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DEPARTMENTS

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edited by Robert J. Wells

Toward Fundamental Tax Reform

Reviewed by Sheldon D. Pollack

> *Toward Fundamental Tax Reform*, edited by Alan J. Auerbach and Kevin A. Hassett. Published by AEI Press (2005). 171 pages. Price: $20.

Tax reform is in the air! Or so proponents like to think. I myself believe that there are overwhelming forces allied against tax reform — assuming we can even agree on what the term means. Notwithstanding what the political activists tell us, the public is quite apathetic to the current debate. After years of Republican efforts to cut taxes, and now the protracted campaign to reform Social Security, most citizens are exhausted. Writing in the *New York Post*, columnist John Podhoretz recently suggested that the American public is suffering from "issue fatigue." He's right. We all could use a break from the campaign for "fundamental tax reform."

Even if we can muster the energy and stomach for another round of congressional hearings on tax reform, there are a host of powerful interests (economic and political) well served by the income tax just as it is. It is no coincidence that we have the tax code that we have. It is designed to satisfy a multiplicity of interests and purposes. Most important, it satisfies the interests and purposes of those who actually draft the tax laws — partisan politicians elected from local districts where they must necessarily seek support from powerful, organized local interests. To secure and maintain that support, politicians are perfectly willing to use the tax laws to dish out benefits to local constituents. On top of that, politicians in Washington from both political parties have used the tax code for decades to pursue their respective partisan agendas. In other words, the tax code is a *political instrument* used by politicians for a wide variety of political purposes. Of course, it is not used *only* for political purposes, just often enough to mess up the tax system. We need tax reform for the same reason that we won't get tax reform — politicians like the tax code just as it is.

To be sure, the U.S. tax system is far from ideal. We all recognize that it is not the most efficient tax system ever devised. That's an understatement. An efficient tax system would be one designed *not* to affect the economic behavior of investors, consumers, savers, and so forth. That is exactly the opposite of our current tax system, which negatively affects investment and savings while encouraging consumption. Indeed, it was designed specifically to induce taxpayers to perform all sorts of favored social and economic activities in lieu of others. That's the point of half the tax code — to change behavior. The ideal tax system also would be a whole lot simpler, and it would treat similarly (that is, tax similarly) those in similar economic positions. Again, that's precisely what we do not do.

A lot of economists are perplexed and annoyed by this unfortunate state of affairs. They do not understand why, having pointed out the irrationalities and inefficiencies of the current tax system and offered compelling arguments in favor of infinitely preferable alternatives (for instance, any one of the various versions of a consumption tax), Congress does not immediately repeal the current income tax and enact the preferred model. They lecture, but nothing happens. Frustrated by congressional inertia, they blame such foolishness on "politics" and turn away in disgust. They are right in some respects. Still, that messiness is the price we pay for living in an electoral republic.

Fortunately, the authors of the essays in the collection under review, *Toward Fundamental Tax Reform*, understand and accept the political environment of tax policymaking. Sure, they recognize the shortcomings of the current tax system (as well as the political system), but they neither despair over the prospects for tax reform nor propose unattainable replacement systems. Instead, they offer some reasoned arguments, a bit of cogent analysis, and a few practical proposals that could ameliorate the condition in which we now find ourselves. For that reason, we should be grateful to the editors who put together the collection, Alan J. Auerbach and Kevin A. Hassett. This collection of essays should be read by anyone interested in the current debate over tax reform — even seasoned veterans of the tax wars will learn much.

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The editors of *Toward Fundamental Tax Reform* are themselves economists and seasoned veterans of the debate over tax reform. Kevin Hassett is a respected academic (formerly at Columbia University and the Board of Governors of the Federal Reserve Board, and now at the American Enterprise Institute). He also has considerable experience in the world of Washington politics, having served as an economic advisor to the Bush campaign in 2004 and to Sen. John McCain, R-Ariz., in the 2000 primaries. I suspect that Hassett is the "policy entrepreneur" behind this volume, while his coeditor, Alan J. Auerbach, is the hard-core academic. Prof. Auerbach is one of the most esteemed and respected economists in the academy. He is the Robert D. Burch professor of economics and law and former chair of the department of economics at the University of California-Berkeley, and he previously served as deputy chief of staff of the Joint Committee on Taxation under Hank Gutman.

