An Exchange

Tax Ideals in the Real World: A Comment on Professor Strnad's Approach to Tax Fairness

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Professor Strnad's recent article in the *Stanford Law Review*[1] would have us abandon our traditional attachment to pre-tax income as the criterion for fair taxation. His argument rests on two independent grounds. First, he argues that the consumption tax rather than the income tax always implements the Haig-Simons fair tax ideal, which is the prevailing standard for measuring whether a tax is fair.[2] Second, he argues that pre-tax income in a world which already has an income tax is a faulty benchmark for measuring tax fairness, which should be measured by comparing wealth in a no-tax world with after-tax wealth.[3] In Strnad's view, pre-tax wealth in a tax world is a deficient benchmark because it is affected by the existence of a tax. This deficiency is shared by every pre-tax base. According to Strnad, we should pursue a general equilibrium analysis that peels away the layers of economic adjustments to the existence of a tax in order to identify wealth in a no-tax world.

I will argue, in response to Strnad's first point, that his conclusion rests on a definition of the Haig-Simons ideal that already contains a bias in favor of the consumption tax. A more plausible version of the Haig-Simons ideal and a fundamentally fairer solution to the question of fair taxation would favor the income rather than the consumption tax. In a recent comment on Strnad's article, Professors Kaplow and Warren correctly point out that Strnad has defined the Haig-Simons ideal so that only a consumption tax can satisfy it[4] and that he has mischaracterized the Haig-Simons ideal.[5] The Haig-Simons ideal, Kaplow and Warren explain, is concerned with the change in a taxpayer's wealth over time, but the Strnad consumption tax

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1. Strnad, *Taxation of Income from Capital: A Theoretical Reappraisal,* 37 STAN. L. REV 1023 (1985).

2. *Id.* at 1068-72, 1077-80. The Haig-Simons tax base equals the market value of rights to personal consumption plus the change in value of property rights between the beginning and end of the taxing period.

3. Kaplow & Warren, *An Income Tax by Any Other Name—A Reply to Professor Strnad,* 38 STAN. L. REV. 399, 402-07 (1986).

4. *Id.* at 407-12.

5. Strnad, *supra* note 1, at 1023-25, 1035, 1053-61, 1065, 1102-07.

perspective is concerned with maintaining the same relationship between present and future values in a no-tax world and a tax world.

This Comment agrees with the position of Kaplow and Warren but adds to the debate by arguing that the Strnad version of the Haig-Simons definition is defective on basic fairness grounds because it adopts the wrong view of when a taxpayer has fairly discharged a tax obligation to the government. Strnad's analysis assumes that a tax obligation is fairly discharged if it is accrued as a charge against wealth. An income tax, by contrast, requires that the tax be paid currently, out of wealth. The dispute between the income tax and the consumption tax can therefore be recast as an argument about whether a tax obligation is fairly discharged by accrual or payment. While Kaplow and Warren are correct in their criticism that Strnad begs the question and mischaracterizes the Haig-Simons definition, Strnad's error reveals yet another way of looking at the consumption versus income tax debate.

In response to Strnad's second argument, that pre-tax income is a faulty benchmark in a world that already has an income tax, I will argue that information about a no-tax world that predates adoption of a tax is a questionable foundation on which to make judgments about fair tax policy in the real world, even if economic analysis were sophisticated enough to provide the necessary data.[6] The effect of Strnad's position is likely to be unfortunate because it will discourage traditional efforts to achieve tax fairness by distributing losses fairly. Strnad's approach would instead collapse tax fairness questions into a broader search for a measure of social utility applicable to all government tax and spending decisions.

I.   DEFINING THE HAIG-SIMONS IDEAL

Professor Strnad correctly argues that the Haig-Simons ideal requires reducing the net present value of increments to wealth in the year the wealth accrues (NPV (0)) by the appropriate tax rate (T).[7] To conform to that ideal, the taxpayer should end up with (I-T) times NPV (0). In support of the argument that the consumption tax implements that ideal, Professor Strnad observes that the present value of the tax due under a consumption tax would reduce the value of NPV (0) by T. That, in his view, is sufficient to discharge fairly the taxpayer's obligation to the government.[8] A fairer interpretation of the Haig-Simons ideal, however, would treat the taxpayer as having discharged the tax obligation only by payments which reduce wealth by the tax rate. Actual payment would conform to the income tax ideal because it has the effect of requiring that both wealth increments and the income

