

(Mis)understanding Tax

*The Pluralist and Deliberative Politics
of
Redistributive Design*

*Does support for a PCT
and/or the sophistication
of thinking about tax
depend on the political
process?
(c.f. Rawls 1971:49, Offe 2009)*

<i>Status Quo</i>	<i>Tax Regime</i>	<i>Reform</i>
(2-)PIT, VAT, Payroll	/ Thinking about Tax	PCT

Tax & Democracy

<i>Status Quo</i>	<i>Reform</i>
Pluralist Democracy	Deliberative Democracy

*Can Deliberative
Democracy rule
abstract, non-local
issues?
(de Sousa-Santos 1998; Hendrickson &
Tucker 2005: 84)*

Quantitative

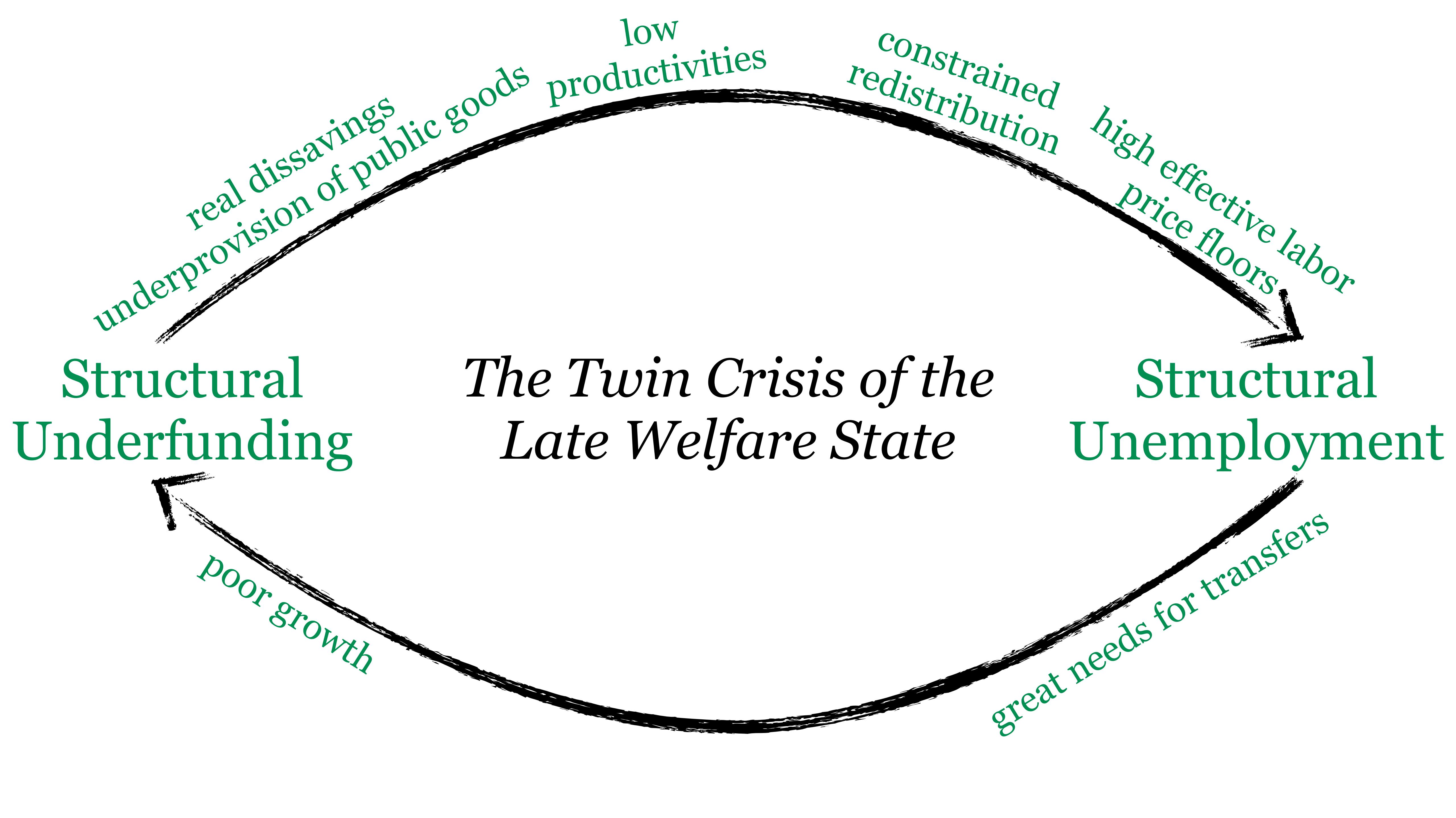
H1a) people will think **different** about tax.

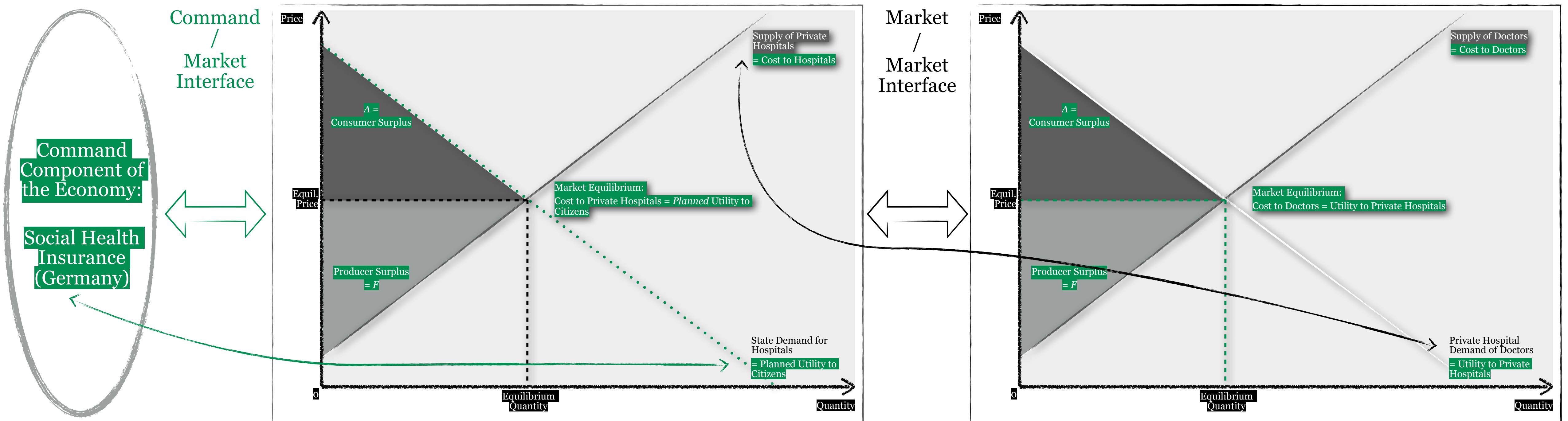
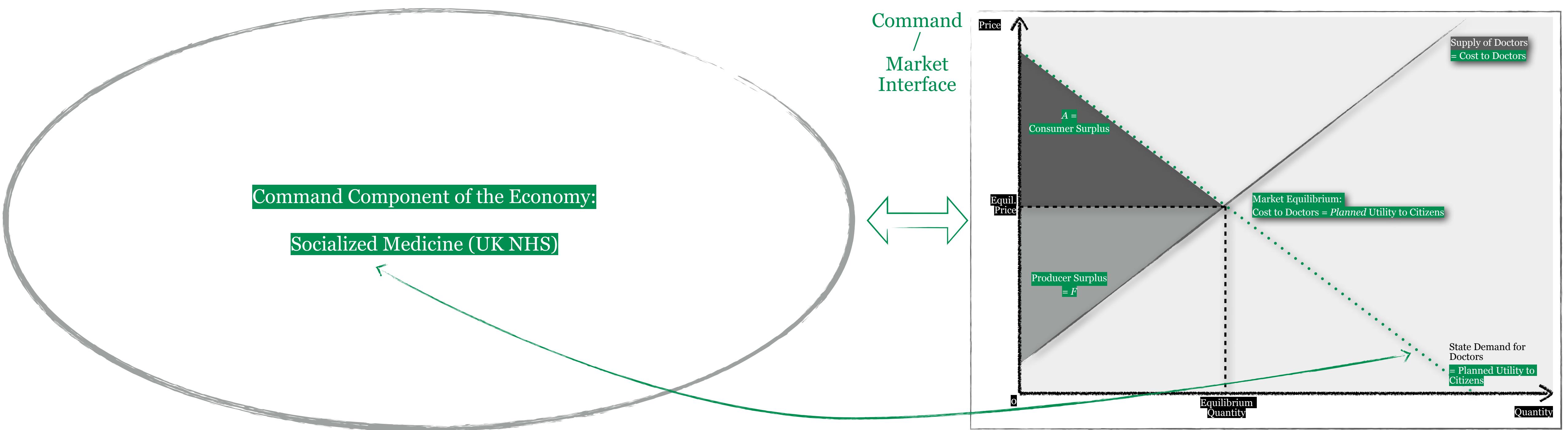
- knowledge gain
- attitude change
- single-peaked preferences, orthogonal dimensions

H1b) people will **prefer** a PCT.

Qualitative

H2) people will think **qualitatively different** about tax, revealing (hypothesizing) a **hegemonic discourse** on tax in pluralist democracy.





The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare – all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else.

– Joseph Schumpeter [1918] 1991

MAN KANN UNS DAS GELD WEGNEHMEN. ODER ES UNS AUSGEBEN LASSEN.

Der Staat greift unseren Mitarbeitern und uns Unternehmern immer tiefer in die Tasche. Mit Mehr Netto konsumieren und investieren wir mehr. Und schaffen dadurch Arbeitsplätze.

DIE FAMILIENUNTERNEHMER. IMMER EINE GENERATION VORAUS.

DIE FAMILIEN
UNTERNEHMER

ASU

Nominal Base
(All citizens pay taxes on ...)

Nominal Base (All <u>citizens</u> pay taxes on ...)						
Income (... what they earn as rents to ...)		Consumption (... what they spend ...)			Wealth (... what they own in ...)	
Capital	Labor	Prepaid	Postpaid & Cashflow	Land (& Other Resources)	Property	Net Worth
(... in interest, dividends, often inheritance, gifts and capital gains and ideally imputed rents ...)	(... in wages, salaries sometimes self-employment and ideally imputed income, free time ...)	(... at the point of sale ...)	(... as the difference between income & net saving, including de/appreciation, over a period ...)	(... unimproved value of land and natural resources ...)	(... improved value of land, including buildings ...)	(... net of all assets & liabilities ...)
Flat (... lump-sum ...)			Poll Tax			Very Regressive
Regressive (... diminishing marginal ...)		“Social Contributions” (a capped Payroll)	-	-	-	Regressive
Nominal Schedule (... at a ... rate ...)	CIT & LBT	Capital Income				Arbitrary
Proportional (... constant marginal ...)		Dual-PIT	Payroll	VAT		Effective Re-distribution
Progressive (... increasing marginal ...)	PIT	Payroll	Graduated VAT	PCT	Property Tax (on accrual)	Proportional
					Stamp Duty (on realization)	Progressive
					Wealth Tax	Very Progressive
OSN: 2x Capital 1/? Capital 1/? Labor 1/? Consumers	Y2C: Capital	on the proportional component: Labor, Capital		Labor, Capital when it enhances lifestyle (Y2C applies).	tba.	OSN: 3x (some) Capital
		on the progressive component: Labor			tba.	Y2C: 2x (some) Capital
						nominal denominated creditors
						real denominated debtors

Effective Incidence

Nominal Base *(All citizens pay taxes on ...)*

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Flat (... lump-sum ...)			Poll Tax				
Regressive (... diminishing marginal ...)	-	“Social Contributions” (a capped Payroll)	-	-	-	Very Regressive	
Nominal Schedule (... at a ... rate ...)	CIT & LBT						
Proportional (... constant marginal ...)	Capital Income						
Progressive (... increasing marginal ...)	Dual-PIT	Payroll	VAT	Expend. Tax	Inflation	Arbitrary	
Trend (eg. for UK, D see Kemmerling 2009: 11)							
1/? Capital 1/? Labor 1/? Consumers	OSN: 2x Capital	on the proportional component: Labor, Capital		PCT	Stamp Duty (on accrual) (on realization)	Effective Re-distribution	
	Y2C: Capital	on the progressive component: Labor		Labor, Capital when it enhances lifestyle (Y2C applies).	Wealth Tax	Proportional	
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Flat (... lump-sum ...)			Poll Tax				
Retrogressive (... diminishing marginal ...)	-	-	-	-	-	Very Regressive	
Nominal Schedule (... at a ... rate ...)	Proportional (... constant marginal ...)	CIT & LBT	Social Contributions (a capped Payroll)	-	-	Arbitrary	
Progressive (... increasing marginal ...)	requires	Capital Income	Dual-PIT	VAT	Inflation	Effective Re-distribution	
1/? Capital 1/? Labor 1/? Consumers	OSN: 2x Capital	PIT	Payroll	Expend. Tax	Stamp Duty (on realization)	Proportional	
	on the proportional component: Labor, Capital	Trend (eg. for UK, D see Kemmerling 2009: 11)	Graduated VAT	PCT	Wealth Tax	Progressive	
	Y2C: Capital	Payroll				Very Progressive	
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Flat (... lump-sum ...)			Poll Tax				Very Regressive
Regressive (... diminishing marginal ...)							Regressive
Nominal Schedule (... at a ... rate ...)							Arbitrary
tax aversion							Effective Re-distribution
Proportional (... constant marginal ...)							Proportional
Progressive (... increasing marginal ...)							Progressive
1/? Capital 1/? Labor 1/? Consumers	OSN: 2x Capital	on the proportional component: Labor, Capital					Very Progressive
	Y2C: Capital	on the progressive component: Labor					
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Flat (... lump-sum ...)			Poll Tax				Very Regressive
Regressive (... diminishing marginal ...)	Tobin-Tax “Social Contributions” (a capped Payroll)						Regressive
Nominal Schedule (... at a ... rate ...)	CIT & LBT Capital Income Payroll Dual-PIT Trend (eg. fJK, D see Kemmerling 2009: 11)	VAT Payroll Graduated VAT Real Myopia	Bastard Keynesianism PCT	LVT regressive on €/m² → agglomeration progressive on €/m² → sprawl	Property Tax Stamp Duty (on realization)	Inflation	Arbitrary
Progressive (... increasing marginal ...)	Zero-Sum tax aversion				Negative-Sum Wealth Tax		Effective Re-distribution
1/? Capital 1/? Labor 1/? Consumers	OSN: 2x Capital Y2C: Capital	on the proportional component: Labor, Capital	Labor, Capital when it enhances lifestyle (Y2C applies).	tba.	OSN: 3x (some) Capital Y2C: 2x (some) Capital	nominal denominated creditors real denominated debtors	
	on the progressive component: Labor			tba.			

Effective Incidence

Cognitive

- People react (negatively) to the label “tax”.
People prefer indirect taxes. [Tax aversion effect]
- People want more progressivity in % than in dollar terms. [Metric effect]
- People prefer bonuses over penalties.
[Schelling effect]
- People do not integrate different taxes on the same base. [Disaggregation bias]

(McCaffery & Baron 2003: 12ff)

(Hegemonic) Discourse?

