Ideas versus Resources: Explaining the Flat Tax and Pension Privatization Revolutions in Eastern Europe and the former Soviet Union

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1. Introduction

The newly independent countries of the former Soviet Union and Eastern Europe were among the most enthusiastic adopters of free market reforms. In the 1990s, not only did they adopt most of the policies of the “Washington consensus” advocated by international financial institutions, such as trade and price deregulation, enterprise privatization, currency convertibility, and monetary stabilization (Williamson 1991), but they went beyond the Washington consensus to adopt second generation reforms like the flat tax and pension privatization (O’Dwyer & Kovalcik 2007). These second stage reforms replaced progressive tax systems with a single personal income tax rate and social security pension systems with pensions based on individual savings accounts. While not widely accepted or practiced in the advanced industrialized countries, these bold, if not radical, liberal reforms spread throughout Eastern European countries during a short period of time from the mid-1990s to the mid-2000s (Figure 1).

Pension privatization and the flat tax, like other second-stage institutional reforms (Naim 1994; Birdsall & Graham 1998; Krueger 2002), were enacted in an effort to attract foreign investment. Both benefited the rich more than the poor and both signaled a government commitment to the free market. While advocates often claim that the flat tax increases government revenues and is therefore easy to implement, in fact both are costly reforms,
entailing substantial increases in government debt in the case of pension privatization and foregone revenue in the case of the flat tax.\(^2\) We find that these highly similar liberal reforms differed in one crucial respect. The established international financial institutions (IFIs) and other Washington-based organizations allocated enormous financial resources to support the adoption of pension privatization in Eastern Europe and the former Soviet Union, but they did not support the adoption of the flat tax. Instead, the flat tax was disseminated by a coalition of mostly domestic policy entrepreneurs connected through networks of liberal think tanks. While many of these regional think tanks were supported by their counterparts in the West, they were not able to deploy the overwhelming financial resources or delegated legitimacy (Barnett & Finnemore 2004) of the IFIs.

A comparison of the diffusion of these two policies thus enables us to contribute to a hotly debated question in political economy: In the international diffusion of policy reform, is the use of resource coercion and conditionality more important than the diffusion of ideas? Our study suggests that ideas can be powerful forces for change when spread through existing networks or communities of like-minded policy experts, even in the absence of resource coercion. Resources do affect the speed and patterns of dissemination, but they were not required for the diffusion of investor-friendly economic reforms in Eastern Europe.

These findings represent a new perspective in a literature that has emphasized the impact of coercion and material incentives over norms and ideas in East European policy choice. Much of the literature on postcommunist change has sought to disentangle internal and external influences on institutional change (Jacoby 2006; Levitsky & Way 2006; Bunce & Wolchik 2011; Borzel & Risse 2012). In particular, many scholars have emphasized the importance of European Union (EU)
membership conditionality for shaping the policies of prospective new member states (Grabbe 2003; Kelley 2004; Schimmelfennig & Sedelmeier 2004; Vachudova 2005). Kelley (2004; 2006), for instance, showed that countries seeking to join the EU complied more often with norms when non-compliance was sanctioned through material coercion or the threat thereof. Vachudova (2005) demonstrated EU membership conditionality has been the most important force for policy change in East European countries during accession, especially in states governed by illiberal regimes that were immune to ideational appeals. Schimmelfennig & Sedelmeier (2004, 671), emphasize an “external incentives model and in particular . . . the credibility of EU conditionality and the domestic costs of rule adoption,” rather than norms to explain East European policy choice. Scholars likewise have expressed concern that new East European member states will no longer comply with EU rules once the “carrot” of EU membership is gone, though some studies show that the adoption of EU directives has been quite high (Sedelmeier 2008). In this literature emphasizing the power of conditionality, ideas are thought to produce occasional compliance primarily in states with Western-oriented liberal governments.

A comparison of the diffusion of the flat tax and pension privatization provides leverage into these debates since both of these policies spread rapidly throughout Eastern Europe at more or less the same time as EU membership negotiations. Yet the EU demanded neither of these policies as a requirement for accession. Moreover, not only did East European countries adopt these programs without any EU coercion, they did so without emulating EU countries. No EU countries had implemented a flat tax previously; and only a handful of countries had partly privatized pension systems (and then in ways that were mostly different in nature from the types of reforms that spread in
Eastern Europe). Indeed the only emulation occurring in the adoption of second stage reforms was emulation by one post-Communist government of another.

Competition, one of the four mechanisms of policy diffusion identified by Simmons, Dobbin, & Garrett (2008) (coercion, competition, emulation, social learning) is particularly relevant to the diffusion story of second stage reforms. Indeed East European policy reforms after 1989 occurred under conditions of intensifying regional and global economic integration. Swank (2008), Keen et al. (2006), and Frye (2010) all find competition to contribute to the spread of liberal policy ideas. Frye writes, “The need to attract foreign investment and satisfy international financial institutions compels governments of all partisan hues to pursue similar policies if only through a process of competitive emulation” (Frye 2010 13). Keen et al. write, “The flat tax has commonly—almost universally—been adopted by new governments anxious to signal a fundamental regime shift, towards more market-oriented policies” (Keen et al. 2006, 37). After the collapse of Communist regimes, East European countries were starved for capital and desperately needed investment to rebuild their economies. They competed with one another to attract foreign investors and implemented second-stage reforms to convince foreign investors of their commitment to creating an excellent investment climate (O’Dwyer & Kovalcik 2007). Given this context, these countries were open to policies that claimed to be pro-investment, long after the end of the so-called period of “extraordinary politics” that some thought created a unique window of opportunity for liberal policy reform (Balcerowicz 1995).

It is understandable that Eastern European policymakers would perceive a relation between liberal economic reform and foreign investment. The data support the correlation. Indeed, while countries in Eastern Europe as a group liberalized more dramatically than any other region of the world
from 1990-2006 (Gwartney, Lawson & Hall 2011), they also experienced a boon in foreign investment over the same period. At the height of the bubble in 2007, IMF data show that Central and Eastern European states had the highest net financial inflows per GDP of any countries in the world, outpacing developing Asia and Latin America by a factor of two (Becker et al. 2010, 5). One recent study shows that adoption of pension privatization was correlated with a 57.4 percent increase in the rate of foreign direct investment per GDP, largely as a result of signaling (Reece & Sam 2011). Whether or not second generation reforms actually increased investment, they appeared to have been effective signals that those governments and countries enacting them were open for business. The policy entrepreneurs behind these second stage reforms were crucial in selecting and promoting these particular programs among a menu of possibilities.