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6. Kaplow & Warren, *supra* note 3, at 412-20.
7. Strnad, *supra* note 1, at 1065.
8. *Id.* at 1038-39.

accruing to wealth bear tax, which is what the income tax ideal requires. The issue is therefore joined between consumption tax advocates like Professor Strnad and Haig-Simons income tax advocates as to whether fairness requires the tax obligation to be accrued or paid.[9]

It is helpful, in resolving this issue, to consider how obligations are analyzed under the existing income tax. The analogy between the income tax treatment of obligations and the treatment of tax obligations under a fair tax is not necessarily perfect, and this Comment will suggest how the analogy should be applied below.[10] The use of an analogy drawn from a familiar context is nonetheless useful in thinking about the theoretical issues underlying the consumption versus income tax debate, because it facilitates understanding of the reality underlying these issues.

The most common description of the treatment of obligations under an income tax is that they are accrued because they reduce wealth.[11] That approach suggests therefore that a tax obligation could be fairly discharged by accruing the future tax obligation, as required by the consumption tax ideal. That, however, is an oversimplification of the income tax treatment of obligations which focuses only on the case of typical cash loans. When a taxpayer obtains cash subject to an obligation to return the money, other than in the typical loan transaction, or has dominion and control over funds subject to an obligation related to earning the money, the debt is not always accrued. Typical cases where debt is not accrued include improper acquisition of funds,[12] even when there is consensual agreement to pay them back,[13] debts which are certain in amount and liability but which will not be paid for a long time,[14] and debts where "economic performance" in the form of providing property or services by the debtor must still occur.[15] Indeed, the debate over the proper treatment of debt is one of the most controversial

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9. Preliminarily, it might be argued that a Haig-Simons concept of fairness could not require cash payment of taxes to discharge the tax obligation because the net wealth element of the tax base itself is computed on accrual basis. That point cannot be dispositive, however, because a similar argument in reverse could be made against the consumption tax meeting the Haig-Simons ideal. The consumption tax is a cash flow tax and it looks just as strange to satisfy a cash flow tax by accruing a tax liability, as Strnad argues, as it does to satisfy an accrual basis tax only by paying the tax.

10. *See infra* text accompanying notes 21-22.

11. Spartan Petroleum Co. v. United States, 437 F. Supp. 733, 736 (D.S.C. 1977).

12. Quinn v. Commissioner, 524 F.2d 617 (7th Cir. 1975), *aff'g* 62 T.C. 223 (1974); Buff v. Commissioner, 496 F.2d 847 (2d Cir. 1974), *rev'g* 58 T.C. 224 (1972); Gilbert v. Commissioner, 35 T.C.M. (CCH) 451 (1976), *rev'd,* 552 F.2d 478 (2d Cir. 1977).

13. United States v. Rochelle, 384 F.2d 748 (5th Cir. 1967), *cert. denied,* 390 U.S. 946 (1968).

14. Mooney Aircraft, Inc. v. United States, 420 F.2d 400 (5th Cir. 1969).

15. I.R.C. § 461(h). This code section overrules a number of cases which had allowed prior accrual. *See generally Timing and Measurement of Taxpayer Deductions for Obligations to be Paid in the Future, Hearings Before the Subcomm. on Oversight, Comm. on Ways and Means, H.R.,* 98th Cong. 2d Sess. (1984) [hereinafter *Hearings*].

issues in the income tax law and the Code has recently been amended to disallow deductions based solely on the fact that the debt has accrued.[16]

Accrual of debt under the income tax is an especially serious problem because the face amount rather than a discounted present value is often accrued.[17] In Strnad's model, the tax obligation is fairly discharged by accruing only the present value of future tax obligations. The problem with debt accrual in an income tax would, however, persist even if the accrued obligation were discounted. Uncertainty concerning the amount of the debt and the fact of repayment make it questionable whether a taxpayer with cash subject to a debt should enjoy tax-free the use of current funds while others must spend out of after-tax cash;[18] the same doubts suggest that accruing a tax obligation should not be sufficient to discharge the taxpayer's obligation to the government.

This analysis of obligations under the income tax is a rival to the "accrual" method of reporting income, which can be called the "control and dominion" perspective. When a taxpayer has control and dominion over cash, subject to a debt, tax fairness might reject current recognition of the debt in computing income and instead require payment before a deduction is allowed.[19] The major function of accrual accounting, after all, is to report income accurately to investors and creditors and to make sure that the income tax does not distort business decisions to incur future liability.[20] Tax fairness does not necessarily incorporate the policies supporting accrual accounting to the exclusion of control and dominion criteria, which require that payment be made to support a deduction.

