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Tax the Rich! Nine Reasons for a Wealth Tax[1]

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Introduction

Rising inequality has been an inescapable phenomenon of global economic development over the past 200 years. The profits and wealth of the owners of enterprises, however, have been increasing disproportionately. The global data confirms this analysis of unabated inequality in the midst of high growth rates, which has led to an ever-widening gap between the rich and the poor. The United Nations' (UN) Sustainable Development Goal (SDG) 17 notes that growing inequality affects 70 percent of the global population. It threatens "long-term social and economic development, [harming] poverty reduction and [destroying] people's sense of fulfilment and self-worth," all of which "can breed crime, disease and environmental degradation" (United Nations 2020). As a core response, proposals for a wealth tax on a country's richest citizens have been put forward. A wealth tax is a levy imposed on an individual's net worth, i.e., all the forms that he or she wealth can take. More than anything else, it is a social justice measure.

Asia has one of the world's highest rates of inequality. The Philippines has seen proposals for a wealth tax gaining momentum among civil society organizations, labor unions, popular organizations, the academe, and the media. It became a contentious issue in the May 2022 national elections. Resistance from both the government and corporate sector, however, has been intense and unbending. In response, proponents have outlined the rationale for a wealth tax in light of the existing political, social, and economic situation.

Addressing inequality

The most important rationale for a wealth tax is to reverse the age-old trend of rising inequality. The economist Thomas Pikkety has been said to propose "a global system of progressive wealth taxes to help reduce inequality" and reverse the trend where the "vast majority of wealth [is] coming under the control of a tiny minority" (Index Project n.d.; cf. Piketty 2014, 515). Wealth taxes are meant to move society in the opposite direction, that of promoting equality. Governments can principally use wealth tax revenues to advance social equity by reducing disparities in wealth holdings.

Malaysian economist Jomo Kwame Sundaram (2021) stresses that "to be equitable, taxation must be progressive" and that "wealth taxes are the most progressive way to raise revenue while also reducing inequalities." The point is to "get more revenue from those most able to pay while reducing the burden on the needy." In this way, it could contribute to reducing both gender inequality and inequality across generations. Atkinson (2015, 196) argues that a wealth

[1] This policy brief is extracted from an unpublished study prepared by the author for the Asian Peoples' Movement on Debt and Development (APMDD) entitled "Inequality, tax justice, and the Philippine wealth tax campaign," May 23, 2022. Eduardo C. Tadem.

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tax "would be patently directed at seeking to secure a more level playing field and thus contributing to reducing inequality of opportunity—a goal that . . . enjoys wide support."

Surprisingly, both the World Bank and the International Monetary Fund (IMF) have come out in support of a wealth tax to counter rising global inequalities (Brumby 2021; Roig 2020). In a joint conference on October 19, 2021, the World Bank Group and the IMF noted "the persistence in income inequality over centuries until today [that] is largely driven by inequality in distribution of wealth." It concluded that a "progressive tax policy is one of the prime tools for addressing such inequality" (World Bank 2021).

Social unrest

Secondly, a wealth tax is also meant to respond to social unrest and restiveness. Palmer (2015) noted that extreme levels of inequality put "increasing pressures on the bottom 40% of the population [that] will result in higher levels of social volatility," citing the violent London riots of August 2011 against "racially-motivated police violence." Pikkety (2022, 11) recounts other protest movements that revolve around inequality, such as "the revolt of the *gilets jaunes* ("yellow vests") in France in 2018, . . . the Black Lives Matter, #MeToo, and Fridays for Future movements." All these mobilized "people around racial, gender, and climatic inequalities, across national borders and generations."

But perhaps the most significant global manifestation of the connection between inequality and unrest was the Occupy Movement of 2011–12. Begun at Wall Street, USA, the movement was a protest against inequality between the 1% and the 99%. It denounced corporate greed, which was associated with "poorly regulated banks and corporations . . . whose economic and political power is at direct odds with democracy in America" (Wedderburn et al. 2012).

Regressive tax system

A third rationale for a wealth tax is to correct the current dominant regressive tax system throughout the world. "Over the past half century, even as their wealth rose to previously unseen heights, the richest Americans watched their tax rates collapse . . . for the first time in the past hundred years, the working class—the 50 percent of Americans with the lowest incomes—today pays higher tax rates than billionaires" (Zacman and Saez 2019).

Indeed, in the immediate post-colonial period, taxes became "more progressive" in most newly-independent societies. "In the last four decades," however, "most governments have reformed tax policies for the worse, reducing tax revenue shares and shifting the tax burden from the better off to the public at large." The decline of progressive taxation has arisen in part due to "policy advice from international financial institutions and political pressure from powerful elites and foreign investors" (Jomo 2021).

