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Why it is fair for the rich to pay higher taxes. A simple guide for non-marxists and non-lefties. . . . 1



# Why it is fair for the rich to pay higher taxes. A simple guide for non-marxists and non-lefties.

By Paul S

This week Labour announced that those earning over £150,000 per year will be taxed at 45% (rather than 40%) if the government is re-elected for a fourth term. This has sparked the expected response from many quarters: outrage that it is unfair to tax hardworking people. I will now quickly lay-out the reasons why, contrary to these claims, higher taxes for the rich are completely justified.

There is no such thing as pre-societal income. It is a mistake to think of income in terms of pre-deduction totals and to see National Insurance and Income Tax as being taken away from a total which is - before deductions - wholly yours. This is a very simple point made by the political philosophers Murphy and Nagel in their book *The Myth of Ownership*, and goes as follows. In order for it to be possible for anybody to earn any income at all, there must be a stable society in place. That is, in order for it to be possible for you or I to go to work and get paid, a whole host of things must exist. There must be, for example, a banking system. But a banking system requires enforced property rights. The enforcement of property rights requires an extensive legal system as well as a police force. In order for you to get to your work place, you require roads on which to drive or trains upon which to sit. These things not only require direct government funding, but even when privatised rely upon an underlying structure of stability by which property rights are protected. All these things are expensive. Very expensive. Never mind the bureaucracies that are required to make them all function. Those are even more expensive (perhaps arguably too expensive, but that isn't the point here).

Without such underlying structures it would not be possible for people to earn any income at all - let alone the great wealth represented by earning over £150,000 a year (remember that average income in the UK is c.£15,000 p.a.). Thus in order for it to be possible that anybody earns any income at all, it is necessary that funds are raised to provide the underlying stability making it possible for people to work and be paid. As all benefit from this underlying stability, it is fair that all should pay for its upkeep.

So when you look at your pay-slip, it is a mistake to think of the pre-tax income as yours, and of the deductions as something taken away by the state. The pre-tax income could not exist without the underlying stability provided by the state - hence deductions represent what makes any income possible at all. (Even National Insurance fits this model: NI contributions ensure that people have a base-line of social security, providing stability for the poorest members of society, who make up a crucial although financially un-rewarded component of a developed economy). It is therefore a mistake to think of pre-deduction income as yours; it would not even exist without a general system of deductions.

It is fair that people pay these deductions, as they make it possible for any people to earn anything. It is also fair that those who are richer pay more. This is for two reasons.

First, the richer you are, the easier it is to contribute. As we all benefit from the existence of a state making it possible to earn any regular, secure income at all, it is fair that we all contribute to its upkeep. Yet those who are more wealthy can not only afford to pay more in straightforward terms of having more to give, but the incremental cost to them of each contribution is marginally lessened the richer they are. This is quite a simple concept: if two people are asked to give £1 each to a cause, but one possesses £1million and the other only £10, then the contribution of £1 is clearly less of

a cost - relative to existing wealth - for the millionaire.

The same principle operates with taxation: it costs less to contribute for those who earn more. As we all benefit from living in a stable society, it makes sense that we should pay similar costs relative to our ability to pay, towards the upkeep of that society (and perhaps even dissimilar costs: there is a good case for saying that the rich have benefited the more than others from the stability of society, and hence should pay more for its upkeep). It is for this reason that taxation is both set as a percentage of income, and is progressive. Taxation is levelled as a percentage rather than a flat rate to reflect the fact that different sums mean different things to people depending on their wealth. Taxation is progressive because it is recognised that if two people both pay a 30% tax rate, but one earns a 10th as much as the other, she who earns more thus effectively contributes less. It is for this reason that higher rates are applied to higher earners - it reflects their ability to contribute equally (or possibly more) to the maintenance of stable society.

The second reason higher taxes for the rich are justified is because of the importance of equality of opportunity. Equality of opportunity - which no politician would dare say they are against, remember - roughly says that all people should have the same chance to do well. If two people work equally hard, they should both be able to achieve the same outcomes. Yet without a progressive system of taxation, this is hard to maintain as even remotely possible. If the rich are allowed to accumulate wealth, they will be able to pass this on to their children, both in terms of hard cash, but also in terms of social privilege (private education, extra tuition, being raised in a nice area, having books etc). This means that the rich and their children will stay rich and, given the way our society operates, in dominance of the key positions of power and influence. This means that the poorer will not be able to compete. This therefore means there is no, or little, equality of opportunity.

To spell it out: a system of progressive taxation is the cornerstone of any society which holds that people should have equal opportunities to succeed, and which believes that people must make contributions to the upkeep of the society (which makes their wealth, however great or small, possible in the first place) which reflect their ability to pay.

It is not unfair to ask those who are rich to contribute more to society. No matter how hard they worked for their wealth (leaving aside those cases where hard work is dubious, and avoiding the very real issue of those who work long and hard hours in low-paid drudgery), those who are richer should contribute more. If anything can be considered fair, it is that we tax the rich, and tax them more.