

## The Optimistic View on Simplification

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Okay, I know, simplification has almost never been a priority in tax legislation. Other issues always seem to dominate -- tax rates, amount of revenues collected, and progressivity, in particular. Nonetheless, the recent Joint Committee on Taxation study (for the executive summary of the JCT report, see Tax Notes, May 7, 2001, p. 999) -- as well as its requirement to make simplification suggestions to Congress at least once each session -- are likely to have far more impact than many realize. Knowledge means power, and what we now know is possible cannot easily be ignored by those with power to legislate. Admittedly, simplification reform won't happen without some leadership, but from now on those in positions of leadership on taxes will not be able to simply bypass simplification concerns: They will have to consciously veto inclusion of the types of options put forward by the Joint Committee in future tax bills.

For many the tax debate is confined almost entirely to issues of how big the top rate is, how much taxes are cut or increased, or how much is redistributed in each bill. Simplification usually can't get to the table. Do you want to eliminate the current alternative minimum tax (AMT)? Sorry, that would favor the rich too much or if we are going to favor the rich, we must do it through tax rate cuts. Do you want to eliminate many of the hidden rates in the tax system? Sorry, to eliminate hidden rates at the top (e.g., the phaseout of itemized deductions) would redistribute too much to them or be less preferable to direct rate reduction; for hidden rates at the bottom (e.g., the phaseout of the earned income tax credit), that would be less redistributive and cost more than programs that phase out much faster. And heaven forbid that we simply engage in an exchange that would leave revenues and the distribution of the tax burden roughly the same but with a much simpler system. That might not only raise explicit tax rates, it would create winners and losers (see discussion by Martin Sullivan, Tax Notes, May 7, 2001, pp. 859-866).

The bias against simplification is strong, and history does not provide many examples of success. Nonetheless, conventional wisdom on the history lesson may be mistaken. Simplification gets its turn only during long cycles of reform and reform. Viewed as a cyclical process, the inattention to some principles -- simplification, equal treatment of equals, efficiency -- eventually becomes too great, and there is widespread agreement to switch focus on them. Such happened in the Tax Reform Act of 1986, in part because tax shelters had simply gotten out of hand, allowing an unusual emphasis on equal treatment of equals and efficiency. That act too had been called the impossible dream, and, although there is some cyclical movement backwards, many elements -- in particular, the exchange of lower rates for fewer investment incentives that might lead to shelters -- remain.

What may also be forgotten is that reform in 1986, as well as the less remembered reforms in 1982 and 1984, were made possible partly by a continual series of studies that laid out options. Even the tax expenditure budget -- which admittedly had been used historically mainly to consider revenue-raising options -- contained within it the implicit notion that many of these special tax provisions could be exchanged for lower rates. Similarly, budget reforms throughout the 1980s and 1990s were made possible by the development of studies putting forth options. One example here was the Congressional Budget Office study that put forward deficit reduction options, almost none of which was politically popular because they involved either expenditure cuts or revenue increases.

Don't get me wrong. There was a lot wrong both with the tax expenditure budget and the deficit reduction option list. Both tended to limit what was included in ways that were not always consistent. And both often failed to deal with more fundamental issues of structural reform, such as how to replace, rather than eliminate or pare, the particular expenditure or tax expenditure being considered. But perfection cannot be allowed to be the enemy of the good.

A similar criticism can be leveled at the Joint Committee study. There is a good deal that goes unsaid or unattended. And some proposals -- such as the complete elimination rather than paring of the floor under miscellaneous itemized deductions -- would probably add, rather than subtract from, taxpayer burdens. But the study sets forth a guide that is hard to ignore: "Here is the route to a simpler tax code. Do you want to take it or not?" During preparation for tax reform in 1986, I kept insisting that Treasury do more than another academic study, as we had done on broad-based reform almost a decade earlier. Instead, we needed to provide also a "how-to" guide that could easily be put into legislation. That is exactly what the Joint Committee study does. One can no longer ignore simplification options because they haven't been studied or because there's only a few days to put together the next tax bill.

Admittedly, simplification won't be achieved easily without leadership at the highest levels either within the administration or Congress. But if a president or Secretary of the Treasury or chair of the Senate Finance or House Ways and Means Committee put forward simplification as the next tax priority, I think he would be difficult to ignore. Maybe it shouldn't be the next priority or even the one after that. But at some point the simplification option, I am convinced, will come to the fore. Finally, don't forget that the Joint Committee will be continually nagging the Congress with new options for simplification each year. Things could even get out of hand, and too much attention could be given to simplification over other important tax principles such as equal treatment of equals or efficiency. Right now, however, the pendulum is so far on the side of complexity that we probably shouldn't worry too much about how far it will swing to the other side until we get at least some momentum back toward an equilibrium.

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