Policy-based competition for capital creates opportunities for policy entrepreneurs to define the policies that best appeal to and capture the attention of foreign investors. Policy diffusion occurs under conditions of international competition because leaders are looking for policy solutions and signals to investors. IFI and liberal reform networks compete to provide those policy ideas that they believe will facilitate market investment and growth. The World Bank has tremendous legitimacy in this area, seen as an institution whose imprimatur signals opportunities for investment. Among other activities, it regularly evaluates the business climate in most developing countries through the World Bank’s “doing business index.” The status of its loans to particular governments signals the credit worthiness of countries and affects their ability to gain credit in private capital markets. In addition, the support of the World Bank heightens the legitimacy of policy proposals in domestic political debates.

In the case of pension privatization, a group of high-powered IFIs and other organizations including the OECD, USAID, and the US Treasury actively engaged in spreading the reform.
With unparalleled resources, the World Bank and affiliated organizations were able to place pension privatization on government agendas throughout Eastern Europe, financially support reform teams, provide multiple years of technical assistance, and run public relations campaigns in support of reform (Orenstein 2008). In promoting the reform, the World Bank (1994) argued that it would create new domestic resources for savings, investment, and growth. In the case of the flat tax, free market think tanks made their case for flat taxes without the support of the IFIs. The flat tax advocates argued that a simple, pro-business tax code would lead to higher rates of investment and growth. We hypothesize that policy competition between East European states empowered both types of entrepreneurs and policy networks to succeed in promoting new investor-friendly reforms.

Our central research question is: did the resources of the policy networks advocating reform matter significantly in determining the spread of such policies under highly competitive conditions? We would anticipate that the policy network with larger financial resources would have greater success in speeding the adoption of reform in more countries. However, our main finding is that this effect is less significant than one might imagine. The flat tax, supported by a policy network with far fewer resources, took slightly longer to disseminate, but actually spread to a larger number of countries. This suggests that networks armed with little more than ideas and expert authority were able to facilitate the diffusion of costly reforms under conditions of intense interstate competition for capital, when the reforms they were spreading were perceived as pro-investment.

2. The Reforms

The Pension Privatization Campaign
Between 1998 and 2004, fourteen post-communist countries partially or fully privatized their social security type pension systems and implemented systems of individual, private pension savings accounts (Table 1). Pension privatization represents a new paradigm in pension system governance and organization that was adopted in many Latin American countries following the 1980-81 Chilean reform experiment (Weyland 2005). The speed with which these reforms were adopted in post-communist countries is surprising because radical institutional changes like pension privatization are normally subject to intense domestic contestation, which can slow or prevent policy change, as in West European countries or the United States during the same time period. Pension privatization radically alters the social contract in place since the end of the Second World War in most countries, in which current workers fund the retirement of current retirees. It places the onus on personal savings and often is far less redistributive. Pension privatization tends to reward those with high incomes and consistent, long-term work histories. It often is introduced in an effort to control the costs of state-managed social security systems and therefore to reduce overall replacement rates – the proportion of previous income replaced by a pension. Since privatization has such important distributional consequences, the fact that so many countries could adopt it in so short a time seems nothing short of miraculous.

Pension privatization in post-communist countries came in several different forms. Some countries like Kazakhstan and Kosovo fully replaced their social security type pension systems with ones based on individual pension savings accounts, as in Chile. Most others carved out or diverted a part of the social security contribution to fund individual accounts, leaving beneficiaries with a reduced state pension and a new private pension fund. This mixed model was adopted in Hungary and Poland. Some countries enabled workers to choose whether to
participate in a new private system. In some countries, rules changed significantly during implementation, and especially after the 2008 financial crisis, when many fiscally strapped states sought relief at the expense of future pensions (Chłonia-Domińczak & Stańko 2011).

The Diffusion of Pension Privatization

The World Bank and a coalition of other IFIs and bilateral aid agencies were central to the spread of pension privatization in Eastern Europe, creating and supporting an international network of policy officials to advance this reform. The World Bank (1994) publication, *Averting the Old Age Crisis*, a major report commissioned by then Chief Economist Larry Summers, galvanized a core group of pension reformers at the Bank that went on to train and advise pension officials in dozens of countries around the world. The report raised an alarm that demographic aging was causing a global crisis in social security type pension systems, increasing the size of retired cohorts and placing unexpected burdens on current workers. A new policy response was needed. The World Bank not only developed a template for reform in this 1994 report, but also fostered a global network for pension privatization by training and recruiting new members in courses run at Oxford and Harvard universities as well as through the World Bank Institute Washington, DC. This network intersected with and built upon a pre-existing network of liberal reformers in Latin America. The Bank, for instance, put a prominent Argentine pension reformer in charge of the World Bank Institute’s pensions courses in Washington, DC,
courses that reached out through local and regional seminars and teleconferencing to pension officials and supporters worldwide.

Once it had recruited local supporters, the Bank used its resources to advance reform design and implementation in country through financial and technical assistance and to provide loans to cover the transition costs of switching to private account systems (Madrid 2003; Müller 2000, 2003; James & Brooks 2001; Brooks 2005). In Poland, for instance, the World Bank enabled one of its top pension officials to go on leave to become head of the Office of the Plenipotentiary for Pension Reform in the office of the prime minister. It also designed a public relations campaign to convince legislators and opinion leaders by, among other things, bringing some of them on a tour of Chile. In addition, the World Bank used its resources to provide career incentives for reform officials. After implementing pension privatization in their home countries, leading reformers often were hired by the World Bank to advise on reform efforts in neighboring countries, or even to serve a stint at the World Bank in Washington, DC.

A careful study of World Bank loans for pension reform shows that they were quite substantial and heavily concentrated in the period between 1995 and 2007. Between 1984 and 2007, the World Bank lent about 7.5 billion dollars globally for pension reform. Most of that lending occurred during the 1995-2001 period, when the World Bank lent 5 billion dollars for pension reform projects. An additional 2 billion dollars was lent between 2002 and 2007. In the decade prior to 1994, the World Bank had lent less than 500 million dollars for pension projects (Hinz et al. 2008, 11). After 1994, most of this money went to fund the privatization of pension systems, though some also went for reform of social security type pension systems (World Bank...
2006, 13). Eastern European and Latin American countries were the main recipients of World Bank pension loans.

