“Our aim is to make tax collecting a declining industry”

- Margaret Thatcher

A wealth tax is a direct tax levied on one's net worth, typically based on the summative value of one’s assets and liabilities. Such a tax would be implemented on those with the largest wealth in society: high-net-worth individuals and large corporations. Thus wealth taxes, in theory, can generate significant revenue which can subsequently be utilised in order to fund the provision of public goods and services. Moreover, their progressive nature can lead to positive redistributive effects as, it is argued, a wealth tax leads to a fairer distribution of the overall tax burden. In the long run, this may aid in addressing wealth inequality and contribute to greater social cohesion.

Yet, in practice, the excessive enforcement and bureaucratic costs of a wealth tax are likely to mitigate the potential long-run benefits. Due to the large amount of time that will be spent drafting legislation, and the significant labour cost of collecting the tax and ensuring compliance, much of the money gained will be immediately used up, leaving less available to fund public services. It should also be noted that the UK's position as a major hub of global finance and entrepreneurship makes capital flight a pertinent issue for the country. As well as this, the question of whether to enact a wealth tax raises a fundamental question that has polarised economic thinkers for generations: does increased taxation overstep the jurisdiction of government?

In 1799, Prime Minister William Pitt introduced Britain's first income tax to help cover the costs of the Napoleonic Wars (UK Parliament, n.d). Over the ensuing two centuries, the British taxation

system evolved to include a wide range of direct and indirect taxes used to raise revenue as part of the government's fiscal policy. Since the Monetarist doctrine of the 1800s has been replaced by the Keynesian emphasis on consumer demand, governments have been under greater pressure to increase spending. This is consequently resulting in a growing government budget deficit as the amount spent far exceeds that gained in taxes. In fact, in 2022/23, the UK government budget deficit was equivalent to 5.4% of GDP (Keep, 2023) and an ageing population coupled with growing demand for welfare payments and a shrinking workforce post-pandemic, means there is growing concern about the sustainability of this budget deficit. As a result, questions are being raised about the UK government's ability to continue funding goods and services.

According to provisional estimates, the public sector's net debt was 2,567.2 billion at the end of May 2023, equivalent to 100.1% of GDP. March 1961 was the last time the debt-to-GDP ratio exceeded 100% (Munro, 2023); a level of government borrowing and national debt of this magnitude is thought to be unsustainable in the long term, especially since the pound does not have reserve currency status like the US dollar. The reasoning behind this scepticism is twofold. Firstly, when more government debt is issued in the form of government bonds, there is reduced demand for private sector debt. This impacts the ability of businesses to raise capital, limiting investment and harming economic dynamism, resulting in a weaker economy. Secondly, high levels of national debt and the subsequent spending on interest payments will crowd out investment in other public goods such as infrastructure, education, healthcare, and national defence. In the short term, this is likely to cause a supply-side shock since firms may have to reduce output as cash flow is restricted. Over time, this shrinking access to capital will result in TNCs pulling investment from the UK as it becomes less competitive for businesses. This disproportionately affects those in low-income areas where incentives for businesses to move out of the UK will be greatest. In such an eventuality, people living in more deprived areas are susceptible to structural unemployment to a greater extent. Business relocation will reduce spending on infrastructure and mitigate the desire of local and national governments to improve public services in the area. Consequently, a negative multiplier effect can take hold meaning that the hysteresis from initial job losses persists over time.

In an era of economic crisis, issues such as these are magnified. The COVID-19 pandemic and subsequent supply chain disruption saw government finances increasingly strained as the NHS came under growing pressure to cater for COVID patients without sacrificing care for other health needs. The plight of schools and other public services to cope with a growing population and stagnant investment also came to the forefront of media attention. Compounded with the war in Ukraine, the tangible benefits of government investment in the UK economy are decreasing. To

spur the economy through spending, calls for a windfall tax on profits and a wealth tax on high-net-worth individuals have amplified.

However, before discussion on the costs and benefits of a wealth tax itself can begin, one must address the issue of determining the size and extent of the wealth tax to be implemented.

The first, and most potent, challenge involves determining what constitutes ‘wealth’ and how it should be measured. Different assets have varying liquidity and valuation challenges meaning that establishing a consistent and accurate measurement across assets such as cash, investments, real estate, and business ownership is difficult. Determining the market value of assets such as intellectual property, in particular, is likely to require labour-intensive and time-consuming evaluations, leading to administrative complexities which can significantly reduce the benefits gained through the implementation of the tax. Furthermore, dealing with high-net-worth individuals and large corporations means complex financial arrangements must be untangled and understood, something which comes with a great opportunity cost. This opportunity cost may subdue public support for the tax.

As well as this, the introduction of a wealth tax is likely to be politically challenging due to opposition from those who believe that it discourages wealth creation or infringes on property rights. High-profile lobbying from large corporations means that political self-interest could take hold. Consequently, any tax implemented is not likely to be done so at the optimal level. Thus the trade-off between revenue gained and money spent on compliance will worsen.