?

Table 3.3: Base and Schedule in Fiscal Revenues for Selected Market Interventions

Providing for:	<i>Base</i>	<i>Schedule</i>	Funded by:
<i>Common Goods</i>	Specific	Marginal Cost	<i>Pigouvian Levies</i>
<i>Natural Monopolies</i>	Specific	Average Cost	<i>Fees</i>
<i>Redistribution</i>		Proportional / Progressive	
<i>Risk Pools</i>			
<i>Public Goods</i>	General	Flat	<i>Taxes</i>
<i>Stimulus & Saving</i>			

Cognitive

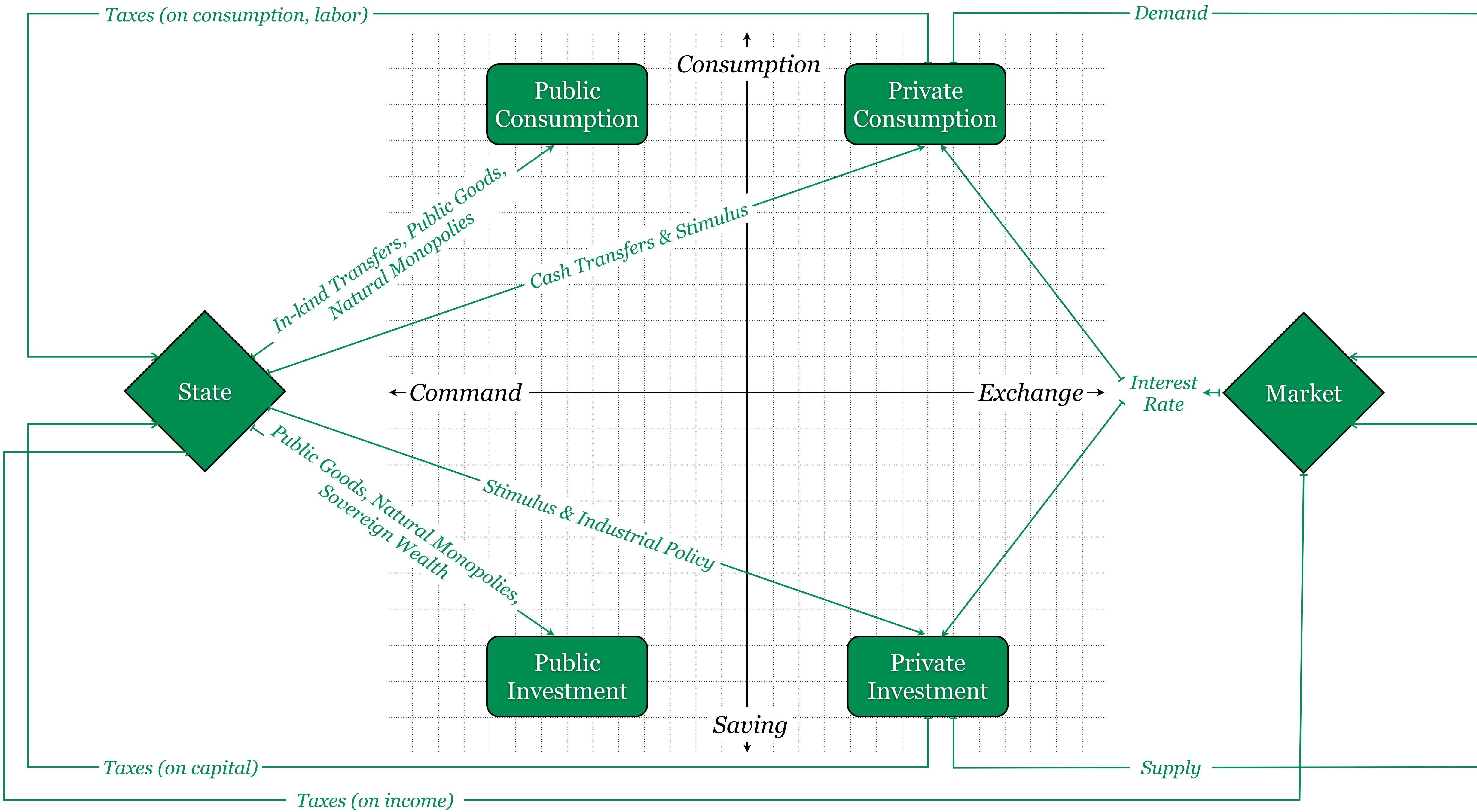
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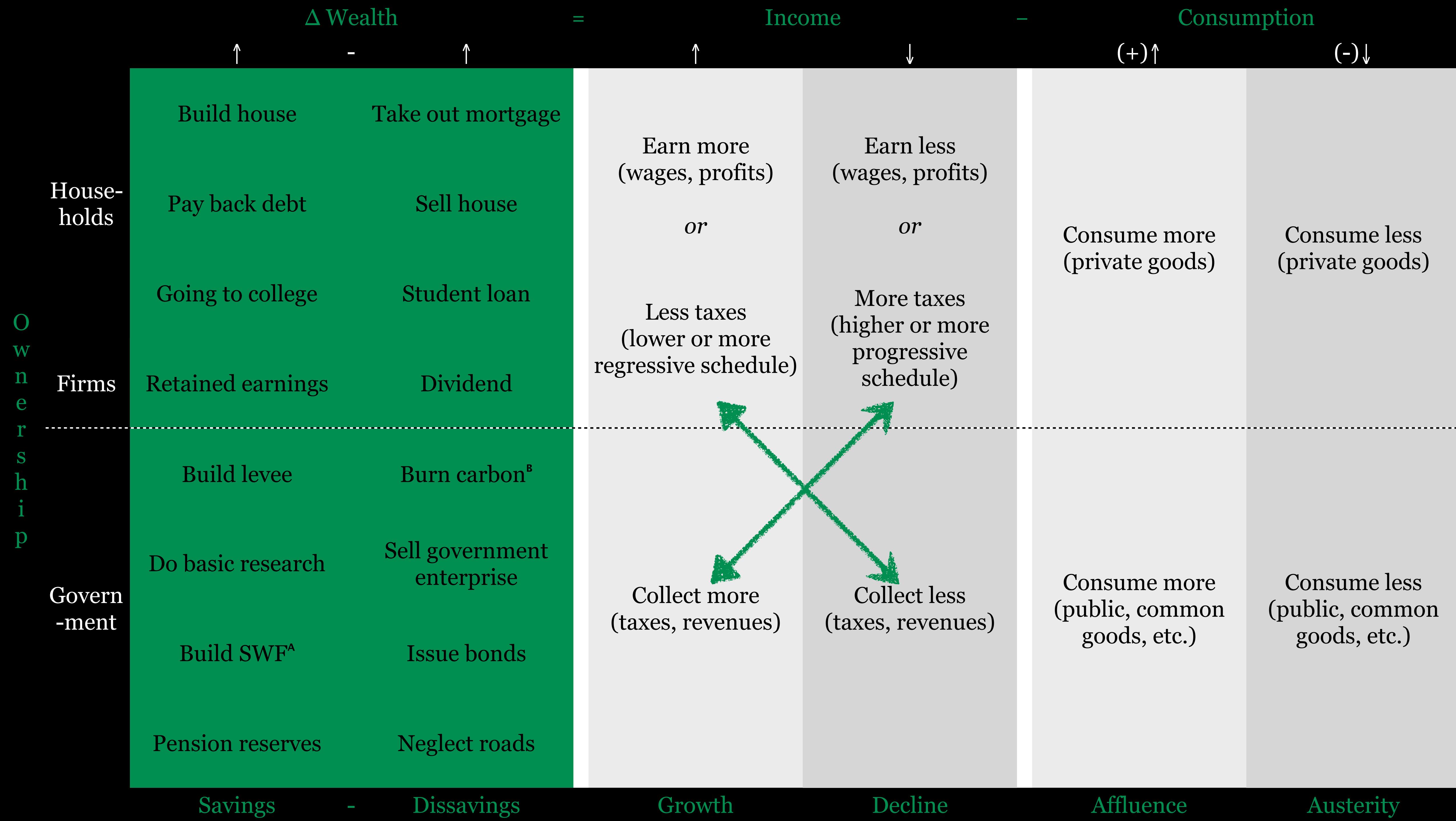
(Hegemonic) Discourse

- People think ~~saving destroys the economy.~~ [Bastard Keynesianism]
- People think government harms the economy (it does). [Negative-Sum]
- People think ~~we save enough.~~ [Real Myopia]
- People want to ~~tax non-natural persons.~~ [Corporations-as-People]
- People think we can ~~distribute the burden of taxation at will.~~ [Flypaper Theory], [o-Sum]

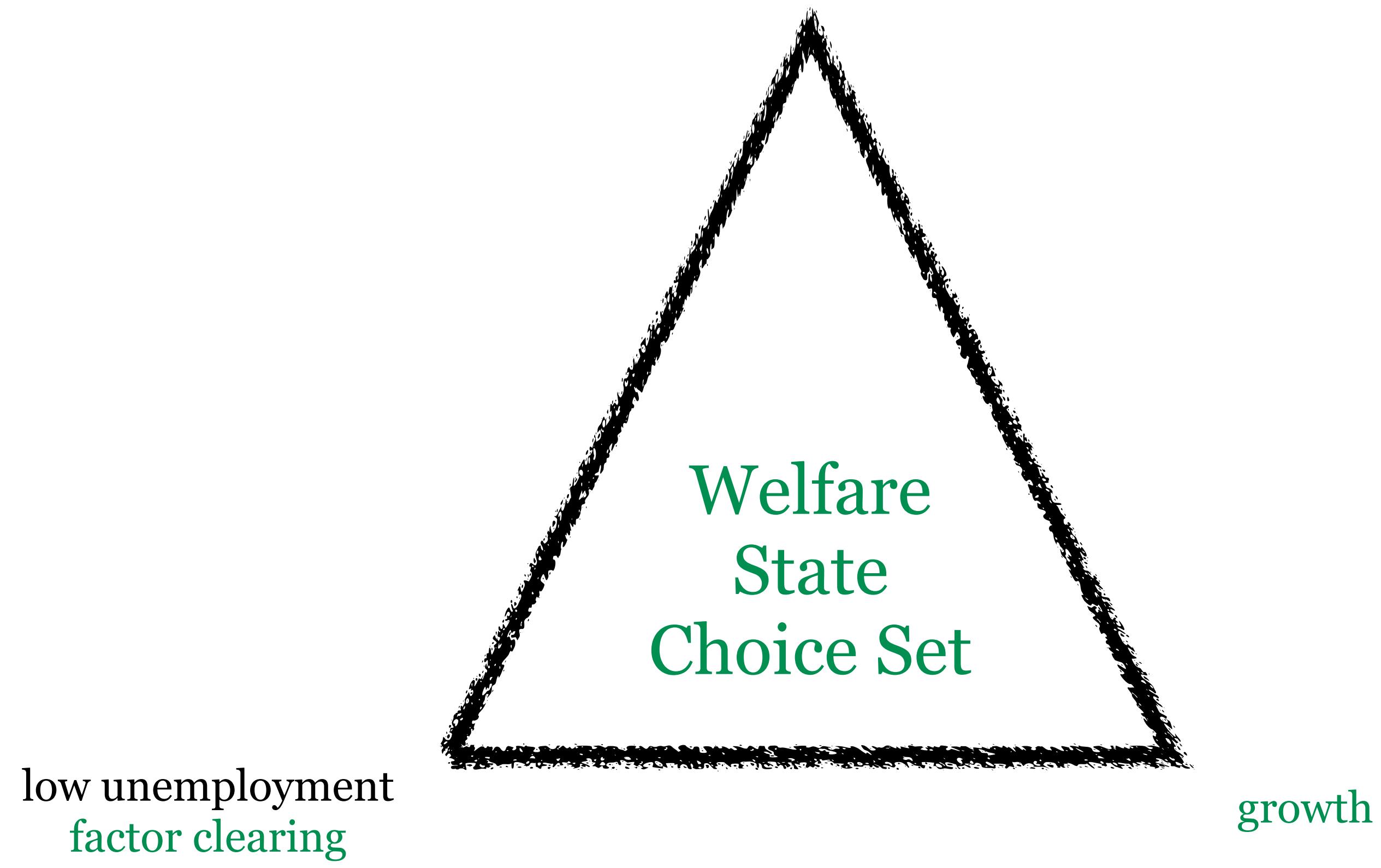
Table 3.5: Debt and Credit in the Closed Economy

<i>Households</i>	<i>Government</i>	
$Income - Spending < 0$ private debt (e.g. credit card, mortgage)	$Revenue - Spending < 0$ public debt (e.g. government bonds)	\sum =
$Income - Spending > 0$ private credit (e.g. deposits, bonds)	$Revenue - Spending > 0$ public credit (e.g. reserves, sovereign wealth)	$\sum =$ =
		$All\ Debt$
		$All\ Credit$
		$\sum = 0$





low inflation
arbitrary, positive, (optimal?), real **savings** rate



spending (Swank 2002)
~~income replacement~~
decommodification (Esping-Andersen 1990)

Real
Denomination

Nominal
Denomination

Creditors

Debtors

Asset Holders

Inflation



Fixed Incomes
Cash Holders

Inflation



Short Sellers

Inflation



Inflation



Mortgage Takers

Equity Norms

Efficiency Norms

Equality of
Opportunity

Maximin
Difference Principle

Egalitarianism
(in Outcomes)

