

IS FLAT FAIR?

by

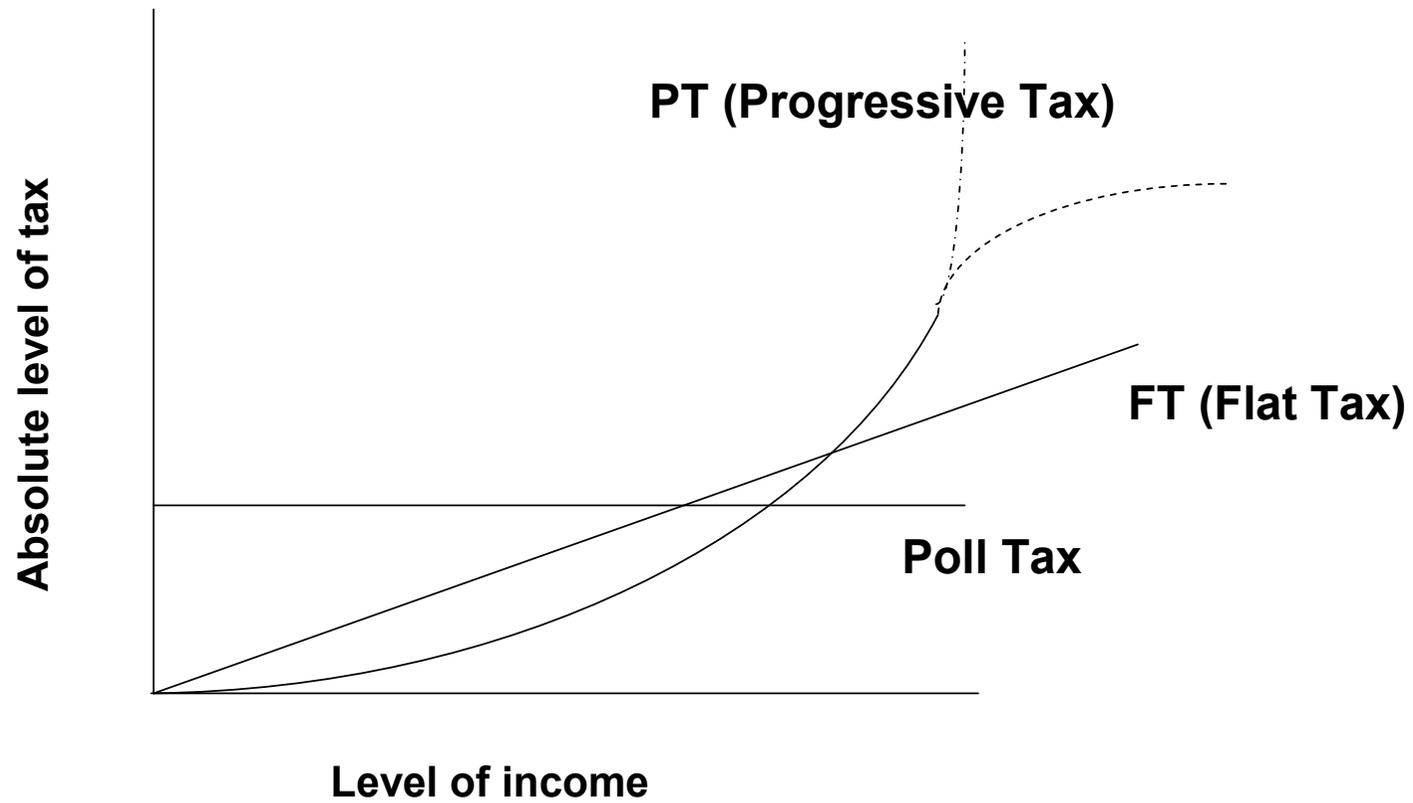
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“Die Flat Tax – Die gerechtere Steuer”

Zurich, 18 February 2010

...a few definitions

£, € ...etc



Paradox:

A rich man buys a loaf of bread,

A poor man buys a loaf of bread,

They both pay the same price,

It's not an issue

Mrs. Thatcher proposes the same rule for public goods and her government collapses

Why this big difference between collective and private goods?