Suppose, for a moment, such problems were overcome and a wealth tax was implemented. In doing so, revenue would be generated which could be used to fund the provision of public goods and services, raising consumer welfare. In the current economic climate, many view the injection of government spending into the economy as a necessary condition to stimulate continued growth. According to the British Medical Association, in March 2023 there were 7.42 million people waiting for treatment on the NHS in England: this is almost 13% of the total population (NHS England, 2023). Such shocking figures are prevalent across the public sector with growing demand for novel ways to raise funding. Implementing a wealth tax would increase government revenue which can be used to reduce the budget deficit and alleviate fiscal pressure. By investing in public infrastructure projects in low-income regions, there will be job stimulation in underdeveloped areas, reducing regional disparities in economic growth. Funding social programs that target workforce development, for example, through the provision of vocational training or apprenticeships, will boost the human capital of the UK population. Thus, the nation will become

a more attractive destination for foreign business investment. Rising levels of FDI will incentivise UK-based businesses to invest in improving efficiency and long-term sustainability as competition in UK markets increases. Furthermore, a higher-skilled workforce nurtures domestic talent and encourages entrepreneurship as accessing specialised workers becomes easier. By increasing the productive potential of the economy there will be long-term benefits as more workers occupy highly skilled employment positions, earning more money. This increase in income will raise tax receipts and mean fewer people are dependent on benefits so the strain on the welfare state will reduce. Further tax revenue gains generate a positive multiplier effect, raising standards of living.

However, these benefits derived from effective public spending are dependent on the political and economic goals of the government: a tax may simply be used to reduce the fiscal deficit without increasing spending. In such a case, the wealth tax would not have any of the aforementioned positive impacts. While reducing the deficit mitigates the need for government borrowing and thus may reduce the percentage of UK GDP spent on paying debt interest in the future, the opportunity cost of implementing the wealth tax would be negative due to the administrative costs being greater than the net gains from a simple reduction in the government budget deficit.

One of the primary issues that wealth taxes aim to tackle is income inequality. A study by Oxfam found that, currently, the richest 1% in Britain hold more wealth than the poorest 70% (Oxfam, 2023). A wealth tax reduces the concentration of wealth among the richest, mitigating disparities in asset ownership and promoting a more equitable distribution of resources amongst the population. Such benefits arise from the ability of uncontrolled wealth accumulation to hinder economic mobility. People who are born into affluent families can access a greater range of opportunities, cementing their position at the top of society. By reducing the level of accumulated wealth, there is increased scope for upward mobility which enables people from disadvantaged backgrounds to be more competitive in employment and higher education. This provides people with a platform to gain wealth through the merit of their skills and ideas, rather than through familial connections. In many cases, wealth inequality is perpetuated through intergenerational wealth transfer, where assets and wealth are passed down through families, creating dynastic wealth. To address this, a wealth tax on inheritances and estates can prevent the conservation of extreme wealth disparities and contribute to a more equal distribution of wealth over time. Although wealth concentration will still exist, when met by a wealth tax, wealthy individuals will be incentivised to invest their wealth in productive assets rather than holding it in low-growth forms. By directing their financial capital toward investments that generate economic activity,

there will be further gains in employment as job creation is indirectly stimulated. In addition, when people feel as though there is greater social mobility, they will be more willing to take risks and up-skill themselves, giving them opportunities to access higher-skilled and higher-paid positions, further narrowing the gap between the richest and poorest.

Despite this, these hugely positive implications of a wealth tax require effective government institutions and robust regulatory compliance. Unfortunately, the prevalence of government failure presents an existential challenge to any advantages of a wealth tax.

Wealth taxes often target various types of assets, including financial investments, real estate, and personal property. Since many of these assets can be moved or transferred across borders, wealthy individuals may simply choose to relocate their assets to jurisdictions with more favourable tax environments instead of complying with a UK wealth tax in order to preserve their wealth and avoid the additional tax burden. A wealth tax can, therefore, diminish the incentives for capital investment within a country resulting in two forms of capital flight taking hold. Firstly, financial capital - bank accounts, investment portfolios, and other financial instruments - will be transferred overseas, often involving the conversion of this money into foreign currencies. This results in downward pressure on the value of the pound, causing it to become devalued. As the pound weakens, imports become relatively more expensive and cost-push inflation gains traction. Consequently, business and consumer confidence will weaken resulting in investment stalling and a further loss of demand for the pound. Secondly, human capital may relocate due to disincentives to gain wealth arising. Highly skilled individuals working in volatile positions, such as CEOs of large corporations, are likely to move out. If this occurs, contagion will likely spread throughout the job market resulting in other skilled workers relocating with the businesses they work for. An outflow of skilled labour from the UK would discourage economic migrants, worsening the skill shortage currently being felt in the British economy. Capital flight can, further, mitigate the redistributive impacts that a wealth tax would be designed to implement. As wealthy individuals and businesses move assets overseas, wealth inequality within the UK will be exacerbated as fewer resources will remain available for domestic development and welfare programs.

