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INSURING PROPER POLICY CONSIDERATION IN TAX REFORM EFFORTS

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A short four months ago most observers would have asserted that the coming legislative session would feature heated discussions about reapportionment and member survival and the construction of a state budget during a period of economic sluggishness. No one would have anticipated the firestorm of contention created, beginning in December, when leaders of the Senate put forth a radical restructuring of the existing tax code.

This proposal, broad in scope and with far reaching implications for the Florida economy, arrived late on the scene in the discussion and review of the income side of the state government ledger. It was apparently developed apart from the legislatively established sixteen member State Tax Reform Task Force, which also recently released its analysis of the revenue needs of Florida government and has taken a very contrasting position from the changes suggested by Senate leaders. One could easily interpret the chasm between the two positions, those of the Senate leaders and the State Task Force, to be ample evidence of why these proposals need further analysis and review before any radical restructuring takes place.

The James Madison Institute has long published a book by James D. Gwartney and Richard L. Stroup titled, *What Everyone Should Know About Economics and Prosperity*.¹ It includes a chapter titled "Ten Key Elements of Economics," which should be a useful reference in any consideration of a tinkering of the tax code. These items are as follows:

1. Incentives matter
2. There is no such thing as a free lunch.
3. Voluntary exchange promotes economic progress.

4. Transaction costs are an obstacle to exchange; reducing this obstacle will help promote economic progress.
5. Increases in real income are dependent upon increases in real output.
6. The four sources of income growth are a) improvements in worker skills, b) capital formation, c) technological advancements, and d) better economic organization.
7. Income is compensation derived from the provision of service to others. People earn income by helping others.
8. Profits direct business toward activities that increase wealth.
9. The "Invisible Hand" principle- Market prices bring personal self-interest and the general welfare into harmony.
10. Ignoring secondary effects and long-term consequences is the most common source of error in economics.

These ten items are benchmarks that should be used in consideration of the impact of the expansion of the tax base, which could logically be assumed as designed to produce higher revenues over time, much the same as the current tax base has produced more revenues over time. If changes are found to have a negative consequence in any of these criteria or if there remains information that can not be rationally obtained at this time, then the long-term consequences and potential negative impacts should be a prominent decision-making criteria. We can derive little comfort in knowing that other states, many of them having higher and broader taxing mechanisms, are experiencing even more serious revenue shortfall than

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We might also question whether the state has done a thorough job in analyzing all state expenditures, establishing priorities, setting benchmarks for acceptable quality and insuring system-wide productivity. The leadership of the Florida House of Representatives has prepared five standard principles as suggested points of evaluation for any bill under consideration.²

These five points should also be used in the process of a general evaluation of the tax policy of the state. These points are:

1. *Less Government.* Does the bill tend to reduce government regulations, size of government, or eliminate entitlements or unnecessary programs?
2. *Lower Taxes.* Does the bill promote individual responsibility in spending, or reduce taxes or fees?
3. *Personal Responsibility.* Does the bill encourage responsible behavior by individuals and families and encourage them to provide for their own health, safety, education, moral fortitude, or general welfare?
4. *Individual Freedom.* Does the bill increase opportunities for individuals or families to decide, without hindrance or coercion from government, how to conduct their own lives and make personal choices?
5. *Stronger Families.* Does the bill enhance the traditional American family and its power to rear children without excessive interference from the government?

It is entirely possible for elected public officials to make decisions based on bedrock principles insulated from the political maelstrom, if these principles are embedded in the individual decision-making processes of each member.

Members of the Legislature were sent here to make the decisions for the people of Florida, who are not adequately informed on an issue as complex as the current debate. The public often make decisions based on sound bites, the most persuasive advertising campaign, the slickest presentation, and the limited universe of their own knowledge and self interest. They choose elected public officials in this Republic to gather together to make the detailed and difficult

decisions and expect them to perform after thorough analysis and review. We would suggest a few additional criteria for the Legislature to use in the analysis of what is required to insure an adequate tax structure, mindful of the fact that every member or constituent group might have a different perception of what might be defined as adequate.

Ten Issues Regarding "Tax Reform"

1. Has the revenue of Florida grown commensurate with the growth in personal income? There does not appear to be a diminishment of revenues based on year-to-year comparisons of receipts and expenditures.
2. According to numbers provided by the Office of the Governor, the 2001 budget is still much larger than that of 2000, even after reductions. Have there been a detailed analysis of future income projections and an agreed understanding of the adequacy of the current structure to meet future needs?
3. A broad-based tax increase has never been a proper remedy for a sluggish economy. Have there been econometric models developed for each of the current exemptions to determine the real downstream impacts?
4. The James Madison Institute believes in a smaller and more efficient government, lower taxes and a freer market. Does the current plan meet these criteria?
5. Did the people of Florida send elected public representatives to the Legislature to send the hard decisions back to the voters? As presented, it is an abdication of the constitutionally mandated responsibilities of the Legislature to establish policy and determine the means of income in Florida. We are a republic not a democracy. Should not this Legislature conduct a full review of all income and spending by the state and make the needed adjustments rather than "punting" these hard decisions to the voters?
6. The existing exemptions all went through a rigorous adoption process. It

is not easy to get any bill passed, much less one that reduces revenues. Should not the same processes be used in the review and possible repeal processes to insure that no harm is done to the Florida economy? “First do no harm” should have the same use in developing economic policy as it does in medicine.

7. Florida must remain competitive with other states in appealing to business and industry. What will be the impact of these changes in this competitive economy?
8. Every dollar left in the private sector is far more productive and will produce more revenues later for the state. Will this plan impede this process?
9. Is reform really necessary? It is easy to place labels on the current tax system, (such as ‘antiquated’) but has the current system proven ineffective in providing increased revenues from year to year? Or is ‘reform’ just another word for increasing income and taking more dollars from the private sector?
10. Has there been an adequate focus by the Legislature on the spending side of the equation? The state should first focus on priorities, quality and productivity before it even considers whether new revenues are necessary.

The Florida Legislature is a vibrant mix of individuals, each with a rich and varied personality. The members all have a deep concern for the welfare of the state or they would not have chosen to serve. It is their responsibility to make the difficult decisions. This group of members has faced many difficult choices since being elected and they have proven themselves fully capable of being up to any task assigned to them. The long-term welfare of the Florida economy may be dependent upon the actions they take in the next few weeks. They should beware of taking any actions unless they are comfortable that they have the requisite intellectual ammunition to do the right thing.

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Endnotes

¹ James D. Gwartney and Richard L. Stroup, *What Everyone Should Know About Economics and Prosperity* (1993, reprinted edition, The James Madison Institute, 1996) p. 2.

² The Florida House of Representatives. *Freedom, Responsibility, and Opportunity. Preparing Florida for the 21st Century*. Speaker Tom Feeney, 2000.

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