Yet, the World Bank was not the only organization providing financial resources to the worldwide pension privatization advocacy network. A variety of IFIs and other organizations brought additional resources to bear on countries considering pension reform. The IMF supported pension privatization in Eastern Europe, in part by allowing pension debt not to be counted in total country debt levels. USAID provided technical assistance to countries privatizing their pension systems, often funding in-country technical work for eight years or more. USAID sponsored and managed the creation of a pension regulatory agency in Hungary, for instance, and the creation of a system of social security numbers in Kazakhstan, work that was replicated in Croatia, Kosovo, Macedonia, Slovakia, Romania, and the Baltic states (Orenstein 2008, 144-5). The Organization for Economic Cooperation and Development (OECD) promoted pension privatization vigorously and established a transnational network of private pension fund regulators. Network donors coordinated their efforts in each country, sharing responsibility and contributing diverse resources.

This well-resourced network campaign for pension privatization quickly bore fruit. Hungary and Poland, two regional reform leaders, were the first post-communist countries to privatize their pension systems, along with Kazakhstan, whose central banker attended a World Bank seminar and then quickly moved to adopt the privatization model (Ibid., 130-31). Hungary carved out a six percent payroll tax contribution to individual pension savings accounts, while Poland’s tax reached 7.3 percent (Table 3). Kazakhstan and Kosovo planned to completely replace their existing social security pension systems with ones based on individual, private
pension savings accounts. Ultimately, fifteen post-Communist countries adopted partial or full replacement of their state social security systems with systems of individual pension savings accounts, though Hungary dismantled its privatized system in December 2010, bringing the net total to fourteen when the Czech Republic partly privatized its pension system in 2011³.

[Table 3 About Here]

To some extent, the resources that IFIs were able to mobilize in support of pension privatization shape the patterns of reform observed. For one, pension privatization spread more quickly and sooner than the flat tax in Eastern Europe. Whereas the flat tax adoption in the Baltic states in 1994-96 was not duplicated until Russia in 2001, pension privatization quickly gained acceptance in former communist countries after 1998 (Table 1). More than half the countries adopting pension privatization did so in 2001 and 2002 – in the lead-up to EU accession. Similarly, we find that the first adopters were the major reform countries Hungary and Poland, rather than the small Baltic states, which may be related to the IFIs controlling sufficient resources to push reform in larger countries. Finally, in the case of pension privatization, both right and left governments supported it at least in the pioneering countries. Poland set the pace in this respect. Its pension privatization legislation was passed by successive governments of the right and left and was approved by both right- and left-wing trade union movements. Hungary likewise privatized its pension system under a left-liberal coalition government. Both countries had reformed former communist parties with dominant liberal reform wings (Grzymala-Busse 2002). However, the resources and delegated legitimacy of the IFIs may have influenced left governments to act regardless of their hue, whereas the flat tax has largely remained a right-wing government reform as discussed below.
Pension privatization has, however, proven vulnerable to limited setbacks after adoption. During the global financial crisis, governments came under severe fiscal pressure and sought relief at the expense of pension privatization. A number of post-communist governments cut contributions to their privatized pension systems as a form of a tax holiday to reduce pressure on government borrowing (Chłoń-Domińczak & Stańko 2011). Hungary, under a right-wing government, essentially disbanded its system of mandatory, private pension savings accounts in 2011. It effectively seized individual pension assets and transferred most workers back to the social security system, using the pension fund assets to pay off government debt. Slovakia made contributions to individual accounts voluntary rather than mandatory, a measure which also reduced transition costs.

Between 2005-2010, however, no Eastern European country enacted pension privatization. While there may be several reasons for this, one likely cause was a change in the World Bank’s thinking about, and approach to, pension privatization worldwide (Matijascic and Kay 2006; McCord 2010; Orenstein 2011). In the mid-2000s, a number of World Bank reports began to express skepticism about the Bank’s pension privatization campaign. In 2005, Gill, Packard, & Yermo (2005) published a tough internal criticism of World Bank pension advice in Latin America, arguing that pension privatization had saddled early clients with enormous fees. And in 2006, an internal World Bank evaluation report chastised the Bank’s pension privatization campaign for pursuing reform in countries that lacked necessary preconditions and for failing to address issues of pension system coverage and adequacy (Kay & Sinha 2008, 6-7). Changes in thinking about pension privatization from within the World Bank itself appear to have had a major impact on the willingness of post-communist countries to enact reform, despite
the fact that the World Bank continued lending billions of dollars in this area. This suggests that IFI ideas, rather than resources alone, were responsible for the spread of these reforms. When the ideas within the World Bank changed, diffusion stopped, despite the continued deployment of resources. In 2011, the Czech Republic ended the drought of pension privatization in Eastern Europe with a voluntary system in which enrollees could opt to save an additional two percent of payroll tax free in an individual account, at which point three percentage points of their social security contribution would be redirected to this individual account (Drahokoupil and Domonkos 2013). This represented a change in approach in Eastern Europe towards voluntarism and incentives to save rather than mandates. It appears to respond to some of the toughest criticisms of individual accounts and may reflect emerging trends in transnational pensions discourse. It remains to be seen whether this represents a renewal of pension privatization in Eastern Europe with somewhat different instruments and techniques.

The Flat Tax Revolution

At last count, twenty-one post-communist countries have implemented some form of the flat tax (Table 1). While these economies are regionally concentrated and all had to cope with similar legacies from decades of communism, their economies and political systems are now quite diverse, ranging from EU member states with thriving democracies and effective capitalist institutions to sultanistic autocracies with weak economic institutions. Nonetheless, they share a common approach to taxing personal income, such that a single rate is applied to the earned income of all taxpayers (usually above a certain basic threshold) regardless of whether the taxpayer’s income is low or high.
The variation in the designs of the flat tax programs across the region is limited and some clear general patterns have emerged. The flat rate is applied typically over a threshold, thereby maintaining a modicum of progressiveness in personal income taxes. Thus, the very poorest citizens may still pay a zero percent tax rate. In most cases, the flat tax reform lowered the top marginal tax rates on personal income, with the exception of Latvia and Lithuania, two early flat tax countries that set their flat rates at the top marginal rates. In some countries the overnight tax cut for the taxpayers with the highest income was enormous. For example, in Ukraine in 2003 the flat tax program reduced the top rate from 40% to 13%. In Bulgaria in 2008, the top marginal tax rate fell from 24% to 10%. Similarly, in Russia the top rate fell from 30% to 13% whereas in Slovakia the top rate fell from 38% to 19%. In all of the Baltic countries, Russia, Ukraine, and Slovakia, the bottom statutory tax rate increased. However, the increase in the nominal tax rate on the poorest citizens tended to be offset by means-tested welfare side payments. A common feature of flat tax programs was the inclusion of additional tax benefits or welfare payments based on family size (as in Ukraine and Slovakia) or pension status (as in Russia). Moreover, the threshold under which income was not taxed in many cases was increased modestly or substantially. The impact of the flat tax on middle income earners tended to be neutral (Eurostat 2010). In sum, the greatest immediate winners of the flat tax were those at the top of the income distribution. For the change in the tax brackets and rates in the year before and after the adoption of the flat tax program, see Table 4.

