

COMMENTS

18 BILLION AT ONE BLOW - EVALUATING GERMANY'S TWENTY BIGGEST TAX EXPENDITURES BY MICHAEL THÖNE

G. Thomas Woodward

PROFESSOR THONE DESCRIBES A PROJECT undertaken by the German Government to identify and evaluate its largest tax expenditures. The scope of the project is impressive. What is remarkable about the effort is that it did not limit itself to quantification, but actually went on to examine the expenditures using the same kind of standards that we generally agree should be applied to all government programs. Along the way, the team involved faced various issues that are discussed in the paper.

As thorough as Professor Thone's account is, I did find myself left with just a few questions that I would like to see answered in more detail. I also found my interest peaked with respect to a couple of matters that I suspect the author may regard as secondary. That is not to say that he is wrong – I just latch on to certain subjects that for whatever random reason intrigue me.

The first area in which I have some questions is that I would like some notion of how deeply the investigators got into evaluating the various programs. It is clear that they tackled questions of effectiveness and appropriateness. At least three of the five questions applied to each are part of what you would expect of good legislative oversight. And at 620 pages, the report was clearly long enough to have contained more than just a brief analysis of each expenditure. However, I would like to know something of what went into each evaluation. Perhaps one way of addressing this is to say something of how the content of this report compares with the typical oversight given to regular outlay programs.

The second question I have has to do with what seems to be an inconsistency in the description of the scope of the project. Professor Thone states that “the evaluators neither make political decisions nor do they take responsibility for them,” their job is to pave “the ground for good decisions based on impartial and scientifically valid information.”

Applying “red,” “yellow,” and “green” to programs based on whether intervention is “justi-

fied” seems to me to require considerable political judgment. We can certainly say something about whether economic analysis provides a justification, but often, the appropriateness of action involves the weighing of offsetting considerations. Those weights can only be applied by elected officials, so I am still wondering just how far the investigators were permitted to exercise judgment. Related to that, I would be interested to know whether these judgments were limited to making conclusions, or whether they went on to be recommendations – a very important distinction in talking about expert scientific analysis. That said, I would like to praise the German team for their traffic-light shorthand. In a world driven by sound bites and tweets, analysts deal increasingly with policy makers who are afflicted with ADHD. At some point we may have to issue our reports in comic-book form, so it is nice to see a method of presentation that works and that falls short of that recourse.

With respect to some issues raised by the study, it got me to thinking a bit more about the concept of tax expenditures outside of the standard income and consumption tax framework. Professor Thone spends some time talking about benchmarks and how we choose them. In looking at the chart, I was struck by how often Germany's energy tax appeared and set to wondering about how we appropriately benchmark excise taxes for measuring tax expenditures. I recall that Bruce Davie had once addressed this issue. But it does not come up as often in the United States. Excise taxes tend to be arbitrary by their nature and if a tax just exists to collect taxes on something convenient to tax, then it lacks a philosophical basis needed to define a benchmark for measuring deviations from it. Moreover, if there is some reason for the tax, that reason will affect what we regard as deviations. For example, if fuel taxes exist as something like a benefits tax for road use, exempting fuel for farm and construction vehicles would not be a tax expenditure. If the rationale was environmental, then they would be. This is not a complaint about

anything done by the report herein described or about Professor Thone's description of it, it is just something I had not thought much about because of my U.S.-centric view of taxes.

Finally, I want to point to a single sentence of minor importance to the paper, but which has intrigued me since I saw it. At the end of the paper, Professor Thone refers to a similar analytical exercise in Switzerland. The report prepared by Swiss authorities is adopted by their Parliament. As we think on ways to get our own government to eliminate or transform some of the subsidies in our own tax system, I wonder if something like this might belong on the list of proposed reforms.

Imagine if we had major players in the legislative branch – Congressional Research Service, Congressional Budget Office, and Joint Committee on Taxation – do something similar by way of evaluating tax expenditures and drawing conclusions about them (but not making recommendations) with the requirement that Congress accept or reject the report. It would be very hard for Congress to reject the report because it is just objective and impartial analysis: But once adopted it would be very hard for congress to defend its inaction in ignoring the more damning conclusions. I think it is worth investigating.