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Thank you for the opportunity to address you this morning on the importance of the Taxpayer Compliance Monitoring Program.

For the last six years I have been studying and writing about some very significant changes in the way American regulatory and enforcement agencies approach their business. Many such agencies are rejecting their traditional dependence on predictable processes, procedures, and "coverage", and are developing new capacities for analyzing important patterns of noncompliance, prioritizing risks, and designing intelligent interventions using a much broader range of tools than traditional enforcement actions alone. Police Departments call this emerging strategy "problem-solving policing." Environmental agencies calls it "managing for environmental results". OSHA now calls it "the problem-solving approach to hazard mitigation". The IRS calls it "Compliance 2000".

Under "Compliance 2000" the IRS proposes to develop its capacity for identifying important patterns of tax non-compliance and designing tailor-made, surgical interventions aimed at producing higher levels of compliance, problem area by problem area. That is the heart of their "Compliance 2000" strategy, which is still under development. It is a more analytical, more intelligent, less enforcement-oriented approach to taxpayer compliance; which I think we should all recognize and welcome.

Such a strategy relies absolutely on the agency's ability to recognize quickly, and to see clearly, new patterns of non-compliance as they emerge from time to time. The TCMP forms a vital and, I believe, indispensable part of the monitoring apparatus.

The danger that TCMP helps the IRS avoid is a common one, facing all "compliance" or "regulatory" agencies: namely the risk of assuming that you know about, and can see, all the important patterns of non-compliance. The way these agencies can delude themselves goes something like this. You focus on what you think are the central problems. As you do so, you learn more and more about those problems, and they become yet more central in your thinking. As time passes, you work on the non-compliance problems you know about; and you learn yet more about the non-compliance problems you work on. You can easily get caught in the circularity of this, focusing more and more carefully on things you always focused on before, just because those are the problems that happen to be in your sights. You fish in the same place, year after year, because that's where you caught fish before.

Meanwhile new patterns of non-compliance emerge, some geographically concentrated, some peculiar to particular industries, some particular to certain tax-provisions; but all potentially out of your sights. If you have no system or machinery to help you spot new problems, you may not notice them for many years. TCMP is a piece of machinery designed specifically to help identify new areas of non-compliance, which the IRS might otherwise remain oblivious to.

TCMP's strength, I believe, lies in its random selection. (The IRS uses a stratified random sampling technique to make sure that the sample sizes in each area and industry segment are large enough to support proper statistical inferences). The whole point is that the selection is *not* focused on any existing problem, nor based on any existing IRS biases about where the important problems might be. It is designed as a statistically valid, scientific method of scanning the horizon for new problems. It reveals to the IRS *what they don't currently know* about patterns of non-compliance.

Random audits are usually as unpopular within a regulatory agency as they are outside. Auditors often think random audits (or "studies") are a waste of time, saying they could raise a lot more revenue if only they were allowed to focus on known problem areas. Which is true; they would raise more revenue that way.

But that argument misses the whole point. The principal value of random audits by the IRS (or--for that matter--random inspections by Customs, or random audits of health care claims) is that they provide information about types of non-compliance which existing targeting strategies might be missing. They provide the opportunity, over the long term, to redirect resources; to adjust audit selection formulas; to target examination and audit resources more effectively; and to select enforcement actions that have the greatest impact on significant areas of non-compliance.

Any cost-benefit analysis of such a program has to weigh the importance of the *information* about non-compliance trends, which will act as a basis for longer term planning and resource allocation, rather than focusing on the immediate and direct revenue implications.

I understand that undergoing a thorough, line-by-line IRS audit takes some time. I just went through one myself. The IRS plans, I believe, to audit roughly 92,000 individual returns in the proposed TCMP. Given that there are more than 100 million individual filers, and that TCMP comes around no more often than once every three years, this represents a risk of facing a random audit, per taxpayer, per year, of less than 1 in 3,000. This, I believe, is a very small price for taxpayers to pay in exchange for the assurance that the IRS will be able to devote its considerable public resources to the most important non-compliance issues.

I regard TCMP as an essential instrument for monitoring the shifting patterns of non-compliance. Taking it away would blind the IRS to changing patterns of non-compliance.