Weak Pareto
Optimum

Strong Pareto
Optimum

Social Welfare
Optimum

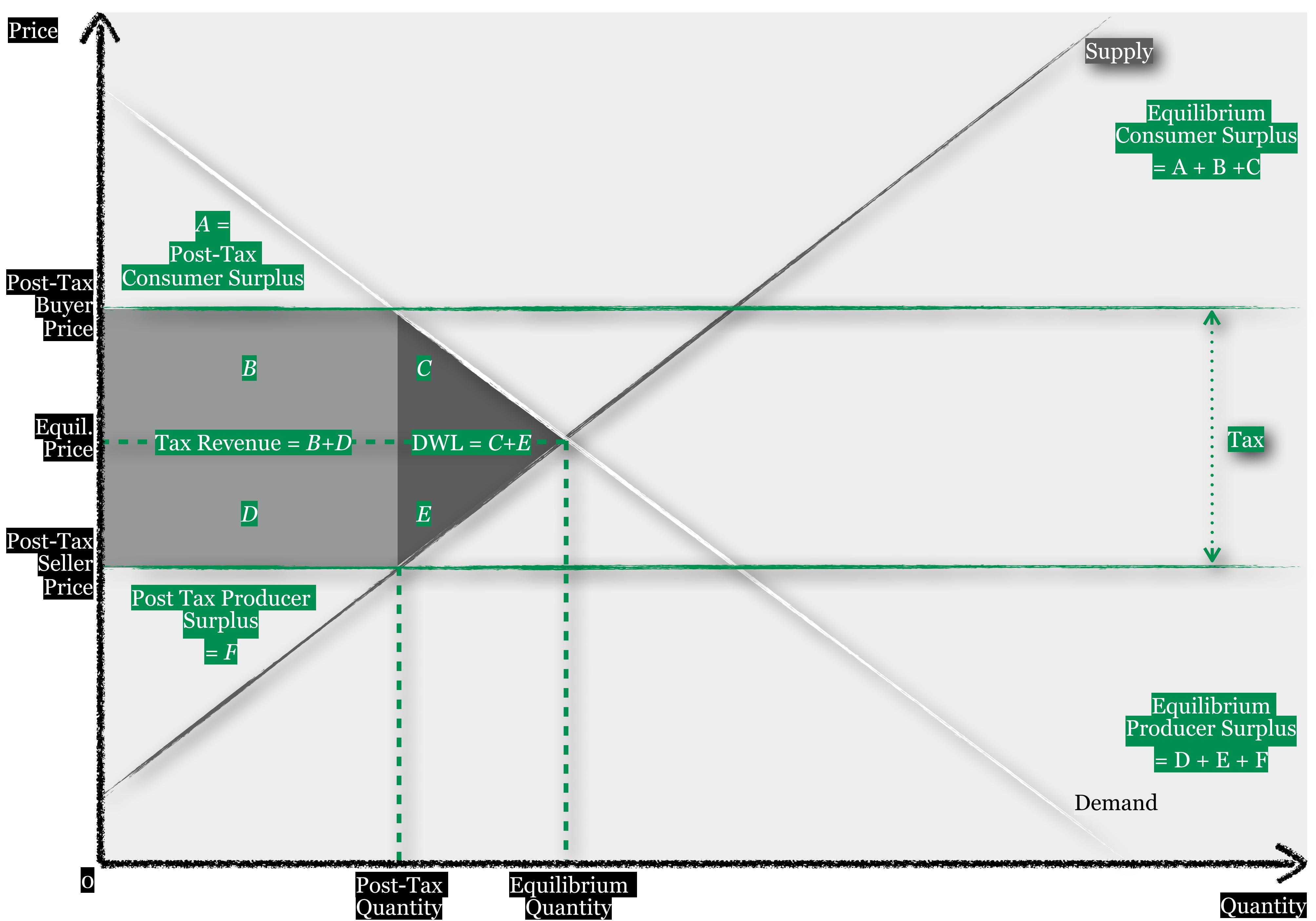
Utilitarianism

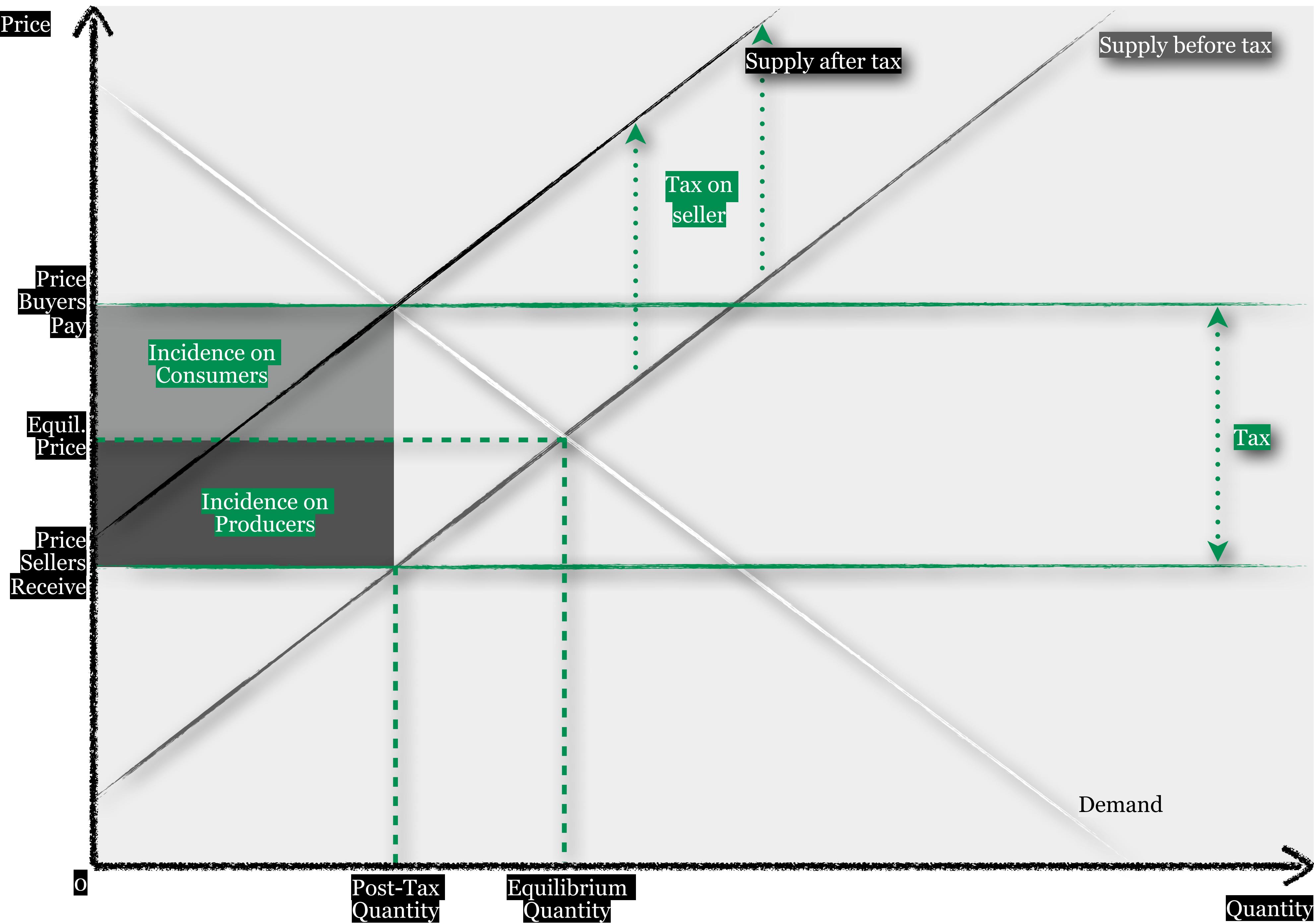
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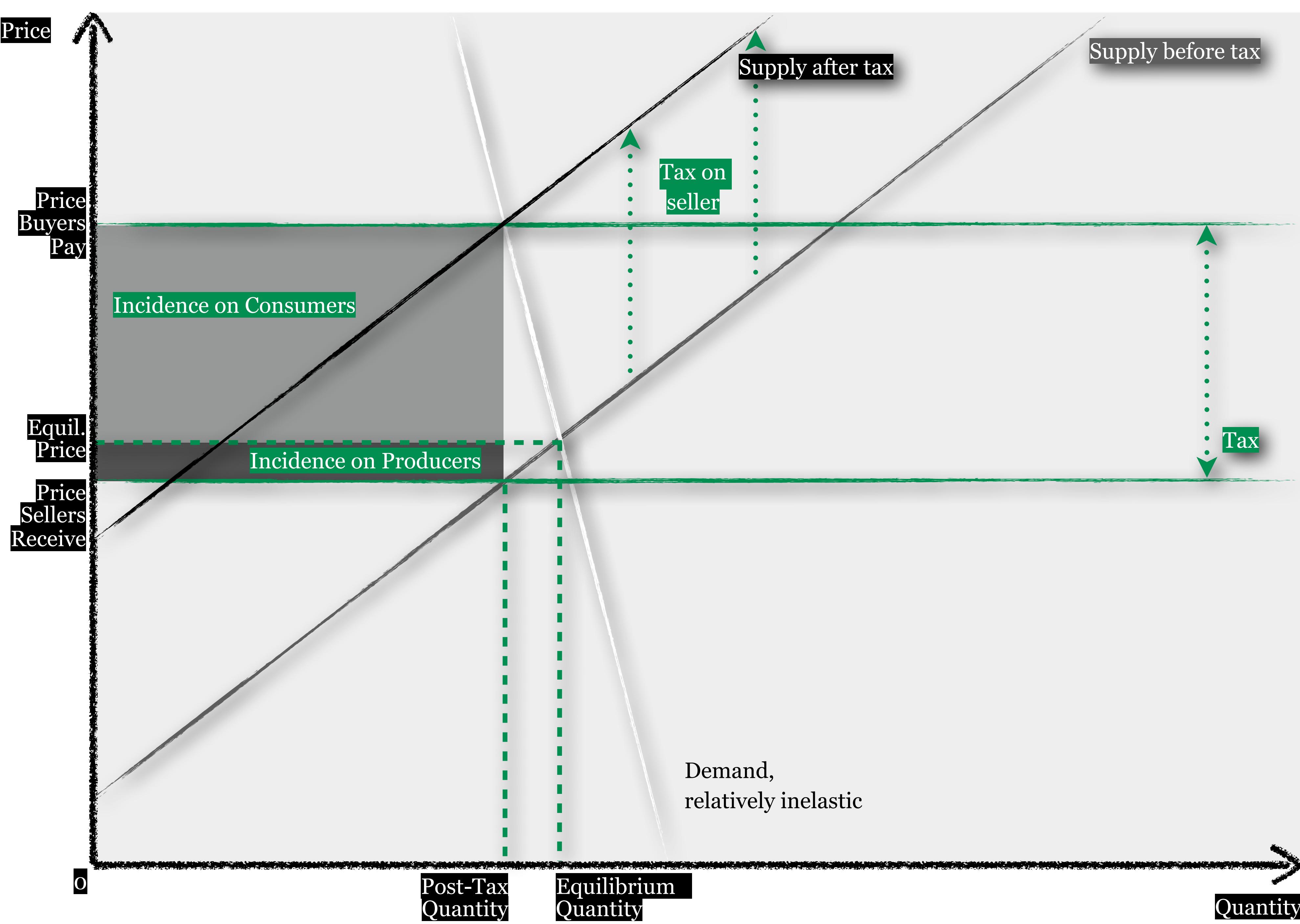
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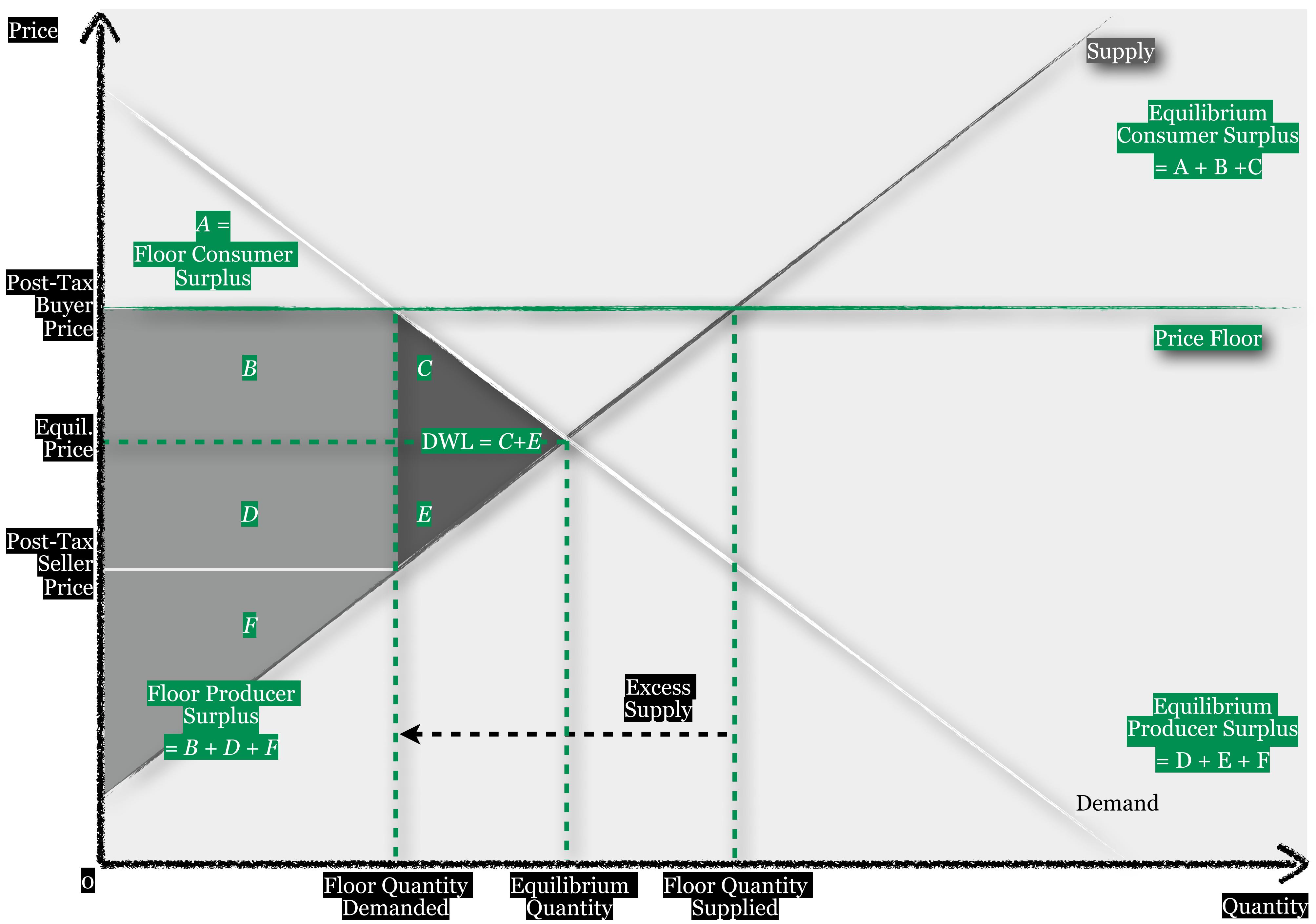
