NTA NETWORK

APRIL 2006

PRESIDENT'S MESSAGE

INSIDE THIS ISSUE:

This issue of the *NTA Network* features news of our upcoming conferences, and much, much, more!

We're just about a month away from the NTA's big spring event. The 36th Spring Symposium of the National Tax Association and the State and Local program will be held on May 18 and 19 at the Holiday Inn Capitol, Washington D.C. You won't want to miss what promises to be a highly informative and provocative couple of days.

Keep reading to learn of a special conference NTA will be presenting in D.C. this fall, on September 29, that addresses and draws on the broad range of expertise and perspectives our members bring to bear on tax policy and analysis at the federal, state, and local levels. Nicknamed the "5 Keys" conference, it is designed to present views you can use, but might not encounter on a daily basis, in your job. Read on for more details.

A break from major tax reform gives us all a chance to reflect on the impact of past tax changes. Inside is a bibliography of recent research on the effect of the 2003 cuts in dividend taxation. And, in the interest of lively discourse on all things tax, this issue of *NTA Network* contains an essay by John Diamond and George Zodrow on the value of life-cycle computable general equilibrium (LC-CGE, to the cognoscenti) models for understanding the effects of taxation macro models. This is partly a response to Jane Gravelle's presidential address delivered last November.

We are now deep into the process of planning our November 16-18 meetings in Boston. This year's program committee is co-chaired by Bill Gentry and George Plesko. They have many innovative ideas that will make this, our 99th Annual Conference, a special one. So, pencil in that date on your calendar now. Keep in mind that the deadline for the general call for papers and sessions for the fall meetings, which is posted on the NTA Web site and has been sent by e-mail, is May 1.

I look forward to seeing you all next month in D.C. In the meantime, feel free to pass along any ideas about NTA to me via e-mail at otpr@umich.edu.

Joel Slemrod
President, National Tax Association

REGISTER NOW FOR THE 36th ANNUAL SPRING SYMPOSIUM BIG IDEAS: THE MORNING AFTER

May 18-19, Washington, DC,
Holiday Inn Capitol

This year's symposium focuses on the nuts and bolts of tax policy construction and consequences, providing a complement to last year's symposium of broad themes, "Big Ideas and Big Deficits." The program begins with a session on the citizen attitudes and perceptions that underlie the politics of tax policy. The remaining three Thursday sessions examine the role of taxes in health policy, charities, and disaster relief. We are very excited to have Edward P. Lazear, Chairman of the President's Council on Economic Advisers, as our luncheon speaker.

On Friday morning, the focus turns to examinations of how the details of specific tax provisions can impact their policy results. The State and Local program begins in the afternoon with another distinguished lunch speaker, Representative Richard G. Woodbury of the Maine House of Representatives and the National Bureau of Economic Research.

If you haven't already done so, please visit our website, http://www.ntanet.org/ to see the whole program, and register today.

Special NTA September Conference:

5 Key Perspectives You Can Learn from Other Professions and Disciplines about Tax Policy

One of the strengths of the NTA is its interdisciplinary focus. Unlike many other groups that consist almost exclusively of one discipline or profession, the NTA celebrates its unique combination of members working in the tax policy and tax administration areas from multiple disciplines. We have shared knowledge with each other over the years, but there is even more we can learn.

As David Wessel of the *Wall Street Journal* noted in his luncheon address at a recent annual conference, we need to be sure we aren't just talking to ourselves. If we cannot communicate beyond our own profession, our impact on public policy will be significantly limited. Thus, the NTA, in partnership with the Office of Tax Policy Research at the University of Michigan, is sponsoring a one-day conference on September 29, 2006 in Washington, D.C. Representatives of several different disciplines and professions will highlight the five key perspectives others should know from their discipline or profession regarding taxation and tax policy — and what they could do differently as a result.

This is an opportunity for each of us to better understand other perspectives and potentially work more effectively as a result of that knowledge. Each presenter will identify five (and only five) key points about their role in the tax system, how their perspective is unique, what others should know to better understand their role, and what others might do differently as a result of the knowledge. The format of the conference entitled "5 Key Perspectives" will be designed to maximize the give-and-take among the presenters and the audience.

Prior to the conference, Tom Neubig and I, who are organizing the event, would welcome hearing from you about the five key perspectives from your profession or discipline, which we'll share with the moderator and presenters. Please drop a note to natltax@aol.com with your five key perspectives. We look forward to hearing from you with your ideas, and hope you will join us on September 29, 2006 for what promises to be an exciting event in which you will have the opportunity to see and learn from the power of NTA's interdisciplinary teaming and focus. More details will be forthcoming as they are finalized.

