

Letter**Competition and redistribution**

From Daniel J Aronoff. Sir, A reform of the US tax code that eliminates loopholes will improve economic efficiency by reducing tax-motivated resource misallocations

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Sir, Regarding Roger Kimball's article "Ted Cruz's tax plan can unshackle America (<http://next.ft.com/content/657d4cb2-1044-11e6-91da-096d89bd2173>)" (May 3): a reform of the US tax code that eliminates loopholes will improve economic efficiency by reducing tax-motivated resource misallocations, including the diversion of spending into the accountancy profession. This aspect of US Senator Cruz's plan deserves bipartisan support. The overall level and degree of progressivity of tax rates, on the other hand, is a matter upon which there is likely to be significant disagreement.

A major source of disagreement concerns the extent to which taxes should redistribute income. Mr Cruz's opposition to redistribution is rooted in two, complementary propositions. One is that it violates property rights (which is a moral and constitutional claim), and the other is the belief that high marginal tax rates lower growth by deterring work effort and investment. Both of these propositions assume the existence of competitive labour, capital and product markets in which workers, investors and consumers have the widest possible array of choices.

When markets are highly concentrated and have high barriers to entry, the ethical and incentive arguments against redistribution are undermined. Income that is earned by extracting monopoly rent does not reflect the decisions made by people who have alternatives to choose from. Monopoly rent is a form of coercion. Likewise, a low tax rate is less likely to motivate a person whose options for employment, investment or consumption are restricted.

In order to make the case against redistribution credible, the government needs to enforce antitrust laws to break up concentrated industries and to lessen the influence of monopoly patents. As pointed out in the recent [Issue Brief \(https://www.whitehouse.gov/sites/default/files/page/files/20160414_cea_competition_issue_brief.pdf\)](https://www.whitehouse.gov/sites/default/files/page/files/20160414_cea_competition_issue_brief.pdf) of President Barack Obama's Council of Economic Advisers, the US economy has become less competitive in recent years. Those who oppose high levels of income redistribution must champion a restoration of competition if they want their ideas to gain widespread appeal.

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