REMARKS TO THE NATIONAL TAX ASSOCIATION

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I AM SO VERY GRATEFUL FOR THIS AWARD AND FOR your kind remarks. It's natural for me to thank the people who have helped me in my professional career. This is a risky business, because it is associated with the hazard of sounding like some dopey actor who has just won an Oscar. But Gertrude Stein once said, "Silent gratitude isn't very much use to anyone," and I entirely agree. So, I'm going to trumpet my gratitude right now.

I'll start with my family. They have always been there for me. Next I have to credit my public finance teachers when I was a graduate student, Martin Feldstein and the late Richard Musgrave. Professors Feldstein and Musgrave differed considerably in their analytical approaches to the subject. Their politics were rather different as well, although neither of them ever did the least bit of proselytizing in the classroom. But they shared a fundamental outlook on the discipline of public finance. It is not merely an academic exercise. The goal is not to prove one more theorem with one less assumption. Rather, the purpose of public finance is to help us to use rigorous thinking to understand and perhaps even improve the real world.

My students have been just as important to me as my professors. I am very thankful to the outstanding students from whom I've learned so much over the years. Many of them have become coauthors and friends, including Bill Gentry and Doug Holtz-Eakin, whose kinds words you heard just a few minutes ago. In some cases, I've received an amazing education from undergraduate students. In the late 1970s, Greg Mankiw sat through my course on introductory microeconomics at Princeton; about 25 years later, he became my boss when I joined the Council of Economic Advisers. It's been gratifying to see former students develop as scholars and as contributors to the public policy process. A Yiddish proverb tells us, "If the pupil is smart, the teacher gets the credit." Notice that the proverb doesn't say anything about the credit being *deserved.* In any case, I swell with pride whenever I learn about new accomplishments of my wonderful students.

I am also grateful to the terrific institutions with which I've been affiliated. Princeton University has provided me with an environment conducive to doing research. I've learned enormous amounts from my stints in Washington, first in the Treasury's Office of Tax Analysis from 1989 to 1991 and then on the Council of Economic Advisers from 2003 to 2005. The people with whom I worked in both these policy shops were smart, creative, energetic, and dedicated. I have been fortunate to be able to maintain both professional and personal relationships with colleagues from both places. Ted Gayer, for example, was my patient and helpful tutor on environmental issues when I was on the Council.

My service in government brings up a question that I've been asked on numerous occasions. Does academic public finance really help one deal with real world economic policy problems? The tone with which the question is asked usually suggests that the questioner expects that the answer will be "Nope, that stuff really isn't much help when you're in the policy trenches." But my experience was exactly to the contrary. The tools of public finance were incredibly useful, especially when it came to producing credible answers under tight schedules.

Let me give you one example. In the fall of 2003, when I was on the Council, there was an outbreak of mad cow disease in Washington State. I'm a city boy, and don't know a thing about cattle, but as the applied microeconomics Member, I was designated the Council's point man for discussions that were going on within the West Wing on the possible economic ramifications of the outbreak. People were particularly concerned about the announcement by the Japanese government that it would ban the importation of American beef unless every single animal was tested for the disease. The test, unfortunately, was relatively expensive, and the director of the National Economic Council, Stephen Friedman, told me that he wanted to know how much the price of beef to consumers would go up if we acceded to the demands of the Japanese government. I had 48 hours.

On my way back to the office, I had one of those moments that must be experienced by every academic who leaves the ivory tower for a job in Washington. In my mind, I was saying to myself:

What am I doing here; I don't know a thing about this; I don't have time to learn about this; and I have to have a memo to the White House in two days! As the panic receded and I started to think about the problem, it struck me that the cost of the test was basically a unit tax. Once I had that insight, the rest of the problem became easy, because it could just be viewed as a garden variety tax incidence issue. The proportion of the test's cost borne by consumers would depend on the elasticities of supply and demand for beef. When I got back to my office, I asked a member of my staff to phone the agriculture department and find someone who knew what these elasticities were. One nice thing about working for the White House is that your calls generally get returned. Within a few hours, we had the short-run and long-run elasticities, plugged them into the relevant formula, and produced an answer. Just for the heck of it, we wrote an appendix to the memo including the formula, in case anyone wanted to know how we got our answer. This mad cow episode is just one example of a phenomenon that I saw over and over again in Washington: academic public finance provides a useful and flexible framework for thinking about a vast array of interesting problems.

Another question I'm often asked is whether the advice that academic economists in Washington give their political masters is heavily biased by politics. My view is that good economics is good economics, and for the vast majority of issues, academic economists in the government give about the same answers regardless of party affiliation. This was driven home to me by a taxation issue with which I dealt in 2004. The philosopher kings and queens in Congress had somehow convinced themselves that the manufacturing sector was more meritorious than the service sector. This may have had something to do with the fact that Caterpillar Tractor was located in the district of the Speaker of the House. In any case, Congress was contemplating a change in the tax law that would lower the corporate tax rate on manufacturing but leave it the same for services. The Council was asked to opine on the legislation. Again, the tools of public finance proved invaluable in thinking through the question, and my staff and I got to work on a memorandum explaining, in nontechnical terms, the notion of excess burden, and how the proposed change would create costly inefficiencies.

While this was going on, someone turned up a memo that had been written by President Clinton's Council of Economic Advisers in the early 1990s, when Congress was contemplating some subsidies for the domestic maritime industry. Such subsidies, of course, are also distortionary. Well, if you would have taken this old memo and done a universal search and replace so that every time the phrase "maritime industry" appeared it was replaced by "manufacturing," you would pretty much have gotten the memo that my staff and I were writing. In fact, we borrowed a bit from the maritime memo, because in certain places its language was more effective than ours.

To be sure, on certain hot-button political issues public finance economists across administrations may differ with each other, but in general, the framework of public finance not only provides a useful template for thinking through issues, but also a useful device to keep us all honest. Oh yes, you might be wondering about the outcome of the manufacturing debate. Well, with various allies, we helped win the battle within the White House; the administration did not support this part of the bill. But it eventually passed anyway. You win some and you lose some.

Once again, I am very grateful to the National Tax Association for bestowing this wonderful honor upon me.