In their introduction to the collection, Auerbach and Hassett highlight the irrationalities of the current tax system. That is evidenced quite well in a chart showing the marginal tax rates imposed in 2004 on the income of a hypothetical family of four. The chart shows a "crazy quilt of blips" corresponding to no known theory of economics. Of course, there is one good reason for that. The current rate structure is the product of a prolonged and painful *political* process consisting of bargaining and logrolling, not economic analysis or theory. The result is often pretty messy. As an antidote to the current quagmire, Auerbach and Hassett point us in the right direction. They outline the basic goals of tax reform and the benefits that may be derived from adopting the favored alternative — a consumption tax. But as serious and honest academics, they also acknowledge that the case for a consumption tax has not yet been fully made and that many of the same benefits could be derived from reforms to the existing income tax. Further, they recognize the great difficulties in moving from the current income tax to a consumption tax regime.

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Notwithstanding their justifiable caution, Auerbach and Hassett gathered together nine leading tax policy scholars to ponder the possibilities for tax reform. The essays published in this volume came out of that informal conference. All were targeted at an audience of noneconomists, so mercifully we are spared the mathematical models and jargon of the "dismal science." (That is not what Thomas Carlyle had in mind when he coined the term, but it is the chief characteristic of the economics profession these days.) Nevertheless, the conversation is serious and conducted at a high level. Readers are treated to a lively discussion of the issues facing tax policymakers.

My favorite essay in the collection, "A Fair and Balanced Tax System for the Twenty-First Century," comes from Michael Graetz of Yale Law School. No surprise! Graetz is a smart guy with lots of good ideas and common sense. He is a tax lawyer by training and previously served in a variety of positions in Treasury, including deputy assistant secretary for tax policy. Perhaps because of that, Graetz offers a thoroughly realistic and hardheaded perspective on tax reform. My feeling is that he generally overstates the impending "crisis" of the current income tax; nevertheless he makes a strong and convincing case for reform. That's easy; finding a workable and politically feasible reform plan is the hard part.

Graetz considers "essentially unrealistic" all the various proposals to repeal the income tax and replace it with a flat tax, national sales tax, cash-flow consumption tax, or value added tax. Bravo! His own preference is for a modified income tax (in a form similar to the alternative minimum tax, with modifications) restricted to the wealthy (that is, couples with joint income over $100,000) by virtue of a generous exclusion for lower- and middle-income families. That will relieve millions of citizens of the burden of filing tax returns. It also will cost the Treasury billions of dollars. Prof. Graetz proposes that Congress adopt a VAT in the range of 10 percent to 14 percent to make up the lost revenue. (My guess is that a somewhat higher rate would be needed to make the proposal revenue neutral, but I'll leave that to the economists who score the proposal, should it ever reach that stage of the legislative arena.)

As part of his reform plan, Graetz also proposes that Congress lower the rate for the corporate income tax and bring its tax base into closer alignment with book income. All those are perfectly sensible proposals. On the other hand, sensible does not always prevail in Washington politics. Recall that Congress is controlled by a highly partisan Republican Party intent on repealing taxes, not enacting new ones. The last thing the GOP leadership of the House wants to do is to retain even this abridged vestige of the income tax and then enact a new tax system (a VAT) on top of that! For that reason, I seriously doubt that the Graetz reform proposal will be enacted very soon by Congress. While it apparently was a hit with the President's Advisory Panel on Federal Tax Reform (at least, more so than with participants at the Tax Court's most recent frolic in the woodlands of western Pennsylvania), that will not be enough to get this baby through Congress! So be it. Michael Graetz has provoked and educated us for years in the debate over tax reform. His essay here is no exception.

The only other contributor to this collection who is *not* an economist is Ronald A. Pearlman. Prof. Pearlman is a respected tax practitioner who has taught at Georgetown University Law Center since 1999. In and out of government for decades, Pearlman previously served as chief of staff of the JCT and in various positions in Treasury — most notably, during the campaign for tax reform that bore fruit during the second Reagan administration. He is a familiar face on the tax lecture circuit and a voice of reason and experience. In "A Tax Reform Caveat: In the Real World, There Is No Perfect Tax System," Pearlman offers a sober and sensible view of tax reform.

