# Is the 'Millionaire Tax' reasonable?

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## Abstract

Income inequality has long been a contentious social issue, prompting calls for "Millionaire taxes" targeting wealthy citizens. The question of whether implementing high taxation, such as a tax rate exceeding 40% on income over £1 million, would contribute to greater societal justice remains subjective and dependent on diverse perspectives. The complexity of tax policy implementation necessitates a careful examination of its wide-ranging economic, social, and political implications. This essay provides a nuanced perspective on the "millionaire tax". Rather than advocating for extreme taxation, it proposes the adoption of a moderate tax policy to address inequality issue. The study conducts a comprehensive analysis of proponents' and opponents' viewpoints regarding "heavy taxation" of the wealthy, emphasizing principles of fairness and equity, potential negative consequences, and the importance of promoting social welfare and ensuring taxation fairness. It discusses empirical evidence on income and wealth inequality, explores the potential impact of the "millionaire tax" on the affluent, and suggests alternative approaches to address inequality while promoting economic growth and social welfare.

**Keywords:** Taxation, social justice, millionaire tax, income inequality

## Introduction

The concept of a "millionaire tax" refers to a proposed policy measure that imposes a heavy tax on individuals with high levels of wealth or income, above the £1 million threshold. The idea behind such a tax is to address wealth and income inequality by redistributing the resources of the ultra-wealthy to support social welfare programs, public services or other social needs. Furceri and Zdzienicka (2012) found empirical evidence supporting the notion that increased social spending contributes to economic activity by reducing inequalities. Similarly, Tridico and Meloni (2018) highlighted the significance of economic growth and welfare models in addressing inequality,

especially in the context of globalization. The question of whether implementing a "millionaire tax" on high incomes, which is commonly perceived as indicative of wealth exceeding one million, would contribute to a more just society is subjective and contingent upon a variety of views and ideologies. The implementation of tax policies is a multifaceted endeavour with wide-ranging economic, social, and political implications. The effectiveness of a "millionaire tax" in promoting social justice hinges on various factors, including the specific details of the tax policy, the broader socioeconomic landscape, and the societal goals and values. Therefore, a thorough assessment of all perspectives and evidence-based analyses is crucial to evaluate the potential impact of such tax policies on social justice.

This essay analyses the contentious and subjective debate surrounding the concept of the "millionaire tax" for incomes surpassing £1 million, exploring a multitude of perspectives and ideologies. Our objective is to provide a comprehensive analysis that challenges the notion that institutionalizing a "millionaire tax" would inherently foster a more just society. Instead, we propose the implementation of a moderate tax policy to address certain inequalities. To substantiate this argument, we commence with a literature review, examining the arguments in favour of taxing the rich, and subsequently present a robust defence against opposing viewpoints. Furthermore, we highlight potential issues that may arise from the imposition of a "millionaire tax." Finally, we discuss potential solutions to facilitate heavier taxation of the wealthy and the anticipated challenges in the future.

## The "Millionaire Tax" Debate

The debate on taxing the wealthy is complex and multifaceted, with arguments on both sides of the spectrum. Proponents emphasize the need for wealth redistribution, social justice, and fair corporate taxation, while critics raise concerns about potential negative consequences such as capital flight, tax avoidance, and tax evasion.

Proponents argue that a "millionaire tax" could promote greater social justice by reducing wealth concentration and providing resources to address social disparities. Proponents of such a tax may also argue that it promotes income redistribution, reduces income inequality and funds social projects to meet social needs. It may be seen as a way of ensuring that the wealthiest individuals contribute a greater share of income to support the wider community, reducing wealth



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DOI: https://doi.org/10.5526/esj.262

concentration and potentially addressing issues of social justice and equity. Taxing the rich highlights the need for wealth redistribution to address social inequality and promote social justice (Piketty and Saez, 2014).

One of the main arguments in favour of taxing the rich is based on the principles of fairness and equity. Proponents of taxing the rich argue that wealth and income should be distributed more evenly in society and that those who are more affluent should contribute a larger share of their income or wealth to support public goods and services. This argument is often grounded in theories of social justice, such as the theory of justice as fairness. Rawls (2005) emphasizes the need to ensure that the distribution of resources and opportunities in society is arranged to benefit the least advantaged. Pattnayak and Stiglitz (2012) argue that "heavy taxation" on the wealthy for redistribution purposes can help promote a more even income distribution and contribute to a just society. Those who are more affluent contribute a larger share of their resources to support public goods and services (Piketty, 2014).

