

into a recognized field in its own right. This book will have an important place in that development.

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Taxing ourselves: A citizen's guide to the great debate over tax reform. By JOEL SLEMROD AND JON BAKIJA. Cambridge and London: MIT Press, 1996. Pp. ix, 299. \$25.00. ISBN 0-262-19375-2. JEL 97-0138

While fundamental tax reform remains a topic of ongoing concern and analysis for specialists in public economics, tax reform galvanizes the mind of the public more sporadically. Recent years—in particular, the election year of 1996—have focused national attention on tax reform. Not all public discussion has been informative, however. Some proponents offer confusing—and, in some cases, incorrect—claims for their proposals. Public opinion polls register dissatisfaction with the current tax system, but directions for “reform” are unclear. This is in part because many voters do not understand differences among alternative income-based and consumption-based taxes being proposed and in part because voters have different tradeoffs among goals for tax reform.

Slemrod and Bakija's well-written book casts itself as a guide for the general public to tax reform analytics. The book also casts itself subtly (and, in some cases, not so subtly) as a reminder of what economists can and cannot contribute to the policy debate over tax reform. While optimal tax theory may offer only limited practical guidance for tax reform, economists can offer evidence on the cost of raising each dollar of tax revenue—costs in terms of distortions of economic activity, collection expenses, and compliance expenses. Ultimately, those costs have to be traded off against equity considerations by the public and elected representatives. Slemrod and Bakija remind the reader at several points that economics has no crisp answer about how to trade off goals of efficiency and equity. The more substantive message of the book is that empirical research has also not produced unambiguous estimates of the costs of alternative forms of taxation.

The book has three main parts. The first, spanning the first two chapters, introduces the tax reform debate and provides an overview of the current U.S. tax system. A thoughtful reader quickly gets the message that, despite the debate among polar ideals for tax reform, the current tax system is an uneasy compromise between income and consumption taxation. Different activities are taxed differently, and simplicity is perhaps always to be, but never is, blessed. The complexities of the current tax system produce cries for reform—to improve economic efficiency, to bolster tax fairness, and to trim complexity itself. Such goals have clear benefits (and constituencies); they are also not always in harmony.

The second part (Chs. 3–5) picks up this conflict and proposes principles to guide the tax system. Chapter 3 begins with the toughest—fairness. While the discussion of concepts of vertical equity and horizontal equity is instructive, a bit more time could profitably have been devoted to differences among measures of vertical equity (e.g., annual income, wealth, permanent income, and lifetime and generational perspectives). Given the book's practical emphasis, Slemrod and Bakija miss an opportunity to emphasize that policy making agencies use different notions of fairness and that economists do have something to say about the relative validity of alternative measures of economic well being used in distributional analysis. Chapter 4 considers taxes and economic prosperity, economists' most active area of contribution. Slemrod and Bakija note (correctly) that there are no universal answers to how responsive saving, investment, or labor supply are to tax changes. Nonetheless, their assessment of effects of taxation on behavior is a bit pessimistic—at least given my reading of existing studies (cited or not cited by Slemrod and Bakija). Again, given the “guide” objective of the book, one might have hoped for a discussion of what empirical research might contribute to the debate. Chapter 5 takes on simplicity and enforceability. Slemrod himself has made important contributions to our understanding of the nature of and cost of complexity in the U.S. tax system. The authors note that complexity emerges from

four features of (what appears to be) public consensus about the tax system: (1) ability to pay must be measured; (2) taxes must be collected at both individual and business levels; (3) tax rates should be graduated; and (4) differential taxation is inevitable. Two areas untouched here are the political economy of the tax policy process and practical suggestions about where complexity costs are highest and where such complexity solves few public goals (e.g., measurement of depreciation or the earnings of multinational companies).

The third part of the book addresses elements of and alternatives for fundamental tax reform. Chapter 6 describes three elements that have figured prominently in the recent debate over tax reform—(1) a single rate, (2) a consumption tax base, and (3) a “clean” base (i.e., one approximating uniform taxation). The chapter is particularly helpful in detailing costs in the current tax system of departing from a clean base. These “costs” (which, of course, are accompanied by “constituencies”) must be addressed in fundamental income tax reform or consumption tax reform. Chapter 7 describes similarities and differences among alternative forms of consumption taxation. Slemrod and Bakija discuss some recent studies by economists which estimate potential gains from tax reform. It also would have been instructive to get the authors’ views on what kinds of economic analysis would be useful in assessing gains from tax reform (e.g., the studies they discuss abstract from some of the very issues of intra cohort differences in well being that the authors argue are central). Chapter 8 describes steps toward building a better income tax. While tying the discussion more to actual proposals for income tax reform would have been useful, Slemrod and Bakija focus attention on the notion that many goals of consumption tax reform can be achieved by income tax reform. Chapter 9 concludes with practical tips for voters in analyzing tax reform.

Quibbles about coverage of issues and studies aside, *Taxing Ourselves* is an important reference for students of the current tax reform debate. Possibly more important, Slemrod and Bakija remind us what econo-

mists can—and cannot—contribute to that debate.

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I Health, Education, and Welfare

The problem that won't go away: Reforming U.S. health care financing. Edited by HENRY J. AARON. Washington, D.C.: Brookings Institution, 1996. Pp. xi, 298. \$36.95, cloth; \$16.96, paper. ISBN 0-8157-0010-5, cloth; 0-8157-0009-1, pbk. JEL 96-0999

This book attempts to draw lessons from the 1993-94 health care reform debate by soliciting the views of analysts, researchers, and officials who were quite active on different sides of that debate both inside and outside of government. The articles and comments were first presented in January, 1995, at a conference sponsored in collaboration with the journal *Health Affairs*. The authors’ backgrounds are diverse, although a majority are economists or social scientists. No consensus is obtained or sought, but the book reflects in a balanced way the major prevailing (and often contradictory) views on why health reform failed and what directions might now be possible.

Aaron’s introduction (chapter one) reflects best the title of the book. It is less a summary of the book than Aaron’s own, and usually convincing, argument that a process of modest, incremental, steps are likely to dominate the federal health reform debate, and that federal financing issues will remain “hot” because of pressures to constrain spending in Medicare and Medicaid, the upcoming retirement of the baby-boom generation, and the pressure supplied by new medical technologies. Meanwhile, the demise of uncompensated care, the transformation of private market delivery systems, and growth in numbers of uninsured will all force unavoidable and dramatic change on both private and public health care systems. Thus, health care financing issues will remain at center stage.

Almost half the book then takes up the