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## WHAT YOU NEED TO KNOW ABOUT TAX REFORM

### *Toward Fundamental Tax Reform*

Edited by Alan J. Auerbach and Kevin A. Hassett

Tax reform is once again on the political agenda, and President Bush's Advisory Panel on Federal Tax Reform is expected to issue its report at the end of June. To begin the public discussion on this vital issue, American Enterprise Institute scholar Kevin Hassett and Alan Auerbach of the University of California, Berkeley, asked nine of the world's leading tax policy scholars, including a Nobel Prize winner, to outline their own ideas about fundamental tax reform. After preparing their papers, the scholars and editors met in Washington to discuss their differences and seek common ground. The result, *Toward Fundamental Tax Reform* (AEI Press, May 2005), brings these landmark papers together, along with two additional chapters in which the editors recount the lively discussion among the scholars and analyze the key points of agreement and dissension.

*Toward Fundamental Tax Reform* provides insight into the current thinking of our nation's leading tax scholars and also serves as an excellent primer on the basic issues of tax reform for concerned citizens and experts alike. It offers readers concise but varying perspectives on the possibilities of tax reform and focuses attention on key questions in the scholarly and public debate: Will a reformed tax code spur the economy? Can it encourage savings? Is a flat tax viable? Can a tax on consumption replace the current tax on income? Who will be the political opposition? Will tax reform harm the poor?

Readers can expect to see decisive differences among the authors: the most telling ones involve value judgments about the merits of redistribution, and professional judgments questioning how accurately economic theories can predict the real-world effects of reforms.

However, readers will also find a rough consensus among the authors in their belief that tax reform should include an expanded role for a consumption tax and should err in the direction of being distributionally neutral. One possible policy option that might satisfy this consensus would be to take the proposal of the late David F. Bradford, which uses

a more progressive version of the Hall-Rabushka Flat Tax. Since Bradford's suggested tax has a number of possible rates, it would be useful as a basic structure, with the flexibility to provide the type of progressivity that many want, while preserving a good bit of the benefit that a flat tax might provide.

### *Toward Fundamental Tax Reform*

includes

- An introduction as well as a conclusion by the editors, **Alan J. Auerbach** of the University of California, Berkeley, and the National Bureau of Economic Research and **Kevin A. Hassett** of the American Enterprise Institute for Public Policy Research (AEI).
- Chapter 1: "A Tax System for the Twenty-first Century," by the late **David F. Bradford** of Princeton University.
- Chapter 2: "Tax Reform Options in the Real World," by **William G. Gale** of the Brookings Institution.
- Chapter 3: "A Fair and Balanced Tax System for the Twenty-first Century," by **Michael J. Graetz** of Yale University.
- Chapter 4: "Guidelines for Tax Reform: The Simple, Progressive Value-Added Consumption Tax," by **Robert E. Hall** of Stanford University.
- Chapter 5: "Would a Consumption Tax Favor the Rich," by **R. Glenn Hubbard**, chairman of the President's Council of Economic Advisers from 2001 to 2003, dean of the Columbia School of Business, and AEI scholar.
- Chapter 6: "Political and Economic Perspectives on Taxes' Excess Burdens," by **Casey B. Mulligan** of the University of Chicago.
- Chapter 7: "A Tax Reform Caveat: In the Real World, There is No Perfect Tax System," by **Ronald A. Pearlman** of the Georgetown University Law Center.
- Chapter 8: "The Elasticity of Labor Supply and the Consequences for Tax Policy," by **Edward C. Prescott**, 2004 Nobel Prize winner in economic sciences, senior monetary advisor at the Federal Reserve Bank of Minneapolis, and professor of economics at the W. P. Carey School of Business at Arizona State University.
- Chapter 9: "My Beautiful Tax Reform," by **Joel Slemrod** of the Ross School of Business at the University of Michigan.