WHY WE HAVE TO START TAXING THE EXTREMELY RICH

TAX THE RICH

Taxing extreme wealth is much discussed and high on the agendas of progressive organisations. But why is this? Wealth taxes of some form or another have been around for well over a century but today governments concentrate on taxing working income and company profits, rather than on taxing extreme wealth which, as I discuss here, is the source of many of the ills we see around us.

Properly constructed, wealth taxes consisting of a strong regime of taxation on extreme wealth as well as on income from that wealth, could both reduce the pressure on working people and start to address many of the problems which are now endemic in society.

Extreme wealth is bad, Economically, Socially and Democratically.

Economically,
it is clear that working people are being squeezed harder today than ever before, with those at the bottom of the earnings scale being the worst hit. In 2021, the Joseph Rowntree Foundation reported that more than half of adults in poverty lived in a household where at least one adult was in work, and that 11 percent of all workers lived in a household in poverty. Those numbers have almost certainly worsened since the cost-of- living crisis.

Whilst tax rises are being kept low by a stealth version of austerity, consequent cuts in public services disproportionately affect those at the bottom ends of the income and wealth scales, as they did after 2010. Increased dependence on foodbanks, families forced to choose between eating and heating, and real declines in public health and life expectancy go with cuts in public services. This is because working families do not have sufficient funds to provide themselves with a decent standard of living. In a reversal of the trend towards inclusive public services established in the 20th Century, we see growth in private wealth coupled with increased public squalor as countries race to the bottom in levels of taxation. Taxes on extreme wealth could provide governments with funds to address this public health crisis.

Socially,
we know from Wilkinson and Pickett's ground-breaking work, The Spirit Level, in 2009 that with inequality comes a raft of social problems and 'worse' outcomes for the country on a range of indicators. That work, which has since been updated showing the same outcomes, demonstrates that unequal societies have worse social mobility, education, crime, health, trust etc. than more equal ones. This work is now championed by The Equality Trust, an organisation set up

by Wilkinson and Pickett. What is more, there is evidence that once countries reach a certain stage of development, economic performance declines as inequality increases.

Taxes on extreme wealth could start to reduce the inequalities which lead to social harm and give families back their dignity.

Democratically,

with wealth comes power. Two-thirds of Rishi Sunak's cabinet were privately educated because their parents were wealthy. This compares with only 6% of the country as a whole who went to private schools. Abraham Lincoln espoused government of the people, by the people, for the people. Yet the wealthy and children of the wealthy are the ones in charge of our law-making and taxation policies. They cannot be in tune with the needs and desires of the wider population and it's unsurprising that wealth taxes are not on the government's agenda.

Similarly, press ownership is concentrated in the hands of the wealthy: Murdoch, Rothermere, Lebedev and, more recently Zuckerberg, Musk and other social media owners. Whilst print media readership is declining, an increasing number of people rely on social media for their news, which again is controlled by wealth. Come election time, the outcome will be heavily influenced by what people read in their chosen source of 'information' and entertainment.

Long term effects of wealth inequality will be felt by future generations. Across much of society the housing crisis is ameliorated for many by their 'baby boomer' parents, now 'the bank of mum and dad'. Whilst most parents would have sympathy with helping children with their housing needs, we must recognise that this distorts housing provision and, by increasing demand, pushes up prices for those in less fortunate circumstances. We need intergenerational wealth transfer in a way which distributes wealth around society, not which creates mini dynasties.

Taxes on extreme wealth could start to address these problems by reducing wealth inequality and, with it, the dominance of the very rich who determine what we think through their disproportionately loud voices.

Would wealth taxes have a negative effect on the country?

Two main counterarguments typically come up when we talk about wealth taxes. These are concerned with 'Capital Flight' and 'Disincentivising Investment'. Let's look at these.

Capital Flight

refers to the idea that wealth-holders might move out of the country if their assets are subject to wealth taxes of some kind. Wealth advisers typically make much of this, arguing on behalf of their perceptions of their clients' desires. However, the simple logic is that the wealthy generally have roots and family in this country, and don't want to up sticks simply to avoid paying tax of, say 1% or 2% on assets which would generally be growing at 5% per year through financial management. The much-quoted example from Norway where just 25 millionaires were said to have left for Switzerland because of wealth taxation, neglected to mention that 236,000 decided to stay in Norway! Nevertheless, it's true that international action would make it easier for national governments to take action.

Incentive to Invest

is about whether introducing taxes on extreme wealth would affect the country's ability to invest and create new jobs. The answer to this is remarkably simple. Entrepreneurs do not start businesses to make a set sum of money. Yes, they invest for potential financial gain, but also for reasons of personal ambition.

It's obviously nonsense to say that an entrepreneur would not invest if any extreme wealth they were to create would be taxed annually at a couple of percent.

Other investors would still see returns on their investments. Why would they squirrel their money away earning interest at a rate less than inflation?

It's too difficult is an argument sometimes raised, particularly by taxation experts. They cite points such as difficulties in valuing assets, particularly those which might be purchased for avoidance reasons, the fact that some people may be asset-rich but cash poor, and the workload involved by the tax authorities in policing a tax that is effectively unique to each individual. These are valid complexities, but they should not be allowed to stand in the way of delivering a fairer economy and reducing the social ills discussed earlier.

What would tax on extreme wealth look like?

The options need debate, but the principle is that we should be emphasising taxation of extreme wealth and income from that wealth. It's true that the UK already has some taxation of wealth and income from wealth – capital gains tax,

inheritance tax, council tax – but today three-quarters of public sector revenue comes from taxes on income, VAT and corporation tax, with less than a tenth coming from capital and wealth.

A group of organisations including Patriotic Millionaires and Tax Justice UK , with data from Arun Advani at the University of Warwick , proposes an annual 2% tax on wealth above £10 million, with equalisation of tax rates on income from wealth with those on income from work.
So someone with wealth of, say, £12 million might pay £40k per year tax on that.

This would affect less than 1% of the population. Whilst it wouldn't reduce wealth inequality dramatically in the short term, it would be a step in the right direction.
While we're talking about tax rates, it's worth making the point that voluntary tax payments and philanthropy are not the answer to the issues I've outlined above.

Fixing our social fabric, our public services, and creating a country we all want to live in will take time and a lot of resources. We need the super-rich to contribute much more to that rebuilding, and governments are the only organisations that can address root causes rather than symptoms of problems.

The Climate Imperative – the rich are bad for our planet.

In a world where climate change is undoubtedly the big existential crisis, why is this focus on extreme wealth so important and urgent? It's very simple: the more wealth an individual has, the more they spend on flights, heating large homes and swimming pools, and investing in companies which continue to exploit fossil fuels. Globally, the top 1% account for more carbon emissions than the poorest 66% and billionaires are responsible for a million times more greenhouse gases than the average person.

Whilst we rightly emphasise the need for all citizens to play their part, the specific role of the wealthy in investing in activities which drive climate change, and their continued extraction of profits from these, will ultimately backfire and depress the global economy. Major corporations already have this on their risk registers, but this can often be seen as a box-ticking exercise.

We need to stop these behaviours, for the future of the global population and our children here at home. Taxes can be used to discourage bad behaviour and we are at a critical point in climate change and biodiversity loss that means we need to use every weapon at our disposal to make the rich change their ways. Whilst the wealthy are not particularly sensitive to tax rates, we can use frequent-flier taxes, taxes on private jets, progressive energy charges and other economic tools to dissuade the wealthy from engaging in activities that harm the rest of us.

It Is time to expect the extremely wealth to contribute much more and to extract much less from society. Wealth taxes are needed for us, our children, and the future of the planet.

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