Joel Slemrod

Recent Writings in Tax Policy:

If you or your organization has a recent publication (on any tax-related topic) that you would like to share with the NTA membership, please send the cite and/or link to NATLTAX@aol.com or Pamela.Moomau@mail.house.gov.

Effects of Dividend Tax Cuts

http://www.federalreserve.gov/PUBS/FEDS/2005/200561/200561pap.pdf

Amromin, Gene, Paul Harrison, and Steve Sharpe, "How Did the Dividend Tax Cut Affect Stock Prices?" Federal Reserve Board Discussion Paper, December 2005.

http://ssrn.com/abstract=631182

Brown, Jeffrey R., Nellie Liang, and Scott J. Weisbenner, "Executive Financial Incentives and Payout Policy: Firm Responses to the 2003 Dividend Tax Cut," December 2004.

http://www.nber.org/papers/w11452

Chetty, Raj, Joseph Rosenberg, and Emmanuel Saez, "The Effects of Taxes on Market Responses to Dividend Announcements and Payments: What Can We Learn from the Dividend Tax Cut?" NBER working paper no. 11452, July 2005.

http://www.cbo.gov/showdoc.cfm?index=7069&sequence=0

Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for Fiscal Year 2007, " March 2006.

http://beta.crs.gov/cli/cli.aspx?PRDS_CLI_ITEM_ID=2226

Esenwein, Gregg A., and Jane G. Gravelle, "The Taxation of Dividend Income: An Overview and Economic Analysis of the Issues," Congressional Research Service, January 13, 2006.

http://beta.crs.gov/cli/cli.aspx?PRDS_CLI_ITEM_ID=2226

Gravelle, Jane G., "Dividend Tax Relief: Effects on Economic Recovery, Long-Term Growth, and the Stock Market," Congressional Research Service, February 14, 2005.

http://www.aei.org/publications/pubID.24065,filter.all/pub_detail.asp

Hassett, Kevin A., and Alan J. Auerbach, "Dividend Taxes and Firm Valuation," American Enterprise Institute, January 17, 2006.

http://www.treas.gov/offices/tax-policy/

U.S. Department of Treasury, "The Economic Effects of Cutting Dividends and Capital Gains Taxes in 2003, " March 14, 2006.

Pam Moomau

Conversation on Modeling the Macroeconomic Effects of Tax Policy

In the previous issue of *NTA Network*, Jane Gravelle explained why she believes certain types of macroeconomic models may not be useful for certain types of policy analysis. Following is a response to this analysis by John Diamond and George Zodrow.

Reflections on the Use of Life-Cycle Computable General Equilibrium Models in Analyzing the Effects of Tax Reform

In the previous issue of *NTA Network*, former NTA president, Jane Gravelle, drawing on her presidential address at the 2005 annual conference, argues that life-cycle computable general equilibrium (LC-CGE) models are suspect as a tool that can be used to inform policy makers. In contrast, we argue here that the use of such models is a valuable part of the policy-making process, and in particular that LC-CGE models are useful for estimating the economic effects of a wide range of tax policy proposals, including fundamental tax reform proposals such as those made recently by the President's Advisory Panel on Federal Tax Reform. That is not to say this modeling framework has no shortcomings or that other types of economic analyses, including those based on the models of saving behavior in the relatively new behavioral economics literature that Gravelle supports, should not be considered as well. But, in our view, LC-CGE models are currently the best and richest tool available to analyze the effects of tax structure changes. They can capture not only changes in macroeconomic aggregates, but also the behavioral changes, efficiency and welfare gains, and intragenerational and intergenerational redistributions, that are of critical importance to policy makers. They can also analyze reform-induced changes in the prices of financial assets and housing.

