

○ ————— ○ *New Economy Dynamics*
Connecting the Dots

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FROM: Ned Rightor, Principal, New Economy Dynamics

TO: Governmental Accounting Standards Board
Director of Research and Technical Activities

RE: Public Comments on Project No. 19-20E

Nobody wants to pay taxes. I think that's because we don't have a choice. We have a choice about whether to spend our money on most things, but not taxes – you have to pay them just to buy what you want or get what you need, or because you'll go to jail if you don't. The tax power of the state (and by "state", I mean any level of government with taxing power) is different than any other market transaction because it is compulsory.

We fought the American Revolution largely over taxes, and then established a governmental system based on the idea that government derives its powers from the people -- those tax-paying people.

I raise all this because it is the most important reference point in considering what accounting standards a government – as distinct from a private enterprise – must follow. Government accounting is more than just an orderly presentation of the financial condition of an enterprise. The key word here is "accounting". For a government, accounting is an accounting: a disclosure to the people from whom its power derives about what exactly it did with that power – in this case, its tax power.

Because nobody wants to pay taxes, they get very testy if they think that anybody else is not paying their fair share. All tax “expenditures”¹ are about somebody not paying their fair share, but for an ostensibly good reason: because to do so will benefit all those tax-paying people enough that they will accept the adjustment. “Adjustment”, like “justification”, derives from the word “just”, and raises the question of whether the government is acting in a way that is just, given its primary obligation to the people-from-whom-its-(tax)powers-derive, the tax-paying public.

To know whether or not they accept the justification for any tax expenditure (in this case, tax abatements), the tax-paying public deserves to know exactly who is not paying their fair share (or is getting back even more tax dollars than they would otherwise owe), and what exactly the tax-paying public is getting in compensatory benefit. So, who exactly is getting what exactly, and what exactly they are giving in return – that is what the GAAP standards should require.

Governments are not merely another enterprise, and government accounting is not only for the investor class. Standards for a government should meet a higher standard of transparency, and offer at least as high a level of detail as shareholders or financiers of a private enterprise would demand.

And that is the standard that you should apply to these deliberations.

¹ *Why the weird use of that term? To most people, an “expenditure” is money spent, money out. You’re talking about money not taken in -- tax breaks, tax relief, tax credits, tax incentives. Granted, they are -- in intent and in effect – subsidies, and to further complicate matters, the actual programs sometimes use those terms as euphemisms for explicit subsidies – outlays of tax money already collected. Why obscure what they are?: tax-funded subsidies.*