Rampant tax evasion

Fourth, the richest people are also the most notorious for rampant tax evasion. The world's top billionaires—"owners of Amazon, Apple, Facebook, Google, Microsoft, and Netflix have collectively dodged over US$100 billion in global taxes so far this decade . . . with the bulk of this shortfall almost certainly [arising] outside the United States . . . in tax havens in Bermuda, Ireland, Luxembourg, and the Netherlands" (Corbett 2019). Thus, while the US corporate tax rates was 35 percent, Amazon (Jeff Bezos) paid just 11.27 percent; Facebook (Mark Zuckerberg, 10.2 percent); Google (15.8 percent); Netflix (15.8 percent); Apple (17.1 percent); and Microsoft (Bill Gates, 16.8 percent).

A ProPublica research covering the period from 2014 to 2018 shows that tax evasion by billionaires is much more unbridled than what the numbers above show (Eisinger et al. 2021). Warren Buffet (Berkshire Hathaway), whose wealth grew by US$ 24.9 billion during the four-year period, paid only 0.10 percent in tax out of his total reported income of US$ 125 million. Jeff Bezos (Amazon) paid 0.98 percent of his reported income of US$ 4.22 billion even as his wealth grew by US$ 99 billion. Michael Bloomberg's wealth rose by US$ 22.5 billion but paid only 1.3 percent of his reported income of US$ 10 billion. Lastly, Elon Musk (Tesla Corp) paid 3.27 percent in tax on his reported income of US$ 1.52 billion even as his wealth went up by US$ 14 billion.

Big corporations and billionaire individuals are further known to relocate to countries with low tax rates—so-called tax havens. They also set up shell companies apart from engaging in illicit financial flows (IFFs)—e.g., transfer pricing and vertical integration. Zucman (2015, 48) estimated that "globally around 8% of households' financial wealth is held in tax havens" or US$ 7.6 trillion out of a total of US$ 95.5 trillion as of 2014. Household financial wealth pertains to "the sum of all the bank deposits, portfolios of stocks and bonds, shares in mutual funds, and insurance contracts held by individuals throughout the world, net of any debt" (35). Switzerland alone accounts for US$ 2.3 trillion.[3]

In the Philippines, the richest are not necessarily the top income taxpayers. Data from the Department of Finance (DOF) Tax Watch service show that, for 2012, "only 25 out of the 40 richest Filipinos (as reported by Forbes) are on the Bureau of Internal Revenue's (BIR) list of top individual tax payers" (Bacani 2013). Tax Watch also disclosed that among the top 100 corporations in terms of gross revenues reported by the Securities and Exchange Commission (SEC), 39 are not listed among the BIR's top 500 corporate taxpayers for 2012.[4] Even when identified by the government and charged accordingly, rich tax evaders are also able to escape prosecution or penalties. In the Philippines, the BIR's "Run After Tax Evaders (RATE)" project has a pitiful accomplishment record. Out of 929 cases against tax evaders from 2005 to December 2018 with total tax collectibles of PhP 148.35 billion, only 14 have been resolved, with only 10 convictions (BIR n.d.).

Corporate tax breaks

The fifth reason is that, on top of grossly underpaying their corporate taxes, the richest individuals and families also take advantage of huge corporate tax breaks and tax holidays that governments grant. This takes place in exclusive enclaves such as special economic zones (SEZs), where normal rules and regulations on taxation and other laws are suspended.

In the Philippines, while the regular corporate tax stands at 25 percent, firms in SEZs pay no more than 5 percent. They enjoy other perks such as tax-free imports and exports, and do not have to cover the costs of infrastructure development, such as airstrips and factory buildings (Tadem 2022, 4), all of which are shouldered by the government.

Unearned profits

Sixth, a large chunk of the wealth held by billionaires and the upper crust of the rich stems from unearned super profits that are not plowed back into the economy through new and added investments (Montes 2021). This has been calculated by "estimating a 'normal' rate of return versus the actual rate of return," which then indicates that "profits have exceeded normal rates of return." Montes (2021) traces this to the following practices:

> One is monopolization of markets, including increased ability to enforce price discrimination on consumers and users. Another is international firms are generating what the IMF has called "false profits," derived mainly from the use of facilities to put out of reach of tax authorities' profits that were supposed to pay to them. These are profits that are not based on value-added, that is not based on economic activity. So we have an economic system that is shoveling wealth to selected actors that has nothing to do with their roles in the economy.