We consider four of the criticisms of LC-CGE models made by Gravelle. First, she accurately notes that the farsighted optimization process underlying the life-cycle model is far too mathematically complex to be solved explicitly by virtually all individuals. Use of the model is typically justified, however, by appealing to the argument first made by Milton Friedman and subsequently adopted by the rational expectations literature that individuals on average make labor supply, consumption and savings decisions, including decisions regarding saving for retirement, similar to those that would be considered optimal – drawing perhaps on the experience of parents, other relatives and friends, as well as financial advice available from public sources or private advisers. Although this assumption is controversial, it seems preferable to the alternative assumption that individuals on average systematically make decisions contrary to their own interests, in particular, by saving too little. Some recent empirical evidence that generally supports this position is offered by Scholz, Seshadri and Khitatrakun (National Bureau of Economic Research Working Paper 10260, "Are Americans Saving 'Optimally' for Retirement?"). Using a rich life-cycle model that includes both life-cycle and precautionary savings and takes into account estimates of Social Security and pension wealth, they estimate that over 80 percent of households have accumulated wealth greater than or equal to that implied by an optimal life-cycle strategy, and that the shortfall in wealth of the remaining population is generally small. In addition, they find that the life-cycle model more accurately predicts the cross-sectional distribution of wealth than a simple rule-of-thumb savings model. Although this study and others with similar results do not prove that households would react to the implementation of tax changes as predicted by the life-cycle model, they are at least consistent with such a view and provide some empirical support for the validity of the model. In addition, it is important to note that most saving outside of the Social Security program and mandatory pensions occurs at the top of the income distribution. High-income individuals are much more likely to use sophisticated financial planning services and to change their saving or investment behavior in response to changes in tax policy as predicted by life-cycle theory, modified to include bequest behavior as in most recent models.

Second, Gravelle argues that life-cycle models are both too simple to accurately capture the complexity of savings decisions and too complex for policy makers to understand what drives them. Although the first point is certainly valid, in our view life-cycle computable general equilibrium models hold the most potential of any existing models for elaboration to capture additional complexity in savings decisions – for example, with alternative bequest motives or different assumptions regarding the behavior of individuals at different income levels (e.g., the "Savers-Spenders" dichotomy suggested by Greg Mankiw). On the other hand, difficulties in interpreting the results of LC-CGE models can easily be overstated. This point is stressed by Laurence Kotlikoff in a recent discussion of the evolution of the celebrated LC-CGE model that he constructed with Alan Auerbach (National Bureau of Economic Research Working Paper 6684, "The A-K Model – Its Past, Present and Future"), which formed the foundation of the subsequent explosion in life-cycle modeling efforts. Kotlikoff argues persuasively that the basic building blocks of the Auerbach-Kotlikoff model and its progeny are the standard functional relationships of neoclassical theory, so that the results of policy simulations can be readily explained with standard economic theory and coincide with economic intuition, honed by decades of experience with analytical general equilibrium models.

Third, Gravelle objects to the assumption of a constant intertemporal elasticity of substitution of consumption that characterizes life-cycle models, arguing that individuals do not view consumption between periods that are close together as equally substitutable for consumption in distant periods. However, in a typical life-cycle model, the willingness to substitute consumption across periods is determined not only by the intertemporal elasticity of substitution but also by the individual's rate of time preference. As long as this rate of time preference is positive, consumption deferred will be perceived by the individual as less valuable than current consumption. Gravelle argues that the assumption of a constant intertemporal elasticity of substitution results in savings responses in LC-CGE models that are unreasonably large. This point is debatable since the empirical evidence on the effects of taxes on saving, especially in a life-cycle context, is mixed. But in any case, the degree of responsiveness of savings to changes in the tax structure in a life-cycle model can be reduced by choosing key substitution elasticity parameters appropriately, including minimum consumption expenditures or precautionary savings in the model, or adding a target saving motive (e.g., for bequests). Moreover, the magnitude of the short-run responses of saving and investment to changes in the after-tax rate of return is often muted by making the reasonable modification of including convex costs of adjusting the capital stock in the analysis.

Finally, Gravelle argues that the labor supply responses that characterize life-cycle models, including implicit labor supply increases in response to increases in future interest rates, are larger than those suggested by empirical evidence. We agree that this is an important issue, and that labor supply responses in some studies may be unreasonably large. However, two important qualifications are in order. First, the degree of responsiveness of labor supply to changes in the tax structure in a life-cycle model can be reduced in a LC-CGE simulation with the appropriate choices of the key substitution elasticity parameters. For example, the magnitude of the individual labor supply responses to changes in future interest rates is driven primarily by the relative magnitudes of the intertemporal and intratemporal elasticities of substitution. In addition, adjustment costs could in principle also be utilized for labor supply, and institutional restraints on labor supply (e.g., difficulties of re-entering the labor force once one has retired) can be modeled explicitly. Second, the empirical evidence on the degree of responsiveness of labor supply to after-tax returns is mixed, so there is still some uncertainty regarding how much responsiveness is in fact consistent with this evidence. In particular, estimates based on macroeconomic data suggest significantly larger responsiveness than that implied by microeconomic studies, with the provocative work by Edward Prescott on taxes and relative labor supply in Europe and the United States being the most recent example.

