

# FORTUNE

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## Requiem for a tax-reform heavyweight

By: Bruce Bartlett

ON FEB. 16, PRESIDENT BUSH'S bipartisan tax-reform commission had its first meeting. Much of the discussion focused on taxing consumption instead of income as a way of increasing saving and investment. It was all very polite and, you won't be surprised to hear, no one said anything shocking. And that, if you think about it, is a little amazing: It wasn't so long ago that consumption taxes were highly controversial. Anyone suggesting a reform that got away from taxing income or capital would have been ignored, if not shouted off the dais.

The fact that the phrase "consumption tax" can even be uttered in Washington with a straight face owes much to the work of an unheralded economist named David Bradford, who died Feb. 22 at age 66 of burns sustained

when a Christmas tree at his home caught fire. A professor of economics at Princeton since 1966, where he was widely recognized as one of America's best tax economists, Bradford made his greatest contribution to tax policy early in his career as an assistant to Bill Simon, then Treasury Secretary under Gerald Ford.

Simon was one of the first political figures to propose scrapping the federal tax system and starting over from scratch. He recognized that the tax system was (and is) a gruesome hodgepodge that came about by happenstance, as opposed to something any Republican or Democrat would intentionally create. Simon assigned Bradford the job of thinking about what an ideal system would look like. Bradford delivered his report, "Blueprints

for Basic Tax Reform," just days before the inauguration of Jimmy Carter, who had no interest in pursuing Ford administration ideas. (The report can still be found at [www.treas.gov](http://www.treas.gov).) What Bradford came up with was the country's first real consumption-tax proposal.

Back in 1977 the notion of a consumption tax per se wasn't particularly radical: A long line of economists and thinkers from Alexander Hamilton on down had favored taxing consumption instead of income. The argument had always been that not only are consumption taxes better for the economy--they stimulate capital formation, which leads to higher wages in the long run--but also that they are fairer. That's because under a consumption system, people are taxed on what they take out of the

economy rather than what they put in via saving and investment.

What was radical was coming up with a plan that would work in the real world. As Keynes once put it, "An expenditure tax, though perhaps theoretically sound, is practically impossible." Tax theorists had assumed that a consumption system required a quagmire of direct taxes--excise taxes on gas, say, or state sales taxes. As a result, most serious debates about tax reform in the postwar era centered on comprehensive income taxation. That is, taxing everything but consumption--returns to savings, investment income, even unrealized capital gains.

Bradford created an alternative that systematically removed saving and investment from the tax base. (Logically, a system with no taxation on saving or investment must tax only consumption.) For example, saving would be treated like individual retirement accounts, in which it is initially exempted from taxation but the withdrawals are taxed (as in a traditional IRA), or saving is taxed but the returns are exempt (Roth IRA). Bradford's ideas have already helped guide Bush tax policy. The reduction in tax rates on dividends and capital gains, and provisions allowing businesses to depreciate capital equipment more rapidly, are all moves toward a consumption-based tax

system.

During the administration of President Bush's father, Bradford was a member of the Council of Economic Advisors, where I was fortunate to be able to work with him. His death is a loss for tax reformers of all parties and philosophies. But his work lives on, as was obvious to anyone listening to Alan Greenspan's testimony before the tax commission on March 3. Greenspan's message? The U.S. should switch to a consumption tax.

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