If billionaires want to use tax as a weapon, let them g...

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The Financial Times has reported that billionaire Peter Hargreaves, co-founder of Hargreaves Lansdown, has warned against increasing taxes on wealthy people because, he says, Britain cannot afford to lose more of its biggest taxpayers.

His argument is straightforward. Hargreaves apparently paid £210 million in tax last year. He says that if only a handful of people like him leave the UK, the resulting tax loss might run to £1 billion a year.

There are problems with this argument. First, there is remarkably little evidence that wealthy people leave the UK in significant numbers because of tax. Some will, of course, and some always have. Equally, wealthy people arrive here. People move countries for many reasons, of which tax is only one.

Second, as both Hargewaves and the FT appear not to know (which is worrying in both cases), the government's capacity to spend is not constrained by its ability to raise tax. The household analogy on which this argument relies is just bunkum, but both subscribe to it, or this story would not have been published

But another issue is also in play here. Suppose, for the sake of argument, that Hargreaves is right. Imagine that a very small number of extremely wealthy people could really deprive the government of large amounts of tax simply by changing their country of residence, and that those politicians erroneously think this matters. What follows?

The argument is that, as a result, the government should design its tax system to keep those people happy. The claim is that their threat to leave must influence tax rates and design. Their preferences would, as a consequence, influence tax policy in ways unavailable to everyone else. That is not really an argument about economics. It is an argument about power.

The suggestion being made is that because some people are extremely wealthy, they should have an effective veto over the tax system that parliament might otherwise choose to impose upon them. That is deeply troubling because tax, as I have often explained, inclduing in my book *The Joy of Tax,* is one of the most important mechanisms available to a democratic government to shape the society for which it is responsible.

Tax does not fund government spending in a country like the UK, where the government creates the currency. We do not need Peter Hargreaves’ £210 million before the government can pay teachers, nurses or anyone else. Tax is also important for other reasons. It helps control inflation. It redistributes income and wealth. It changes behaviour. It reduces inequality. And it is one of the mechanisms through which a democratic society decides what distribution of income and wealth it is willing to tolerate.

That is precisely why the threat of departure should not determine tax policy. Extreme wealth already provides considerable political power. It provides access to politicians, the means to fund political parties and campaigns, influence over think tanks and public debate, and access to advisers whose job is to protect wealth. The wealthy do not need another privilege in the form of an effective veto over taxation.

Peter Hargreaves is entitled to decide where he lives. So is any other billionaire. But parliament must be entitled to decide how income, wealth and gains arising in the UK should be taxed. If democracy means anything, the ability of the wealthy to threaten departure cannot be allowed to override that right.

The question is not whether Britain can afford to lose a few billionaires. It is whether Britain can afford to let billionaires decide its tax policy. I think the answer to that is clear.