It is possible that tax lawyers cannot help but get attached to the current system — after all, it puts the bread on their dinner table. Working within the tax system also gives them a keen appreciation for how it operates, how it should *not* operate, and what is possible in the way of tax reform. Pearlman is no great fan of what Republican operatives refer to as "fundamental tax reform" — tearing the income tax out by its roots and throwing it overboard. Instead, he supports tinkering with the current system to improve it. Hear, hear! Base-broadening in conjunction with rate reduction worked in 1986 and might actually be palatable to our political system now. Regardless, doing little things, like eliminating (or capping) the unwarranted deduction for home mortgage interest, would improve the efficiency of the current income tax. Ditto for ending the irrational preference for some types of investments over others (for example, giving preferred tax treatment to whole life insurance and annuities). Cleaning up the worst faults of the current ''hybrid'' tax system is easier and more likely to succeed than quixotic efforts to replace the income tax with a consumption tax. The transition from an income tax to a consumption tax cannot be easy, and Pearlman is rightfully skeptical of grandiose claims made for the superiority of the latter over the former. One complaint: Pearlman's proposal for tax simplification (placing the primary responsibility for preparing tax returns on the IRS) is unconvincing. But that does not detract from his otherwise solid contribution to the book.

Now to the economists! Some of my best friends are economists, so I'll try to say nice things. For better or worse, the theoretical debate over tax reform has largely been driven by economists. Like Michael Graetz, I believe that tax lawyers and academics need to be more fully involved, but there are good reasons why the economists are at the forefront of the debate. They are in the best position to evaluate the current tax system, as well as recommend alternatives. Those trained in law alone simply are not qualified to opine on the economic consequences of an income tax, a consumption tax, or any other kind of tax. They also are not trained to recognize what makes for good public policy. (Sure, tax professors talk all the time about ''public policy,'' but what they really are referring to is the administrability or intellectual coherence of a particular proposal or provision of law, not whether it is good economics, promotes social stability, or furthers justice and democracy.) On the other hand, tax lawyers have a pretty good sense of what is practical and administrable. That makes them reluctant to abandon the current income tax simply because some economist declares that a consumption tax will marginally increase national savings and investment. Tax lawyers are usually skeptics, conservatives by nature who recognize that there could be a great price to pay for that little bit of extra ''economic efficiency.'' As Ron Pearlman reminds us, we do have a very robust national economy that thrives in spite of the supposed inefficiencies of our hybrid income tax system. We should be very careful about endangering what we have (a trillion dollar a year revenue-raiser) just to switch to a more theoretically satisfying and conceptually elegant system of taxation.

Of course, the tax reform debate is not about practicality or administrability — it is about improving the system by which the federal government extracts that trillion dollars a year from the private sector (businesses and individuals). To be sure, that ought to be accomplished in a manner that inflicts the least damage on the national economy. Not many tax lawyers can estimate the impact on the economy of the current income tax, let alone the vast array of tax reform proposals bandied about these days. So like it or not, economists lead the debate, and economic analysis is tossed around these days like Donald Trump's hair on a windy day on his yacht. The rest of us (including The Donald) must listen when the economists speak.

That is really not so bad. The economists who contributed essays to the book under review are all cautious and level-headed. They also all favor some kind of consumption tax over the current income tax, which is meaningful in itself. From the book, we get a pretty good idea what professional economists (at least, those who are willing to go to the American Enterprise Institute for a conference on tax reform) think about the various forms of consumption taxes.

An excellent summary of the various consumption tax options is found in William G. Gale's excellent essay, ''Tax Reform Options in the Real World.'' Gale is a senior fellow and deputy director of the Economics Studies Program at the Brookings Institution in Washington, where he has been since 1992. He also is codirector of the Tax Policy Center (a joint venture of Brookings and the Urban Institute) and contributes frequently to the *National Tax Journal* and *Tax Notes*, whose readers will surely appreciate his many past contributions to the tax reform debate. After so many years in Washington, Gale has developed a keen sense of what is politically feasible. For that reason, policymakers and academics ought to pay close attention to what he writes. His essay suggests eight or so areas in which tax reformers should focus their attention — things like the integration of the corporate and individual income taxes, the integration of the payroll tax with the individual income tax, restructuring deductions into tax credits, simplification, and fixing the AMT.

In the long run, such targeted ''rifleshot'' tax reform that Bill Gale proposes is more likely to succeed than the campaign for a broad overhaul of the tax system. Incremental tax reform (concentrating on no more than two or three reforms every few years) is also much less dangerous than the kind of radical tax reform that Republican congressmen have been demanding for years. Most important, something actually might get done! Imagine what might have been accomplished by now if for the last decade the GOP had followed Gale's advice in ''Tax Reform Options in the Real World,'' instead of shooting for the moon. Republican policymakers also ought to heed Gale's repeated warnings (many published in *Tax Notes*) against the ballooning federal deficits caused by their failure to reduce federal spending even as they succumb to the seemingly irresistible urge to cut federal taxes.

