When the rich don’t pay their fair share, it exposes society to risks

The wealthy aren’t always the best judges of how big the challenges facing society are

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President Biden has called for higher taxes on the ultrawealthy to fund efforts to address societal challenges, ranging from infrastructural decay to climate change. Yet these appeals have done little to convince most wealthy individuals that these policies are needed, with many continuing to resist greater contributions.

Billionaire Elon Musk recently grabbed the public’s attention by criticizing the U.S. government’s infrastructure investment plan and characterizing all governments as “corporations with a monopoly on violence.” His underlying message was unmistakable: talented individuals are better placed to deliver social goods than governments. This outlook is not new. Privileged members of society have long denigrated government-led public programs. Yet history also shows that these individuals are often bad at assessing shared risks to society.

A telling example comes from medieval China, where the rich fought to prevent the imperial government from effectively safeguarding the country from foreign invasions — because the proposed public policy measures threatened to reduce their income. Their success in repelling lending and tax reform invited foreign invasions and China’s eventual capitulation to the Mongols.

In the 10th century, China faced a persistent security threat. The Liao Empire to the north had exploited the political fragmentation that followed the collapse of the Tang dynasty to breach the Great Wall and expand south into the Chinese heartland. The invader’s formidable cavalry raided towns and villages across the Yellow River Valley, the traditional seat of political power and source of economic wealth for successive Chinese dynasties. The Liao even sacked the imperial capital of Kaifeng in 947.

When the Song dynasty reunified China in 979, it prioritized neutralizing this threat. Scholar Hon-Chiu Wong estimated that the government spent between 60 and 70 percent of its annual budget on defense in the 11th century.

But wealthy members of society complicated efforts to maintain a security force capable of repelling an invasion by undercutting China’s tax base. Large landowners acted as banks in China’s rural economy and they charged usurious interest rates for loans that ordinary families needed to run their farms. When these chronically indebted small farmers eventually landed in bankruptcy, they either abandoned their plots or sold them to the large landowners who had perpetrated their ruin. As a consequence, the small farmers who constituted between 40 and 60 percent of rural households only possessed around 20 percent of cultivated lands. Many rural workers had no land at all, depriving the country of taxable income. The remainder belonged to wealthy elites who engaged in widespread tax evasion by not reporting new property acquisitions or leaving the land idle.

An official report in 996 attested that “across 30 prefectures surrounding the capital, only 20-30 percent of the arable land was actually cultivated ... and only 50-60 percent of taxpayers paid taxes.”

The security implications of this situation were evident to contemporary observers. One official remarked that “the capital region could produce several million shi [shi = 132 pounds] of rice to feed the army ... Cultivating the idle land would reduce the cost of shipping stipend rice, save the military budget, enrich the country, and strengthen the army.”
Wang Anshi, who served as chief counselor to Emperor Shenzong (reign 1067-1085), made a concerted effort to correct this abuse. Identifying the extortion of poor farmers as the fundamental problem, he proposed that the government directly offer loans to farmers at far lower interest rates. Wang understood that making it easier for small farmers to maintain viable farms would grow the government’s tax revenue without raising the tax rate.

Wang set the ceiling on interest rates for all rural loans at 100 percent (an indicator of how extensive the abuse was before the reforms) and allowed farmers to borrow from local government treasuries at a 20 percent interest rate. In addition, he proposed that the state lend critical cavalry horses to these farmers during peacetime so that the animals could help increase agricultural output while also enabling the government to maintain a vital military asset at a lower cost. Finally, the government conducted new land surveys to register previously unaccounted plots owned by the great rural estates and ensure that the tax burden was justly distributed.

The government’s microloan program prevented small farmers from paying unproductive rents to exploitative money lenders. Instead, the nation’s income was reinvested in farms and household industries.

Moreover, these policies kept more rural workers on their land, generating income that the government could tax. In addition, the reassessment forced the wealthy to finally pay their share of the burden. This all created more tax revenue to fund defense without raising tax rates.

But these reforms faced immediate and staggering opposition from elites who had prospered under the old system. When a famine struck northern China, these critics pounced. They pinned the suffering of the afflicted farmers on the excessive burdens created by government loans. They depicted Wang as someone who placed the state’s fiscal priorities ahead of human lives.

This criticism conveniently ignored the fact that the effects of the famine would have been far worse under the previous system of unchecked private exploitation. Moreover, Wang had explicitly left the loan payment system outside the central public financing apparatus as a safeguard against these loans becoming a source of profit for the government and tempting future administrations into predatory lending.

But however unfair and disingenuous the criticism, with the country’s elites unified against Wang, Emperor Shenzong eventually dismissed him from government and the Chinese government rolled back many of his reforms after the monarch’s death in 1085. In the absence of government regulations, the wealthy returned to exploiting their local communities and evading tax obligations. Unsurprisingly, the displacement of rural workers and the government’s fiscal crisis returned as well.

Just as they had in the 10th century, these actions by society’s most privileged members left the Chinese army infamously ill-equipped against external threats. Even worse, they also catalyzed rural uprisings that diverted the government’s attention and limited resources.

And a new competitor — the Jin empire — exploited this weakness. In 1126, the Jin sacked the Chinese capital and occupied the Yellow River Valley. Although the Song imperial court survived by evacuating to southern China, Kublai Khan’s Mongolian invasion in 1279 ultimately snuffed it out.

The United States today faces a multitude of internal and global challenges ranging from the coronavirus to climate change. These problems can’t be solved easily without collective action.

However, proposals for mobilizing resources to implement preventive public policies face pushback from many members of the super-rich class who often pay no income tax but consider any additional contribution to the government too onerous.

Yet the history of the Song dynasty reveals that the wealthy can underestimate the risks that their society faces, leaving public institutions ill-equipped to address clear and present dangers.