with which he took my ideas. Spending time with David was always a joy, and usually was also an exhilarating intellectual experience during which no undefended preconceptions were brooked, and from which one seldom emerged without being enlightened. The public finance community will miss him greatly, as will I.

Joel Slemrod

Poterba and Altshuler with Federal Tax Reform Panel

James Poterba is member of the President's Advisory Panel on Federal Tax Reform. He is the Mitsui Professor of Economics and the Associate Head of the Economics Department at the Massachusetts Institute of Technology. He is also the Director of the Public Economics Research Program at the National Bureau of Economic Research and a Fellow of the American Academy of Arts and Sciences and the Econometric Society.
Rosanne Altshuler is a senior economist on the Panel staff. She is associate professor of economics at Rutgers and an editor of the *National Tax Journal*. Before joining the Tax Panel, she was acting as a special advisor to the Joint Committee on Taxation.

Mills and Plesko Receive Wildman Medal

NTA members Lillian Mills of the University of Arizona and George Plesko of the Massachusetts Institute of Technology have been awarded the 2005 Deloitte Wildman Medal from the American Accounting Association for the most significant contribution to the advancement of the practice of accounting. Their research, "Bridging the Reporting Gap: A Proposal for More Informative Reconciling of Book and Tax Income," was published in the National Tax Journal in December 2003.

Welcome New Members Winter/Spring 2005

Sarah Aadland, Growth and Justice ,St. Paul MN
Raquel Alexander, University of Kansas, Lawrence KS
Michael J. Allen, Maine Revenue Services, Augusta ME
Valerie Amerkhail, Economic Consulting Services LLC, Washington DC
Margaret Amundson, Minnesota House of Representatives, St. Paul MN
Nathan B. Anderson, University of Michigan, Ann Arbor MI
Scott Anderson, Wells Fargo & Co., Minneapolis MN
Omar Arias, The World Bank, Washington DC
Karen Baker, Minnesota House of Representatives, Minneapolis, MN
Stephen L. Baker, Ramsey County Property Records & Revenue, St. Paul MN
James Barrese, St. John's University, Jamaica NY
Bernie H. Beaver, Boulay, Heutaker, Zibell & Co., Eden Prairie MN

Lorrie J. Brown, Washington State Department of Revenue, Olympia WA
Michael G. Bublitz, Minnesota Department of Revenue, St. Paul MN
Nicholas Bull, Joint Committee on Taxation, Washington DC
Gregory S. Burge, Tallahassee FL
Carolyn Carlson, Minnesota Department of Revenue, St. Paul MN
Rebecca Christenson, Minnesota Department of Revenue, St. Paul MN
Kathryn L. Combs, University of St. Thomas, Minneapolis MN
Molly Dahl, Congressional Budget Office, Washington DC
Esteban Dalehite, Florida International University, Miami FL
Patricia Dalton, Minnesota House of Representatives, St. Paul MN
Dennis Dane, D.B. (Tom) Stewart, CTP EA, Golden Valley MN
Brian Dauer, Minnesota House of Representatives, St. Paul MN
Elizabeth Davis, University of Minnesota, Arden Hills MN
Daniel A. Davis, Wisconsin Department of Revenue, Madison WI
Jon S. Davis, University of Wisconsin-Madison, Madison WI
Robert DeBoer, Citizens League, St. Paul MN
Doug DeGrote, Minnesota Department of Revenue, St. Paul MN
Robert D. Dietz, Joint Committee on Taxation, Washington DC
Alan Dornfest, Idaho State Tax Commission, Boise ID
Tom Ellerbe, Minnesota Department of Revenue, St. Paul MN
Edward Emblom, Internal Revenue Service, Washington DC
Jennifer Engh, Dorsey & Whitney, St. Paul MN
Richard England, University of New Hampshire, Durham NH
Brian Erard, B. Erard & Associates, Reston VA
Arne Espeseth, Medtronic, Inc., Minneapolis, MN
Riel Franzsen, University of Southern Africa, Pretoria
Sheila Garceau, Minnesota Department of Finance, St. Paul MN
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David Gregor, State of Delaware, Wilmington
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Donald Hirasuna, Minnesota House of Representatives, St. Paul
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Rod Hoheisel, Minnesota Department of Revenue, St. Paul
Andy Hultquist, Ohio State University
Bob Isaacson, Minnesota Department of Employment & Economic Development, St. Paul
Byung Mok Jeon, Korea Institute of Public Finance, Seoul
Eric Johnson, Minnesota Department of Revenue, St. Paul
Sara LaLumia, Ann Arbor MI
George Latimer, Macalester College, St. Paul MN
Ann Lenczewski, Minnesota House of Representatives, St. Paul