If we are lucky, we soon will see some effort in Washington to rein in spending and clean up the tax system through incremental policymaking. Of course, there are those well-known proposals for fundamental tax reform that go way beyond anything that incremental tax policymaking could ever generate. The two main versions share many common features. One version, the so- called X tax, was proposed by Princeton University economist David Bradford following his stint in the Treasury Department in the mid-1970s where he helped develop the famous *Blueprints for Basic Tax Reform*. The *Blueprints* cash-flow tax is targeted at individuals only, unlike the other major alternative out there — the so-called flat tax first proposed in 1981 by Stanford economist Robert E. Hall and his Hoover Institute colleague, Alvin Rabushka. The Hall-Rabushka flat tax has a two-tiered structure that imposes a flat tax on businesses and a flat tax on an individual's wages (at a comparable rate) above a generous personal exemption.

Bradford's X tax is a modified version of the Hall-Rabushka flat tax. The most important distinction is that the X tax includes a progressive rate structure imposed on an individual's labor income. The tax is imposed on an individual's wages, which are deductible by the business employer — unlike a traditional European-style VAT wherein payroll is included in the tax base. That means that the X tax is more progressive, and hence less susceptible than the flat tax to the kind of political attacks that are commonly raised by opponents on the political left. (In his own contribution to the collection, ''Guidelines for Tax Reform: The Simple, Progressive Value-Added Consumption Tax,'' Prof. Hall argues that the flat tax is likewise a progressive tax because it integrates a cash rebate into the rate structure via the zero bracket for the personal consumption tax. That is true, although his flat tax is considerably less progressive than the current income tax, as well as the other proposed personal consumption taxes — most notably, the X tax and the old Nunn-Domenici ''USA'' tax. More on Hall's interesting essay below.)

It is now many years since David Bradford first proposed the X tax, and he contemplates and reconsiders his past work in his essay, ''A Tax System for the Twenty-First Century.'' For example, he suggests that some aspects of the original *Blueprints* proposal were probably preferable after all than the comparable components in his X tax. In other words, he is perfectly willing to change his mind. He even proposes several new innovations to help ease the transition into a new consumption-type tax. Indeed, that intellectual flexibility, as well as his insistence on limiting claims for consumption taxes to only what has been satisfactorily demonstrated, was always a hallmark of Bradford as an academic. Tragically, Bradford died earlier this year from injuries sustained in a fire in his home in Princeton, and the voice of one of the most respected experts on tax reform was silenced. I met the man only once, by chance at a luncheon following a tax conference in Washington. It was a long time ago and I was the ''nobody'' at the table, but I distinctly recall his courtesy and good manners. The touching eulogies from his friends and colleagues suggest that my memory is accurate. It is sad to realize that this may be Bradford's last published piece. Fortunately, it provides a useful summary of the man's thinking on an issue close to his heart.

Robert E. Hall also presents his latest thinking on the other big tax reform proposal out there — the flat tax, which as noted above, was codesigned with Alvin Rabushka and championed by presidential candidate Steve Forbes in the 1996 and 2000 Republican primaries. Hall is a serious and respected economist. He also is completely committed to the notion of tax reform qua replacing the income tax with a consumption tax. None-too-surprisingly, Prof. Hall believes that the best version of a consumption tax is his own version of the flat tax. To be sure, the Hall-Rabushka flat tax is a marked improvement over the European-style VAT because it provides an exemption for lower-income wage earners. That zero bracket (again, the equivalent of a cash rebate to low-income consumers) introduces an element of progressivity into the flat tax that is missing from the VAT.

But I am confused on this! (Some say I am always confused.) Hall seems to be suggesting that the best thing about the flat tax is that it is progressive. Have we been misled by antitax Republicans all these years? Is the flat tax not really flat? Indeed, Hall admits that the name was ''brilliant marketing'' — certainly, conservative Republicans bought the line. When ''marketing'' to a broader audience that includes Democrats (as any broader audience will), I take it that proponents now need to market the flat tax as a *progressive* consumption tax. In politics, a rose called by any other name is not always a rose. And if political constraints demand it, Hall indicates that he is willing to accept greater progressivity in the rate structure of the flat tax — tax rates similar to those of Bradford's X tax. What was that noise? I think Forbes just passed out and hit the floor!