The debate between consumption tax and income tax advocates can therefore be recast as a debate between the "accrual" and the "control and dominion" perspectives on when a tax obligation has been fairly discharged. The income tax analogy suggests that the control and dominion perspective has much to recommend it but the ultimate decision must rest on basic tax fairness concerns. The argument for adopting the control and dominion perspective on fulfilling tax obligations involves two steps.

The first step is to demonstrate that the taxpayer with an accrued tax obligation has the kind of control and dominion over wealth that would

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16. *See supra* note 14. *See generally* Halperin, *Interest in Disguise: Taxing the "Time Value of Money,"* 95 YALE L.J. 506 (1986).

17. *But see* Rev. Rul. 82-224, 1982-2 C.B. 5.

18. I have dealt with these issues more extensively in Popkin, *The Taxation of Borrowing,* 56 IND. L.J. 43 (1980).

19. "Control and dominion" is in fact a pervasive theme in income tax analysis, as evidenced by the frequency with which the idea recurs in different doctrinal settings. It is important when defining income, Commissioner v. Glenshaw Glass Co., 348 U.S. 426, 431 (1955), deciding when income should be attributed to a donor, Helvering v. Clifford, 309 U.S. 331, 335 (1940); Corliss v. Bowers, 281 U.S. 376, 378 (1930), and deciding whether accounting methods clearly reflect income, North Am. Oil Consol. v. Burnet, 286 U.S. 417, 422-23 (1930).

20. *Hearings, supra* note 15, at 107-08.

normally prevent accrual of an obligation under the income tax. This point is implicitly conceded by consumption tax advocates, who like to invoke a comparison between a consumption tax and treating the government as a joint venturer with the taxpayer.[21] In a consumption tax, the government has a claim equal to the present value of the taxes on wealth and any return earned by the taxpayer on that amount. The taxpayer must respect that claim if the taxpayer wants to consume wealth. Prior to satisfying that claim, however, the taxpayer has complete control and dominion over the wealth. The taxpayer can deplete it, leaving the government with nothing, or use it, along with other wealth, to increase his income. The taxpayer can do both of these things with no fiduciary obligation to the government. The closest analogy to this relationship between taxpayer and government is a family partnership, where a donor gives a share of the partnership to a relative but retains control over the partnership. A donor, who retains as much dominion and control over the interests of the other partner as the taxpayer does over the government's share of profits under a consumption tax, is likely to be treated as the tax owner of the other partner's interest under an income tax, obligated to pay tax on both the other partner's increase in wealth and the income it produces.[22] The description of the relationship between taxpayer and government adopted by consumption tax advocates therefore argues for tax payment, not tax accrual, if the control and dominion perspective should be used to resolve the underlying issue of when tax obligations are fairly discharged.

The second step in the argument is that the control and dominion perspective on discharging tax obligations is indeed the correct one. The argument for that point of view is that a tax obligation is discharged only by giving the government the wherewithal to make government expenditures from the taxpayer's wealth. That, after all, is what taxes are for and the public's view of fairness is likely to be shaped by its view of whether taxpayers have provided the government with such resources. Accrual accounting may be a satisfactory way to account to investors and creditors and to achieve tax neutrality, but it is not the best way to settle accounts between the taxpayer and the government. Payment of taxes accruing on wealth should be required. The income tax is the fairer tax because the income tax rather than the consumption tax settles up with the government by payment of the accrued tax.

II. THE INCOME IN AN IMPERFECT WORLD

The more radical of Strnad's arguments is that whatever tax is fair, the pre-tax base in a *tax* world is not the correct benchmark for measuring tax

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21. Strnad, *supra* note 1, at 1030 n.19, 1069 n.106.
22. I.R.C. § 704(e); Treas. Reg. § 1.704-1(e) (1984).

fairness because the existence of the tax will have already affected pre-tax wealth. This observation applies to all taxes because of general equilibrium changes in the prices of goods and services and the cost of investment. It also applies in particular to the income tax because the imposition of the tax changes interest rates which then affects the net wealth term in the Haig-Simons tax base. Objections to using pre-tax wealth as the benchmark are based, however, on the assumption that the correct standard for measuring tax fairness is wealth in a *no-tax* world. That assumption is not necessarily correct. The normative value of the no-tax world must be justified, not assumed. (The following discussion will assume that we are only concerned with an income tax, on the understanding that Strnad's point is of more general significance.)