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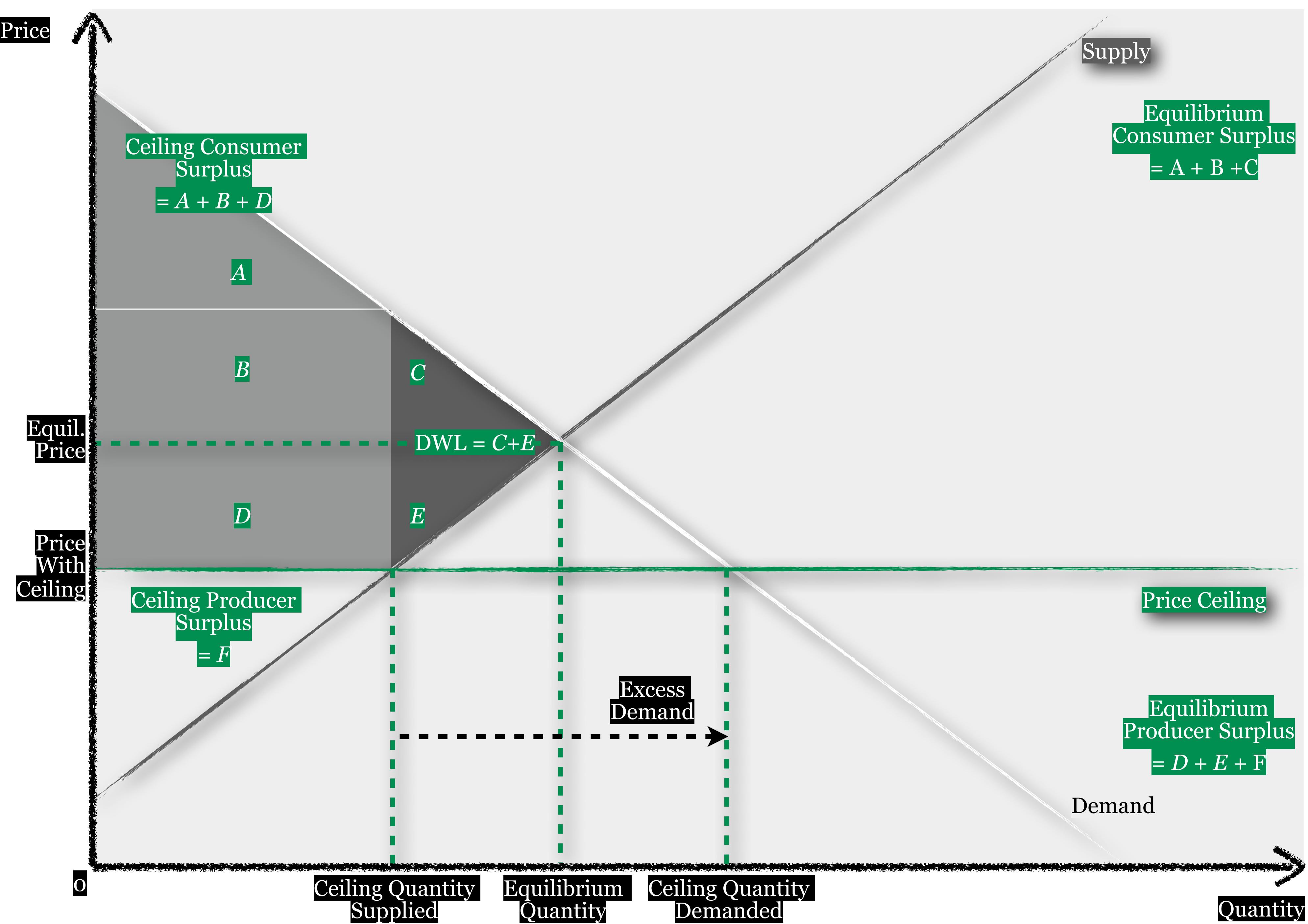
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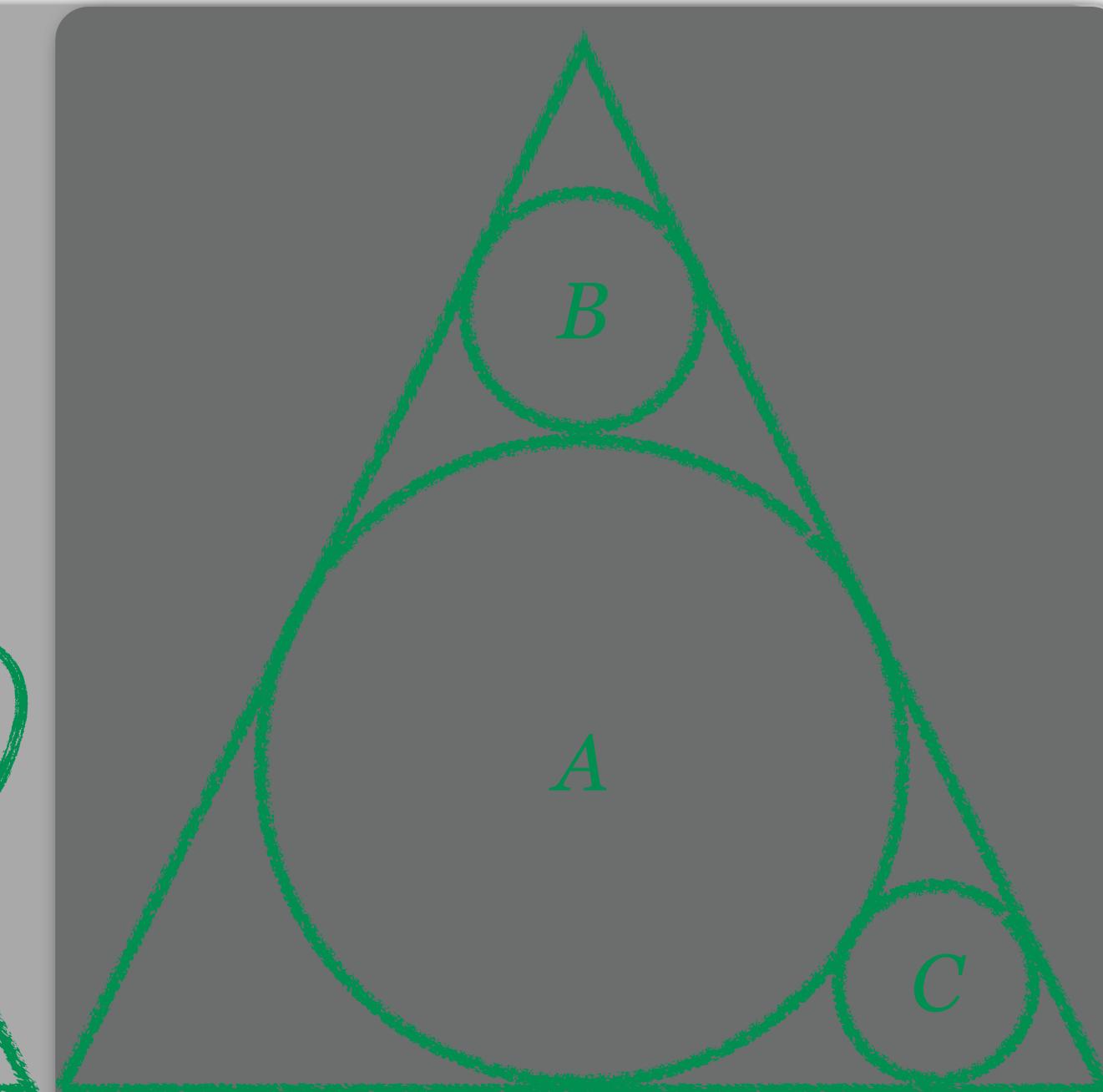
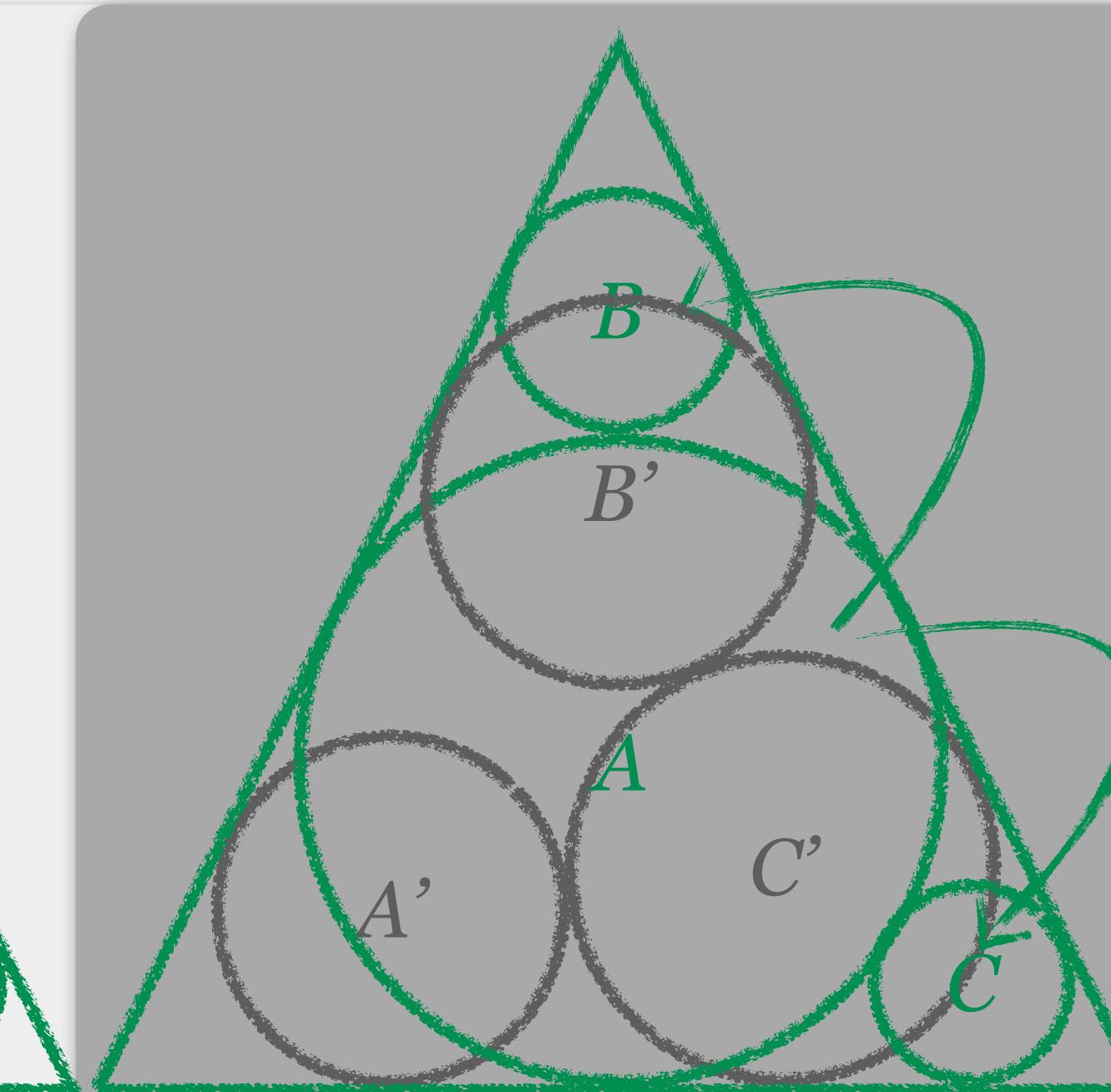
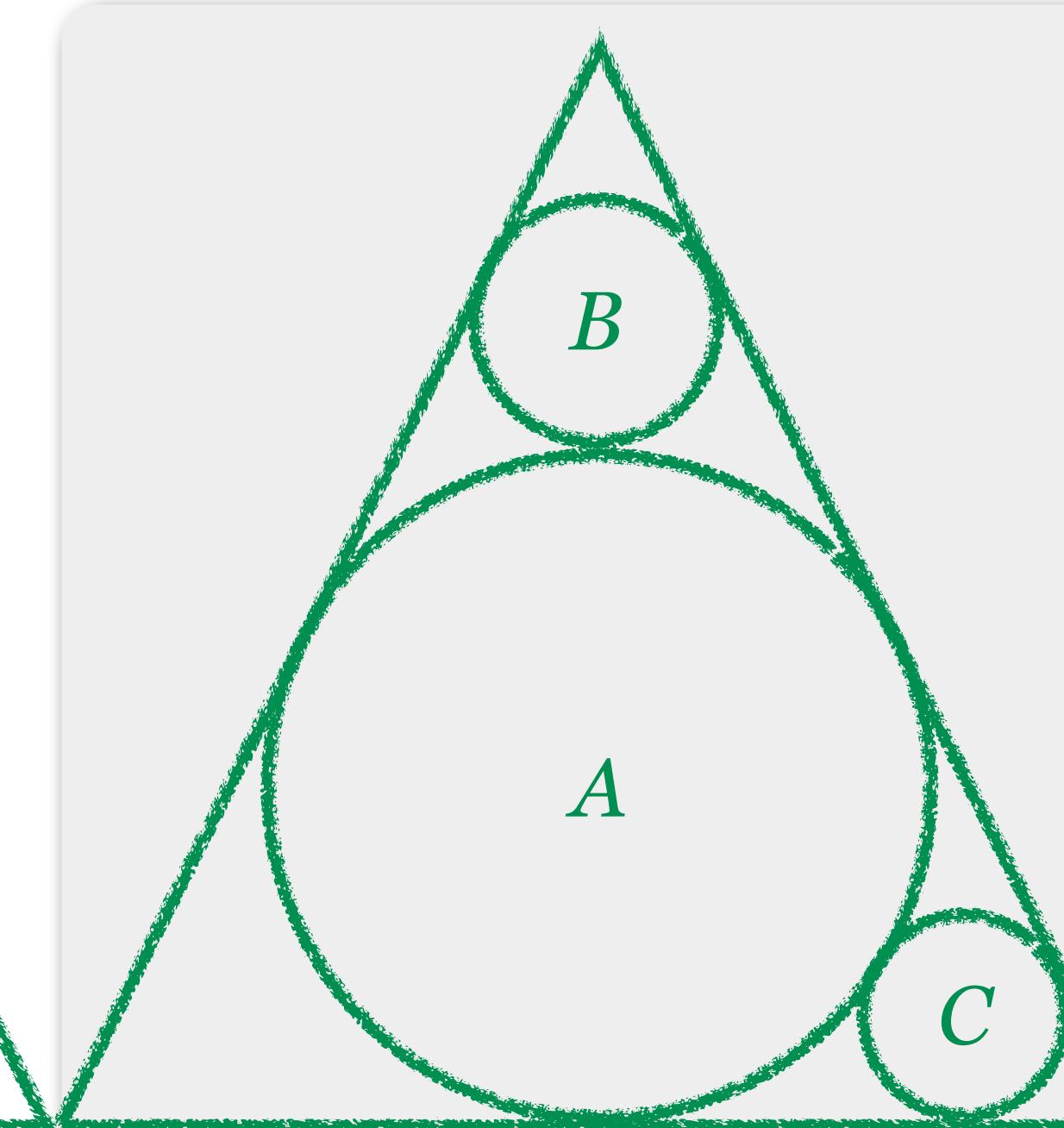
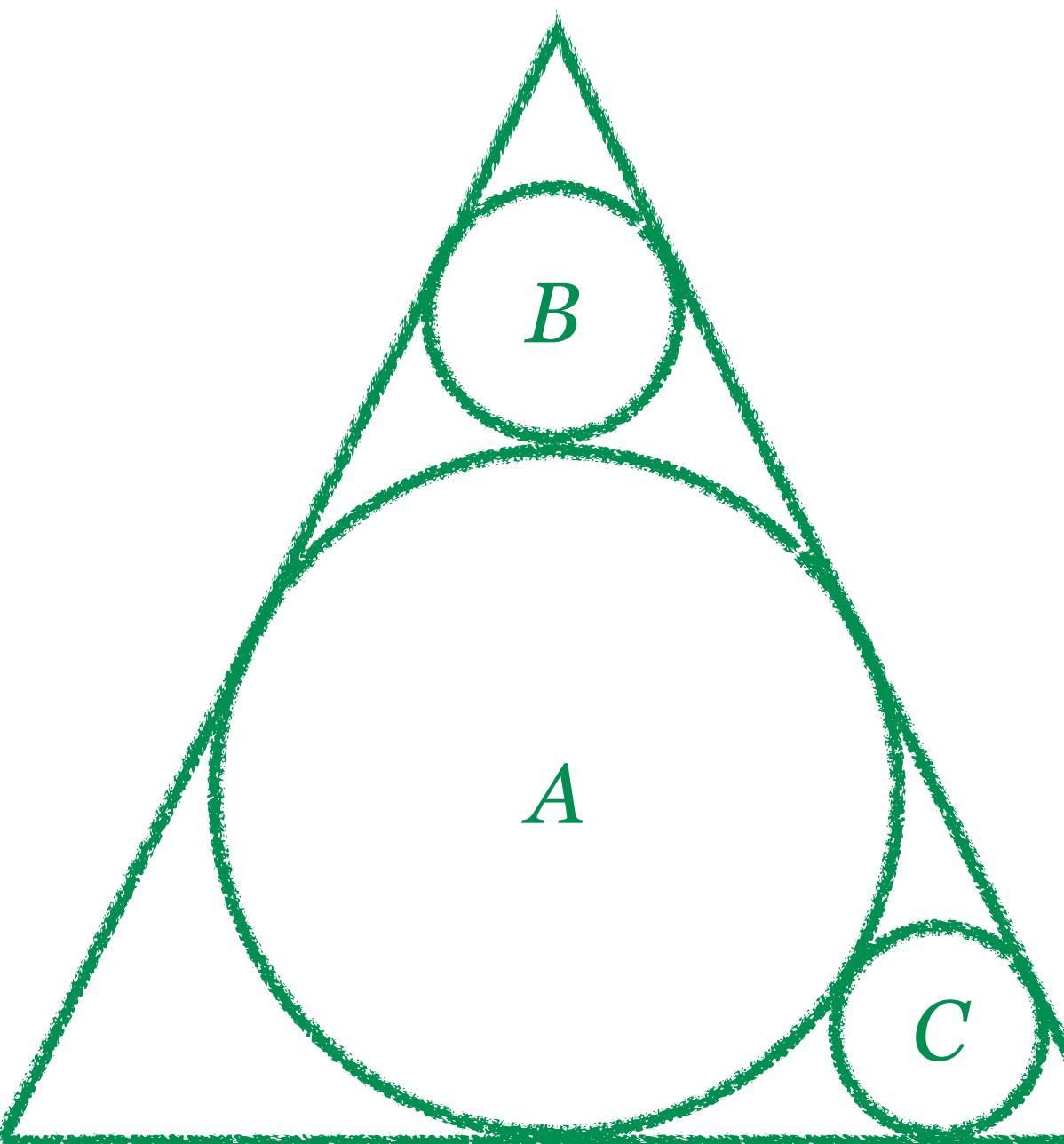
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(Mis)understanding Tax

