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An Overlapping Generations Analysis of Flat Tax Reform in Turkey

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ABSTRACT

While various proposals have been made for reforming the tax systems of developed countries, few studies have been done so far for the Turkish case. Flat tax proposed by Hall and Rabushka (1995) refers to "one uniform rate" for the whole income and promises to eliminate the negative impacts of graduated taxation systems that are unfair, complex and inefficient. This study aims to introduce flat tax reform under revenue neutrality to the Turkish economy by revealing the consequences of the reform and its impacts on certain macroeconomic variables by using a dynamic life-cycle simulation model. Our setup consists of overlapping generations of 55-period living individuals endowed with bequest motive with constant population growth. The simulation results for our benchmark economy project significant increases in capital accumulation, labour hours and welfare by providing the transition path of the modelled economy through the new steady state.

KEYWORDS Flat tax; Welfare; Overlapping Generations Model; Turkey

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