Taxing Ourselves
A Citizen’s Guide to the Debate over Taxes

fourth edition

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Albert Einstein is reputed to have said that “the hardest thing in the world to understand is the income tax.” But understand it we must because it is a critical part of how government affects the lives of Americans. Unfortunately, though, when tax reform enters the political arena, the subtleties of the key issues are usually lost in self-serving arguments and misleading simplifications. Academic treatments of the subject are of little help to the vast majority of citizens who are unfamiliar with the jargon and methods of economics.

This book is an attempt to bridge the gap between sound bites and treatises. It lays out what is known and not known about how taxes affect the economy, offers guidelines for evaluating tax systems, and provides enough information to evaluate both the current income tax system and the leading proposals to replace or reform it. We have attempted to present this information in a clear, nontechnical way and to avoid misleading the reader by oversimplifying. We do not conclude with our own pet plan for improving the U.S. tax system, which would require applying both our judgments on the economics of taxation and our values as well. This book does, however, provide readers with enough background to make informed judgments about how we should tax ourselves.

We have been gratified by the positive response from readers of the first three editions of Taxing Ourselves, especially those who have used this book as a textbook or a supplementary reading in economics, accounting, and law courses. The positive e-mails we’ve received from citizens who have learned from this citizen’s guide have been encouraging as well. At the MIT Press, first Terry Vaughn and then John Covell have been helpful throughout the development process and supportive of our desire to update the book with new editions. This fourth edition has been extensively revised to incorporate the latest
data, empirical evidence, and tax law through April 2007. It offers new coverage of recent developments (such as the 2005 report of the President’s Advisory Panel on Federal Tax Reform) and has also been streamlined along a number of dimensions.

We have been fortunate to have at our disposal the resources of the Office of Tax Policy Research (OTPR) at the University of Michigan, where Joel is a professor at the Stephen M. Ross School of Business and in the economics department and Jon was a graduate student during the writing of the first edition. Jon has since moved to the economics department at Williams College, where he is an associate professor of economics. We owe a special debt to those colleagues who read and made extensive comments on an early draft of the book—Gerard Brannon, Leonard Burman, Don Fullerton, Louis Kaplow, and three anonymous reviewers. We would also like to thank those who reviewed the first and second editions, especially David Bradford, for their insightful comments and suggestions, many of which we have tried to address in this new edition. Mary Ceccanese, research process coordinator at OTPR, typed and reprocessed the entire manuscript (four times!) and has provided encouragement and advice from start to finish. Julie Skelton, Brent Smith, and Monica Young helped to track down information and citations, and Varsha Venkatesh at OTPR was instrumental in updating the second and third editions. Chris Lyddy of the Brookings Institution provided invaluable research assistance on the third edition, as did Marcus Choudhary and Alexander Gribov on the fourth edition. Finally, Joel would like to thank Ava, Annie, and Jonny for providing support, love, and challenging questions about the relationship between individuals and the state. Jon would like to thank Rebeccah, Miriam, Jude, and his parents for their love, support, and understanding.