*The Pluralist and Deliberative Politics
of
Redistributive Design*

Efficiency/Equity Norm

Pure Efficiency Norms



	Equity	Asymmetric Information	Public Goods	Common Goods	Natural Monopolies	Easy Market Entry
Challenge: Example	Urban Poor	Lemons' Market in Health Insurance (Akerlof 1970)	Defense	Clean Air	Sewage System	MS Windows bundled with IE
Market: Response	Comparative Advantage	a)Signalling b)Screening	a)Shadow of the Future: Infinitely Repeated Game b)Self-Binding, Credible Commitment	a)Shadow of the Future: Repeated Game b)Self-Binding, Credible Commitment (Ostrom 1990)	Common Ownership	-
Market: Example	Service Economy Entrepreneurship	a)Branding, Warranties b)Experts, Testing	-	-	SCHUFA, Standard-Setting Associations	-
State: Response	a)Regulatory Policy b)Redistribution	Risk Pooling	a)Public Provision b)Issuing Property Rights, Where Possible	a)Regulatory Policy b)Repricing c)Issuing Property Rights, Where Possible	a)Regulating b)Outsourcing c)Common Carriage d)Public Provision	a)Regulatory Policy b)Domestic Infant Industry Protection
State: Example	a)Affirmative Action b)Public Spending	Compulsory Health, Unemployment, Disability Insurance	a)Military b)Intellectual Property Protection	a)Minimum Standards b)Ecotax (Pigouvian Tax) c)Emission Trading	a)Motorways b)Airbus & Boeing	a)Anti-trust, Anti-discrimination b)Industrial Policy (Company Car Subsidy in Germany)
Fiscal Sources	Proportional, Progressive Taxation	General Revenue	General Revenue	Pigouvian Taxes	Fees	General Revenue

Social Mobility

Within Country

Between Country

Social Mobility / Wealth, Inheritance Tax vs.
Incentives

Growth / Infant Industry Protection

Outcome Equity

Gini / Progressive Taxation & Incentives

GDP, Productivity per capita / Same labor and capital
rent by that productivity

	Sweden	Germany	Bulgaria	EU-25
Gini	0.23 0.25 (1992)	0.27 0.30 (1994)	0.307 0.264 (2001)	
GDP per capita in PPP	\$38.300	\$35.100	\$12.100	
Real GDP growth	2.7%	2.6%	6,2%	

- add here graph that displays all possible schedules, in absolute and percentage terms (1st derivative).

Abilities, Capacities

Deliberation

Hannah arendt?

Equality, Intrinsic motivation

Limits

Ultimatum game,
evolutionary biology,
behavioral econ.

Ability to reciprocate

Fails: arrows etc.

Utopia

Market Failure

Kahnemann/Tversky

Lib. Rep.
Democracy

Market economy

Limits:
irrationality

Innate sense of
fairness

Public Choice

(Neoclassical)
Economics /
Welfare
Economics

Positional race

questions assumptions on
utility maximization

Homo oec.

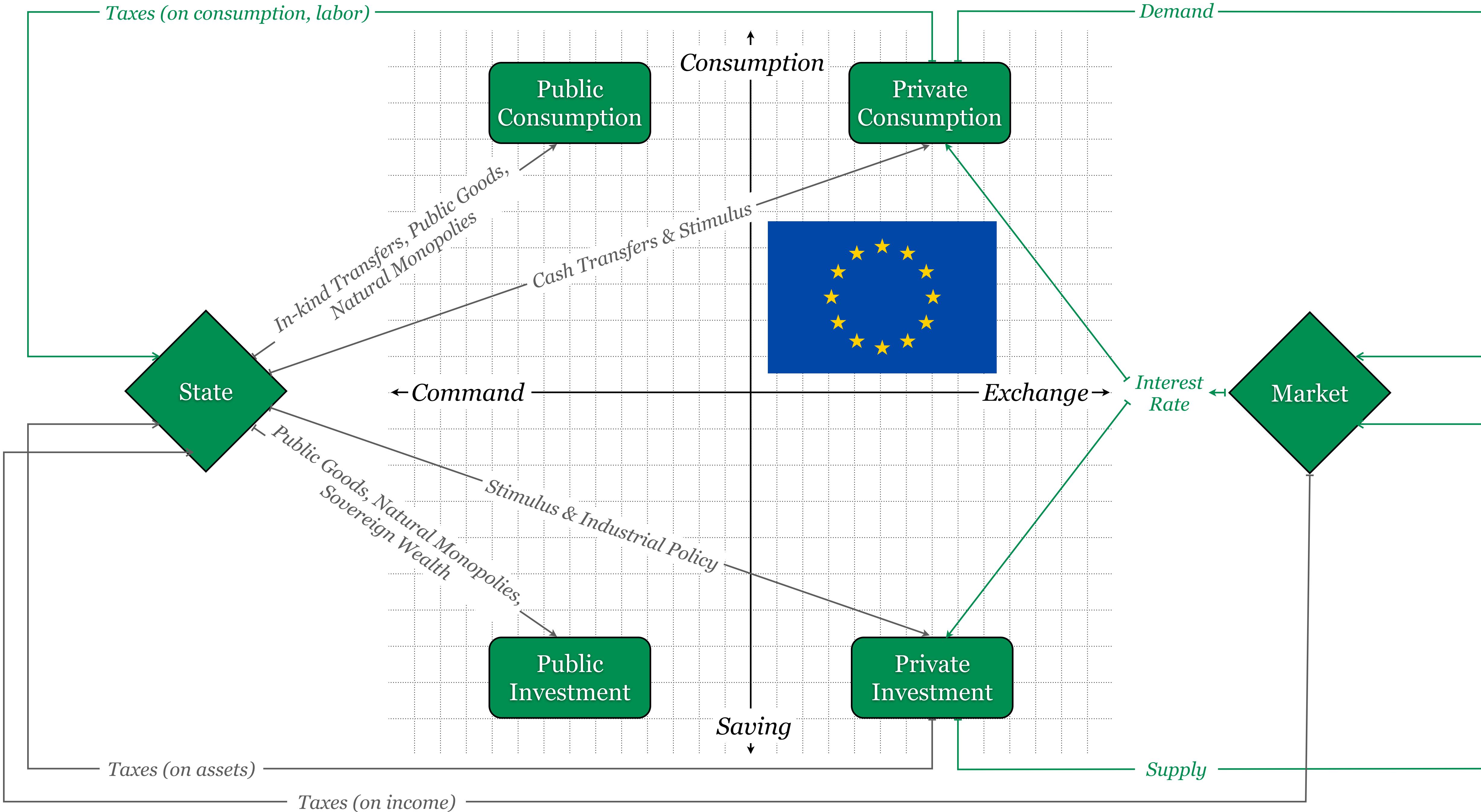
questions assumptions on
rationality

Hope, science

		Ownership		
When 2 Save?	Pre-funded	Public	Private	Current workers
	Post-funded	Sovereign Wealth	Private pension Life insurance (etc.)	
How 2 Grow?	Productivity	PAYGO	Family	Future workers
	Human Capital Physical Capital	Education	Quality Children	
Where 2 Invest?	Workforce	Sovereign Wealth	Private Investment	Productivism
		Family Policy	Having Children	
Autarky	Open Economy	Sovereign Wealth Fund	International Financial Markets	Nativism
		Capital Deepening	Domestic Financial Markets	
				Trade Imbalances
				Now: Trade Surplus
				Future: Trade Deficit
				Macro-Economy
				Changing Savings Rate

“[...] that things could also be **different** [...]”

(Blühdorn 2007: 313)



	Within Country	Conditions for International Political Economy
Fairness in Inputs	<p>Equal Opportunity (Policy Paradigm)</p> <p>Maximizing Social Mobility (Policy Goal)</p> <p><i>Quality Public Education, Affirmative Action (?) (Policy Proposals)</i></p>	<p>Fair Trade / Asymmetric Liberalization</p> <p>Converging Productivities, Converging Factor Endowments</p> <p><i>Infant Industry Protection (?) Special and Differential Treatment (WTO)</i></p>
Efficiency of Outcomes	<p>Growth</p> <p>Full Factor Employment, Productivity Increases</p> <p><i>Incentivizing Work, Investment, Productivity Countercyclical Policy</i></p>	<p>Comparative Advantage</p> <p>Maximizing World GDP</p> <p><i>Complete Mobility of Factors and Goods</i></p>
Equity of Outcomes	<p>“Difference Principle” (Rawls 1971)</p> <p>Greater equality (lower <u>Gini</u> coefficients) over time, increasing GDP</p> <p><i>Progressive Taxation of Wealth, Consumption</i></p>	<p>Coordinated Redistribution</p> <p>(Slowly) Converging Post-Tax Rents on Capital, later Labor for given levels of Factor Productivity</p> <p><i>EU-, OECD-, Worldwide (?) Tax Regime</i></p>
Sustainability	<p>Limited Discounting of the Future</p> <p>Demographic Stability Preservation of Environment Net Capital Accumulation</p> <p><i>(Public) Deficits < Investments</i></p>	<p>Global Financial Stability</p> <p>Moderated Financial Market / Exchange Rate Volatility Balanced <u>Current Accounts</u> (Medium-term) Balanced <u>Capital Accounts</u> (Medium-term)</p> <p><i>Free-Floating Currencies (?)</i></p>

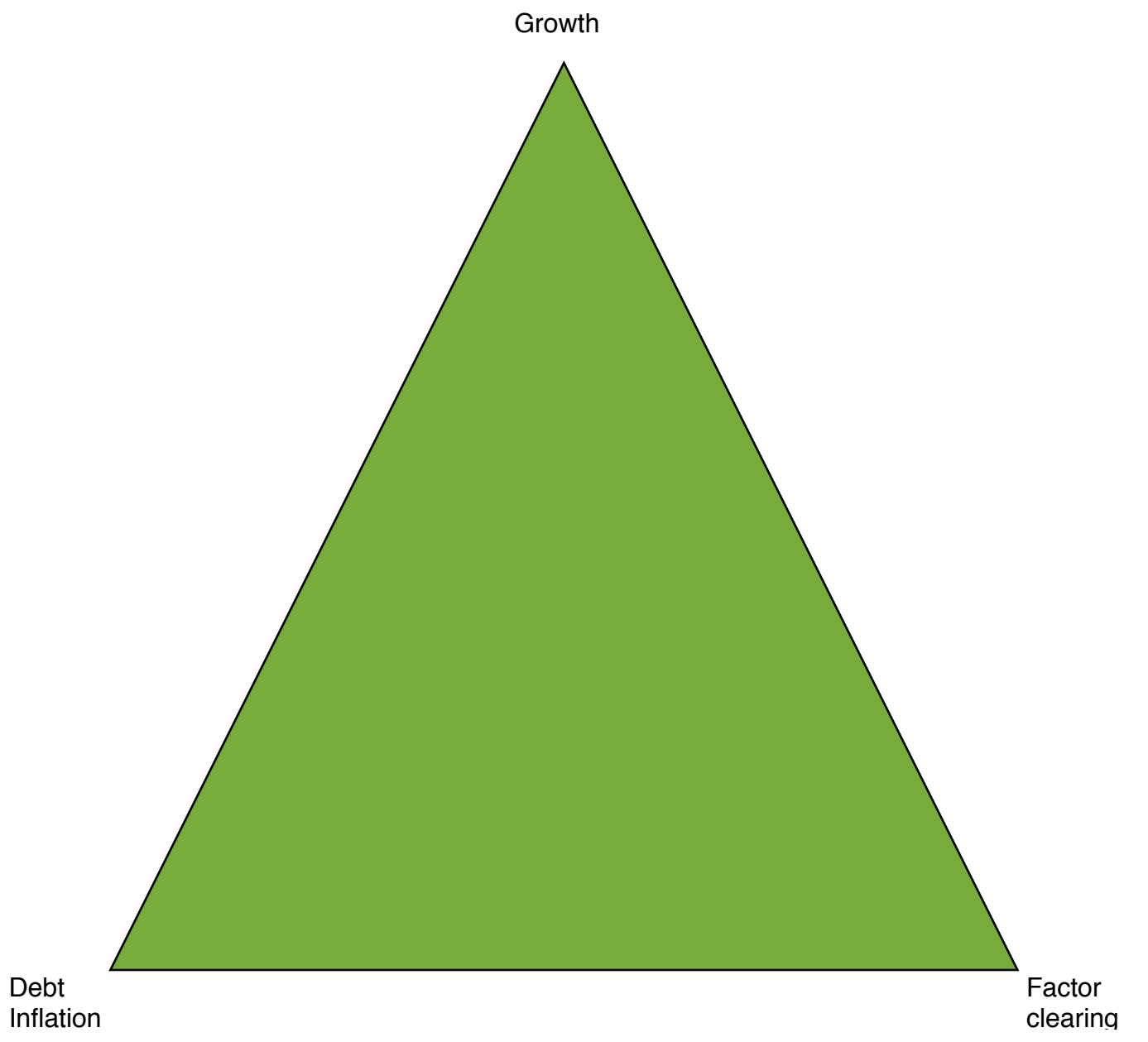
*Basic idea: you will not engage in deliberation, unless anti-dominance is the rule.
Compare this to WPs*