However, a heavy tax only towards the rich might be unjust. If we are looking for a just society, people's work should be proportional to their rewards, and in this case, we don't just mean physical work. This includes intellectual work, such as making accurate judgments about the timing of investments, which is predicated on the intake of sufficient knowledge and requires a great deal of time and effort to acquire the relevant knowledge. The workers put their labour to work, and their work creates wealth. Excessive taxation of personal income may be unfair, as it may be seen as an infringement of property rights and a deterrent to hard work and success. Nozick (1975), who argues that tax for redistribution is a violation of individual rights, stated that individuals have a right to keep the "fruits of their labour", and any attempts to redistribute wealth through taxation are a violation of that right. He believes that any redistribution of wealth through taxation is inherently unjust because it involves taking from some individuals and giving to others without their consent. The author sees this as a form of forced labour or involuntary servitude, as it compels individuals to contribute to the welfare of others against their will. He suggests that taxation should be limited to funding the minimal functions of government.

According to Cohen (2008), the principles of distributive justice examine the relationship between talent, effort, and the distribution of wealth. Cohen argues that natural talent and abilities are not earned by individuals but are instead a matter of luck or genetic endowment. He therefore proposed



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that inequalities arising from these factors should not be the basis for differentiation in the distribution of resources, and therefore the wealth people earn through their work. He advocated a society that provides equal opportunities and resources for all its members, regardless of their inherent advantages or disadvantages. Fairness in a just society might sacrifice some group of people’s interest for the greater good if we put a heavy tax on the rich for redistribution purposes to have a more even income in society. People’s labour in work should be equal, so even if having a tax in order to redistribute and build a better society, the tax rate should be reasonable. Using the force of government to seize such a large share of the “fruits” of others is unjust, even if the taking is sanctioned by a majority of the citizenry. Thus, finding the right balance between promoting social welfare through redistribution and ensuring fairness in taxation is a complex and challenging task.

Empirical evidence suggests that income and wealth inequality have been increasing in many countries in recent decades (Piketty and Saez, 2014; Stiglitz, 2012) and that the wealthiest individuals and households have accumulated a disproportionate share of wealth and income. The dramatic social inequality existing in the difference in people’s life quality might be the result of income inequality. Income inequality is linked to a wide range of social and health problems, including lower life expectancy, higher rates of mental illness, lower educational attainment, higher crime rates, and reduced social trust (Wilkinson and Pickett, 2010). Oxfam's report "Time to Care" argues that extreme wealth concentration at the top exacerbates income inequality and hampers efforts to address social welfare disparities, as the rich have more resources to access quality education, healthcare, and other essential services (Coffey et al., 2020). Millionaires occupy more resources than others, and their wealth can accumulate and gather more wealth from their money. In other words, the rich can become even richer. The wealth of society tends to be concentrated and accumulated in the hands of the rich, and the wealth and resources in their hands are monopolized. Indeed, the accumulation of wealth in the hands of a small group of people can lead to monopolies and oligopolies, which can stifle innovation and competition (Acemoglu and Robinson, 2012). So, a reasonable tax rate can be implemented to prevent the excessive accumulation of wealth by wealthy individuals, which can be detrimental to the overall economy and lead to unequal distribution of resources.



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Nevertheless, opponents of such a heavy tax on the rich may argue that it could discourage entrepreneurship, innovation and investment, leading to reduced economic growth and job creation. Entrepreneurs and high-income earners are more likely to engage in risk-taking and invest in new ventures when they have the potential to earn higher returns on their investments. Heavy taxes on personal income could reduce the rewards for such efforts, leading to reduced motivation to undertake entrepreneurial activities and invest in economic growth. Friedman (1962) argued that heavy taxation of the rich was an infringement on their freedom of choice. According to the author, individuals have the right to choose how to spend their income and heavy taxation restricts this freedom. He suggested that individuals should be free to choose how to distribute their income, and that government intervention through taxation could lead to unintended consequences. To cope with extreme tax policies, the wealthy may find ways to avoid or evade high taxes through legal or illegal means, such as developing more drastic forms of tax avoidance and capital flight (Laffer, 2004).