Harold A. Lofgreen, St. Cloud State University, St. Cloud MN
W. Adam Looney, Board of Governors of the Federal Reserve System, Washington DC
William Lunka, Minnesota Department of Revenue, St. Paul
Mary B. Magnuson, Jacobson, Buffalo, Schoessler & Magnuson, St. Paul MN
Roberta Mann, Widener University School of Law, Wilmington DE
Nina Manzi, Minnesota House of Representatives, St. Paul
Rafael Marques, ISEG/UTL, Lisbon
Christopher P. Martin, Minnesota House of Representatives, St. Paul
Bill Marx, Minnesota House of Representatives, St. Paul
Tom May, Hennepin County, Minneapolis, MN
Robert McClelland, Congressional Budget Office, Washington DC
Dorothy McClung, Ramsey County Property Records & Revenue, St. Paul MN
Grania E. McKiernan, Xcel Energy, St. Paul MN
Cecilia Morrow, Minnesota Department of Revenue, St. Paul
Matthias Mors, European Commission, Brussels B-1030
Xiaoyi Mu, University of Oklahoma
Semida Munteanu, Lincoln Institute of Land Policy, Cambridge MA
Dana Naimark, Children's Action Alliance, Phoenix AZ Viola
Anita Neumann, Minnesota Senate Office of Fiscal Policy Analysis, St. Paul
Katarina Ott, Institute of Public Finance, Zagreb, Croatia
Geremia Palomba, International Monetary Fund, Washington DC
Valentino Parisi, University of Cassino, Italy
Hyung-soo Park, Korea Institute of Public Finance, Seoul
Panos Pashardes, Economics Research Centre, Nicosia, Cyprus
Hallie Pattee, Minnesota Department of Revenue, St. Paul
Mike Reinartz, Minnesota Department of Revenue, St. Paul
Ann H. Rest, Minnesota State Senate, St. Paul
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D.B. Stewart, D.B. (Tom) Stewart, CTP EA, Golden Valley MN
George Temple, Minnesota Department of Revenue, St. Paul
Andrey Timofeev, Andrew Young School, Georgia State University, Atlanta
Binh Tran-Nam, University of New South Wales, Sydney, Australia
Aaron Twait, Minnesota Taxpayers Association, St. Paul
Valerie Vannett, Minnesota Department of Employment & Economic Development, St. Paul
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Susan Yang, Joint Committee on Taxation, Washington DC
Marie Zimmerman, Minnesota House of Representatives St. Paul Viola

Please send information about your recent promotions, organization changes, etc., to natltax@aol.com

Paper Honored

A Certificate of Excellence was awarded by TIAA-CREF to **Amy Finkelstein** and **James Poterba** for their paper "Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market," published in the February 2004 issue of the *Journal of Political Economy*.

PO**SITION AVAILABL*****E***

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To apply online (preferred), visit http://www.loc.gov/crsinfo or call 202-707-5627 to request an applicant job kit.**Please refer to vacancy #050074** in all correspondence. Applications must be received by **April 22, 2005**. CRS is the public policy research arm of the U.S. Congress and is fully committed to workforce diversity.