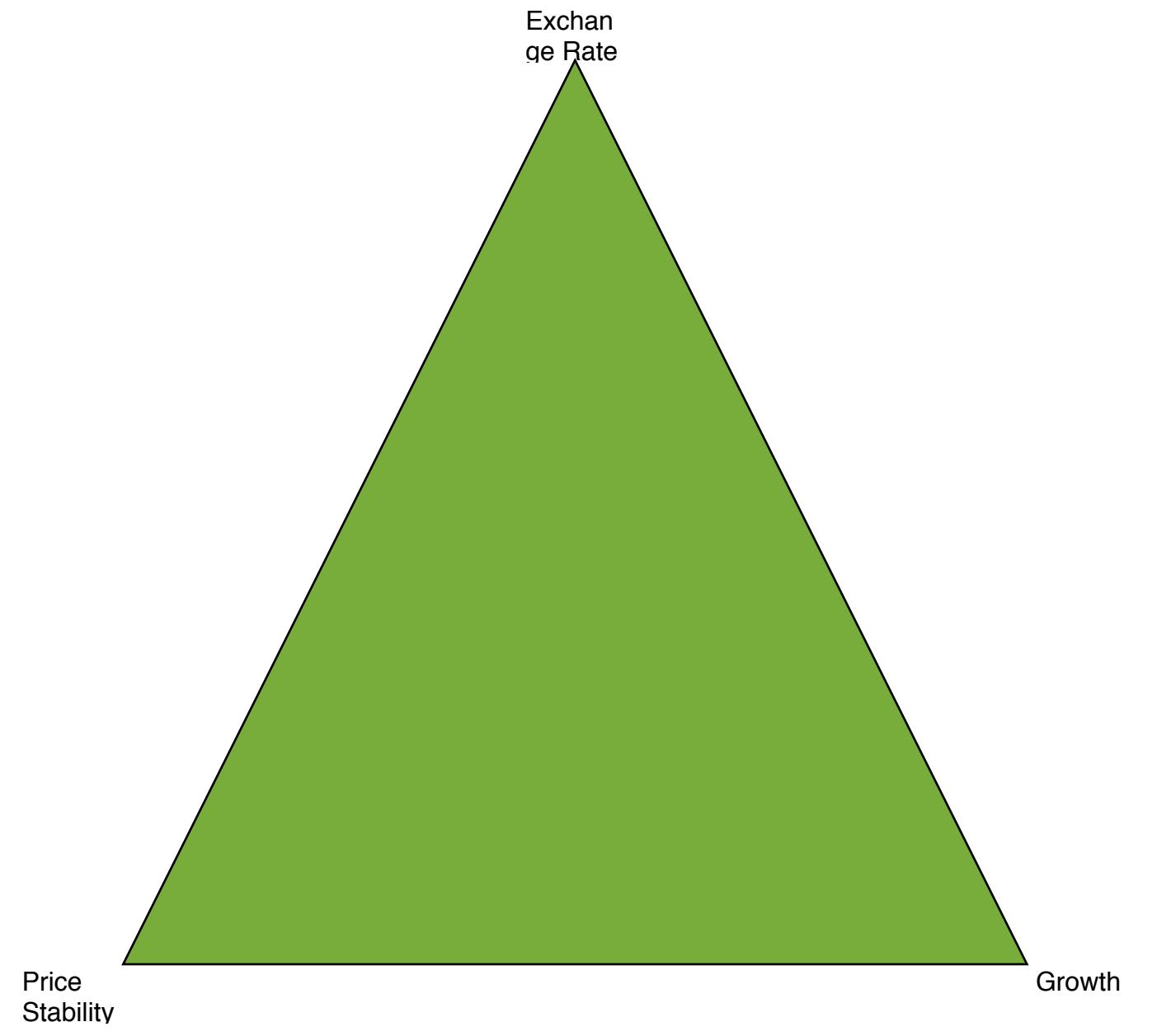
<i>Status Quo</i>	<i>Tax Regime / Inequality</i>	<i>Reform</i>
Positional Consumption	Limited Relational Inequality	

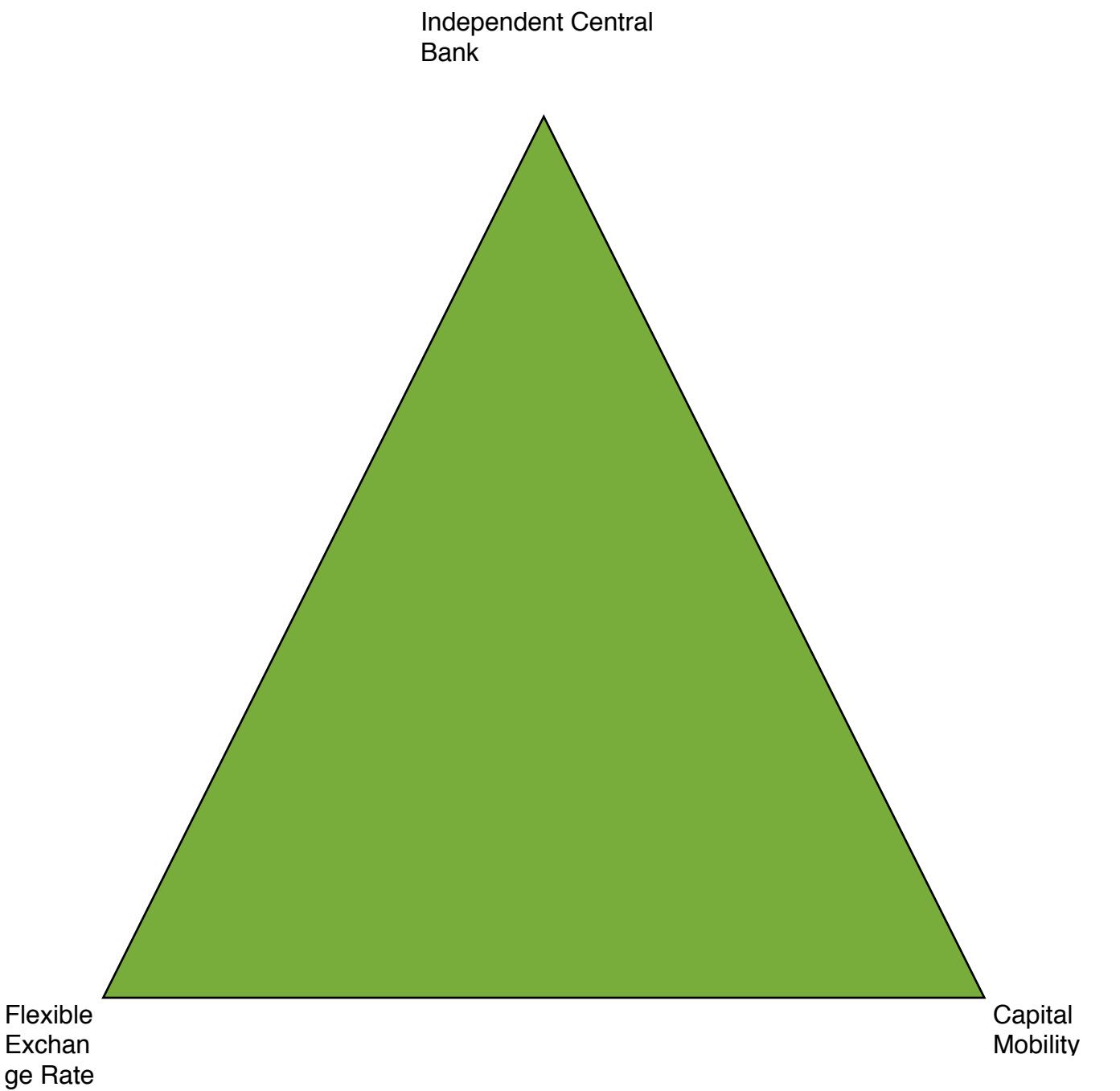
Inequality & Democracy

<i>Status Quo</i>	<i>Reform</i>
Exclusive Fitness	Inclusive Fitness, Arendt: Freedom from need, Anti-Dominance

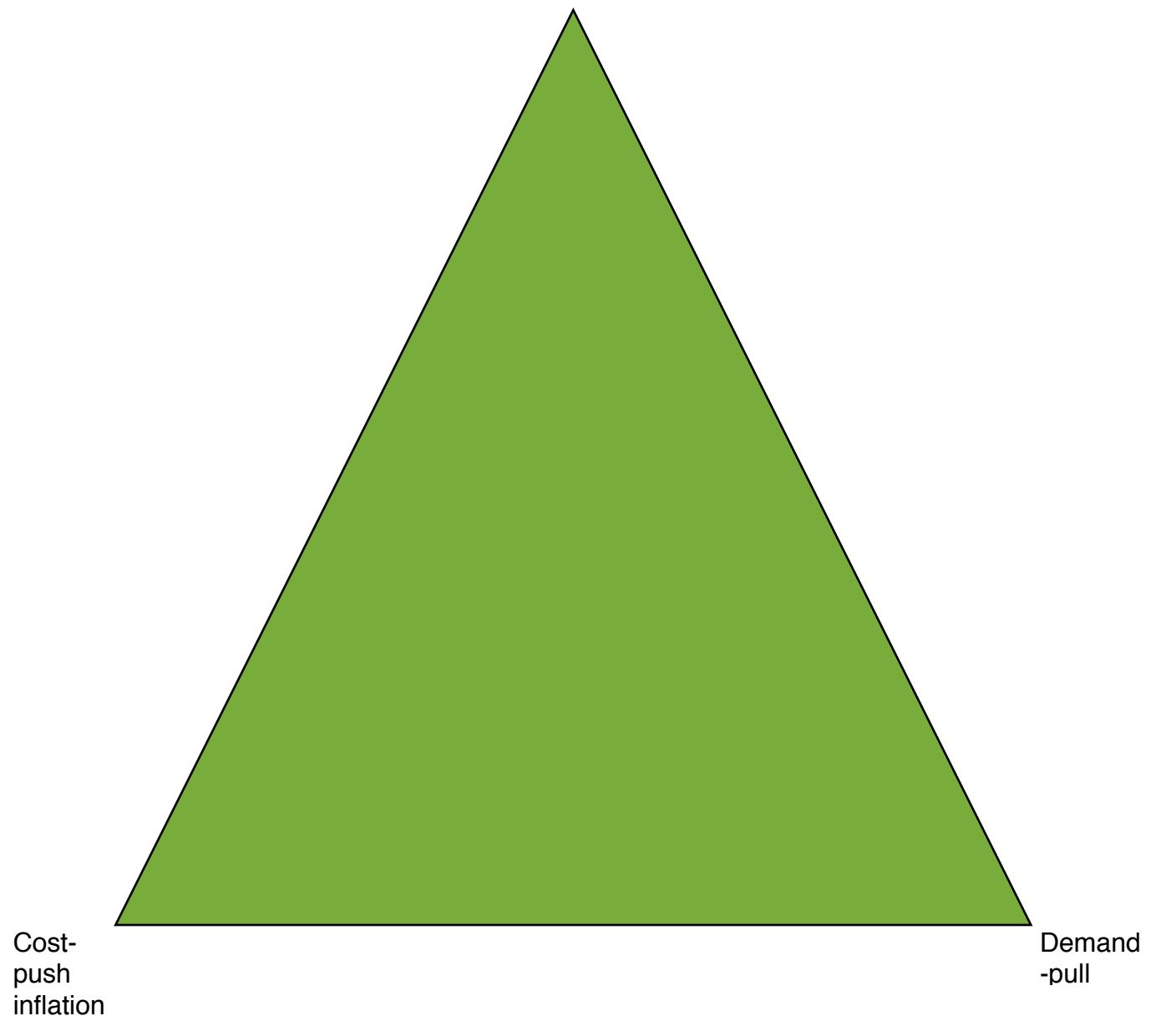
This is all based on thoughts on Arendt.







Built-in inflation



Factor clearing/
full employment

price stability

balanced public budget

trade balance

resources?

growth

possible topics about this tax,
conceptual map

economic cycle diagram

contrast deliberative democracy and
pluralism

education and democracy form a
circle.

Rosenberg's / de Tocqueville's insight
"schools for democracy is profound"

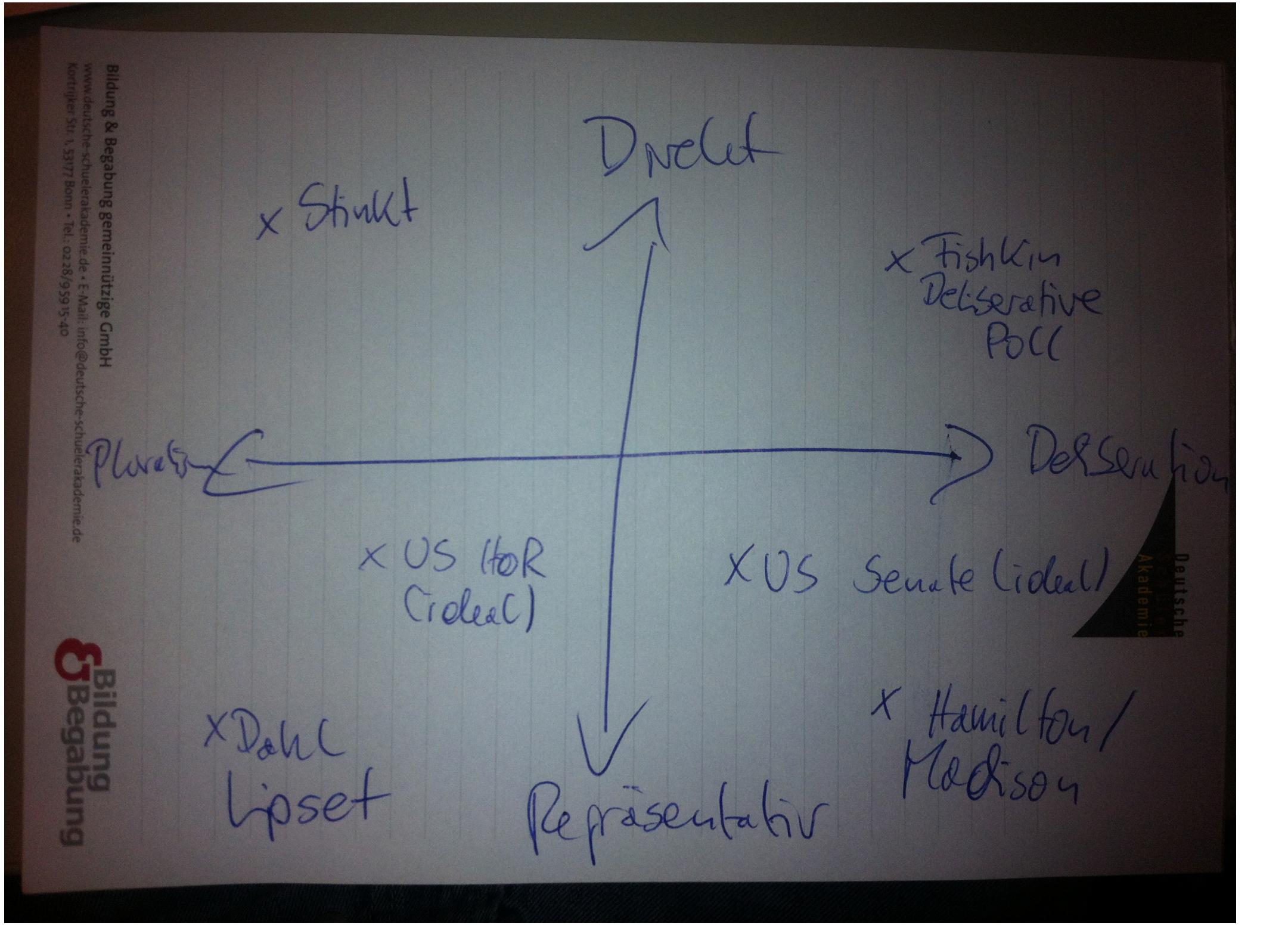
Participation

Is this the triangle of impossibility of
democracy?