Answer: there isn't any that I can see ... a poll tax to finance collective goods would be simple and "fair" –

Everybody enjoys them, everybody pays!

However, most democratic government is not about providing collective goods – it's about *redistribution of income*

Hence the outrage against Mrs. Thatcher's Poll Tax, and the controversy surrounding the much less radical Flat Tax

Fact: most countries apply Progressive Tax systems, a few newcomers to modern market economies are experimenting (successfully) with the Flat Tax and none have yet dared to try the Poll Tax

Fact: An overwhelming majority of the population supports the idea of proportional taxation – FOR INCOME REDISTRIBUTION PURPOSES

Is this just the majority ganging up on a handful wealthy citizens?

Or is there something more going on?

Do we have a cultural tradition of sharing?

Hayek: “Man’s biological equipment has not kept pace with (the rapid change in his environment)... the adaptation of his non-rational part has lagged somewhat... many of his instincts and emotions are still more adapted to the life of a hunter than to life in civilization...”

But there is a big difference between **compulsory** and **voluntary** sharing, and

Between **helping the destitute** (modest redistribution goals) and aiming at **equality** (strong redistribution goals)

Hayek's double majority rule

- The power of the majority in a democracy which respects the Rule of Law is not limitless
- i.a. it cannot discriminate against a minority, a sub-group within society (otherwise it would not respect the Rule of Law)

Legislators constantly make distinctions between groups within society, but these do not violate the Rule of Law **on condition a majority in both groups accepts the law.**

If this condition is met, “one can assume that the law serves the ends of both groups”

A modest proposal: let us put redistribution ends and means to Hayek's double majority test:

Attitudes of the wealthy to:

	Strong redistribution goals	Weak redistribution goals
Compulsory sharing	Minority – H1	Perhaps – H3
Voluntary sharing	(empty)	Majority – H2

If a survey were to confirm Hypothesis 1, **progressive income tax and strong redistribution goals** are an abuse of majority power and a violation of the Rule of Law. They are **“unfair”**.

If the same survey were to confirm Hypotheses 2 or 3, (**modest redistribution achieved voluntarily or with a low Flat Tax, or even a Poll Tax**) then either of these taxes could qualify for the term “fair”, because a majority of the wealthy would support them, and the **ends of both groups would be served**.

Why is this question of “fairness” so important?

Because the Rule of Law is important

Without RoL the acquisition of property is not secure (privilege and corruption are the norm, violence and fraud go unpunished), markets cannot work, property acquired through honest dealing is unsafe...

Without RoL the entrepreneurial elements in society disappear and the economy collapses

The Rule of Law is also important in a dynamic sense

If RoL is respected, society resolves Hayek's "knowledge problem", i.e. our "inevitable ignorance concerning a great many of the factors on which the achievement of our ends and welfare depends"

In particular, to cope with the **unforeseeable and unpredictable**, we need a small number of free people to discover viable solutions. But as we cannot know in advance who they are, we can only ensure their freedom by ensuring freedom for all...

**Progressive Taxation and strong redistribution =
No limit to the growth of government + Stagnant
and declining economy**

**Flat Tax and weak redistribution of income =
Natural limit on size of government + Dynamic
and growing economy**

Well-paid, interesting and varied jobs for the majority
of people can only be generated in the latter
economy

Outlook?

- Even the greedy majority should be able to see the point – that it is worth their while to sacrifice short term gains for much greater long-term benefits.
- But one should never underestimate human beings' capacity for making mistakes... “la bêtise est bien plus importante que l'intelligence...” (Le Chat, Gelluk) – or Hayek's knowledge problem again.
- Therefore, while some societies will adopt the Flat Tax, many will not. We are in for a LONG PERIOD of institutional trial and error before the more successful institution becomes obvious to all.