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# Grounding Tax Policy in Founding Principles

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# The Confirmatory Bias

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- We tend to seek out information that confirms pre-existing preferences or beliefs and ignore contradictory information
- If there are two opposing parties on a question, more information will often lead to even greater differences



# James Madison

“Among the numerous advantages promised by a well-constructed Union, none deserves to be more accurately developed than its tendency to break and control the violence of faction. The friend of popular governments never finds himself so much alarmed for their character and fate, as when he contemplates their propensity to this dangerous vice.”

– Federalist Paper #10, 1787



# James Madison

“As long as the reason of man continues fallible, and he is at liberty to exercise it, different opinions will be formed. As long as the connection subsists between his reason and his self-love, his opinions and his passions will have a reciprocal influence on each other; and the former will be objects to which the latter will attach themselves.”

– Federalist Paper #10, 1787



# James Madison

“The latent causes of faction are thus sown in the nature of man; and we see them everywhere brought into different degrees of activity, according to the different circumstances of civil society. A zeal for different opinions concerning religion, concerning government, and many other points... have, in turn, divided mankind into parties, inflamed them with mutual animosity, and rendered them much more disposed to vex and oppress each other than to co-operate for their common good.”

– Federalist Paper #10, 1787



# James Madison

“In such a state of things, the impossibility of acting together, might be succeeded by the inefficacy of partial expressions of the public mind, and this at length, by a universal silence and insensibility, leaving the whole government to that self directed course, which, it must be owned, is the natural propensity of every government.”

– Consolidation, December 5, 1791



# Founding Principles Applied to 21<sup>st</sup> Century Idaho Deliberations on Tax Breaks

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- Who participates in deliberations over a proposed tax break?
- Primarily sophisticated proponents/beneficiaries of that tax break
  - Usually a relatively small portion of Idaho's taxpayers
  - The tax benefit they could receive motivates their participation
  - Those with sufficient sophistication and resources to engage the cumbersome legislative process successfully
  - Not surprisingly, convinced that in the public interest



# Founding Principles Applied to 21st Century Idaho Deliberations on Tax Breaks

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- Who does not participate?
- All the other taxpayers
  - Usually the vast majority of Idaho taxpayers
  - The increased burden they face in carrying the remaining load is typically insufficient to motivate political mobilization





# Founding Principles Applied to 21st Century Idaho Deliberations on Tax Breaks

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- Participation is an inverse reflection of the world outside the Legislature
- In committee, it looks as if there are many proponents and no opponents
- In fact, there are usually many opponents who would bear the burden and few proponents who would benefit
- Madison would predict that this would lead to poor policy making



# Economic Principles Applied to Deliberations on Tax Breaks

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- A market economy allocates resources most efficiently
- In adopting a tax break, the legislature says that the market, in this case, will not make the right allocation
- Most new jobs and economic growth come from small and new businesses
- Typically small business owners don't have the time, resources, and sophistication to pursue tax breaks



# The Combined Implications of this Political & Economic Analysis

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- We will tend to adopt tax breaks that:
  - Would not be publicly supported
  - Have less economic upside—will tend to benefit those who are sophisticated but are not the sources of most new jobs and economic growth
- The cumulative effect will be to the detriment of those who are the major source of new jobs and economic growth



# The Implications of Broadening the Base and Lowering the Rate

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- Broad public support
- More tax relief will flow to where it will have more economic return—more jobs and economic stimulation



# Grounding the Process for Investigating Existing Tax Breaks in Founding Principles

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- When replacing the market's judgment with the government's, the decision making process should be that most likely to produce a wise decision
- For existing tax breaks, examining them cumulatively takes advantage of founding principles in several ways
- Public participation would more accurately reflect the public interest because the cumulative impact of ending many tax breaks to lower the rate will gain more attention from average citizens
- As Madison suggested, narrow, special interests would be made to counteract each other (see Federalist Papers Nos. 10 & 51)
- This is what makes the budget process—in which many desires for government services must compete with each other for limited resources—superior to the current tax break decision making process



# Translating Principle into Practice

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- A systematic review of existing tax breaks is an enormous, but necessary undertaking
- It may take more time and resources than are available to the interim committee
- But could recommend a process instead of, or in addition to, recommending action regarding specific tax breaks
- That process could provide the necessary time and resources to undertake a systemic review
- Taking advantage of founding principles, however, the decision about any given tax break could be deferred until all tax breaks could be considered together



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# Public Support for Such a Process Would be High

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- In the 2006 session, Senator Corder proposed such a process for systematically examining all existing tax breaks
- We reviewed that proposal in our property tax brief
- Of the 93 common citizens of Idaho who spent an average of more than 2 hours reviewing that brief:  
**91% Supported, 9% Opposed**
- If that approach were modified so that the analysis of all tax breaks were done before decisions were made, I believe the support would be even greater