This Comment does not deny the usefulness of general equilibrium analysis for tax policy. Given Strnad's admission that general equilibrium analysis is in its infancy (although he says that the "technology" is "developing rapidly"),[23] one might suggest that, until the analysis is more refined, we should use pre-tax income in a tax world as best we can. That would be both too critical and too tolerant of Professor Strnad's position. It is too critical because general equilibrium analysis, or at least intermediate forms of partial equilibrium analysis commented on by Kaplow and Warren, might help to resolve many tax policy questions.[24] It is too tolerant because it accepts the more radical implications of Professor Strnad's proposal, which is that income in a no-tax world is necessarily the correct benchmark.

General or partial equilibrium analysis can be helpful in at least three ways. First, repeal of nonneutral tax provisions might or might not change after-tax income. Analysis of tax-exempt bond interest is the classic example.[25] If the after-tax income before and after repeal is the same, tax reform is a waste of time as far as tax fairness is concerned.[26] Second, an understanding of how repeal of nonneutral provisions would affect behavior under the reformed tax regime facilitates a decision whether to adopt "second best" provisions, giving benefits to one group to make up for tax breaks enjoyed by another group. Thus, if homeowners enjoy high tax-exempt income because rental value is untaxed, a renter's deduction might be appropriate. If the homeowner's benefit is capitalized in the price of housing, however, the benefit has already been bargained away and no benefit for renters is called for. Third, tax reform might create sudden wealth losses or

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23. Strnad, *supra* note 1, at 1104, 1106.

24. Kaplow & Warren, *supra* note 3, at 412-20.

25. Strnad, *supra* note 1, at 1035 n.36. For another discussion of the effect of taxation on pre-tax income, see McClure, *Integration of the Personal and Corporate Income Taxes: The Missing Element in Recent Tax Reform Proposals,* 88 HARV. L. REV. 532, 543-46 (1975).

26. Of course, efficiency concerns might still favor repeal. *See* Bittker, *Equity, Efficiency, and Income Tax Theory: Do Misallocations Drive Out Inequities?,* 16 SAN DIEGO L. REV. 735 (1979).

gains, which should be compensated for by transitional relief or one-time excise taxes.[27] These uses of general or partial equilibrium analysis utilize information about pre-tax income in a tax world, however, rather than information about a no-tax world.[28]

The argument for abstracting to a no-tax world is more radical. It assumes that the people whose wealth is used as the benchmark know nothing about taxes or the possibility of their adoption. These hypothetical people do not exist. A theory or at least an explanation is needed as to why hypothetical people in a no-tax world are the relevant benchmark. Put differently, we need an explanation of who people are when we think about tax fairness.[29] When one tries to construct such an explanation, one finds that taxes interact with many causes to affect pre-tax income in a tax world. Some of these causes are individual preferences, such as attitudes towards risk, work versus leisure, present versus future consumption, and particular goods and services, which affect supply and demand. Other causes are talents, which affect opportunity to gain or lose after a no-tax world is replaced by a tax world. People subject to taxes have pre-tax incomes that reflect all of these causes interacting with the existence of a tax. Why should one abstract only from the effect of a tax and not also from individual preferences and talents? One reason for stopping short of complete abstraction is that we quickly reach the point where we cannot recognize the hypothetical people who must be subject to real taxes. We must therefore start with a no-tax world in which people have wealth affected by their preferences and talents. An explanation is needed, however, of why a no-tax world *with* individual preferences and talents provides the benchmark for tax fairness analysis, rather than a pre-tax world that has adjusted for the interaction between the prospect of income taxation and those preferences and talents. ○

The following parable of three workers is instructive regarding these questions. The government decides to impose a 30% tax on earnings. Before the announcement, two workers earn $10 per hour and work 10 hours each, for

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27. McClure discusses the problem of windfall gains in McClure, *supra* note 25, at 543-46. The subject of transitions where wealth losses occur is discussed in Graetz, *Legal Transitions: The Case of Retroactivity in Income Tax Revision*, 126 U. PA. L. REV. 47 (1977). *See also* Colloquy, *Tax Transitions*, 98 HARV. L. REV. 1809 (1985).