At the heart of the failures of implementing a wealth tax is bureaucracy. Developing an administrative framework and drafting and enacting legislation would be necessary for governments to establish clear rules about taxable assets and tax rates. Assessing and valuing

many types of assets owned by individuals necessitates the involvement of tax authorities as well as professionals trained to efficiently manage the process. Establishing a new tax is a time- and labour-intensive process with a high opportunity cost; money would be better invested directly into public services rather than creating bureaucratic overhead costs. Those who would be subject to wealth taxes would have to provide detailed information about their assets and net worth, thus tax authorities must establish procedures for accurate reporting. In order to verify the validity of this disclosed wealth, detect potential tax evasion, and ensure compliance with wealth tax regulations, robust audit and enforcement mechanisms must be in place. Increased enforcement would likely require additional personnel and bureaucratic structures. While regulation is necessary, an over-burdensome bureaucratic process could lead to a lack of compliance, as taxpayers may be reluctant to submit to audits or provide the necessary information. Moreover, the cost of enforcement is likely to outweigh the benefits of the wealth tax, and resources could be better directed towards other initiatives.

Crucially, many critics of a wealth tax view it as a harsh infringement on an individual's property rights. Such a tax would single out those who have prudently chosen to save and invest their income. This is not in the government's interest as these individuals and firms often foster a positive and dynamic economic environment. In a pertinent example, the implementation of a wealth tax in Sweden in 1911 was scrapped again in 2007 because "the wealthiest Swedes have fled the country, including IKEA founder Ingvar Kamprad" and "many Swedish sports stars" (Mitchell, 2007). This should be a warning: wealth taxes serve only to punish those at the top of society without benefiting those at the bottom.

A wealth tax further serves to diminish the returns on accumulated wealth which reduces the incentives for individuals to invest their wealth in productive ventures such as starting new businesses or funding innovation and research. When the potential rewards from investment fall, individuals opt to hold onto their wealth causing a reduction in expenditure which can dampen economic dynamism and hinder the creation of new jobs.

As mentioned previously, a wealth tax often targets inter-generational wealth transfers, mitigating the ability of families to pass down wealth and assets to future generations. Entrepreneurial incentives and business continuity will be harmed, as the availability of capital for investment and innovation is constrained. The reduced ability to transfer wealth across generations limits the dynamism and longevity of family-owned businesses. These large firms often have deep-rooted economies of scale which propel British business onto the world stage. By dismantling these mechanisms to keep costs low, consumers lose out as they see prices going up which can affect their levels of disposable income. Across the economy as a whole, cost-push inflationary pressures may arise, harming standards of living.

By encouraging individuals to prioritise tax planning strategies over wealth creation, a wealth tax can also create distortions in economic decision-making. Tax mitigation strategies are likely to be employed instead of activities that create wealth when the burden of taxation on accumulated wealth is high. This can lead to suboptimal economic outcomes and hinder the dynamism and innovation that arise from entrepreneurial efforts.

If the government implements a wealth tax, it has two options: a one-off or an annual tax. A one-off wealth tax can quickly generate substantial revenue by taxing individuals' or households' existing wealth. In times of economic crisis or if the government requires immediate funds to address pressing social issues, this expedient dose of revenue is especially advantageous. Furthermore, a one-off tax is less likely to distort investment decisions and results in less capital flight than an annual wealth tax because individuals aren't burdened with recurring tax obligations that may affect their investment decisions. A one-off wealth tax allows for a temporary redistribution of resources which may help alleviate wealth disparities and create opportunities for socioeconomic mobility without causing the significant outflows of human and financial capital seen with an annual wealth tax.

Despite these benefits, a one-off wealth tax still carries a similar administrative burden to an annual tax. In fact, the one-time nature of the tax necessitates significant upfront effort in establishing mechanisms for accurate valuation and enforcement, potentially leading to increased bureaucratic burdens and compliance challenges. To meet these tax obligations, individuals may resort to forced asset liquidation, disrupting markets and causing allocative inefficiencies. Additionally, the impact may be disproportionately severe on people with illiquid assets, such as family businesses or long-term investments, who may find it difficult to meet their tax obligations without compromising their economic sustainability.

While wealth inequality and the growing demand for government provision are pressing issues within the modern British economy, it is essential to acknowledge that a wealth tax is not the panacea to address these complex problems.

A wealth tax, despite its intentions, is a flawed policy choice. Its widespread negative effects on economic dynamism, administrative complexities, and disincentives for wealth creation outweigh the temporary redistribution benefits it offers. Addressing wealth inequality and promoting social welfare should be pursued through a broader and more nuanced set of policies that strike a balance between wealth redistribution and fostering economic growth. Using a comprehensive approach combining targeted social investments in educational training and boosting economic mobility, the UK can reduce inequality more effectively and sustainably, leading to greater long-term prosperity for all.

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