

Tax Simplification Opportunities

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[1] Judging by events so far this year, tax simplification is about as removed from the minds of top policymakers as a nutritional diet is from most junk food restaurants. In both cases, however, it wouldn't take all that much to turn things around. But someone, somewhere, needs incentives to make it happen. I'm going to suggest that the incentives to make things happen on the tax simplification front exist right now for four individuals: the two chairs of the congressional taxwriting committees, Rep. Bill Archer, R-Texas, and Sen. William V. Roth Jr., R-Del., and the Secretary and Deputy Secretary of the Treasury, Robert Rubin, and Lawrence Summers.

[2] Look how things are evolving this year. President Clinton -- partly to ward off a large tax cut -- proposes a whole series of "targeted" tax cuts. Republicans tend to favor an across-the-board tax cut, but many now seem to think that it won't sell or get past a veto; the White House has already threatened to paint an across-the-board cut as regressive and as anti-social security. So Republicans, too, are starting to lean toward a series of targeted tax cuts. Now we hear that the Democrats are looking at the amount of the projected budget surplus the president has claimed to pay for his USA account proposal as yet another pile of money to share around in still more targeted ways.

[3] But is a bill with a bunch of privately negotiated give-aways what is really wanted? What do a series of targeted tax cuts even mean? Moreover, there is hardly any theme or principle that has been put forward or that comes close to pulling such a bill into a unified whole. Even the 1997 tax legislation, hardly a model of simplification by any standard, at least had some themes revolving around the family (child credits) or capital formation (capital gains) that had generated a following over the years.

[4] I am suggesting that if we keep moving down this track, a 1999 tax bill is likely to become a logrolling nightmare -- one that is unlikely to be applauded by the conservative press, the liberal press, or the public itself.

[5] The four people I mentioned above have more than a normal stake in the outcome of this legislative process. While they have to represent their political parties, they also have what amounts to a fiduciary role as managers of tax policy. They bear a responsibility for the tax code that is unique to their positions, one that can't be laid at the feet of either the president or other congressional party leaders.

[6] Most, perhaps all, of them are likely to be leaving government service soon. The tax system they bequeath, and the tax policy process itself, will be part of their legacy. To the extent that I know each of them, I believe they do care that the code has become riddled with complication. They simply have had bigger fish to fry, whether it was reducing the budget deficit, constraining the size of government, or, now, reforming social security.

[7] Certainly the social security debate will dominate this year. And when it comes to the crafting of legislation, each of these four government officials will play a prime role there as well. Consider what might happen to tax legislation under two possible scenarios: social security reform does go somewhere, or it does not move at all.

[8] Under the first, social security so dominates the debate that little attention or effort can be put to the crafting of tax legislation. Perhaps the best that can be expected is that a tax bill becomes a complement to the social security legislation. For example, a tax bill might be the mechanism for some pension subsidies that enhance private saving for retirement or offset some of the inevitable cut-backs in social security benefits. If there are negative budgetary consequences from social security reform, perhaps some loophole closers can

cover a small gap. Under these circumstances, the last thing the Treasury Department or the taxwriting chairs would want would be a separate, free-wheeling, process that gets totally out of control in granting tax give-aways.

[9] If social security legislation does not move, then there would be additional pressure to pass some tax bill. Because a presidential election might make major legislation more difficult, this Congress should make its mark this year. But a complicated tax bill with no unifying theme and filled with special interest provisions would not be very pretty nor, perhaps, adequate to appease a public whose cynicism would already be aroused by the inability of government officials to come together to deal with social security.

[10] What, then, are the mechanisms by which the four tax managers might get their ducks in line? First, they must recognize that at some level it is trustworthiness among the four people in their positions that in the past has moved good tax legislation. If former Treasury Secretary Jim Baker and Deputy Secretary Richard Darman weren't working closely with Ways and Means Chair Dan Rostenkowski and Senate Finance Chair Bob Packwood, there would have been no tax reform in the mid-1980s. A similar claim could be made with respect to base broadening in the early 1980s and other notable tax bills.

[11] The bipartisanship required of the four people in those positions is sometimes reflected in the efforts they have to make to fight off other members of the Cabinet or Congress who don't want to give up either partisanship or the special interests they represent.

[12] Are there any useful steps the four could take right now? The four could sit down tomorrow and try to agree to some principles that would guide tax legislation. Such a meeting needs to be separate from the larger meetings where many individuals, including those who do not have managerial responsibility for tax legislation, are fighting over the size of any tax bill. The issues of size and type of bill really are, and should be, made separable.

[13] Archer and Roth could also follow up on efforts made last year to make a simplification assessment of proposed legislation. They could publicly announce that any proposal suggested this year must undergo such an assessment before it could be part of final legislation. They could effectively rein in proponents of different alternatives -- whether in the Congress or the administration -- in a manner similar to how they and past chairs have used revenue constraints to hold the line on proposals in the past. It's far from a perfect method. But given the way events are headed, it's better than none at all. But now is the time to act -- before the process gets totally out of their control.

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