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# Treasury I and the Tax Reform Act of 1986: The Economics and Politics of Tax Reform

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### Abstract

During President Reagan's State of the Union Address in January 1984, he requested that Treasury Secretary Donald Regan prepare "a plan for action to simplify the entire tax code so that all taxpayers, big and small, are treated more fairly." In response, the Department of the Treasury spent ten months preparing a report to the President that

has come to be called Treasury I. This three-volume study explained the need for tax reform, set out several directions such reform should take, provided a comprehensive analysis of the tax system, and recommended specific changes. On October 22, 1986, the Tax Reform Act of 1986 was signed into law. Though widely hailed as the most far-reaching reform of the nation's tax system since the 1940s, the 1986 Act falls far short of the promise of Treasury I. It is useful to devote attention to

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Treasury I, even though much of it failed to survive the legislative process. First, because Treasury I represented an attempt to formulate a workable tax system that closely approximates the economist's view of an ideal income tax, it is likely to condition future deliberations on tax reform both in the United States and in other countries. Second, the conceptually coherent proposals of Treasury I provide a standard against which to measure the hodge-podge of proposals that became law in the 1986 Act. Finally, a discussion of the decisions underlying Treasury I should prove informative to economists and political scientists interested in the process and substance of tax reform.

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