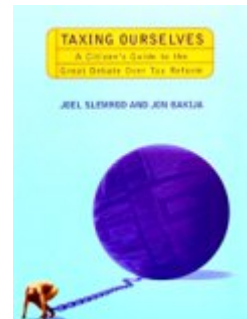


**Joel Slemrod, Jon Bakija.** *Taxing Ourselves: A Citizen's Guide to the Great Debate Over Tax Reform.* Cambridge, Mass.: MIT Press, 1996. ix + 299 pp. \$19.95, paper, ISBN 978-0-262-69208-3.



**Reviewed by** James K. Self

**Published on** H-Business (October, 1998)

This book is written as an overview and at times a detailed survey of the United States income tax system, and its proposed alternatives. The authors use concepts primarily from economics and supported by references, and statistics consistent with the intended depth of the subject matter. Statistical information is presented in a basic and non-rigorous manner.

It is necessary to add a note of caution on the authors' interpretations of the literature and of statistical data. The resulting conclusions are somewhat biased due to their selective use of data and references. For example, the authors demonstrate a negative relationship between savings and the rate of return for a period of time adjusted for certain conditions (pp. 109-12). However, they selected a time series showing the relationship between net private saving as a percentage of disposable income, and interest rates on Baa corporate bonds, adjusted for expected inflation, and the average marginal tax rate on personal interest income, plus a fixed equity premium. The main statistical problem is that interest rates on Baa corporate bonds are not necessarily represen-

tative of the rates on different savings options nor is there any consideration given to the other factors that lead to savings decisions that may have directional offsetting magnitudes—for example, performance of other major financial instruments, fluctuations in the economy and its impact on the economic variables etc.

The target audience is given the impression that the studies presented are the generally accepted ones amongst the experts which is not necessarily the case. Some mention of the differences of opinions and conflicting studies were made but there was little explanation of the bias the authors brought to the discussion by their econometric selections.

Chapters one, and two give a brief general history of the personal, and business income tax, and identify the perceived problems with each; the exclusions and deductions from the tax base resulting in higher percentage of tax on remaining revenue; tax incidence, and the implications of resource allocation. The earlier history is comparatively brief and used only to justify the introduction of statistical data. The authors then pro-

ceed to discuss the historical tax assessment in terms of which group pays and a discussion of what percentage of Gross Domestic Product these taxes represent. They highlight the shift in tax incidence over the years and the relative stability of aggregated percent of tax paid to the federal government for personal income taxes since the second world war. The reader is made to appreciate how today's tax system is the product of politics and how tax legislation has changed continuously through the years, primarily in response to questions of perceived fairness by the voting public.

Chapters three through five discuss the criteria commonly used to compare tax systems. The elements of comparison are fairness, economic prosperity, simplicity, and enforceability. The authors neglect to acknowledge that these are the same requirements set forth in Adam Smith's *The Wealth of Nations* (1776). Smith called them his four maxims on taxation. These maxims are widely accepted and basing the criteria on them ensures that the comparison is made on a sound theoretical foundation. Slemrod and Bakija then relate the maxims to practical examples, with a useful discussion of the controversies surrounding tax reform.

Chapters six through eight discuss proposals to replace the current tax system. In these chapters, the authors incorporate historical international experiences with various tax systems. They identify the proposed system and how it stands with reference to the four maxims. Slemrod and Bakija identify two categories of tax reform proposals: "those that accept the current income tax structure; and those that want to abandon the income tax entirely for something quite different" (p. 161). They look closely at the flat tax and identify three distinct dimensions of flat taxes: a single rate, consumption base, and clean tax base. Single rate refers to one tax rate for all taxpayers. Consumption base refers to taxing the value of what people consume. Clean tax base refers to removing exempt items from the tax code. Using these

three dimensions, they discuss each reform proposal, to what degree it applies the three flatness dimensions of fundamental reform, and how it would expect to rate with the earlier developed tax criteria. Slemrod and Bakija raise the issue of transition from one system to another and describe the likely winners and losers. They also discuss consumption tax plans such as the retail sales tax, Value Added Tax (VAT), and Personal Consumption Tax. They do a very good job of discussing how VAT is implemented in different nations. Lastly, they examine the income tax for possible improvements and discuss hybrid systems combining both income and consumption taxes. Chapter nine gives a checklist for the concerned taxpayer interested in deciphering how he or she would fare under each system.

This book is accessible to the general public and it offers a starting point for those interested in the current debate over income tax reform in the United States. For the tax historian, it is useful as a collection of concepts related to the development of the United States income tax system, and to a lesser degree, the various alternatives to the income tax. Due to the scope of the book it will not be of much use to those well-versed in taxation or for an in-depth historical perspective. It does accomplish what the book's stated goal is, to be *A Citizen's Guide to the Great Debate Over Tax Reform*. I enjoyed the reading.

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**Citation:** James K. Self. Review of Slemrod, Joel; Bakija, Jon. *Taxing Ourselves: A Citizen's Guide to the Great Debate Over Tax Reform*. H-Business, H-Net Reviews. October, 1998.

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