28. General equilibrium analysis is also useful because information about distributional impact is relevant to political decisions, apart from tax policy. For example, if repcal of the exemption for tax exempt interest will cause states to raise sales taxes, that will make a difference in the decision to repcal the exemption, apart from tax fairness concerns. Graetz, *Assessing the Distributional Effects of Income Tax Revision: Some Lessons For Incidence Analysis*, 4 J. LEG. STUD. 351 (1975). This tells us nothing about what the no-tax world looks like, however, or whether it should be used to measure tax fairness.

29. The question of who are the relevant people for making comparisons in tax policy analysis arises when considering income averaging. Is the correct comparison the income of taxpayers over a lifetime, twenty years, five years, or one year? *See* Schmalbeck, *Income Averaging: After 20 Years, A Failed Experiment in Horizontal Equity*, 1984 DUKE L.J. 509 (1984).

total earnings of $100. A third worker earns $10 per hour, works 9.4 hours, and earns $94. Worker 1 is a farmer who can come close to maintaining the prior standard of living, after implementation of the tax, only by working and producing more. Worker 1 therefore works 12 rather than 10 hours. After the increase in hours worked, the average hourly earnings drop to $9.80, but total earnings for the 12 hours worked increase to $117.60.

Worker 2 makes farm tools. The increased demand by worker 1 raises worker 2's earnings to $11.00 per hour, for total earnings of $110. Soon, however, there are some additional effects. The farmer's increased production during the added two hours of work is of more starchy foods. Their price is reduced and other food prices increased with the result that worker 2 eats more starch. Worker 2 therefore tires more easily and wants to work less. Work hours decrease to 8, with a resulting increase in the price of farm tools. Earnings per hour rise to $11.75 and total earnings equal $94. With the higher price of farm tools, worker 1 has earnings reduced to $9.50 per hour, for a total of $114.

The third worker is unaffected by all these changes. Worker 3 works 9.4 hours at $10 per hour and earns a total of $94 before and after the announcement of the tax. The following chart records the earnings in the no-tax world and after the two stages of adjustment.

	No-tax world	Stage 1	Stage 2
Worker 1	$100.00	$117.60	$114.00
Worker 2	100.00	110.00	94.00
Worker 3	94.00	94.00	94.00

The first point that emerges from considering this parable is that some of the results follow from the choice between work and leisure. The tax norm which is most familiar would not tax the individual on "leisure," that is, for the value of hours in which no earnings are received. If increases in earnings resulting from a work/leisure choice after announcement of the tax are disregarded for tax fairness analysis, we would in effect not be respecting the individual's work/leisure decision. For example, worker 1 increased pre-tax earnings to $117.60 to make up for the expected tax due to the government. A 30% tax on worker 1's $100 earnings in a no-tax world would leave worker 1 with $70, but a 30% tax on $117.60 would leave more than $70. A conclusion that taking only 30% of $117.60 is an example of undertaxation, because that leaves the taxpayer with more than $70 after taxes, in effect penalizes worker 1 for a choice of leisure in the no-tax world. One might therefore conclude that at least some pre-tax earnings in a tax world should be used as a benchmark for measuring tax fairness in order to respect the work/leisure choice.

This observation might not, however, be fatal to the normative claims of the no-tax world for tax fairness analysis in other situations. There might simply be some adjustments made after announcement of the tax which should be respected for normative reasons that go beyond tax fairness con-

cerns. In this case, the normative reason would be respecting the right to choose between work and leisure. The respect paid to this choice might greatly complicate the ability of general equilibrium analysis to identify which adjustments should or should not be respected, but it would not challenge the theoretical claim of a no-tax world to preeminence as a tax fairness benchmark. Using the above example, we might conclude that the relevant benchmark for worker 1 is his stage 1 income of $117.60, after making his work/leisure decision, and that the benchmark for workers 2 and 3 should be $100 and $94, respectively, which is their income in a no-tax world. We would therefore look back towards the no-tax world to find the relevant benchmark until we encounter effects from work/leisure choices.

