

Flat taxes are not simple but they are designed to dest...

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The age old flat tax debate appears to be rearing its ugly head again on this blog.

I said most of what I needed to say on this issue a decade ago in [an ACCA funded report](#) on this issue.

But let me reiterate three things.

First, flat taxes are not flat. All they do is eliminate the top rates of the one rare progressive tax most countries have, which is that on income. The result is that flat taxes create more regressive tax systems.

Second, flat taxes per se do not actually simplify anything. That is because they do not even charge a single rate of tax. They invariably have a nil rate band meaning that a person's income has to be split into bands to calculate the tax due. The only simplification, then, is to take out a higher band or bands, which effectively saves almost no time and effort at all.

Third, all the complexity remains in calculating what income is: it has to if injustice is not to result.

There is then just one reason for flat tax and that is to reduce tax on the best off by cutting the size of the state dramatically. How do I know? Alvin Rabushka, the man who created the idea, told me this in 2006 when researching the ACCA report:

The only thing that really matters in your country is those 5% of the people who create the jobs that the other 95% do. The truth of the matter is a poor person never gave anyone a job, and a poor person never created a company and a poor person never built a business and an ordinary working class guy never drove economic growth and expansion and it's the top 5% to 10% who generate the growth for the other 90% who pay the taxes to support the 40% in government. So if you don't feed them [i.e. the 5%] and nurture them and care for them at the end of the day over the long run you've got all these other people who have no aspiration for anything more than, you know, having a house and a car and going to the pub. It seems to me that's not the way you want to

run a country in the long run so I think that if the price is some readjustment and maybe some people in the middle in the short run pay a little more those people are going to find their children and their grandchildren will be much better off in the long run. The distributional issue is the one everyone worries about but I think it becomes the tail that wags the whole tax reform and economic dog. If all you're going to do is worry about overnight winners and losers in a static view of life you're going to consign yourself to a slow stagnation.

As for the role of government he said:

I think we should go back to first principles and causes and ask what government should be doing and the answer is "not a whole lot". It certainly does way too much and we could certainly get rid of a lot of it. We shouldn't give people free money. You know, we should get rid of welfare programmes, we need to have purely private pensions and get rid of state sponsored pensions. We need private schools and private hospitals and private roads and private mail delivery and private transportation and private everything else. You know government shouldn't be doing any of that stuff. And if it didn't do any of that stuff it wouldn't need all of that tax money so that's the fundamental position and as long as you're going to have government do all that stuff you're going to have all those high taxes.

As he also made clear, that then let's you have a flat tax. But in that case what I wrote for the Guardian in 2005 is true:

Flat tax is not a serious attempt at taxation, but is instead an exercise in social engineering. That is why its innocent appeal is so dangerous.

That 'social engineering' process is designed, as Rabushka himself say, to 'take the tax code out of the economy'. In other words, it leaves people wholly dependent upon market forces. The consequence happens to be that politics is neutered on the way because as anyone who follows general elections knows, at the end of the day politics is about the economy. Rabushka and the right wing want to stop that. And if you don't believe me, John Meadowcroft who wrote for the Institute of Economic Affairs, a think tank Margaret Thatcher still supports, said in 2005 (or thereabouts) when asked if he thought democracy a 'market institution' (when undertaking an interview on www.transformingbusiness.net but I cannot now trace the original link) that :

Democracies and free societies tend to go hand in hand. Having said that, democracy tends to lead to socialist policies, such as protectionism. If democracy leads to property rights and the rule of law, then yes, you need democracy. But otherwise, democracy is not a prerequisite for a market economy. Democracies tend to create very large states. In most European countries, including the UK, nearly half of GDP goes to the state. This is not good for the creation of free markets.

It seems fair to conclude that some in the mainstream the right wing now think

democracy can be sacrificed to the market, and I believe that flat tax is part of that process. Which leads to the conclusion that two writers ([Hettich and Winer](#)) have put forward that:

"It is possible to have a flat tax, or to have democracy, but not both"

I concur.