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Why we do rather like tax competition [1]

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You'll have noted the current screams from the left side of the aisle about the terrors and inequities of "tax competition". They're squealing as a pig does when it sees the swill bucket being taken away. For the obvious reasons that Dan Mitchell points out here [3]:

> But we do know that simple economic theory tells us that monopolists are more likely to raise prices than firms in competitive markets. Likewise, governments are more likely to raise tax rates if they think taxpayers don?t have escape options. And we also know that the proponents of higher tax rates, such as the statist bureaucrats at the Paris-based OECD, are also the biggest opponents of tax competition. The OECD even complained in one of its reports that tax competition ?may hamper the application of progressive tax rates.?

Progressive taxes aren't all that much of a bugbear for us here at the ASI. Our income tax proposal has a large personal allowance in it for example, meaning that the average tax rate continues to rise as income does, asymptotically aproaching the flat marginal rate. This is indeed a progressive tax system and as we're recommending one of those we're obviously not against a progressive tax system. There is also Willy Sutton's point, that you tax the rich because that's where the money is.

However, Mitchell's making a slightly different point. Imagine that you don't like the taxes that are being imposed upon you. No, go on, just imagine. You as an individual voter don't actually have much influence over this. Which is why that option of exit is so important. The ability to simply say "The hell with you lot" and leave. We should note that there are very definitely some campaigners who insist that that exit route should be closed off. As, largely, it already is for US citizens. They can leave the US, certainly, but find it very difficult indeed to escape the clutches of the IRS.

Mitchell's also making a very good Smithian point there. It is indeed true that once businessmen have gathered together for that conspiracy against the public then it is indeed competition from alternative suppliers that is said public's only method of beating the conspiracy. And so it is with government: we can only preserve a modicum of freedom (and a modest portion of our wallet) if we are indeed free to choose among competing providers of those governmental services.

Which is what much of the conspiracy among governments is all about: seeking to deny us that exit, that protection from their monopoliy.

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