Deliberation

Political Equality

Let's see how versions work



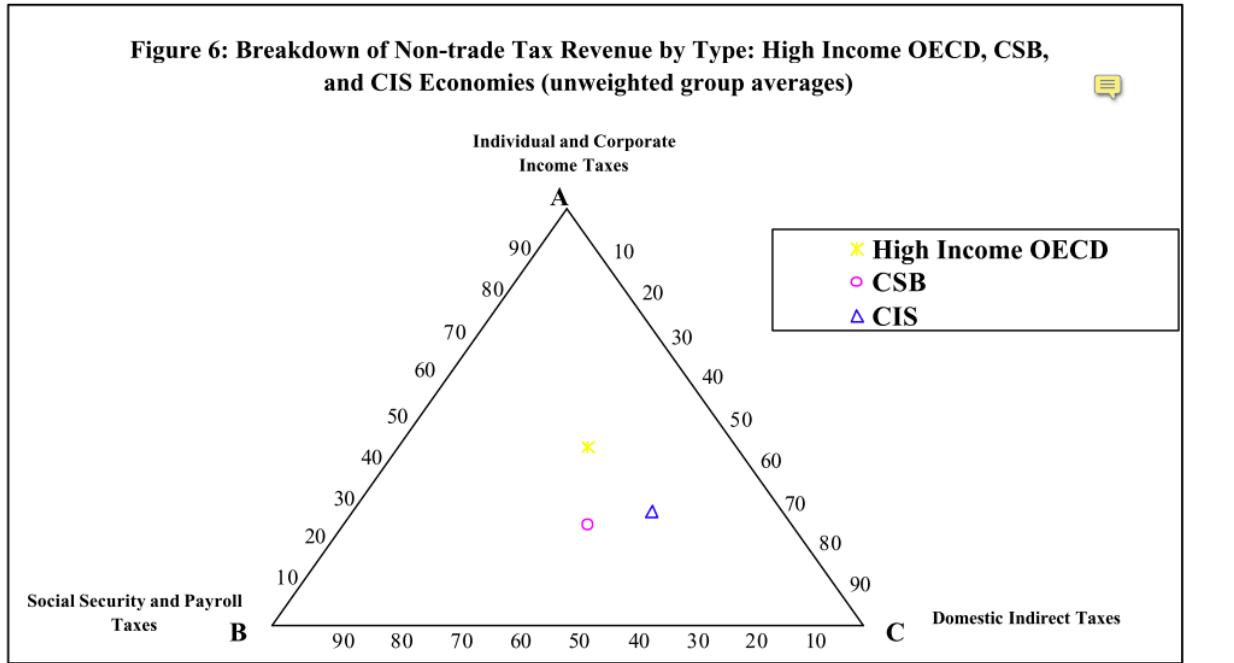
Fiscal Sociology, Monica Prasad at
Northwestern does a regular
workshop on this stuff, via Maureen
Egers.

Big ass diagram of what this is all
about. Thesis mindmap.

There are four particularly important ones in tax: the taxable unit, the tax base, the rate structure, and the timing of tax. Who pays tax? On what? How much? When? These [Read more at location 137](#) • [Delete this highlight](#)

Note: add this to my systematic [Edit](#)

	View of Human Nature	Mode of Production	Mode of Distribution
State	Individual Utility Maximizer	Command	Command
Market	Individual Utility Maximizer	Price System	
Kinship	Inclusive Fitness	Genetic Nepotism	
Community	Group Selection	Identity	
Civil Society	?	?	?



this is from Mitra and Stern 2003

		<i>Rest of World</i>		
		Open Markets	Autarky	\wedge
		\wedge High Taxes	\wedge Low Taxes	Any Tax
Home	Open Markets	?	$x \geq 2$	0
	\wedge High Taxes	?	$x \leq 2$	0
	Open Markets	$x \leq 2$	2	0
	\wedge Low Taxes	$x \geq 2$	2	0
Autarky	$0 < x \geq ?$	$0 < x \geq 2$		0
	0	0		0

The above payoff matrix is not a well-defined, sufficiently formalized game. To adequately model the international political economy, *Rest of World*, ROW, would have to be disaggregated into at least two more players, making a two-dimensional representation of the game impossible. Liberalization and taxation are impossible to be adequately modeled with only two players, for then, autarky of one player would by definition imply autarky of the other player. In real life, at least theoretically, countries could exit from international trade and finance with other countries still continuing on the road to liberalization.

Table 1: A Schematic Payoff Matrix for the International Political Economy of Taxation and Liberalization.

... because it may not be ‘better’

- requires general equilibrium **modeling**, utility functions
- depends on a number of **axioms**

... how would it be specified, implemented?

- requires general equilibrium **modeling**, utility functions
- modeling grunt work

... there is an international cooperation problem!

- requires general equilibrium **modeling**, utility functions, game theory

Why don’t we have it?

(it = a different, better tax, a postpaid, cash flow-based PCT)

... domestic, political (dys)functions prevent it!

- maybe: path dependency, game theory, veto playing, principal-agent, ...

... because people don’t want it!

- survey research, vignette research, experimental economics

Veto playing violates equality (in consociational designs, Tsebelis 2002)

Cooperation Problems
(in complex systems, e.g. Hardin 1968, e.g. Scharpf 1997)

Rational Ignorance
(e.g. Surowiecki 2008, Taleb 2008)

What's (wrong with) pluralist democracy?

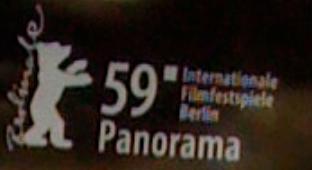
(= group interest representation, aggregative democracy, competition of ideas, e.g. Dahl 1989)

Non-Attitudes
(Converse 1970)

Heuristics & Biases
(Tversky & Kahnemann 1982)

Amalgamated Preferences
(Condorcet 1785, Arrow 1950)

Cognitive Limits
(Rosenberg 2003)



Ein Film von Uli M Schueppel

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Deliberative Democracy: Right over Might

Pluralism / Liberal Democracy

Deliberative Democracy

- power is ok
 - particularistic interests are ok
 - aggregates preferences
 - error cancels out
- egalitarian, ideal speech
 - common good, Rawlsian arguments are ok
 - forms preferences
 - perfecting understanding

Vetted expert panel

Plenary + Small Group

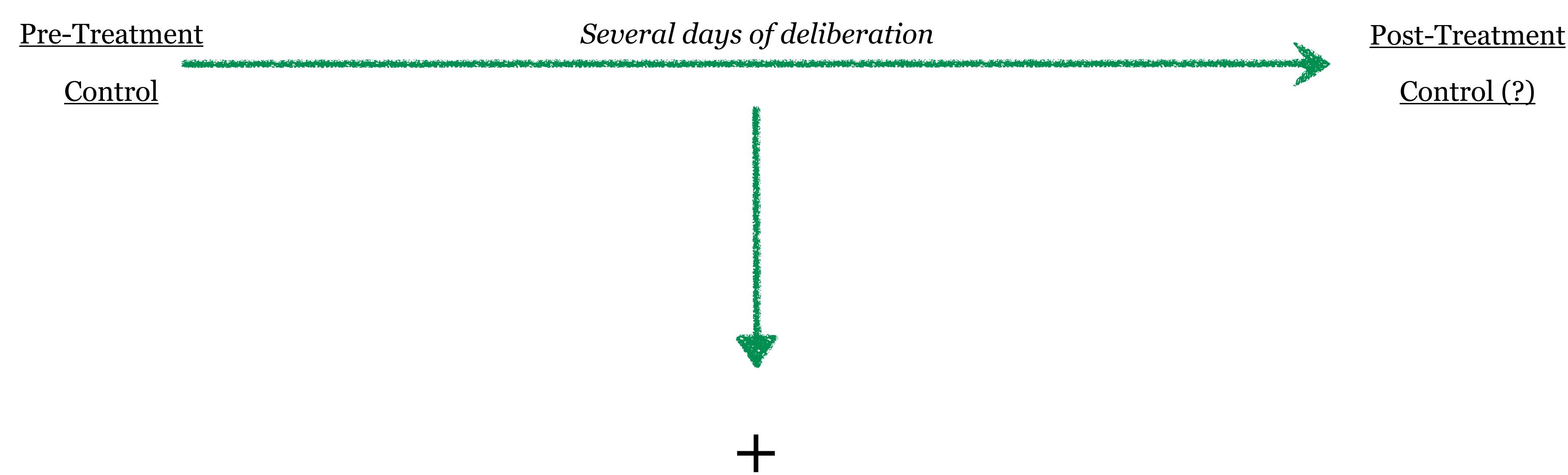
Balanced, unbiased study guides

Trained moderators

Deliberative Poll ®, a quasi-experiment

(Fishkin 2002, University of Stanford: Center for the Study of Deliberative Democracy)

Random sample

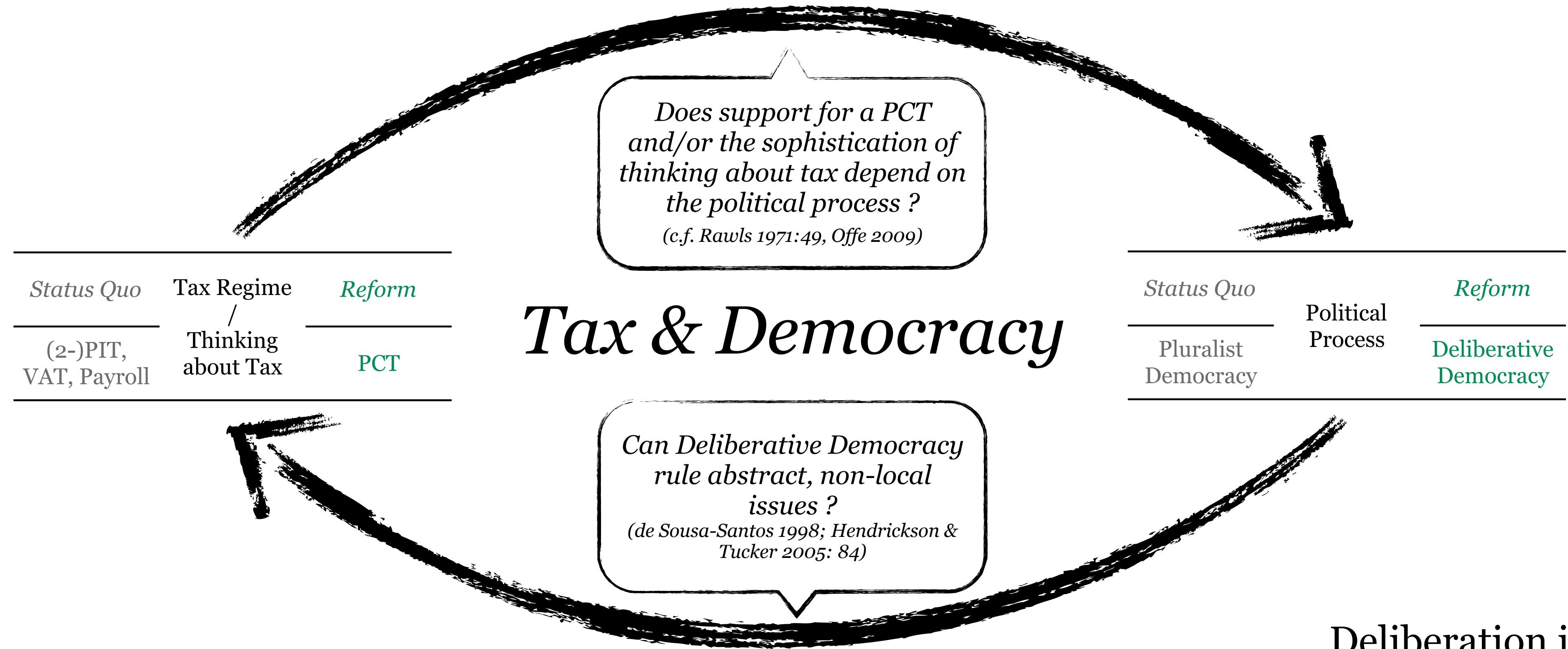


Qualitative Discourse Analysis



- knowledge
- attitudes
- dimensions

Tax is *more*
than a **case**.



Deliberation is *more*
than a **method**.

Mismatch between relevance and understanding.

It's a good case!

High complexity, non-local.
Can deliberative democracy do that?

“last best hope for progressivity” (McCaffery 2002: 197)
& The Welfare State

Why tax?
It's more than a case!

Systematic biases in tax
(McCaffery & Baron 2005)



It controls for other
reasons.

(Path dependency, veto playing,
cooperation problem ...)

It's a good
method!

It makes the PCT
falsifiable.