To sum up, although there are many ways in which existing life-cycle computable general equilibrium models might be improved, they are currently the best tool available for analyzing the economic effects of tax policy changes and are likely to remain so. They provide a rich structure that can be used to analyze reform-induced behavioral and price changes, efficiency and welfare gains, and intragenerational and intergenerational redistributions, and thus provide a wide range of insights that should be useful to policy makers, especially in the evaluation of proposals for fundamental tax reform in the United States.

John W. Diamond and George R. Zodrow

Announcements

Success Story

A major success of the Annual Conference in Miami last November was the student program organized by Matt Murray of Tennessee. These activities included a student paper session, a breakfast for students and NTA members, and a poster session. There have also been some more tangible results.

Frank Wykoff, an NTA member at Pomona College in California, encouraged Ashley Berry, a senior at Pomona, to present a paper that she prepared for Frank's class at the NTA Poster Session. Ashley's poster presentation and interaction with the attendees was impressive, especially for an undergraduate. At the reception, Tom Neubig of Ernst and Young talked with her about her future plans, which included her goal to begin medical school in the fall of 2007. She also had an interest in economics, but knew that most economic consulting firms require a minimum of two years and that she would only be available for 14-16 months before starting medical school. With Tom's encouragement, she applied to Ernst & Young's Quantitative Economics and Statistics group. She passed the telephone screening test and made a favorable impression (as expected based on the NTA student poster session interactions) with her on-site interview. E&Y offered her an economic consulting staff position that will begin later this spring after graduation. This successful opportunity for both Ashley and E&Y would not have occurred without the student poster session and an encouraging NTA professor.

36th Annual Competition For Outstanding Doctoral Dissertations In Government Finance and Taxation

The National Tax Association awards an annual prize for the doctoral dissertation that makes the most significant contribution to the field of government finance and taxation. All graduate students at accredited U.S. and Canadian institutions and individuals who will receive the doctoral degree or its equivalent after July 1, 2005, and before June 1, 2006, are eligible for the awards. The deadline for submission is June 15, 2006.

The winner receives $2,000 and the opportunity to adapt the manuscript for publication in the National Tax Journal. Two honorable mention awards of $1,000 each may be given for other outstanding entries. The winners will be announced in September 2006.

The awards will be presented at the 99th Annual Conference on Taxation in Boston, November 16-18, 2006. Papers based on the dissertations are delivered at a special session - Frontiers of Public Finance - and are published in the Conference Proceedings. See "37th Annual Competition for Outstanding Doctoral Dissertations in Government Finance and Taxation" on our website at http://www.ntanet.org/.

Calls for Papers

NTA November Conference

The 99th Annual Conference on Taxation will cover a broad range of topics including, but not limited to, taxation and tax policies; expenditure policies; government budgeting; intergovernmental fiscal relations; and sub national, national, and international public finance. This year, we are especially interested in sessions or topics that highlight or include interdisciplinary or multidisciplinary research (e.g., economics, accounting, and law), and research papers authored or coauthored by Ph.D. students.

You are invited to submit a paper or an idea for a session. In addition, please inform us if you would like to be considered as a moderator or discussant. All proposals should be postmarked or e-mailed by May 1, 2006. Decisions concerning the inclusion of papers and sessions will be announced in June 2006. Authors of accepted papers will be offered the opportunity to publish them in the *Proceedings*. All presenters will be required to register and pay a conference registration fee.

There will also be a student poster session that will allow students to network with other tax professionals and potential employers. Students will present their research one-on-on and in small group setting. For more information about paper and submission requirements and the poster session, see "call for papers" and "graduate student opportunities" on our website at http://www.ntanet.org/.

Disaster Management Handbook or the Homeland Security Handbook

Detailed information about the handbooks are available at www.nova.edu/~jackpink. This includes the Concept Statement for each of these books, the proposed Table of Contents, and a link for ordering information when they eventually are available for adoption. **The deadline for these new manuscripts will be summer 2006.**

If there is a topic that is relevant but not shown in either of the Tables of Contents that you would like to suggest, please email your comments mentioning where the appropriate placement would best fit. Proposed contributions or further inquiries are welcome.

