CAPX

Good luck and high taxes

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In 2012, U.S. President Barack Obama backed his call for higher taxes on the wealthy with the following piece of reasoning,

> "If you've been successful, you didn't get there on your own. If you were successful, somebody along the line gave you some help. There was a great teacher somewhere in your life. Somebody invested in roads and bridges… If you've got a business, you didn't build that. Somebody else made that happen."

Obama was surely right to note that most of us have been fortunate enough to receive help from others. And while those "others" were most likely family members and friends, rather than generally rude and lethargic government officials, I am not suggesting that government has no role in modern society or that taxes should be zero. But, as I will discuss below, Obama's statement is part of a larger effort by the left to further obscure the link between work and reward, in order to promote an ever-increasing and ultimately destructive level of income "redistribution".

The connection between work and reward has been widely appreciated for millennia. Homer, in his 8th century BC poem *The Odyssey*, has Menelaus say that "no Achaean labored hard as Odysseus labored or achieved so much". Writing twenty-two centuries later Michelangelo observed: "If people knew how hard I had to work to gain my mastery, it would not seem so wonderful at all." And for the millennials, who have never encountered Homer or Michelangelo during many years of public education, here is the food critic Anthony Bourdain:

> "No one understands and appreciates the American Dream of hard work leading to material rewards better than a non-American."

That age-old connection between work and reward has been progressively (pun intended) eroded. In 2011, Senator Elizabeth Warren said:

> "There is nobody in this country who got rich on their own. Nobody. You built a factory … [but you] moved your goods to market on roads the rest of us paid for. You hired workers the rest of us paid to educate. You were safe in your factory because of police forces and fire forces that the rest of us paid for…"

More recently, Professor Robert Frank of Cornell University published a book entitled *Success and Luck: Good Fortune and the Myth of Meritocracy*. Frank argues:

"Wealthy people overwhelmingly attribute their own success to hard work rather than to factors like luck or being in the right place at the right time. That's troubling, because a growing body of evidence suggests that seeing ourselves as self-made… leads us to be less generous and public-spirited. It may even make the lucky less likely to support the conditions (such as high-quality public infrastructure and education) that made their own success possible."

Let us start with two obvious rejoinders. Provision of what we have come to call "public" services does not necessitate government action and government promises do not ensure provision of public services. Before they were crowded out by the modern welfare state, education, road building, old age annuities, fire brigades, and, sometimes, policing, etc., were provided by the private sector or by some kind of public-private partnership.

For example, roughly 80 percent of English adults were literate before the Education Act of 1870 provided a right to education to all British children between the ages of five and 13. The East India Company built roads and hospitals in India back in the 18th century, while the Pinkerton Detective Agency prevented an assassination attempt on the U.S. President Abraham in 1861 and provided him with protection during the American Civil War. By the time Lincoln was finally murdered in 1865, he was back in the inept hands of the Metropolitan Police Department of the District of Columbia.

Conversely, government action does not necessarily mean provision of clean water (e.g., Flint, Michigan), speedy access to healthcare (e.g., Veterans Health Administration), quality education (e.g., inner cities in the United States), public safety (e.g., Chicago) or good roads (e.g., Washington, D.C.).

Similarly missing from the progressive narrative is the recognition that the wealthy already contribute disproportionately toward the provision of public services. Over the last 30 years, the U.S. Internal Revenue Service tells us, "high-income households have become responsible for more of the income tax burden. The 10 percent highest-income taxpayers now pay 69.8 percent of all income taxes, up from 54.7 percent in 1986… *Since 2003, the top 1 percent of taxpayers have paid a greater share of federal income taxes than the bottom 90 percent combined* (my emphasis)."

The American tax system is, according to the OECD, the most "progressive" in the industrialized world. In 2013, for example, "the top 1 percent of taxpayers paid an average income tax rate of 27.1 percent, while all other Americans paid an average income tax rate of 10.5 percent." The reliance on the wealthy cannot continue to grow indefinitely. Evidence shows that, as marginal tax rates go up, the amount of reported income goes down. High tax rates push high-earners out of the labor market. Unlike the rest of us, they don't have to work in order to pay down the mortgage or save up for retirement. They are already wealthy.

How did we get here?

Quite surprisingly, one of the early attacks on the link between work and reward came from the celebrated author of the essay On Liberty, John Stuart Mill. In his 1848 Principles of Political Economy, Mill wrote that

> “The laws and conditions of the Production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them… It is not so with the Distribution of wealth. That is a matter of human institution solely. The things once there, mankind, individually or collectively, can do with them as they like. They can place them at the disposal of whomsoever they please, and on whatever terms.”

Mill’s theory, which held that it was possible to separate work (i.e., productivity) and reward (i.e., earnings), was taken up by Karl Marx, who, in his 1875 *Critique of the Gotha Program*, coined the famous phrase “from each according to his ability, to each according to his needs.” Paying a medical doctor the same amount of money as a bus driver, as was the case in the USSR in the late 1980s, led to predictably catastrophic results, prompting Friedrich Hayek to accuse Mill of “incredible stupidity, showing a complete unawareness of the crucial guide function of prices…”

Obama, Warren and Frank are not real socialists. They don’t want to pay the same wages to doctors and bus drivers. What they do want to do, however, is to further delegitimize the link between work and reward. If they succeed in convincing a majority of the American people that the wealthy and hard work are, by and large, unconnected (where is Steve Jobs when we really need him?), the most productive individuals will exit the labor market or move elsewhere. If that happens, the whole country will suffer.

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