

Is a Flat Tax politically feasible in a grown-up Welfare State?

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Outline

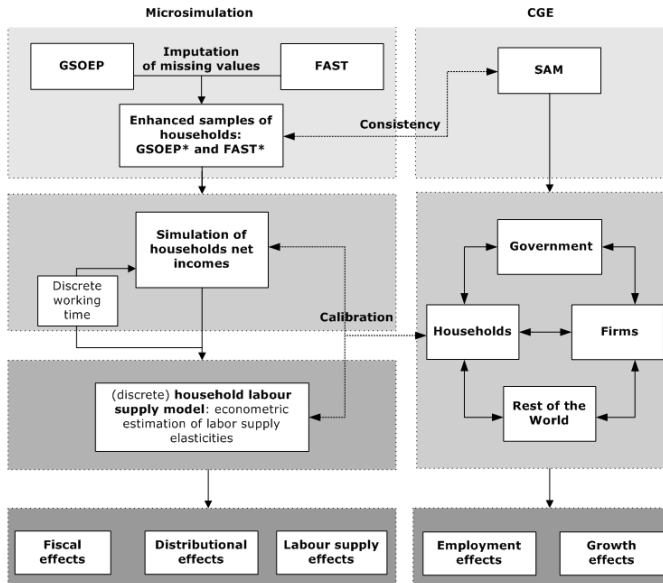
Introduction
Database
Scenarios
Efficiency
Distribution
Summary

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- European “grown-up” welfare states under economic pressure
→ fundamental reform proposals
- Flat Rate Tax Systems recently successful:
22 countries in 2007 (half in Eastern Europe, none in Western Europe)
- **"A notable and troubling feature of discussion of the flat tax is that it has been marked more by rhetoric and assertion than by analysis and evidence."**
(Michael Keen, Yitae Kim, and Ricardo Varsano (2006))

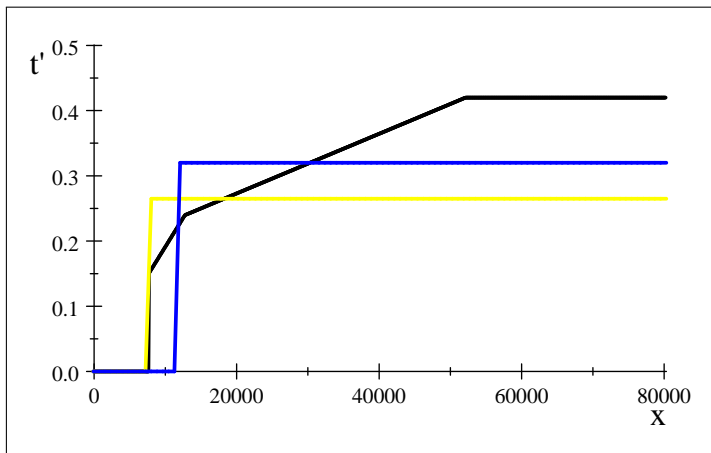
Database and Model: FiFoSiM

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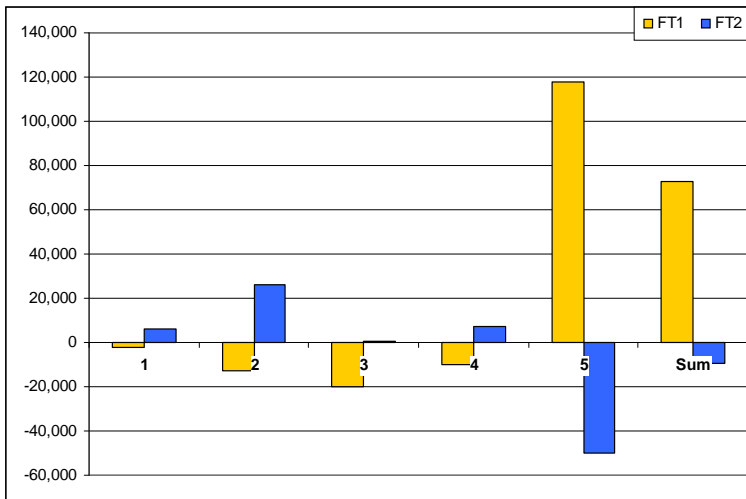
Flat tax scenarios

