

**OVERTAXING THE
RICH—THE PANACEA TO
STIMULATING
PROSPERITY FOR ALL
OR THE WORST
RECOURSE TO
REDUCING INCOME
INEQUALITY**

ECONOMICS FINAL PAPER

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Background

Across various cultures for the entirety of human history, public resentment against the wealthy have been very strong. The rich are generally regarded as gross subverts of the law who are relentless, calculating and conniving in the pursuit of their wealth. These strong sentiments have led to the rise of groups such as the Occupy Protest Movement who vehemently protest against the super wealthy (also referred to as the 1%) for their massive evasion of taxes and their marginalization of the poor.

Certainly, we cannot assume that every rich person out there acquired their wealth via unscrupulous means. The rags to riches stories of billionaire entrepreneurs such as Sheldon, J.K Rowling, Sam Walton, Oprah Winfrey, Leonardo del Vecchio, Ingvar Kamprad (Goldschein and Eisenberg, 2011) shows that not all rich people acquire their wealth through unscrupulous means. Consensus on this point then leads us to the next; how much should the rich be taxed? Should a special tax rate be given to them? Or should be all be treated equally and made to pay a fair and equitable flat rate? The latter may draw protests such as “On a flat tax rate of 10%, a \$1,000 tax rate punishes a \$10,000 worth man more than a \$100,000,000 tax rate does to a wealthy man worth \$1bilion!”

This essay will attempt to study the logic behind arguments to both factions—overtaxing the rich as the best recourse to stimulating economic prosperity or being the worst recourse to reducing income inequality. Besides examining both sides, this essay will also attempt to provide recommendations from my own perspective on what the best recourse is in terms of taxation of the rich.

Arguments for overtaxing the rich

The usually espoused argument for taxing the rich is that they simply have more and therefore they should pay more. Western societies such as the United States and the United Kingdom are plagued with high levels of income inequality and the proposition of a flat tax rate between the rich and the poor will take “more from the poor” than it would for the rich. The desperate inequality in these regions require desperate measures and that is typified by the overtaxing of the rich (Wilmers, 2015). The overtaxing of the rich allows them to give a much fairer equity in taxes that is representative of their wealth compared. Overtaxing in such scenarios is forecasted to prevent the descent of society into sharp inequality where virtually all the wealth is concentrated in a few hands whilst the masses are left to scramble for the scraps (Nolan et al. 2014). The rich have more and therefore they ought to pay more in taxes because this is representative of their wealth and capacity to pay and it does not hurt their financial well-being as much as it does to the poor or middle class person.

An argument in favour of taxing the rich is that overtaxing the rich is necessary to stimulate economic growth. It is believed that the extra revenue generated from overtaxing the rich can be used in financing the development of social infrastructure and amenities and job creation schemes that go a long way to reducing unemployment rates and stimulating GDP growth. The injection of cash into the economy to stimulate growth can be achieved either by government initiative or by the initiative of overtaxing the rich. Since it is much easier to enact laws to overtax the rich than it is to draft new legislation to increase government spending, the rich should be overtaxed to finance projects for economic growth and development.

It can also be argued that the rich should be overtaxed on the basis of the rich exploiting tax breaks, government subsidies and liberal economic laws to attain their wealth. It may be argued that these incentives to amass great amounts of wealth come at the expense of the input and efforts of the masses. Since the rich generally do not compose anywhere

close to majority in most societies around the world, on the sole basis of one man, one vote, the poor and middle class are more decisive in electing governments. These governments then advertently or inadvertently create laws, provide tax breaks, incentives and subsidies that end up providing conducive circumstances for the rich to amass wealth. This comes at the expense of the poor and it is therefore only fair and just that the rich give back to society through paying more tax.

On the argument of optimal tax progressivity, it is proposed that the government holds the exclusive right to redistribute incomes via taxation, to overrule ethical considerations on the distribution of economic outcomes and the investigations of the value judgements on which the tax system is designed. The idea of optimal progressivity is that the higher the income earned, the greater the tax obligations to fulfil. The argument of optimal tax progressivity is proposed for the utilitarian good and welfare of society rather than the self-centred objections of the rich (Slemrod, 1998).

Arguments against overtaxing the rich

There abound as many arguments if not more against taxing the rich due to the perceived effects that this over taxation can have on the poor and the middle class, the rich themselves, governments and society as a whole.

A popularly espoused argument against taxing the rich is that many rich people already pay a high proportion in income taxes and that overtaxing them is counterintuitive and just not fair. For example, in the UK, it is estimated that the top 3,000 wealthy people pay a lot more in income taxes than the bottom 9 million people. The rich are presumably already paying sufficient amounts in income taxes and overtaxing them would foster the adoption of tax evasion schemes to minimize their tax burden (Wilmers, 2015). Austan Golbee (1997)

also confirms the efforts to minimize tax burdens by using tax data of corporate executives from 1991 to 1995. He showed that the hike in marginal tax rates in 1993 resulted in a decrease in the amount of taxable income reported, evidently showing a negative response to the hike in taxes

Another common argument against taxing the rich is that the rich are much better at efficiently spending their money on charity causes than governments are. Besides accounting for their ability to create wealth, the monolithic decision making system attributable to the rich is much more effective in deciding which social causes to sponsor than governments are. Governments are usually encounter lots of red tape and bureaucracy as well as a strong accountability on how each currency amount is spent. As such, this limits their ability to spearhead social relief causes and schemes. The rich on the other hand are empowered and easily capable of spearheading these schemes with very little or no intervention. It should therefore be the case (and it already is the case in a few Western democracies) that the rich be unanimously encouraged to finance social relief causes and schemes in return for tax breaks and incentives from the government (Wilmers, 2015).