## The Millionaire's "Fear"

High taxes on the wealthy can discourage investment, hinder economic growth, and ultimately harm the overall economy. A "millionaire tax" raises concerns about potential challenges and unintended consequences. Mankiw (2013) argues that heavy taxes on the wealthy can have negative effects on economic growth, and it may discourage wealth creation and entrepreneurship, reduce incentives for investment, and hinder economic growth. Those investors and enterprises might be intimidated by heavy taxes like 40% of taxes over $1 million. One empirical example is that in 2012, the French government imposed a 75% tax on those earning more than 1 million euros annually, which was informally referred to as the "millionaire tax." The tax was intended to target the country's wealthiest individuals and aimed to raise revenue to help reduce the country's budget deficit (BBC News, 2012). However, the tax was met with criticism from business leaders and wealthy individuals who argued that it would discourage investment and entrepreneurship, and lead to capital flight. The tax raised less revenue than expected and was seen as a contributing factor to the departure of wealthy individuals from France. Desbuquois (2016) argues that wealth taxation is detrimental to the economy, leading to expatriation and potentially causing an exodus of capital. It shows that France lost 43,000 millionaire tax-paying households out of a total of 323,000 between 2000 and 2014. Then in 2014, the French government modified the tax to apply to employers rather



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than individuals, reducing its impact on wealthy individuals. The tax was later reduced to 40% in 2015.

The implementation of the "millionaire tax" in France offers valuable insights into the impact of high taxes on the wealthy. As highlighted above, the tax provoked debates on its potential consequences, including discouraging investment and entrepreneurship and leading to capital flight. Empirical evidence suggests that some wealthy individuals indeed left the country, highlighting the potential drawbacks of such taxation policies. However, it is crucial to consider the broader context and specific policy adjustments made. The need to evaluate factors such as GDP growth, investment levels, and revenue generation to comprehend the tax implications has been highlighted in previous research (Laffer, 2004). Additionally, King and Fullerton (2010) stress the importance of a comparative analysis with other countries and consideration of trade-offs to attain a comprehensive comprehension of the policy's impact and to guide the development of future tax policies aimed at achieving a balance between equity and economic growth.

Conservatives believe that taxes on the wealthy should be kept as low as possible to prevent capital flight and attract new businesses. A heavy tax, such as a 50% tax on income over £1 million, may only lead to these millionaires developing more drastic forms of tax avoidance, tax evasion and capital flight, while lower taxes on the affluent can promote entrepreneurship, attract investment, and promote economic growth (Hassett and Mathur, 2006). The super-rich avoid as much as 30% of their tax liability and extremely low corporate taxation helps them cream the profits from companies where they are the main shareholders. The wealthiest individuals often engage in tax planning strategies to minimize their tax liability and take advantage of tax loopholes (Zucman, 2019).

If the heavy tax drives investors away, economic growth might be hampered. Social welfare expenditure will also be cut due to the decrease in the economy. Social welfare programs can contribute to economic growth by reducing poverty, increasing consumer spending, and promoting social stability. Social welfare programs can also increase economic growth by reducing income inequality and poverty and increasing consumer spending (Ostry *et al.*, 2014). Social welfare spending can promote social stability, which in turn can lead to higher economic growth, and social spending positively affects economic activity (Furceri and Zdzienicka, 2012). Therefore, it is



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possible to support both economic growth and social welfare programs without resorting to heavy taxes on the rich and make a reasonable tax rate to make sure the rich also pay their part.

## The Potential Impact of “Millionaire Tax” on Different Types of Wealth

To be more specific, taxing heavily on the rich can have different impacts on different types of wealth. The “millionaire tax” is a heavy tax on income over £1 million, so we should also consider whether an inheritance of over £1 million is also considered income over £1 million. The accumulation of inherited wealth can contribute to income and wealth inequality, as it allows individuals to maintain their wealth without necessarily having to work for it. A “millionaire tax” on inherited wealth could potentially reduce this inequality by targeting those who have benefited from intergenerational wealth transfers. However, there are also concerns that such a tax could negatively impact family businesses and disrupt family wealth planning. In addition, the definition of "income" may need to be clarified in order to determine whether an inheritance of over £1 million is also considered income over £1 million.

