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David Bradford: Leading Light of Tax Reform

By Daniel Shaviro

David F. Bradford (1939–2005), professor of economics and public affairs at Princeton University, was an AEI adjunct scholar and occasional visiting scholar, and the author of several AEI studies of tax policy issues, which are listed with other important works of his at the end of this essay.

The world lost a great economist last month when David F. Bradford succumbed to injuries suffered in a fire. David was the father of modern consumption tax philosophy and the most important contributor of the last few decades to serious thinking about fundamental tax reform.

When people think of replacing the income tax with a consumption tax that can achieve whatever level of progressivity one prefers, they think of two main models. The first, sometimes called a consumed income tax, structurally resembles our present system for taxing individuals, except that people get unlimited savings accounts, like IRAs, contributions to which may be deducted while withdrawals are taxed. During his time at the Treasury Department in the 1970s, David developed what is still by far the best prototype for such a system: the so-called "Blueprints" cash flow tax that he discussed in detail in his landmark study, "Blueprints for Tax Reform."

The other main prototype, involving a business-level as well as an individual-level tax, has as its best-known exemplar the Hall-Rabushka flat tax (after the economists Robert Hall and Alvin Rabushka), which I believe David helped inspire. He then used the flat tax as a starting point for developing what he called the "X-tax," a better-designed version that could be more progressive than the flat tax, if desired, and that did a better job of handling problems such as transition from the existing income tax and rate changes between taxable years.

Tax Policy Pioneer

Some of David's other main achievements may initially seem esoteric to lay readers, but were no less important for how we think today about fundamental tax reform.

For example, he helped pioneer the growing realization among tax policy thinkers that income and consumption taxation are less different than had been previously thought, because they differ only in their treatment of the riskless rate of return, which the income tax reaches, but the consumption tax excludes, and which has historically averaged only about 1 percent a year above the inflation rate.

In other words, we are not talking about the choice between taxing or exempting Bill Gates's fortune, which arose because Gates earned considerably more than a 1 percent annual return on his initial investment. Either system would tax Bill Gates in similar degree, although his burden under the consumption tax might be less obvious.

David Bradford also helped lead a breakthrough in our understanding of transition issues, such as those arising upon the shift from an income tax to a consumption tax. He showed that the transition revenue gain counted on by

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plans such as Hall-Rabushka was not a free lunch as had been supposed, and amounted to wiping out income-tax basis for assets while solemnly (but how credibly?) promising never to do it again.

This last point was especially typical of David's intellectual style. Though known as a consumption tax advocate, he refused to make any arguments for it that he did not consider 100 percent correct. Refusing to claim a free-lunch transition gain was only one example of this intellectual scrupulousness. David also declined to argue either that a consumption tax would be more efficient than an income tax or that it would increase national saving.

Both of these claims are highly likely to be true (although the magnitude of the latter effect is in doubt). But since they could possibly be contested in good faith, and since they were not his reasons for favoring a consumption tax, he preferred to steer clear of them. Analysis, not advocacy, was his calling. David favored a consumption tax for two reasons. The first was his belief that, if two people earned the same amounts during their lives, neither should pay more tax than the other simply by reason of saving more money for retirement or bequests. An income tax, but not a consumption tax, hits the saver harder than the non-saver. Second, David hoped that a consumption tax would eliminate the intractable measurement and realization problems that plague any feasible real-world income tax. He also saw progressivity as a nonissue in the tax base debate, since either an income tax or a consumption tax could be as progressive or not as one liked.

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Tax reformers should learn two big lessons from David Bradford as they consider the state and fate of our current income tax. First, they should start with the Blueprints cash flow tax or the X-tax if they want a serious fundamental reform plan with the potential to appeal to Republicans and Democrats alike. Second, they should emulate David's passion for analysis, not advocacy—a stance that seems in danger these days of being totally forgotten.

Works by David Bradford

Selected Books

The X Tax in the World Economy: Going Global with a Simple, Progressive Tax
AEI Press, October 2004
(See www.aei.org/book795.)

Fundamental Issues in Consumption Taxation
AEI Press, May 1996
(See www.aei.org/book95.)

The Distributional Analysis of Tax Policy
Edited by David F. Bradford
AEI Press, January 1995
(See www.aei.org/book334.)

Untangling the Income Tax
Harvard University Press, 1986

Blueprints for Basic Tax Reform
Coauthored with U.S. Treasury Tax Policy staff
U.S. Treasury study, 1977

Seminal Articles

"Generalized Cash-Flow Taxation," *Journal of Public Economics* 88, no. 5 (April 2004): 957–980.

"The Case for a Personal Consumption Tax," in *What Should be Taxed, Income or Expenditure*, ed. Joseph Peachman, 75–113 (Washington, D.C.: Brookings Institution, 1979).

"The Optimal Taxation of Commodities and Income," (with H. A. Feiveson), *American Economic Review* 66 (May 1976): 94–101.

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