[Table 4 About Here]

Advocates of the flat tax emphasize various benefits, typically sidestepping the distributional consequences. First, proponents argue that the lower tax rate will generate more
revenue through the so-called Laffer effect, which theorizes that taxation above an optimal rate reduces overall revenue. When a low flat rate is set, revenue grows since the lower rate drives taxpayers out of the shadow economy. Second, they argue that the lower rate may increase the tax base since the new lower rate lessens distortions and creates incentives for greater economic activity. As a result, the government can collect more revenue by drawing from a larger pool. Third, a simpler tax system has lower administrative costs and is easier for citizens to pay and for governments to administer. In bureaucracies with low capacity like countries emerging from Communism, a simple tax system has clear advantages. Fourth, proponents argue that a flat tax enhances a country’s regional and international competitiveness. The flat tax demonstrates an embrace of free markets and signals to investors the government’s commitment to economic reform.

Despite its theoretical appeal, the budgetary impact of the flat tax was significant and sometimes even quite costly in the near term. While some observers accept the possibility that the flat tax created some sort of supply-side effect (the Laffer effect) in countries like Slovakia and Russia, the question still remains just how much new economic activity resulted directly from the single tax rate. According to IMF calculations in 2006, personal income taxes as a percentage of GDP increased only in Latvia, Lithuania, and Russia in the year following the reform. In Latvia and Lithuania, this was expected since the government raised the flat tax rate to the top marginal rate, generating a nominal tax rate hike for most taxpayers. In most other instances, personal income tax revenues fell after the adoption of the flat tax, undermining the promise of the Laffer effect. Even in Russia’s celebrated flat tax reform, scholars have shown that the productivity response was quite low in the years following reform (Gorodnichenko,
Furthermore, sophisticated analysts have had a hard time isolating the effect of tax reform from factors related to Russia’s energy boom (Ivanova, Keen & Klemm 2005, Kwon 2003). The impact of the flat tax on personal income tax revenues as a percentage of GDP is provided in Table 1.

The Flat Tax Diffusion Pattern

Countries adopted the flat tax in waves, often following the lead of nearby countries. The first post-Communist country to introduce a flat tax was Estonia in 1994, prompting the first wave. Within three years both of Estonia’s Baltic neighbors had followed suit. Russia in 2001 became the fourth post-Communist country to implement a flat tax as part of a broad package of fiscal reforms, prompting a second wave. In 2003, Ukraine’s parliament decided to match Russia’s 13% tax rate. In 2004, Slovakia gained widespread attention by introducing a flat tax rate of 19% on personal income, corporate profits and consumption (VAT). This tax cut on personal income halved the rate levied on top income earners. Shortly thereafter, the parliament in Georgia voted overwhelmingly in favor of a 12% flat tax rate beginning in 2005. With similar enthusiasm, the new Romanian government led by Prime Minister Basescu rushed to introduce a flat tax in January 2005. In 2007, the flat tax continued its sweep through the Western Balkans in a third wave, with Macedonia adopting a 12% flat tax rate, Albania adopting a 20% flat rate (which the government then cut to 10% the next year) and the newly-independent Montenegro dropping to a 9% flat rate. In 2008, Bulgaria and the Czech Republic were next to implement a flat tax, followed by Belarus in 2009. In 2010, the Hungarian parliament voted to adopt the flat tax for 2011. In Central Asia, Turkmenistan (2005), Kyrgyzstan (2006) and Kazakhstan (2007) all adopted a flat tax at an equal statutory rate of 10%. Even in the exceptional post-Communist
countries where the flat tax has not (yet) emerged, namely Slovenia and Poland, there has been a partial flattening of personal income taxes in 2007 and 2009 respectively (Majcen, Verbic, & Cok 2007, 9; OECD Economic Surveys: Poland 2008, 14).

In contrast to liberal pension reform or earlier market reforms like mass privatization, the flat tax did not receive the support of the international financial institutions. Indeed the flat tax gained momentum not due of the IMF, but in spite of it. For many years, the IMF’s Article IV country missions warned governments that marked reductions in personal income taxes were unaffordable and inadvisable. For example, in Estonia the IMF discouraged the government from adopting the flat tax in anticipation of severe budgetary shortfalls. When Lithuania and Latvia followed Estonia’s example in the years to follow, the governments made the flat rate equal to the top personal income tax rate to protect against these warnings of lost revenues. In Kyrgyzstan in 2001, there was strong interest in collapsing the tax rates in 2001, but the IMF’s Article IV mission team, having calculated the revenue expectations for the 2002 budget under multiple scenarios, advised that the tax base was not adequate to handle the substantial reduction in tax rates. According to a leading advisor on Kyrgyz tax reform, there was momentum and parliamentary support to adopt a flat tax, but the President responded to IMF pressure and thwarted flat tax reform. Instead Kyrgyzstan adopted a two-tiered PIT program, and a single rate PIT system waited until 2006, after a critical mass of countries had adopted the single rate.

In the case of Slovakia, the IMF representatives in the Article IV Consultation in 2003 expressed serious concerns about the budgetary impact of the flat tax and encouraged Slovakia to implement it over three years rather than one year as the government preferred. In Romania, the IMF opposed any tax cuts given expected budgetary gaps, and was actively promoting tax
increases, especially in consumption taxes (Heath 2006, 97-98). The former head of the Fiscal Affairs Department of the IMF unambiguously opposed the flat tax, arguing that flat taxes were a poor policy choice in economies with great income inequality.9

In a similar vein, the European Union did not advocate flat taxes in Eastern Europe. Personal income tax rates were outside the competence of the EU and the Commission remained silent on flat tax reforms across the region. By contrast, leaders in old member states did speak out against low corporate income taxes in Eastern Europe shortly prior to accession—despite the fact that corporate tax rates largely fell outside the EU’s domain. However, East European leaders rejected these criticisms with apparent offense (Appel 2011).