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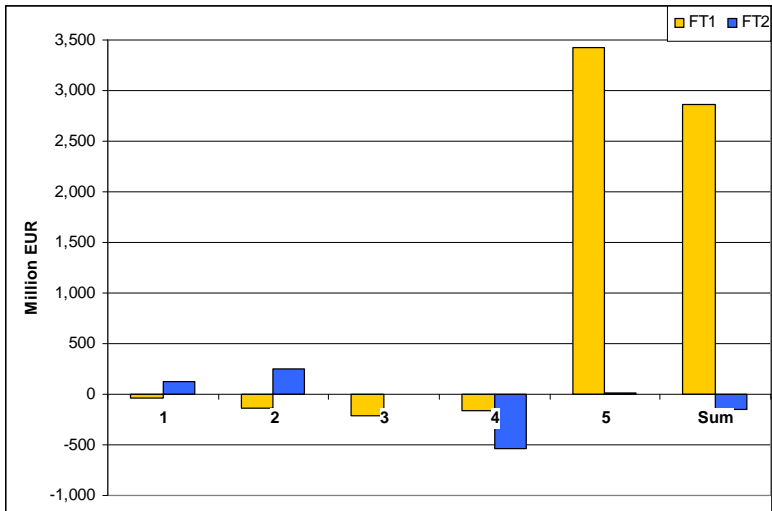
Efficiency I: LS

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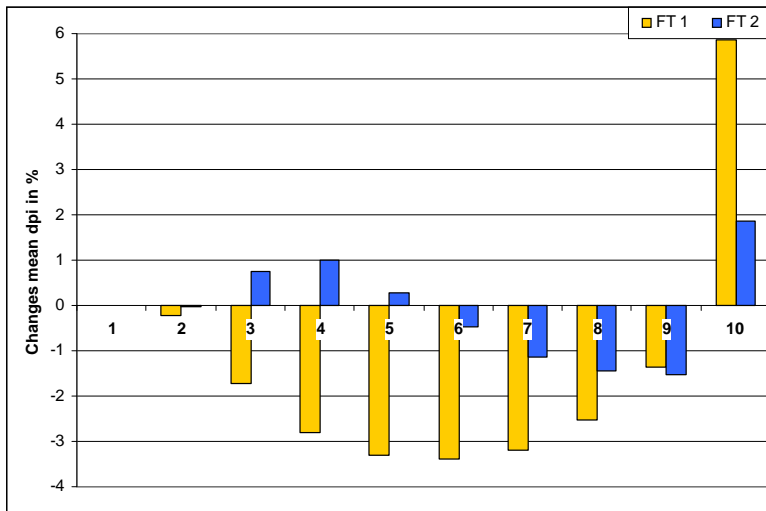


Efficiency II: Welfare

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Distributional effects I



Distributional effects II

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	Status quo 2006	before LS		after LS	
		FT 1	FT 2	FT 1	FT 2
		changes in per cent			
Gini	0.41	3.71	0.62	1.63	-2.24
Winners	0	15.15	30.17	17.06	29.22
Losers	0	41.83	25.14	40.72	26.38

Equity and efficiency effects depend on schedule parameters:

- Low basic allowance and tax rate:
 - Positive labour supply and welfare effects
 - but inequality increases because of negative income effects for most deciles
- High basic allowance and tax rate:
 - Less harmful distributional effects
 - but negative efficiency effects

Is a Flat Tax politically feasible?

- Short-term effects will be decisive
- Distributional effects at the expense of middle class
- Limited effects of income taxes on growth and employment
- Further effects (beyond static analysis):
 - Reduction of compliance and administrative costs
 - Combination with stricter government spending

Thank you for your attention!

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