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Assistant Professor, Public Administration
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Fax: 954-262-4241 Email: jackpink@nova.edu
http://www.huizenga.nova.edu/igpp/
http://www.nova.edu/~jackpink/

Conference on Tax Reform

The James A. Baker III Institute for Public Policy at Rice University will be hosting a conference titled "Is It Time for Fundamental Tax Reform? The Known, Unknown, and Unknowable" on April 27-28, 2006. The conference will examine the ongoing tax reform debate in the United States, focusing on what is known, unknown, and unknowable regarding individual and business behavioral responses to reform, feasible corporate tax reforms consumption tax reforms, and potential paths for reform in the 21st century. The conference program is available on the web at http://bakerinstitute.org/Research/TPolicy.htm. If you are interested in attending the conference, please R.S.V.P. by email to bipprsvp@rice.edu or contact **John Diamond at 713-348-2199 or jdiamond@rice.edu.**

Welcome New Members - Spring 2006

Michael S. Barr, University of Michigan, Ann Arbor, MI
Iksoo Cho, Nebraska Department of Revenue, Lincoln, NE
Diana Falsetta, Northeastern University, Brookline, MA
Juan Luis Gomez, Georgia State University, Atlanta, GA
Scott Hankins, University of Florida, Gainesville, FL
Katie Fitzpatrick, Syracuse University, Syracuse, NY
Mary E. Howard, University of Tennessee, Knoxville, TN
Kai Kaiser, The World Bank, Washington, DC
Roy F. King, Duff and Phelps, LLC, Houston, TX
Olha Krupa, Indiana University, Bloomington, IN
Michael Lovenheim, University of Michigan, Ann Arbor, MI
Erzo F.P. Luttmer, Kennedy School of Government, Cambridge, MA
Susan Morse, Santa Clara University, Santa Clara, CA
Steven Nyce, Watson Wyatt Worldwide, Arlington, VA
Emily Owens, University of Maryland, College Park, MD
Joan Ruff, H&R Block, Kansas City, MO
Keishi Tadamoto, Shiga University, Shiga, Japan
George Yin, University of Virginia School of Law, Charlottesville, VA
Daniel I. Winnick, Ernst & Young, Washington, DC

Members on the Move

Nathan Anderson, from University of Michigan to University of Illinois, Chicago
Julia Lynn Coronado, from Watson Wyatt Worldwide to Barclays Capital, NY
Dwight Denison, from New York University to University of Kentucky, Lexington, KY
Amy Harris, from Congressional Budget Office to Iowa Department of Revenue
Liga Bauer-Hoy, from the U.S. Department of Treasury to CRA International, Palo Alto, CA
Charlene Henderson, from University of Texas at Austin to Sam Walton College of Business, Fayetteville, AR
Doug Holtz-Eakin, from Congressional Budget Office to Council on Foreign Relations, Washington, DC
Hari Luitel, from West Virginia University to St. Cloud State University, Minneapolis, MN
Robert McClelland, from Congressional Budget Office to Bureau of Labor and Statistics
Javier J. Perez, from Seville, Spain to Frankfurt, Germany
Diane Lim Rogers, from House Ways and Means Committee to The Brookings Institution, Washington, DC
Judy Temple, Northern Illinois University to University of Minnesota, Minneapolis, MN
Paul Wilson, from Minneapolis House of Representatives to Minnesota Department of Revenue, Minneapolis, MN
Lawrence Walters, from Lincoln Institute of Land Policy to Brigham Young University, Provo, UT

Job Openings

JOINT COMMITTEE ON TAXATION, U.S. CONGRESS, Washington, DC

The Joint Committee on Taxation is seeking two or more economists to analyze the economic, administrative, and revenue implications of proposed changes in the federal income tax laws. Our nonpartisan staff serves all members of Congress with essential economic and policy analysis of proposed tax legislation. Our staff includes 17 economists and 20 attorneys and accountants who work in a collegial, interdisciplinary environment. We have openings for economists with backgrounds in public finance, microeconomics, macroeconomics, health economics, and labor economics. Qualifications include a Ph.D. in economics or equivalent and an interest in tax policy analysis. Ideal candidates must be able to work effectively under tight deadlines. Salary is competitive and commensurate with experience. An equal opportunity employer. Visit www.house.gov/jct for more details on the work of the Joint Committee on Taxation. Send resume, letters of recommendation, and samples of written work to Bernard A. Schmitt, Deputy Chief of Staff, Joint Committee on Taxation, 1015 Longworth House Office Building, Washington, DC 20515 (202-226-7575; Fax 202-226-0238). Questions? Email "Thomas.Koerner@mail.house.gov."

Whirlpool

3 Tax Analyst positions and 3 Director level positions, Tax Department at See www.whirlpool.com for full job descriptions. Contact Angela Rhoades at angela_rhoades_aerotek@whirlpool.com for further information and a phone interview.

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YOUR NTA BOARD AND STAFF WORKING FOR YOU

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