Given that neither the IMF nor the European Union was behind this liberal economic reform, how did the flat tax spread to so many countries? Instead of a unified, well-endowed, multilateral actor, a network of formal and informal like-minded politicians and organizations facilitated the diffusion of the flat tax. There were numerous actors, NGOs, think tanks, and political parties who made the flat tax central to their political agenda and who collaborated and supported each other, ultimately leading to a region-wide movement of policy innovation. These informal cross-national networks of politicians, Ministry of Finance officials, and policy specialists on the right were dense and far-reaching.

At different stages of the diffusion, elite actors like prime ministers, finance ministers, and the leaders of right-of-center parties met to support each other’s campaigns for the flat tax and shared with each other draft programs and studies. For example, then Czech Prime Minister, Mirek Topolanek, invited Slovak, Hungarian and Polish conservative party leaders to hash out
flat tax programs and learn from the Slovak reforms (ČTK, January 25, 2005). The Slovak Prime Minister vaunted that Poland’s Prime Minister asked to see his entire plans for reform (Kandell 2004, 1). And Slovakia’s revered Finance Minister, Ivan Mikloš, made frequent public appearances to support flat tax agenda of ODS, the main Czech right-wing party (Palata 2006). Mart Laar the former Estonian Prime Minister became an economic adviser to Georgian President Mikhail Saakashvili. Earlier Georgia’s Prime Minister, Zurab Zhvania, invited Russia’s deputy minister for Economic Development and Trade, Mikhail Dmitriev, to consult on tax reform prior to Georgia adopting the flat tax (Imedi TV, Tbilisi, in Georgian, May 28, 2004, translated by Financial Times, May 28, 2004). Likewise, Ukraine’s finance minister, Mykola Azarov made reference to his detailed discussions with Gennadiy Bukayev, the Russian tax minister at the time, on revenue expectations following a flat tax (Fakty i Kommentarii, April 4, 2003, 6).

Below the ministerial level, the contacts were more technical and numerous. For example, top Slovak technocrats working on fiscal reform (like Ludovit Odor and Richard Sulik) traveled to Estonia for training prior to Slovakia’s adoption of the flat tax. They then served as consultants themselves (and contributed to draft flat tax legislation for political parties or the government) in Slovenia, the Czech Republic, Montenegro and Albania (Appel 2011). Fiscal specialists came together in conferences devoted to the flat tax, involving both government technocrats and liberal policy advocates from local think tanks, like the Center for Economics and Politics in the Czech Republic, the Institute for a Market Economy in Bulgaria, the Romanian Think Tank and Free Markets Institute. Regional meetings of the Mont Pelerin society also focused on the flat tax concept.
In some instances American right-wing think tanks helped spread the flat tax idea by supporting conferences and sharing printed materials. Their analysts provided some of the theoretical underpinnings and policy content of the early flat tax proposals. By contributing to the literature and the debates over the flat tax, American and West European flat tax enthusiasts they lent some prestige and recognition to the politicians and groups pursuing a flat tax agenda. In authors’ interviews, bureaucrats and consultants repeatedly invoked the book of two economists from the Hoover Institution, Robert Hall and Alvin Rabushka, entitled *The Flat Tax* (1995). This book could almost be referred to as the bible for flat tax proponents in Eastern Europe, cited with almost the same reverence as the works of the most important economic thinkers for the region: Milton Friedman and Friedrich von Hayek. The former Estonian Prime Minister, who was first to implement a flat tax in 1994, stresses his great admiration for Milton Friedman, announcing quite famously that Friedman's book *Free to Choose* was the only economics book he had read prior to serving as one of Estonia’s first prime ministers after communism (*Baltic News Service*, April 20, 2006).

The influence of Hall and Rabushka’s work on the post-Communist region was substantial. Although their flat tax ideas were deemed too radical to ever be adopted by mainstream Republican politicians in the United States, their work provided the theoretical basis and legitimacy to flat tax proposals of mainstream right-wing parties throughout Eastern Europe. Rabushka has maintained an active blog updating and celebrating the spread of the flat tax. Scholars at other prominent conservative think tanks have also championed the flat tax in Eastern Europe, most notably Daniel Mitchell from the Cato Institute and Heritage Foundation. Mitchell
was well known to East European policy specialists due to his activities, writings and frequent visits to the region.

Scholars from American think tanks also served as active consultants, particularly at the early stages—before the local politicians called on their counterparts in neighboring countries to provide technical expertise. According to former Premier Laar from Estonia, right-wing NGOs helped him draft his economic program. Describing his economic reform program, which introduced the flat tax and other liberal reforms, Laar writes:

Developing such a comprehensive program took some weeks. In Estonia, this was done with the help of several think tanks from abroad: The Heritage Foundation, the International Republican Institute, the Adam Smith Institute, and Timbro in Sweden. Also vital were the first Estonian think tanks, created years earlier by the same parties that had just come to power. Most of the reform agenda was presented and discussed at events organized by these think tanks, making the public familiar with the details. Without these think tanks, the fast and effective buildup of a government action plan would probably not have been possible.11

More obliquely, foreign conservative think tanks were also influential in Slovakia’s tax reform. Key members of Slovakia’s reform team who implemented the flat tax spent much of the 1990s in Slovak think tanks, given their explicit exclusion from the government and state-controlled business sector by the anti-democratic Mečiar regime (Mathernová & Renčko, 2006, 638). Most notably, Finance Minister Ivan Mikloš headed a conservative think tank in Bratislava from 1992-1998, named MESA 10 Center for Economic and Social Analyses. US think tanks
provided substantial support to Slovak think tanks at this time, exposing Slovak intellectuals to many liberal economic principles and providing them with publications and material support. One of the Slovak reformers who worked for Mikloš in the Finance Ministry explains,

The NGOs played an important role in political change in Slovakia. Many in the government had spent the 1990s in think tanks...The think tanks received money from these organizations, Heritage Foundation, CATO and IRI [International Republican Institute], and there was a strong influence of Americans. This affected people like Mikloš and others who came to believe that lower taxes were always better, the less state the better, and the more economic freedom the better.\textsuperscript{12}