When it comes to earned income, even though a “millionaire tax” on earned income could potentially generate significant revenue, which could be used to fund social programs and other public services, a “millionaire tax” on earned income could potentially discourage individuals from working and reduce incentives for entrepreneurship, as individuals may feel that their efforts are not being adequately rewarded.

As this essay mentions before, a “millionaire tax” on earned income could potentially lead to a disincentive to entrepreneurship, innovation and investment, contributing to reduced economic growth and job creation.

## Alternative Approaches to “Millionaire Tax”

While “heavy taxes” on the rich can have negative consequences for economic growth and social welfare, there are alternative approaches that can address these issues without resorting to such measures. It is important for policymakers to carefully consider the potential consequences of different policy options and to strive for a balanced approach that promotes both economic growth and social welfare.



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Pattnayak and Stiglitz (2012) argue that inequality is both the cause and consequence of the failure of political systems and can lead to the failure of economic systems. Traced back to the root of the inequality problem, it is the failure of the government to put systems in place to reduce market problems, i.e., sometimes the market does not work as expected and the political system does not correct the flaws in the market. Policymakers must make it a priority to move more people out of poverty, strengthen the middle class, and curb the excesses at the top.

Piketty (2014) agrees with Stiglitz (2012). His work challenges the mainstream economic theories that suggest that inequality naturally declines over time as economies grow. He argues that without deliberate policy interventions, wealth and income disparities are likely to continue to widen, leading to a perpetuation of inequality across generations. Therefore, society needs governmental controls to decrease inequality. Tax policy should be highlighted as a tool for promoting economic fairness and social justice. Attention should be paid to focusing on closing tax loopholes and increasing enforcement of existing tax laws. This can help ensure that wealthy individuals and corporations pay their fair share of taxes without necessarily imposing heavy tax burdens on them or giving them the chance to avoid taxes. Saez and Zucman (2019) propose policy solutions to address the issue of tax avoidance by the wealthy. They advocate for measures such as closing loopholes, increasing transparency, and implementing progressive tax policies that ensure the rich pay their fair share. Jaimovich and Rebelo's (2017) study demonstrates that the impact of taxation on economic growth is nonlinear; while low to moderate tax rates have minimal effects on growth, higher tax rates disproportionately hinder growth due to variations in entrepreneurial ability. According to research by Ostry et al. (2014), countries with higher levels of income inequality tend to have lower and less sustainable economic growth. This study suggests that a moderate level of redistribution through taxes and social spending can promote more sustainable and inclusive economic growth.

When the economy of the country is considered, the reason why wealth in the market flows disproportionately into the pockets of a few people and a few businesses might be because of the excessive freedom of the market and the excesses of private enterprise. Wealth concentration is a complex issue that has multiple causes, including the free market and excesses of private enterprise. Capitalism itself is not the problem. The way it is structured and regulated is because it can contribute to wealth concentration. A range of policy solutions, such as increasing the minimum



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wage, strengthening unions, and increasing corporate accountability, can be used as methods of addressing wealth concentration (Reich, 2015). There is a growing body of literature that suggests that wealth concentration is a result of the excessive freedom of the market and the excesses of private enterprise. Smith (1993) argued that the free market, when properly regulated, can lead to economic growth and increased prosperity for all, and he also recognised that there were potential downsides to capitalism, such as income and wealth inequality. He suggested that government intervention may be necessary to address these issues as well.

## Conclusion

This essay argues that institutionalizing a “millionaire tax” may not necessarily make a society more just, but a moderate tax policy could reduce some inequalities. The essay presents a review of the arguments for and against the “millionaire tax” and identifies potential negative consequences of the “millionaire tax,” such as capital flight, tax avoidance, and tax evasion. The essay emphasizes the need for wealth redistribution to address social inequality and promote social justice but also highlights the importance of finding the right balance between promoting social welfare through redistribution and ensuring fairness in taxation. The essay concludes that the tax rate should be reasonable, and the focus should be on implementing a reasonable tax policy that addresses income inequalities without infringing upon individuals' rights to the “fruits” of their labour. By striking a balance between wealth redistribution and respecting the principles of fairness and individual autonomy, a more equitable and just society can be achieved.



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DOI: https://doi.org/10.5526/esj.262