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Congressional Research Service
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101 Independence Avenue SE
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Stephen M. Ross School of Business
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701 Tappan Street
Ann Arbor MI 48109-1234
jslemrod@umich.edu
Robert Tannenwald
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston MA 02210
robert.tannenwald@bos.frb.org

Secretary
Joan A. Casey
National Tax Association
725 15th Street NW #600
Washington DC 20005-2109
202-737-3325/natltax@aol.com

Treasurer
Richard F. Dye (9/04-8/05)
Institute of Government & Public Affairs
University of Illinois
815 West Van Buren St. Ste. 525
Chicago IL 60607
rfdye@uic.edu

Past Presidents
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Ernst & Young LLP
1225 Connecticut Avenue NW
Washington DC 20036
tom.neubig@ey.com
Gary C. Cornia
Marriott School of Management
Brigham Young University
730 TNRB
Provo UT 84602
gary_cornia@byu.edu

ELECTED MEMBERS
William H. Allaway, Jr.
Texas Taxpayers & Research Association
400 West 15th Street Suite 400
Austin TX 78701
ballaway@ttara.org
Leonard E. Burman
The Urban Institute
2100 M Street NW
Washington DC 20037

lburman@ui.urban.org
Stacy Dickert-Conlin
Center for Policy Research
426 Eggers Hall
Syracuse University
Syracuse NY 13244-1020
sdickert@maxwell.syr.edu
Stacey Johnson
Iowa Taxpayers Association
431 East Locust, #300
Des Moines IA 50309
sjohnson@iowataxpayers.org
Douglas Lindholm
Council on State Taxation
122 C Street NW #330
Washington DC 20001-2109
dlindholm@statetax.org
Lillian Mills
University of Arizona
301 McClelland Hall
Tucson, AZ 85718
lmills@u.arizona.edu
Pamela Moomau
Joint Committee on Taxation
1015 Longworth House Office Bldg.
Washington DC 20515
pamela.moomau@mail.house.gov
James R. Nunns
Office of Tax Analysis
U.S. Department of the Treasury
1500 Pennsylvania NW #4043
Washington DC 20220
james.nunns@do.treas.gov
Gary Sasse
RIPEC
300 Richmond Street #200
Providence RI 02903
g_sasse@ripec.com
Daniel N. Shaviro
New York University Law School
40 Washington Square So.
New York NY 10012-1099
shavirod@juris.law.nyu.edu
Eric J. Toder
The Urban Institute
2100 M Street NW

Washington DC 20037
etoder@ui.urban.org
Sally Wallace
Andrew Young School of Policy Studies
Georgia State University
University Plaza
Atlanta GA 30303
swallace@gsu.edu
James Wetzler
Deloitte Tax LLP
2 World Financial Center
New York NY 10281
jwetzler@deloitte.com
Paul A. Wilson
Minnesota House of Representatives
328 State Office Building
St. Paul MN 55155
paul.wilson@house.mn
George Zodrow
Rice Scholar
Baker Institute for Public Policy
Rice University
6100 Main Street, MS-22
Houston, TX 77005-1892
zodrow@rice.edu
ADVISORY MEMBERS
Harley Duncan
Federation of Tax Administrators
444 North Capitol NW #348
harley.duncan@taxadmin.org
Richard Lavine
Center for Public Policy Priorities
900 Lydia Street
Austin TX 78702-2625
lavine@cppp.org
Lynn Edward Reed
Minnesota Taxpayers Association
85 East 7th Place #250
St. Paul MN 55101-2173
lreed@mntax.org
Francois Vaillancourt
Department of Economics
University of Montreal
PO Box 6128 Station A
Montreal Quebec H3C 3J7
francois.vaillancourt@umontreal.ca

Joan Youngman
Lincoln Institute of Land Policy
113 Brattle Street
Cambridge MA 02138-3400
jyoungman@lincolninst.edu

NATIONAL TAX JOURNAL

Rosanne Altshuler (9/04-8/05)
Joint Committee on Taxation
1015 Longworth House Office Bldg.
Washington DC 20515
altshule@rci.rutgers.edu
Therese J. McGuire
Kellogg School of Management
Northwestern University
2001 Sheridan Road
Evanston IL 60208
therese-mcguire@northwestern.edu

EXECUTIVE DIRECTOR

J. Fred Giertz
Institute of Government & Public Affairs
University of Illinois
1007 W. Nevada
Urbana IL 61801
j-giertz@uiuc.edu

NTA CONTACT INFORMATION

725 15th St. NW #600
Washington DC 20005-2109
Tel: (202) 737-3325
Fax: (202) 737-7308
E-mail: natltax@aol.com
Contact NTA