While the main forces propelling the diffusion of the flat tax come from within the region, leading American think tanks played a key secondary role. In sum, they organized conferences and meetings, sponsored politicians and policy entrepreneurs, supported think tanks and showered accolades and awards upon the most politically successful flat tax reformers.\textsuperscript{13}

The local politicians who advocated flat tax reform commonly relied upon a set of arguments related to international competitiveness. When advocating the flat tax, Eastern Europeans often warned that if their country did not adopt a flat tax, it would fall behind the others that had. In other words, the diffusion of the flat tax model became a source for further diffusion—a kind of self-fulfilling prophecy. The data analysis presented in Baturo and Gray (2009) show that as the number of countries with a flat tax rose, so did the probability that a new country would adopt a flat tax, given particular domestic conditions. Emphasizing foreign
competition, references to the experiences of other countries can be found in public statements and party platforms of proponents with great frequency (Appel 2011). As Czech Premier Topolanek stated, “We have no choice anyway because Slovakia has already gone ahead” (Kandell 2004, 1). Former Hungarian Prime Minister and leader of FIDESz party, Viktor Orban stated, “We are considering it, the flat tax. We’re losing our competitive advantage to countries with flat taxes” (ČTK, January 25, 2005). The statement released when Hungary’s Ministry for National Economy introduced the flat tax for 2011 was as follows: “The change is aimed at improving the competitiveness of the Hungarian tax system, and is a crucial step towards the creation of a new economic system in the country.”

As fearful as a broad spectrum of politicians were about international competitiveness, the parliament’s approval of the flat tax program required the domestic political stars to align. Right-wing political parties had to gain key positions in the government and succeed in their own legislative battles to pass the necessary legislation. This was no small feat. Many right-wing parties endorsed the flat tax for years without managing to pass the legislation through parliament, like ODS in the Czech Republic until 2008, FIDESz in Hungary until 2011, or Civic Platform in Poland until the time of writing. Even when right-wing politicians failed to overcome opposition from left-wing parties and labor unions, as in Poland and Slovenia, tax reform did occur and took on some of the characteristics from flat tax reforms, namely by lowering the top rates for top income earners and reducing the number of tax brackets (Majcen, Verbic, & Cok 2007, 9; OECD Economic Surveys: Poland 2008, 14).

In sum, when the right political conditions emerged, right-wing actors succeeded in their liberal tax reform. This occurred without a well-endowed international actor like the IMF or the
EU, providing incentives or support for its realization. Instead, energetic local actors—politicians, party leaders and members of think tanks—pursued this agenda, benefiting from multi-level, multinational collaboration and support.

3. Ideas or Resources?

The pension privatization and flat tax revolutions were similar reforms sponsored by different organizations within a broad network of supporters of liberal economics. Pension privatization was heavily promoted by IFIs with significant financial resources, including 7.5 billion dollars in World Bank pension lending, while the flat tax was spread by networks of liberal think tanks with very limited dedicated financing. Both reforms entailed substantial budgetary costs for reform governments. Yet both reforms spread rapidly in Eastern Europe and the former Soviet Union at around the same time. Why? And what, if anything, does this show about the importance of ideas versus resources in policy diffusion?

Our main conclusion is that neither material incentives nor membership conditionality was required for diffusion, contrary to the findings in much of the literature on EU accession. We suggest instead that policy-based competition for mobile investment allowed for the rapid adoption of these reforms in Eastern Europe. East European countries adopted liberal policies because they were short of domestic capital after decades of communism and needed to attract foreign direct investment. Policies like pension privatization and the flat tax signaled a commitment to low rates of taxation in future and benefited high-income individuals most of all. In this context, ideological entrepreneurs found the opportunity to sell policies that promised to send the right signals to investors.
Yet, resources may have mattered in some ways. First, the greater resources of the pension privatization campaign arguably enabled it to launch pension privatization in larger countries first, including reform leaders Poland and Hungary. Large countries require greater resources for their policy process, giving campaigns with greater resources an advantage. Small countries, conversely, offer opportunities to poorly resourced policy campaigns like the one in support of the flat tax.

Second, resources may have facilitated more rapid cross-regional diffusion. The better resourced campaign we exampled, the pension privatization revolution, swept through many regions beyond Eastern Europe, starting in Latin America in the 1990s and spreading to Africa and Asia in the 2000s. Nigeria, for instance, a regional leader in Africa, privatized its pension system in 2004 (Casey & Dostal 2008), as did Taiwan (SSA 2010). A dozen Latin American countries adopted pension privatization in the 1990s and 2000s, approximately the same time as the reforms in Eastern Europe. By contrast, the flat tax did not spread quickly from the post-Communist region to other regions and when it did, it was to very small countries first. In the 1990s the only countries to adopt the flat tax were Tuvalu and Grenada in 1992 and 1994 respectively. In the 2000s, only a handful of countries adopted the flat tax, namely Mauritius in 2007, Timor Leste in 2008, Belize in 2009, and Paraguay and Seychelles in 2010 (Table 2). This suggests that geographically connected networks of policy entrepreneurs without access to material resources are unlikely to shape policymaking outside that geographic space, whereas reforms backed by a major IFI have greater cross-regional scope.

Third, while the vast majority of governments adopting these two pro-investment, liberal economic reforms were, quite naturally, right-wing governments, in the case of pension
privatization early adopters also came from governments controlled by the left. Curiously, some of the earliest countries adopting pension privatization were led by left-wing governments (namely in Hungary in 1998 and Poland in 1999). This suggests that reform campaigns with greater resources may be able to appeal to an ideologically diverse audience, even at the crucially important early stage when neighboring exemplars do not exist. This can be achieved through public relations campaigns that work to convince potential opponents, as in the pension privatization campaign (Orenstein 2008). In flat taxes, well-positioned, right-wing politicians and parties were essential to the adoption of the flat tax (Baturo & Gray 2009, Appel 2011).