Deep link between
deliberative and PCT
normative theory (Rawls 1970)

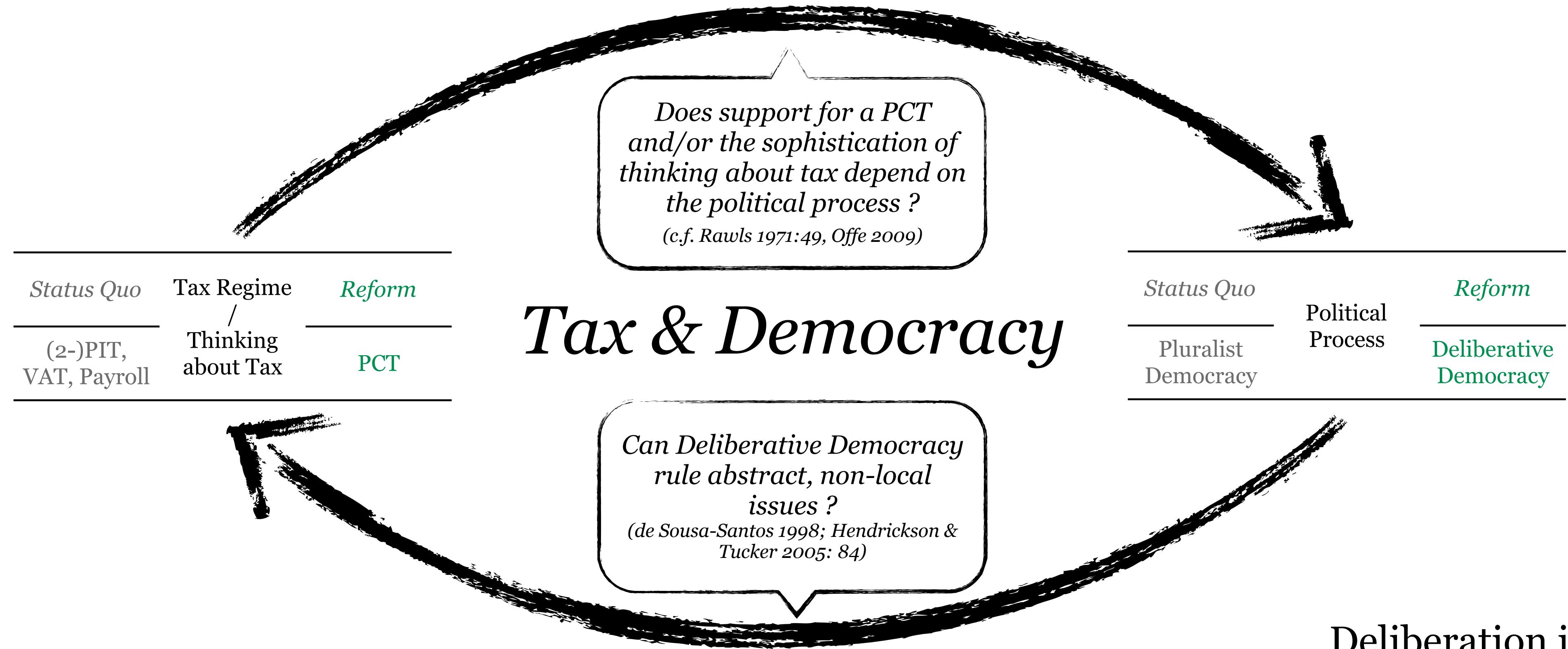
It's more than a
method!

Politicizes the
status quo

(May) alleviate the public
choice problems (Miller 2002).

Why deliberation?

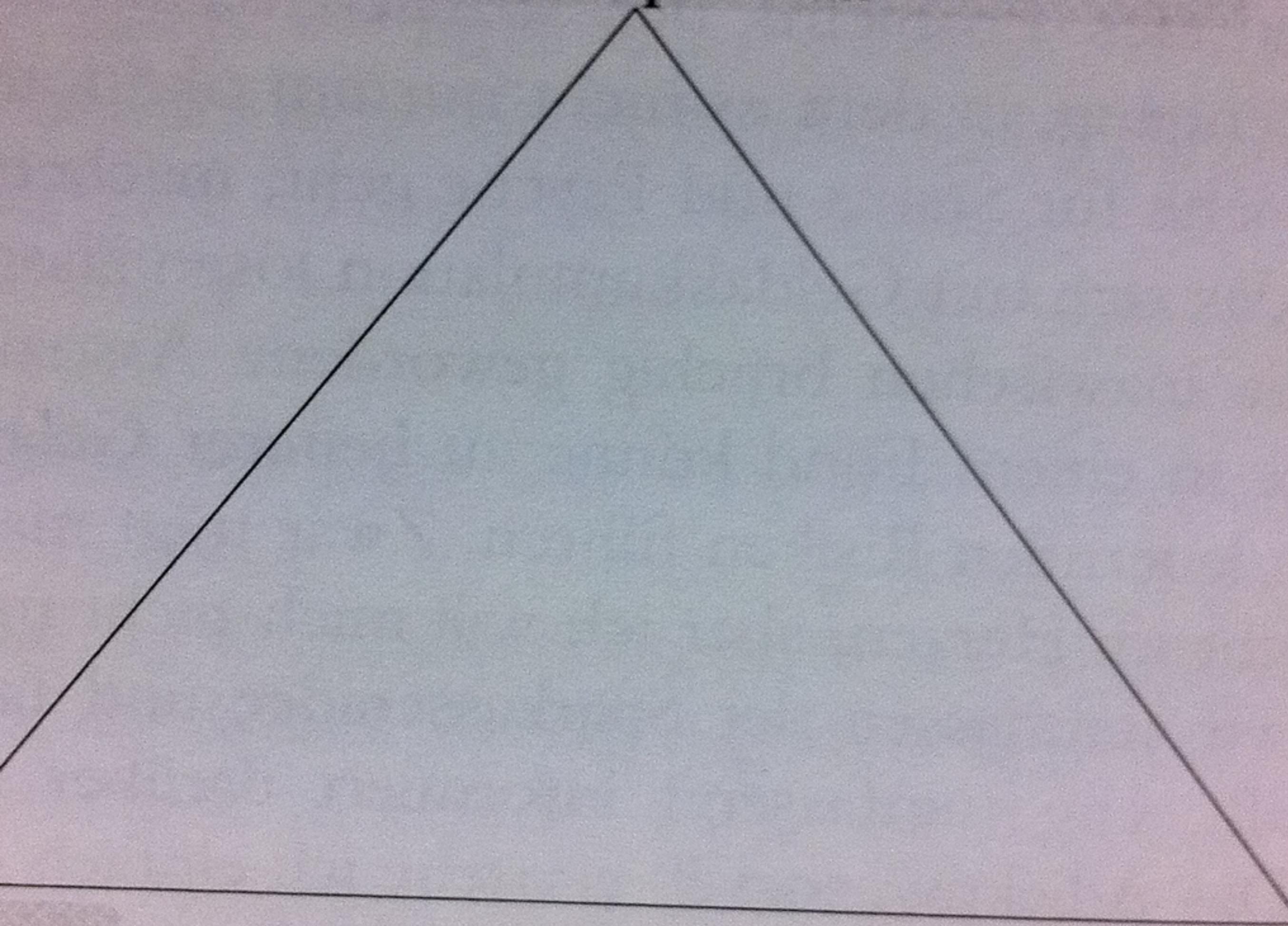
Tax is *more*
than a **case**.



Deliberation is *more*
than a **method**.

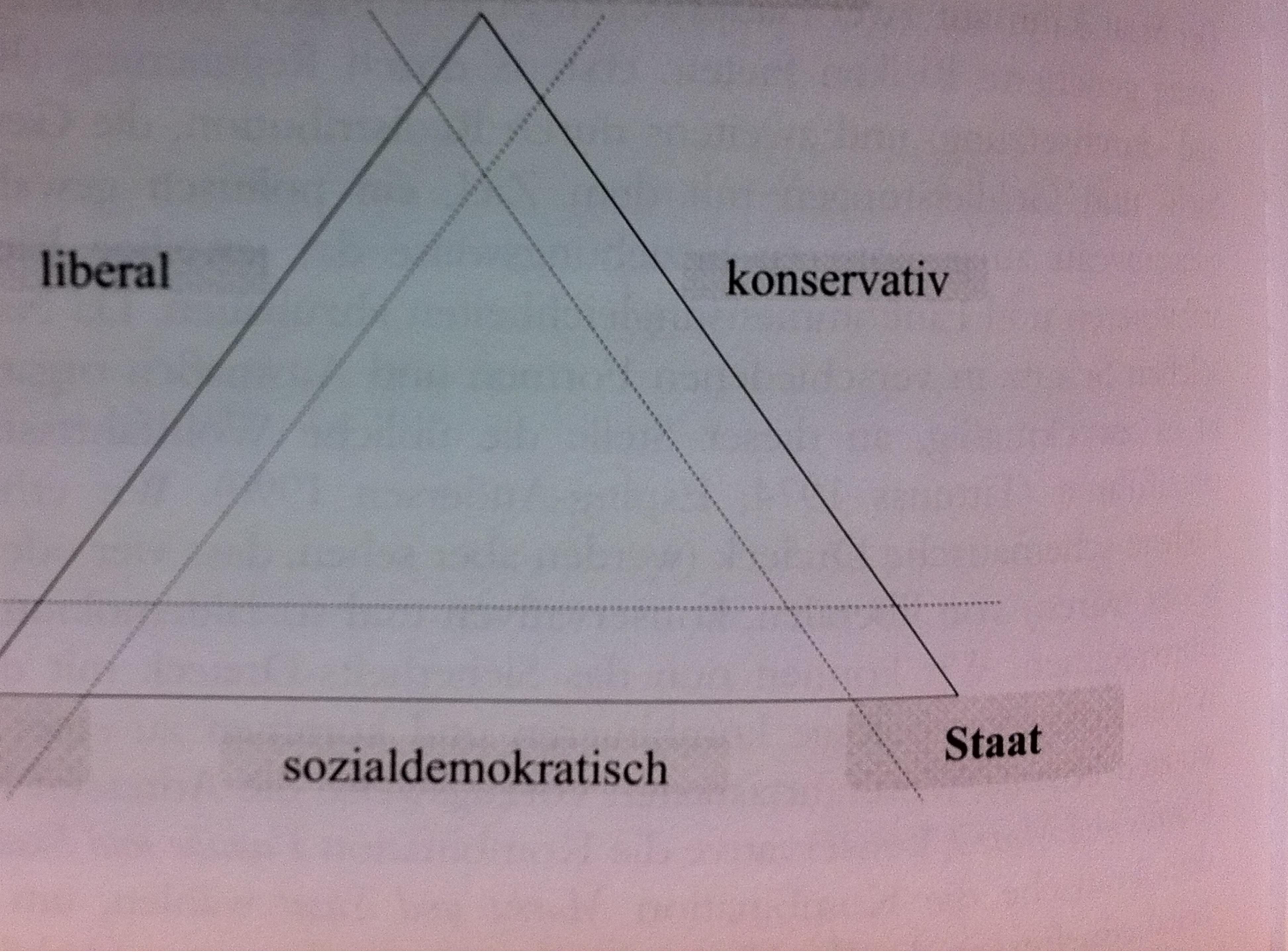
	Bargaining	Voting	Arguing
Bargaining	<i>Ultimatum Game</i>	x	x
Voting	?	Rousseau, Secret Vote	x
Arguing	Collective wage bargaining	University tenure (if it's a good department, there's an effective norm against loarolling)	juries

Reziprozität



Staat
Redistribution

ch



Plutokratie

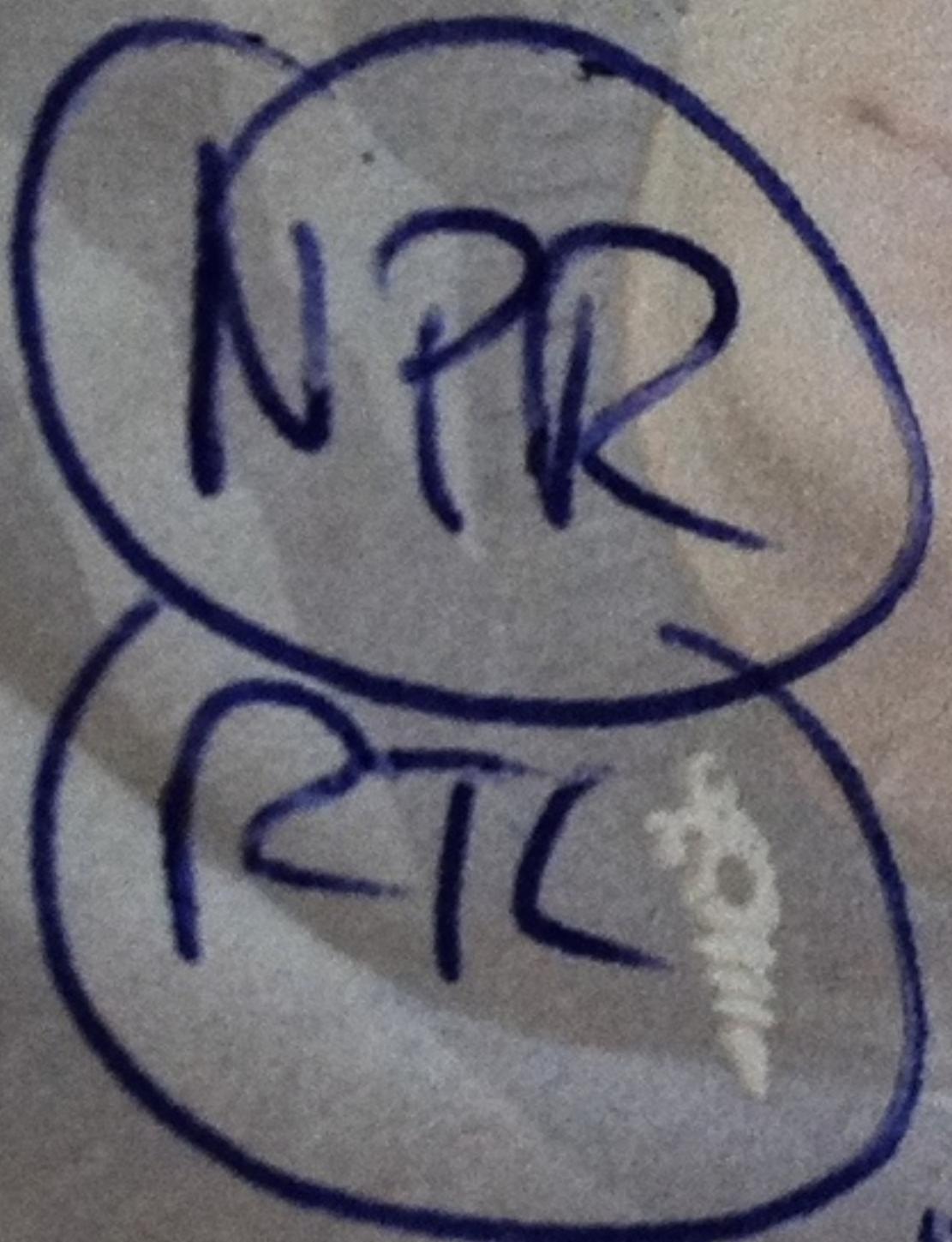
eral

konservativ

sozialdemokratisch

Autokratie

Post



PRIVATE
o o o o → Advergi

This is a stake of mind!

Research Questions & Hypotheses

- What are the **payoffs** of high, **perfect taxation?**
(ordinal approximation)
- What are the **international redistributive consequences?**
- If high, perfect taxation is a social welfare optimum, **why don't we have it?**
- High, perfect taxation is a **social optimum.**
- Universal high taxation **redistributes from developing to developed world.**
(Sidepayments?)
- In a multilevel game, the **twin crisis is a Nash equilibrium.**
(Critical mass?)