Political economy of tax incentive: On the political necessity of windfall effect in tax break selection

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Résumé

A tax expenditure may have two types of consequences: i) modifying the behavior of economic agents; ii) redistribute toward a certain category of agents or certain type of behavior. The redistributive impact may be on purpose, or it may be the side effect of the will to change the behavior; in later case it will be called "windfall effect".

We consider here tax incentive, i.e. tax break without redistributive purpose, and analyses the impact of the windfall effect on the political support.

Paradoxically, we show that a larger incentive efficiency does not systematically increases the political support, it may even decrease it. Conversely a larger windfall effect always broader the political support. The selection of inefficient tax incentives would thus not be due misinformation but the outcome of a political process.

This let unsolved the following question: is this a case of political process leading to economic inefficiency, or should we consider that the actual purpose of some schemes is to organize redistribution disguised in "windfall effect".

Mots-Clés: tax expenditure, don, philanthropie