Given the short-term distributional consequences of both of these programs, one might have expected these reforms to encounter greater resistance from traditional left-wing constituencies. These reforms promised long-term benefits to all income classes, but these were by no means guaranteed or backed by much empirical evidence. The benefits for all were dependent upon the programs producing positive macroeconomic gains in the future. Yet the benefits of these two liberal reforms for a few of the wealthiest members in society were direct, substantial, and immediate. Moreover, both these reforms imposed substantial costs that had to be absorbed from general revenues. Using James Q. Wilson’s (1995 [1973]) typology, these are both reforms with diffuse costs and concentrated benefits. And since the material benefits associated with their implementation were highly concentrated and short-term and their potential costs were diffuse in the short term, they were more politically feasible than other programs that might similarly (and more directly) signal a favorable investment climate, for example labor market reform.

Indeed the fact that policy entrepreneurs successfully portrayed the flat tax as representative of a commitment to free markets and international competitiveness leads us
directly to the role that networks of think tanks and politicians played in the diffusion of these programs. Policy entrepreneurs selected these reforms from a broad menu of possible economic reforms, championed them, and convinced politicians that implementing them would help countries compete within a highly integrated, international economy.

Given the temporal distribution of benefits and costs, domestic policy entrepreneurs were able to sell these reforms with or without major external pressure and resources. Pension privatization and the flat tax, major distributive reforms with a significant impact on these societies, took off in post-Communist countries without the membership conditionality of the European Union and, in the case of the flat tax, without loan conditionalities of IFIs. While resources beyond expert legitimacy appear to have been less important in these cases, they did have some impact by determining patterns of reform.

In conclusion, this study suggests that under competitive conditions, policy entrepreneurs who innovate at home and spread their ideas abroad can be major drivers of policy adoption and diffusion. IFIs, which have often been thought to be important for their material incentives and coercive resources alone, seem to be most important for their ideas. Increasingly, the World Bank sees itself as a “knowledge bank,” with resources that are primarily expert and ideational in character (World Bank 2011). Our study suggests that this is a largely accurate picture as the impact the World Bank had on pensions is largely commensurate with the one that liberal think tanks had on the flat tax revolution: popularizing and spreading the ideas. This does not mean that resources do not matter, but that in the case of investor-friendly second-generation reforms, the networks and policy communities they build to spread ideas matter more.
Bibliography


Mathernová, K. and J. Renčko. 2006. “‘Reformology’: The Case of Slovakia,” *Orbis* (Fall).


Figure 1. Cumulative Number of Post-Communist Countries Adopting Pension Privatization and Flat Tax, 1994-2011
Table 1. Post-Communist Countries Adopting Pension Privatization and Flat Tax Reforms

<table>
<thead>
<tr>
<th>FLAT TAX</th>
<th>PENSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania 1994</td>
<td>Kazakhstan 1998</td>
</tr>
<tr>
<td>Latvia 1997</td>
<td>Poland 1999</td>
</tr>
<tr>
<td>Russia 2001</td>
<td>Estonia 2001</td>
</tr>
<tr>
<td>Serbia 2003</td>
<td>Kosovo 2001</td>
</tr>
<tr>
<td>Slovakia 2004</td>
<td>Latvia 2001</td>
</tr>
<tr>
<td>Ukraine 2004</td>
<td>Bulgaria 2002</td>
</tr>
<tr>
<td>Georgia 2005</td>
<td>Croatia 2002</td>
</tr>
<tr>
<td>Romania 2005</td>
<td>Lithuania 2002</td>
</tr>
<tr>
<td>Turkmenistan 2005</td>
<td>Macedonia 2002</td>
</tr>
<tr>
<td>Kyrgyzstan 2006</td>
<td>Russia 2002</td>
</tr>
<tr>
<td>Albania 2007</td>
<td>Slovakia 2003</td>
</tr>
<tr>
<td>Kazakhstan 2007</td>
<td>Romania 2004</td>
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<tr>
<td>Macedonia 2007</td>
<td>Uzbekistan 2004</td>
</tr>
<tr>
<td>Mongolia 2007</td>
<td>Czech Rep. 2011</td>
</tr>
<tr>
<td>Montenegro 2007</td>
<td></td>
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<tr>
<td>Bulgaria 2008</td>
<td></td>
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<tr>
<td>Czech Republic 2008</td>
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<tr>
<td>Belarus 2009</td>
<td></td>
</tr>
<tr>
<td>Bosnia and Herzegovina 2009</td>
<td></td>
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<tr>
<td>Hungary 2011</td>
<td></td>
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</tbody>
</table>
Table 2. Countries Adopting Pension Privatization and Flat Taxes outside the former Communist region

<table>
<thead>
<tr>
<th>FLAT TAX</th>
<th>PENSION PRIVATIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong 1947</td>
<td>Chile 1981</td>
</tr>
<tr>
<td>Guernsey 1960</td>
<td>Sweden 1994</td>
</tr>
<tr>
<td>Jamaica 1986</td>
<td>UK 1986</td>
</tr>
<tr>
<td>Tuvalu 1992</td>
<td>Peru 1993</td>
</tr>
<tr>
<td>Grenada 1994</td>
<td>Argentina 1994</td>
</tr>
<tr>
<td>Mauritius 2007</td>
<td>Colombia 1994</td>
</tr>
<tr>
<td>Timor Leste 2008</td>
<td>Uruguay 1996</td>
</tr>
<tr>
<td>Belize 2009</td>
<td>Bolivia 1997</td>
</tr>
<tr>
<td>Paraguay 2010</td>
<td>Mexico 1997</td>
</tr>
<tr>
<td>Seychelles 2010</td>
<td>El Salvador 1998</td>
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<tr>
<td></td>
<td>Denmark 1999</td>
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<tr>
<td></td>
<td>Nicaragua 2001</td>
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<tr>
<td></td>
<td>Costa Rica 2001</td>
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<tr>
<td></td>
<td>Kosovo 2001</td>
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<tr>
<td></td>
<td>Nigeria 2004</td>
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<tr>
<td></td>
<td>Taiwan 2004</td>
</tr>
<tr>
<td></td>
<td>Malawi 2011</td>
</tr>
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</table>
Table 3. Pension Privatization in post-communist countries, Initial Reforms