The rich should also not be overtaxed because overtaxation leads to temporary or complete departure of the rich from their native countries. For example, newly minted Canadian Prime Minister Justin Trudeau already outlined a comprehensive plan to raise the taxes of the rich. The author of the article, Konrad Yabakuski deductively argues that this redistributionist dogma will not reduce income inequality because it will compel the rich to put their efforts and talents elsewhere by leaving altogether (Yakabuski, 2015). In a typical case, French actor Gerard Depardieu fled to Belgium to avoid paying a supposed tax increase on individuals with a net worth in excess of 1 million euros. Facebook Cofounder Eduardo Saverin revoked his American citizenship after Facebook's IPO when he found that he was due to pay at hundreds of millions of dollars in taxes (Matthews, 2012). Coercing the rich

therefore to pay more taxes forces them to depart their native countries with their industry, skill sets, talents and intelligence which end up being better served in their new host country. This comes at a disadvantage for the native country imposing these tax hikes as they temporarily or even permanently lose the services and loyalty of their valued citizens.

Finally, the rich should not be overtaxed because this would stifle investments into the economy. In capitalist (or capitalist modelled economies), the rich are unanimously the creators of jobs and employment. For example, the retail giant and the largest employer in the United States, Walmart is owned by the Walton family, Starbucks, the world's most valued coffee chain is owned by billionaire Howard Schultz, Microsoft, the world's largest software vendor is owned by billionaire Bill Gates, Thomson-Reuters, the world's leading source of intelligent information for business and professionals is owned by Canadian billionaire, David Thomson and so on. All these people and many others are providers of value as well as mass employers of people through their work initiatives (Tamny, 2013). Overtaxing them or their businesses will only frustrate their efforts and lead to consequences such reduction in investments, shut down of businesses to cut back on losses and potential migration of business operations to countries with more favourable economic laws.

Personal Conceptions

Carefully scrutinizing the arguments on both sides, my inclinations are towards the fair taxation of the rich. My stance on this matter may probably appear a bit biased due to my wealthy Saudi background. Nevertheless, I remain resolute and as unbending as possible on my stance due to the following reasons.

First, I am a firm believer that each person is a determinant of their own financial success. Yes, certain people were born into poor families and they had absolutely no control

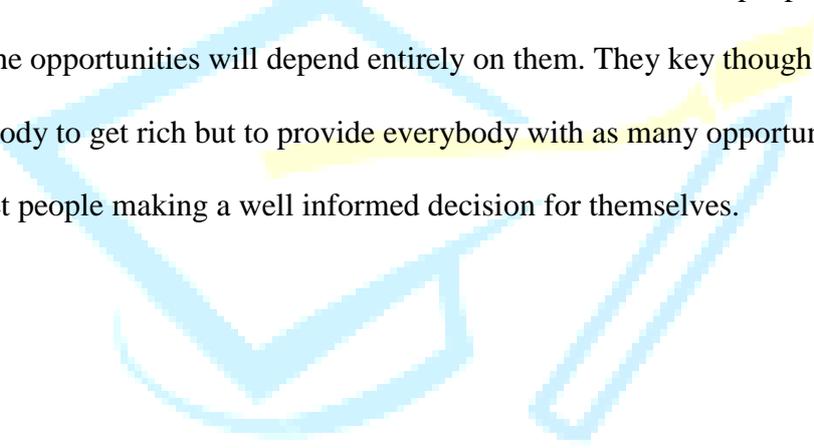
over their fate. However, as a person grows up, the choice of success and wealth lies exclusively on their shoulders. It is up to them to take the chance or not. I believe it is not the right for everyone to become rich but a privilege for only a select few who put in their right work effort, talents, industry and know how to realizing a worth ideal. Resentment for the rich (mainly evident through the advocating of high tax rates) is unethical and immoral as it disrespects the discomfort and drudgery that many rich people had to experience to get to where they are today.

Second, the rich are generally the employers of workers and the virtually the dominant job creation force in capitalist economies around the world. The rich are responsible for the general welfare, the payment of salaries and the provision of safe and fulfilling work to the middle class and the poor. Any attempts to overtax the rich will cause them to visit it on their workers (the middle class and the poor) by either laying them off to reduce losses, by reducing their salaries or even by shutting down their companies. This directly affects the middle class and poor in all ways which is why it is less advisable to overtax the rich.

Finally, overtaxing the rich encourages laziness and less creativity and industriousness from the middle class and poor. Overtaxing the rich creates the sense that the rich are not worthy of the wealth that they accumulated and as such, taking it away from them to finance the social welfare programs that the middle class and poor enjoy would encourage laziness and lack from industry from certain people within these groups. This can be seen with people on social welfare checks in Canada and the United States who are so comfortable in their position and refuse to get proper employment to improve their situation.

Conclusion

In summation, there are very strong and compelling arguments raised on both factions on whether or not overtaxing the rich is the panacea to stimulating economic prosperity for all or the worst recourse for reducing income inequality. In my opinion, the over taxation of the rich is the worst recourse towards reducing income inequality for the above elaborated arguments. income inequality can only be reduced by providing as many opportunities possible (mainly via free universal education up to the tertiary level, employment opportunities, community engagement programs and learning opportunities) which people would be expected to latch on to for their success. Whether or not these people will take advantage of the opportunities will depend entirely on them. The key though is not to compel everybody to get rich but to provide everybody with as many opportunities as possible and let people making a well informed decision for themselves.



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