Profits at the expense of labor

Seventh, Montes's (2021) point is related to the issue of how declining labor shares in the gross value created by economic production is disproportionate to the

[3] Zucman (2015, 35) writes that other prominent tax havens are "Singapore, Hong Kong, the Bahamas, the Cayman Islands, Luxembourg, and Jersey." Zucman, of course, discounts the "offshore" accounts held by the millions of migrant workers from developing countries and employed in developed societies.

[4] Unfortunately, the Department of Finance has ceased to issue these incriminating reports after 2012. See appendices for the detailed information on these reports.

increasing shares to the capitalist class, as depicted by Barkai (2020). Such development is rationalized as a "tradeoff[s] between labor and physical capital" as firms have allegedly "substituted expenditures on labor inputs into production with expenditures on physical capital inputs into production" (2421).

Drawing a "distinction" between capital inputs and "pure" (and therefore unearned) profits, Barkai convincingly shows that by charging consumers "high prices" not justified by the production costs, the owners of capital are merely accumulating pure profits at "the expense of the labor share" (2421–422). Market power thus increases while fair competition declines. Montes (2021) argues that "if the capitalists had invested more, they could have caused more employment." Inequality between labor and capital and between rich and poor could have been partially mitigated.

Managing debt

Eighth, to raise funds for pandemic responses, governments, especially in developing countries, have had to incur large foreign and domestic loans. Debts have been accumulating for many developing countries, sparking an impending debt crisis. The Philippine government debt, for one, now stands at PhP 12.68 trillion (US$ 253 billion) as of March 2022, an increase of 17.73 percent from the PhP 10.77 trillion (US$ 215 billion) a year earlier, and by 4.8 percent in one month between February and March 2022 (Tomas 2022). The resulting debt-to-GDP ratio of 63.5 percent (and possibly higher in the coming months) pushed the country past the recommended threshold of 60 percent for debt manageability.

This level of debt ratio has not been experienced by the country in 16 years, i.e., since the Macapagal-Arroyo administration in 2005.[5] This development has prompted Fitch Ratings to post a "negative outlook" on the Philippines' credit rating, meaning a possible downgrade from the current "BBB" rating (FitchRatings 2022).

There are two main ways for a government to finance its expenses: taxes and debt. In general, taxation is by far preferable to debt in terms of justice and efficiency. The problem with debt is that it usually has to be repaid, so that debt financing is in the interest of those who have the means to lend to the government. Pikkety (2014, 540) argues for a general advantage of taxing the rich instead of borrowing from them.

Funding COVID-19 responses

Ninth, a wealth tax could go a long way in funding responses to the still-raging COVID-19 pandemic, especially in developing countries. The tax can help finance vaccine procurement, upgrade health services, and facilitate social amelioration, emergency employment, information and education campaigns, and other measures. As noted above, developing countries simply do not have the surplus funds to address a health emergency of pandemic proportions.

Since 2020, the Philippine government has had to borrow PhP 1.3 trillion and access foreign grants of PhP 2.7 billion mainly to procure COVID-19 vaccines (Tomas 2022). These amounts, however, are still seen to be supporting only short-term and stop-gap solutions and are inadequate to effectively confront the pandemic's myriad challenges, particularly for the country's medium and long-term health and health-related needs.

Conclusion

This policy brief has enumerated nine reasons why a wealth tax is not only necesssary; it is also essential to confronting and reversing rising inequalities all over the globe. Since existing inequalities are multidimensional, imposing a wealth tax is an important step toward addressing many of the more pressing problems of human societies. And it can render reparations to the billions of people around the planet who have been marginalized by the injustices of the system.

[5] Rather than incurring more debts, the Freedom from Debt Coalition (FDC), has instead called for a cancellation of "odious and illegitimate debts" and a suspension of debt payments during the pandemic in order to avert what it calls "a debt bomb." At the same time, FDC is pushing for "a wealth tax on the country's top billionaires" to fund COVID-19 responses (BusinessMirror 2021).

Governments must therefore wake up to the realization that a “business as usual” approach to development is no longer economically feasible; it is also politically untenable. Palmer (2015) warns that if “large sections of the population in any country decided that civil unrest was their only opinion when dealing with a system that was seen as biased to the ultra-wealthy and unjust, then . . . social breakdown could be the outcome.”

Pikkety (2022, 11) projects that “the movement toward equality still has a long way to go, especially in a world in which the poorest, and particularly the poorest in the poorest countries, are preparing to be subjected, with increasing violence, to climatic and environmental damage caused by the richest people’s way of life.” He further argues that “the social and environmental contradictions of the current economic system” implies that “revolts, conflicts, and crises will continue to play a central role in the future, under circumstances that it is impossible to predict with precision.”

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