<table>
<thead>
<tr>
<th>Country (Date)</th>
<th>Individual Account Contributions</th>
<th>Payroll Tax to Individual Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary 1998 (L)</td>
<td>Mandatory</td>
<td>6.00</td>
</tr>
<tr>
<td>Kazakhstan 1998</td>
<td>Mandatory</td>
<td>10.00</td>
</tr>
<tr>
<td>Poland 1999 (L)</td>
<td>Mandatory</td>
<td>7.30</td>
</tr>
<tr>
<td>Estonia 2001</td>
<td>Voluntary</td>
<td>6.00</td>
</tr>
<tr>
<td>Kosovo 2001</td>
<td>Mandatory</td>
<td>10.00</td>
</tr>
<tr>
<td>Latvia 2001</td>
<td>Mandatory</td>
<td>4.00</td>
</tr>
<tr>
<td>Bulgaria 2002</td>
<td>Mandatory</td>
<td>5.00</td>
</tr>
<tr>
<td>Croatia 2002</td>
<td>Mandatory</td>
<td>5.00</td>
</tr>
<tr>
<td>Lithuania 2002</td>
<td>Voluntary</td>
<td>5.50</td>
</tr>
<tr>
<td>Macedonia 2002</td>
<td>Mandatory</td>
<td>7.12</td>
</tr>
<tr>
<td>Russia 2002</td>
<td>Mandatory</td>
<td>6.00</td>
</tr>
<tr>
<td>Slovakia 2003</td>
<td>Mandatory</td>
<td>9.00</td>
</tr>
<tr>
<td>Romania 2004</td>
<td>Mandatory</td>
<td>2.00</td>
</tr>
<tr>
<td>Uzbekistan 2004</td>
<td>Mandatory</td>
<td>1.00</td>
</tr>
<tr>
<td>Czech Rep. 2011</td>
<td>Voluntary</td>
<td>5.00</td>
</tr>
</tbody>
</table>

Sources: Holzmann and Guven (2009, 8-9), Khasanbaev and Pfau (2010).

(L) indicates left government or coalition involved in legislating reform.
<table>
<thead>
<tr>
<th>Country</th>
<th>PIT year before reform (%GDP)</th>
<th>PIT year of reform (%GDP)</th>
<th>Statutory PIT rates before reform</th>
<th>Rate after flat tax reform</th>
<th>Percentage change in personal allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria (2007/2008)</td>
<td>3.2</td>
<td>3.0</td>
<td>20, 22, 24</td>
<td>10</td>
<td>Reduced</td>
</tr>
<tr>
<td>Czech Republic (2007/2008)</td>
<td>4.3</td>
<td>4.0</td>
<td>12, 19, 25, 32</td>
<td>23.1</td>
<td>+100%</td>
</tr>
<tr>
<td>Estonia (1993/1994)</td>
<td>8.5</td>
<td>8.1</td>
<td>16, 24, 33</td>
<td>26</td>
<td>+50%</td>
</tr>
<tr>
<td>Georgia (2004/2005)</td>
<td>2.7</td>
<td>2.5</td>
<td>12, 15, 17, 20</td>
<td>12</td>
<td>eliminated</td>
</tr>
<tr>
<td>Latvia (1999/1997)</td>
<td>5.4</td>
<td>5.6</td>
<td>10, 25</td>
<td>25</td>
<td>-7%</td>
</tr>
<tr>
<td>Lithuania (1993/1994)</td>
<td>5.0</td>
<td>5.4</td>
<td>10, 18, 24, 28, 33</td>
<td>33</td>
<td>+200%</td>
</tr>
<tr>
<td>Romania (2004/2005)</td>
<td>3.0</td>
<td>2.3</td>
<td>18, 23, 28, 34, 40</td>
<td>16</td>
<td>+25%</td>
</tr>
<tr>
<td>Russia (2000/2001)</td>
<td>2.4</td>
<td>2.9</td>
<td>12, 20, 30</td>
<td>13</td>
<td>+52%</td>
</tr>
<tr>
<td>Slovakia (2003/2004)</td>
<td>3.3</td>
<td>2.6</td>
<td>10, 20, 28, 35, 38</td>
<td>19</td>
<td>+109%</td>
</tr>
<tr>
<td>Ukraine (2003/2004)</td>
<td>5.1</td>
<td>4.1</td>
<td>10, 15, 20, 30, 40</td>
<td>13</td>
<td>+262%</td>
</tr>
<tr>
<td>Hungary (2010/2011)</td>
<td>N/A</td>
<td>N/A</td>
<td>17, 32</td>
<td>16</td>
<td>Eliminated tax credits given</td>
</tr>
</tbody>
</table>

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1 For their comments and feedback, the authors would like to thank David Andrews, Ryan Baird, Daniel Béland, Bojan Bugarič, Mai’a Cross, Bob Deacon, Jan Drahokoupil, Gerald Easter, Valeria Fargion, Stefan Fritsch, Gustavo A. Flores-Macias, Tim Haughton, Wade Jacoby, Juliet Johnson, Alison Johnston, Joseph Jupille, Alexandra Kaasch, Daniel Kelemen, Rianne Mahon, Kerstin Martens, Kevin Morrison, Karen Mundy, Peter Rutland, Milada Anna Vachudova, Nicholas Wheeler, Andrew Zvirzdin, and three anonymous reviewers.

2 Some also argue that the flat tax is easier to implement than pension privatization, since it is administratively less demanding. While this is undoubtedly true, states with moderate capacity – such as Kazakhstan and Russia – have proven able to implement both reforms.

3 Several Eastern European countries scaled back their privatized pension systems in the wake of the financial crisis of 2008. The Baltic states temporarily suspended or reduced contributions to individual accounts. Poland enacted a steep cut to its individual account contribution rates. Slovakia made individual contributions voluntary. Romania cancelled planned increases to the contribution rate. Hungary, however, is the only Eastern European country to date to cancel individual accounts and confiscate account balances (Drahokoupil and Domonkos 2013; Chlon-Dominczak and Stanko 2011).
4 Despite the use of a millionaire’s tax in Serbia and short-term tax credits in Hungary, as is common we include them in the list of flat tax countries.

5 For country specific data, see Figure 1, Keen, Kim & Varsano 2006, 6, 13.

6 Interview with A. Aslund, October 6, 2010.


13 Consider the recognition Mart Laar received for his energetic pursuit of liberal tax reform. In 2006 the Cato Institute awarded Laar the Milton Friedman Prize for Advancing Liberty. The Acton Institute awarded Laar its Faith & Freedom Award in 2007. Laar also became a member
of the Mont Pelerin Society, the club of prominent liberal economists, historians, philosophers, politicians and others, founded by Friedrich von Hayek. In terms of recognition for the flat tax, few can rival Laar. (His recognition by right-wing think tanks is matched perhaps only by Václav Klaus, the father of mass privatization in Eastern Europe.)