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ThinkTanking Aloud

Think of two of the most boring words in the English language, 'flat' and 'tax'. Hardly makes for a gripping combination, does it? And yet, the idea of the flat tax has been exciting commentators all over Europe in recent months. This may come as something of a surprise. After all, former US Presidential candidate and business guru, Steve Forbes campaigned heavily on the platform of a flat tax and look what happened to him. As far as US voters were concerned, the idea fell, well, I guess you'd call it flat.

Since then, however, a number of the new member states have introduced flat taxes and revolutionised their economies. Estonia, Lithuania, Latvia and even Russia have all taken the plunge and a debate has now started, if only among the punditocracy, about whether the UK and other western European countries should follow suit.

The idea has been proposed in detail in a new report by Andei Grecu, a fellow of the Adam Smith Institute (www.adamsmith.org), the London-based free market think tank - although, lest we forget, this is also the think tank which famously championed that other great popular cause, the poll tax!

At the heart of the latest controversial proposal is the reduction of taxation rates to a single flat rate, which can be applied to income and/or corporate tax. The criticism most often levelled at the system is that it would favour the rich, and disproportionately punish the poor. However, no sensible politician (if that is not an oxymoron) would introduce, nor indeed would most current advocates support, flat taxation without a rise in the tax-exempt income bracket, i.e. the first £10,000 of earnings would be tax free. This instantly creates a 'progressive' system of taxation; higher earners still pay more but hard work and ambition is not disincentivised by high marginal rates. Indeed, only the very rich, for whom the tax-exemption portion represents only a tiny proportion of their income, would pay a rate very close to the flat rate. There is a compelling moral case too that only flat taxation, which is at the heart of the individual's relationship with the government, would enshrine the principle that everyone is equal in their dealings with the state.

HELEN DISNEY

The barriers include the myths that surround the idea of a flat tax, and the fact that it has thus far only been implemented in countries with an embryonic economy, such as Hong Kong in 1947, or with a transitional economy, such as Russia and the other countries from the former Communist bloc. A shift from a banded to a flat rate of taxation would represent a very radical shift in the fiscal policy of any developed nation that adopted it.

With the recent re-election of everyone's favourite President in the United States (and Republican majorities in the House and Senate), along with an upcoming general election in Britain, the flat tax has come to the fore of political debate. Commentators such as David Smith, Economics Editor of *The Sunday Times* and blogger Andrew Sullivan have both examined its feasibility. Sullivan compellingly argued that 'nobody will ever vote Tory rather than Labour because they want a bigger public sector or higher taxes. So offer them what they expect from you: lower taxes. But offer it in a new, simple and populist way. Promise to simplify the tax system in one swoop, sack most of the bureaucrats at the Inland Revenue and end the corporate welfare that helps to strangle a free economy.'

Seems like the flat tax may be an idea whose time has come.

Belgium is currently debating a proposal to introduce a cost-cutting reform known as reference pricing, inspired by a scheme first tried in New Zealand - where the team introducing it were dubbed 'the razor gang' - and later piloted in Canada and Germany. Reference pricing is a system of fixed reimbursements for pharmaceuticals in which governments price a drug with reference to the cheapest drug in the same category. The rhetoric promises tremendous savings with no cost in terms of quality of healthcare. The reality, however, may be quite different. Critics argue that reference pricing treats patients as homogenous beings, that it leads to no real saving, and that it discourages investment in new therapies. With the Belgian government debating whether to adopt the Kiwi version of reference pricing, John Graham, former director of Health and Pharmaceutical

Policy at the Canadian think tank, the Fraser Institute and author of *The Fantasy of Reference Pricing*, and Yolande Avontroot, a prominent Belgian MP and member of the Committee on Public Health will address the key issues of reference pricing - what it is, what it will mean for Belgians and, indeed, all who choose to adopt reference pricing at a special meeting of the debating forum, the Amigo Society on *18 January.

Since the publication of the Public Health White Paper in the UK late last year (2004) a huge debate has been raging about the role of government in regulating private behaviour - from dealing with junk food through to measures to reduce smoking in public places and even extending into such recreational activities as gambling and hunting. The Stockholm Network decided to investigate what the public really think about the so-called 'nanny state' by conducting a focus group in Tunbridge Wells - metaphorically if not physically the heart of middle England. When put to them as an overarching theory, participants acknowledged and grumbled about the rise of a nanny state tendency. However, most did not spontaneously make the link between policies on different issues to create a theory of the nanny state for themselves. Different policies that might be said to fall under the heading of nanny statism were discussed on their own merits, with arguments for and against put in each case. Interestingly, those who objected to particular interventionist policies rarely did so on the grounds of freedom, or opposition in principle to the growing remit of the state. Concerns were much more likely to be practical than ideological (and, probably for this reason, particular participants were sometimes in favour of one interventionist policy but against another). Meanwhile politicians opposing such policies were accused of inconsistency, cynicism and courting votes. However, some did concede that new laws were necessary to cope with the evolution of society. Quote of the night went to the participant who came out with the following statement: 'Whatever next, speed bumps in supermarket aisles?'

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