

procurement officials, the firms do not operate in a truly competitive environment. Butler calls for more competitive procurement practices, greater competition among services within the Pentagon bureaucracy, and, above all, an independent testing office in the Department of Defense to evaluate and perform acceptance tests on weapons systems that are being developed and delivered; this is in distinction to a system where the unit that wants a weapon decides whether what they got from the contractor is good enough.

The greatest original contribution of this book is its continual emphasis on building political coalitions to implement privatization and to ensure its permanence. Instead of merely serving as yet another eloquent plea for privatization, the book carefully identifies potential beneficiaries of privatization and suggests ways for them to coalesce into counter-constituencies that can overcome the coalitions for government spending and can change the status quo. Butler offers the following 10 techniques for privatizing federal spending: (1) Challenging the classification of goods, that is, adhering rigorously to the scheme proposed by Savas,¹ and selecting suitable market segments for privatization; (2) pressing for programs to be administered and financed closer to the end user; (3) linking specific taxes to specific spending in order to establish a clearer relation between costs and benefits; (4) applying user charges wherever possible to further strengthen the recognition that benefits have costs; (5) "buying out" key members of the spending coalition; (6) using research and public relations effectively; (7) deregulating government monopolies and introducing competition; (8) providing tax incentives that promote privatization; (9) strengthening privatization coalitions by fostering and organizing suitable networks; (10) employing incremental rather than revolutionary tactics.

Butler has a thorough understanding of the policy making process. His privatization proposals are well reasoned and innovative. As such his book makes a significant contribution to the privatization literature.

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Blueprints for Basic Tax Reform, 2d ed.

David F. Bradford and the U.S.

Treasury Tax Policy Staff

Arlington, Va.: Tax Analysts, 1984, 194 pp.

The publication of a revised second edition of *Blueprints* should delight those interested in taxation. Readable style and lucid analysis have already made this 1977 Treasury Department study a classic. But do not expect everything. It is only 200 pages and readability takes a few words here and there. What is sacrificed is scope.

¹E. S. Savas, *Privatizing the Public Sector: How to Shrink Government* (Chatham, N.J.: Chatham House Publishers, 1982).

The book limits its discussion to two types of taxes: the comprehensive income tax and the cash flow tax—a tax on consumed income. Not surprisingly, the philosophical analysis of the ethics of taxation is omitted. Privatization and user fees are outside the work's scope. So is the "public goods" case for taxation, and the claim that a broader base lulls people into accepting higher levels of taxation. *Blueprints* alone will leave the reader crystal clear on some issues, but still ignorant of more important issues.

Of the two suggestions for reform, the comprehensive income tax is the traditional standard which guides the Reagan administration's current tax reform proposal. *Blueprints* was importantly innovative, however, in its proposal for a cash flow tax—explaining how a tax on consumed income could be implemented. Although the book does not explicitly advocate this consumption tax, the advantages of such a tax are clear. Readers who have not thought seriously about this approach to tax reform will find the book's views especially enlightening.

Despite important differences, the comprehensive income tax and the cash flow tax have many things in common. A tax on either base can be progressive or regressive, depending on the rate structure. An important feature of both is the elimination of the corporate income tax. In contrast to the popular corporation-bashing demagoguery, *Blueprints* explains the inefficiency of taxing income at the corporate level.

Taxes are judged on their simplicity, and the comprehensive income tax is not simple. Fringe benefits, sometimes arbitrarily valued, would be taxed. Business income—the depreciation and inventory problems of which create much of the complexity in current tax law—would still be measured and taxed. Capital gains would be taxed as ordinary income but indexed. Among the newly taxed items are employer-paid insurance premiums, "inside buildup" in whole-life policies, charitable donations, and unemployment compensation. The continued deductibility of state and local income taxes, however, suggests this is not base-broadening for its own sake. *Blueprints* explains why each should be considered "income."

Taxes are also judged on their efficiency, the extent to which they systematically avoid altering relative prices from those of a taxless world. The comprehensive income tax would retain, and even exacerbate, the principal inefficiency of any tax on income: the bias against saving. Either saving or its returns must be exempt from tax to avoid this bias. But saving is a use of income, and its returns are part of income, so both would be taxed under a comprehensive income tax. Nobody who understands how markets work would prefer a non-neutral tax biased toward saving. But for the same reasons there should be no bias against it.

The comprehensive income tax discussed in *Blueprints* is a fine one, but most readers will properly infer that all that is left to justify it is the third commonly used gauge, equity. Tax analysts have talked about equity and generally subdivide it into types, but they seem content to

rely for its basic meaning on popular opinion. People who want to actually *like* taxes should probably be advised not to think too hard about equity. Anyway, the “equity” supporting the income tax, emphasizing progressivity and income redistribution, is—it seems to me—nothing but crude egalitarianism.

The cash flow tax, the book’s better idea, is a bit different. Its tax base starts with all monetary receipts, and subtracts expenditures for saving and certain deductible items. One who receives a \$1,000 paycheck and saves \$175 in a “qualified” account is taxed only on \$825, his “consumed income.” If he were instead to augment his check with a \$175 withdrawal, he would be taxed on \$1,175. Deposits are considered saving and are exempt from taxation, while withdrawals are considered consumption and are taxed. Such saving is taxed once: at withdrawal. The cash flow tax extends to all saving our current law’s treatment of individual retirement accounts (IRAs) and other retirement saving, but eliminates the penalties for early withdrawal.

“Qualified” accounts—those with government approval—may sound like a vehicle for the abuse of power. But other saving (gold coins, residential housing), while treated differently, is not treated worse. It is not deductible. It is considered consumption and is taxed when accumulated. When liquidated or withdrawn, though, only its earnings are taxed. After all, the tax on the principal has already been paid. The timing of payment of the tax is different, but its present value is the same as if a qualified account had been used. *Blueprints* illustrates the flexibility of combining qualified and unqualified accounts to smooth out tax liabilities over time. One might prepay the tax on the down payment for a house by saving in an unqualified account. Eager prospective homeowners who cannot resist the temptation to defer tax by saving in qualified accounts would find a sizable tax due when they withdraw such a substantial sum.

The cash flow tax would have many of the income tax’s deductions, for the same reason: they are not consumption. But it would be much simpler by eliminating the complex computation of corporate income and the taxation of capital gains. Its great gain in efficiency—eliminating the bias against saving—also makes it more equitable. It adopts a lifetime perspective which renders “the expected present value of taxes paid [independent of] the time pattern of consumption” (p. 47).

Blueprints concludes with chapters on quantitative analysis and transition problems. Some of the latter require makeshift phase-in rules which would create short-run complexity. But the book does not shirk these difficulties, and this serves to emphasize that it is a fine example of how tax reform should be discussed.

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