I confess that in the past I have been critical of the flat tax reform proposal, but mainly because the transition from an income tax base to a consumption tax base is such a major and hazardous hurdle. (I also object to the false advertising and overstated claims made for the flat tax by political operatives, but that complaint is not directed at Hall and Rabushka, who are more careful and restrained in their claims.) If we could switch overnight to a new tax system, the Hall-Rabushka flat tax may well be the ideal replacement. Or the X tax. Flip a coin. In any event, Prof. Hall has spent considerable time and energy championing his version of a progressive consumption tax, and such commitment is quite rare and admirable. He provides a short and succinct defense of his position in his essay in *Toward Fundamental Tax Reform*. It is well worth our attention.

The claim that consumption taxation can be just as progressive as income taxation is also raised by economist R. Glenn Hubbard in ''Would a Consumption Tax Favor the Rich?'' According to Hubbard, the answer is, possibly. But Hubbard also suggests that consumption taxes may be less regressive than other analysts conclude when looked at from a lifetime perspective, rather than annually. (I'll have to get one of my economist friends to explain that to me.) In his insightful and sophisticated analysis (which is what one would expect from the dean of the Graduate School of Business at Columbia University and the former chair of the U.S. Council of Economic Advisers), Hubbard shows that the main difference between an income tax and a consumption tax is the way each treats capital income. The crucial difference is that, unlike the consumption tax base, the income tax base includes the ''opportunity cost of capital,'' which is the rate of return on a marginal risk-free investment. That means that a household that saves is better off under a consumption tax, and accordingly, national savings is enhanced under a consumption tax regime — although Hubbard also suggests that the benefits may be less than what is often claimed by proponents.

Hubbard was in government long enough to know that the political process will have a hard time digesting this kind of complicated economic analysis. He also recognizes that many of the economic gains from a consumption tax can be achieved through reform of the hybrid income tax that we have. So be it. Anyone who has worked in government in Washington knows that most of the time, second best is all you can get — and you are lucky if you get that. For instance, the proposal to integrate corporate and individual taxation that Hubbard himself cultivated in the early 1990s during his tenure as Treasury deputy assistant secretary for tax policy during the administration of President George H. W. Bush almost made it into the tax code during his stint as chair of the Council of Economic Advisers to President George W. Bush. But at the last moment, the political process intruded and transformed that proposal into the preferential rate for dividends that was enacted in 2003. So it is likely to go with the consumption tax — a transformed hybrid income tax may be all that consumption tax advocates such as Hubbard can get.

In the remaining essays included in *Toward Fundamental Tax Reform*, we find useful observations about the tax reform debate, although I am not entirely sure that policymakers will appreciate them as much as they deserve. For instance, in his short essay, ''Political and Economic Perspectives on Taxes' Excess Burdens,'' Casey B. Mulligan of the department of economics at the University of Chicago offers some insights into how income taxation reduces capital accumulation. Of course, all taxes impose some inefficiencies, but not all taxes are equal in their negative impact on capital formation. Mulligan is of the opinion, as are all of the other contributors to the book, that a European-style VAT is less of a burden on capital accumulation than an income tax. He also suggests that a payroll tax is more efficient than an income tax in that it imposes a lesser cost on the economy in raising revenue to finance public consumption. Increasing the burden of that tax may be a preferable way to raise revenue than increasing the rate on personal income. He also raises some cryptic (although quite interesting) questions about the political restraints imposed on policymakers by taxpayers (who also happen to be voters), but those are just teasers. I suspect that it is necessary to consult his published academic work to fully grasp his subtle points here.

That is not the case with the essay contributed by Edward C. Prescott, who holds the W.P. Casey Chair of Economics at Arizona State University. In his short and highly readable piece, ''The Elasticity of Labor Supply and the Consequences for Tax Policy,'' Prof. Prescott (who was awarded the Nobel Prize for Economic Sciences in 2004) makes the best and most convincing case for private Social Security accounts that I have ever read. With few figures or statistics, and certainly none of the mathematical modeling otherwise demanded of professional economists, Prescott explains in simple terms that labor supply is *not* inelastic and is affected by tax rates. Within the current system of economic constraints, Americans work harder than their European counterparts. His research suggests that this is attributable to the system of economic incentives created by the respective national tax systems. (Prof. Prescott discounts ''culture'' as an explanation for variations in labor supply between the American and Europe workers. I am not so sure. I suspect that he has never seen a Parisian sit at an outdoor cafe for four hours over the same cup of latté simply contemplating *la vie*.) That suggests that we should be cautious with our tax policy; raising payroll and income tax rates could have serious negative effects on our labor supply. The flip side is that the benefits from consumption tax reform could be greater than previously thought by economic analysis that fails to take into full account the elasticity of labor.

