

POTTSTOWN CITIZENS FOR Enlightened LEADERSHIP

Are the wealthy obliged to give back?

There are lots of wealthy people in the Pottstown area. Do they have any special obligation to help improve their community?

Adam Smith thought so.

Smith, the Scottish economist who wrote the *Wealth of Nations* in 1776, is generally considered the father of capitalism.

Smith argued that there was no such thing as a fixed amount of wealth. Wealth could be created and increased, and the best way to do that is giving people freedom to pursue their own self-interest.

People who seek to enrich themselves work hard and devise ingenious ways to create products and services that other people will buy. As they do so, "an invisible hand" increases the prosperity of all.

"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner," Smith wrote, "but from their regard to their own interest."

A prime role of government is to protect private property rights, Smith pointed out. Otherwise, people would lack the motivation to work hard, take financial risks, save, and invest.

When individual incentives to work are removed, society is impoverished rather than enriched. That's why, throughout history, pure socialist and communist systems have never succeeded.

But an inevitable consequence of

capitalism is great disparities between rich and poor. As historian Will Durant wrote, "Since practical ability varies from person to person, the majority of such abilities, in nearly all societies, is gathered in a minority of people. The concentration of

wealth is a natural result of this concentration of ability, and regularly recurs in history."

The "father of capitalism" was well aware of this, but rather than trying to make this inequality worse by giving tax breaks to the rich, Adam Smith advocated something like progressive taxation.

The more wealth you enjoy, the higher proportion of taxes you should pay.

"It is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion", because a tax on "the luxuries and vanities of life [which] occasion the principal expense of the rich... would in general fall heaviest upon the rich."

Some states, like California, New Jersey, Iowa and Vermont, have higher tax rates for those with more income. Pennsylvania does not.

Pottstown government is overwhelmingly financed by the property tax, and Pottstown has the lowest property values in the region.

But that doesn't prevent the affluent from helping improve our community through charitable donations.



Commentary by
Tom Hylton

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--Adam Smith,
"The Wealth of Nations"