Do these backward glances make sense? Do we want to disregard the effects on earnings which result from the interaction of the prospect of taxation with the taxpayers' talents and preferences. (In a more complicated world, preferences for present versus future consumption and for risk would be added to the list of factors which might affect pre-tax earnings and which might have to be disregarded if the no-tax world were the relevant benchmark.) Pre-tax earnings in a tax world, after adjustments have been made because of the interaction of the prospect of taxation with the taxpayers' talents and preferences, is the correct benchmark. That is, stage 2 earnings should be the relevant benchmark. The world in which taxes are necessary is a world in which the government plays an important role by deciding to impose taxes. That role is as much a part of the world as are the individual talents and preferences that determine wealth in a no-tax world before a tax is announced and which cannot be disregarded if the subjects of tax policy analysis are to be real individuals. The government's decision to impose a tax is no less a part of the background environment in which pre-tax income is created than any other significant individual, social, or political facts from which we should not abstract.[30]

There is also a potential difficulty in observing what a no-tax world looks like that goes beyond the technical difficulties encountered by general equilibrium analysis. It is hard to understand how one could imagine a world without taxes, perched on a vantage point where the tax world already exists. (Perhaps we are now more risk-averse after the government has imposed high taxes.) Our description of a no-tax world is therefore likely to consist of speculation about what a no-tax world would look like after repeal of

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30. The effort to abstract to a no-tax world is in good company. It is analogous to Professor Rawls's effort to construct a theory of justice from what goes on behind a pre-political veil of ignorance and to use information about that world as a benchmark for judging political institutions. J. RAWLS, A THEORY OF JUSTICE (1971). But justice is about political institutions and thinking about justice already comes laden with a conception of what politics is. *Cf.* M. WALZER, SPHERES OF JUSTICE 4-6 (1983). Similarly, taxation is about public finance, and thinking about public finance decisions already occurs in a world in which the government plays a role, including a role in influencing pre-tax income.

taxes, not what the no-tax world once looked like in some golden age that provides the benchmark for determining whether taxes are fair, and there is no reason to assume that those two no-tax worlds are the same.

One might conclude that rejecting the use of a no-tax world as the normative benchmark is too unimportant an issue to be of concern because the tools for describing a no-tax world are unavailable. Such complacency, however, would be unfortunate. Strnad's description of how a tax alters pre-tax wealth destroys confidence that the income tax or any real world tax could meet fairness standards. Given the doubts about the ability of general equilibrium analysis to make empirical observations that are both accurate and politically feasible, Strnad's model destroys any hope of achieving tax fairness. The message is that it would be just as well not to bother.

There are signs that this is an emerging trend. A recent article by Professor McDaniel,[31] certainly no opponent of tax fairness,[32] argues that tax expenditures are not merely like direct expenditures but that they must be analyzed only as expenditures. Tax fairness is therefore not at issue when considering whether tax expenditures are desirable.[33] This contrasts with the more familiar view that tax fairness creates a presumption against using the tax law for expenditure purposes. That presumption has been a major factor in focusing public concern on tax fairness.

Perhaps concern with tax fairness will become obsolete. There is a strong public finance tradition that all government decisions should be evaluated on the basis of a common denominator which takes account of social utility. This tradition analyzes all government decisions as spending decisions, with the after-spending (including the after-tax) results compared to an ideal distribution of wealth.[34] Strnad's views seem to have a great affinity with this approach to public finance issues. If we take that route, however, we will give up an important way of looking at our political relationships, which is captured in debates over fair taxation by the notion that tax losses should be distributed fairly. Like the military draft, the issue is not one of distributing wealth to maximize social utility, but of sharing loss. We may not do very well in measuring that loss but the effort is a worthwhile public policy objective which should not be abandoned.

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31. McDaniel, *Identification of the "Tax" in "Effective Tax Rates," "Tax Reform," and "Tax Equity"*, 38 NAT'L TAX J. 273 (1985).

32. *Id.* at 278.

33. An example of this view is found in the Office of Management and Budget approach to tax expenditures. OMB has introduced an outlay equivalent estimate in addition to a revenue loss estimate of tax expenditures, and clearly prefers the former. OMB, BUDGET OF THE UNITED STATES, SPECIAL ANALYSIS G, FISCAL YEAR (1984), at G-4, G-7-9. Outlay equivalent figures estimate what the government would have to spend to give the taxpayer the same after-tax income after repeal of the tax expenditure as when the tax expenditure was part of the tax law. Professor Strnad would presumably want that figure expanded to account for general equilibrium effects.

34. *See* Hettich & Winer, *Blueprints and Pathways: The Shifting Foundations of Tax Reform*, 38 NAT'L TAX J. 423, 426-32 (1985) (discussing optimal taxation theory).