To Prescott, workers who fail to save are also responding rationally to the disincentives to savings that the Social Security retirement system fosters. That too is a national problem, and Prescott has much of interest to say about Social Security reform. (Academics may be the only persons whose behavior is apparently unaffected by economic incentives and disincentives; normal Americans actually react to changes in tax rates. But even academics will save less for retirement knowing that Social Security will be there for them in the future.)

What is the solution to all those problems resulting from the elasticity of labor supply? It is obvious to Prescott, the economist. We should avoid ''short-lived stimulus plans'' (presumably, he means legislation like the 2002 tax package), and instead ''establish an efficient tax system with low tax rates that do not change with the political climate.'' With all due respect to Prof. Prescott, but ''Duh!'' This is the $64,000 question. How do we get the political actors who intentionally produced the current tax system (which perfectly satisfies *their* interests and purposes) to completely reverse course and suddenly adopt the economists' model of an efficient tax system? Whoever figures that one out will get the first Nobel Prize for Political Science.

Prescott clearly is not happy that politicians make tax policy, and he betrays that distain for politics that I previously attributed to members of his learned profession. But that's OK; I like Prescott's crankiness, and his distain for politicians is semijustified. Still it is amusing that he cannot comprehend why politicians simply do not grasp the logic of his argument in favor of private retirement accounts and having seen the light, immediately start acting rationally. Certainly Prescott's proposed solution (to ''recast'' the Social Security question from ''one of reform to one of reconstruction'') does not display a great comprehension of the enormous political obstacles facing proponents of consumption tax reform. It will take more than just ''brilliant marketing'' to sell private (mandatory) retirement accounts to the American public — and that is who the politicians must satisfy. For that reason, I hereby declare that the entire electorate is now required to read Edward Prescott's otherwise perceptive essay!

Last but not least, Prof. Joel Slemrod of the University of Michigan contributed the ideal essay to close the volume. ''My Beautiful Tax Reform'' perfectly captures the different interests pulling and tugging at anyone who thinks seriously about tax reform. There are the individual's own preferences (Slemrod favors a progressive rate structure), and there are observations based on professional research and expertise (which for Slemrod, point toward some sort of consumption tax). Since Prof. Slemrod has great professional expertise and sound personal instincts, it is worth listening to him describe his ''beautiful tax reform.''

Switching to a VAT to replace the income tax is rejected by Prof. Slemrod as unrealistic and too dangerous given the tax rate that would be necessary to replace the revenue now raised by the income tax. (I suspect that Slemrod could live with an add-on VAT to *supplement* a reformed progressive income tax.) There seems to be a preference for a tax modeled on the X tax (itself a more progressive version of Robert Hall's ''progressive flat tax''). But Prof. Slemrod also points to a number of the most egregious imperfections in the current income tax (things like the deduction for home mortgage interest, the tax-free treatment of employer-provided health insurance, and the deduction for state and local taxes), the elimination of which would do much to improve the current tax system. Some effort to integrate the taxation of publicly held corporations (C corporations) with the taxation of individuals also would be welcome. That could be accomplished through different methods, some more complicated than others.

I appreciate that Slemrod is resigned to living with second best in a world in which tax policy is made by an imperfect *political* system, and not the economics department at the University of Michigan, Chicago, or Arizona State. As I said, in the world of politics, second best is usually quite an achievement. There is no reason to despair. We may never get to the promised land (the flat tax, X tax, or VAT heaven), but surely we can take a few small steps in the right direction. Even Moses, after wandering 40 years in the dessert, got to take a peak at the promised land. We've been wandering in the dessert of tax policy for at least that long, so don't we deserve a taste of reform? (Or did we use up all our good graces in 1986?) After reading Prof. Slemrod's fine essay, as well as all the others in this worthwhile collection from Auerbach and Hassett, the reader will have a much better idea of where we are headed and what we can do to get us some ''beautiful tax reform.'' Amen!

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