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TAXATION AND DISTRIBUTIVE JUSTICE IN SINGAPORE

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TAXATION AND DISTRIBUTIVE JUSTICE IN SINGAPORE

Abstract

COVID-19 has highlighted two important concerns in Singapore's public economics sphere: fiscal sustainability and economic inequality. Given the centrality of the tax system in addressing both of these concerns, this working paper aims to contribute by providing moral principles that help to frame, shape and guide public and political debate on Singapore's tax system. Traditionally, the criteria of equity are used to provide moral guidance on the fairness of tax burdens. We find, however, that principles of equity fall short of being complete principles of tax justice because they do not consider how taxes are spent; and secondly, they assume that people have full entitlement over their earnings. Instead, we find that taxes and property rights are legal conventions. Under a legal system of taxes and property rights, taxes must be evaluated by their ability to achieve distributive outcomes prescribed by justice. We therefore provide principles of distributive justice that are relevant to Singapore's tax and transfer system, making the case that the principles of egalitarianism, utilitarianism and liberal egalitarianism can guide tax policy in Singapore. We conclude by elaborating on these principles' implications for policy in Singapore.

TAXATION AND DISTRIBUTIVE JUSTICE IN SINGAPORE

1. INTRODUCTION

The COVID-19 pandemic has brought to the forefront two important concerns in Singapore's public economics domain. The first is the increasing difficulty for the government to maintain balanced budgets without tax increases. While the social needs of Singapore's ageing population have been placing pressure on the primary budget position since 2015, the economic crisis caused by COVID-19 meant that the government had to run significant budget deficits over 2020 and 2021 to keep the economy stable. In total, the COVID-19 fiscal stimulus packages were estimated to draw S$54 billion from the nation's reserves. The government has also recently instituted a debt issuance framework to help fund infrastructure projects without increasing taxes.[1] Despite these measures, Budget 2021 made clear of the long-term need of tax revenues to rise to meet Singapore's increasing public expenditures (Ministry of Finance, 2021a).

The second public economics issue highlighted by the pandemic is the increasing public concern with economic inequality. Concern with inequality had been rising before the pandemic, with both Prime Minister Lee Hsien Loong and President Halimah Yacob raising the importance of preventing inequality from destabilising social relations in Singapore (Peng, 2019). Yet, as the pandemic

[1] The Significant Infrastructure Government Loan Act (SINGA) allows debt issuance for qualifying infrastructure projects. See: https://sso.agc.gov.sg/Bills-Supp/6-2021/Published/20210405?DocDate=20210405

disrupted and destabilised the economic system, there is recognition that some groups were more affected than others. Earnings of households in the bottom 20 per cent declined the most in 2020, and inequalities in access to the digital transition have hurt low-income households and children more (Ng, 2021; Singapore Department of Statistics, 2021). This had led many, including Ravi Menon, managing director of the Monetary Authority of Singapore, to consider how the income and wealth tax system in Singapore could be re-designed to address economic inequalities (Institute of Policy Studies, 2021; Goh, 2021).

Given the centrality of the tax system in addressing both of these concerns, this paper aims to contribute by providing moral principles that help to frame, shape and guide public and political debate on Singapore's tax system. Steinmo (2003) notes that tax systems have evolved over time as a result of ideas, interests and institutions.[2] Yet, as Murphy and Nagel argue, taxes are "the most important instrument by which the political system puts into practice a conception of economic or distributive justice" (2002, p. 3). To ensure that Singapore's tax system reflects justice, and not interests, it is crucial the tax system is grounded by moral values. Thus, while this paper does not make specific policy recommendations to raise taxes or reduce inequality, moral principles of economic distribution and equity are explored and analysed within the Singapore context to provide a foundation upon which future individual tax policy changes may be considered.

[2] Steinmo's (2003) historical institutionalist approach in explaining the evolution of tax policy remains relevant as the advanced democracies in the world continue to reform tax systems. The recent G7 corporate tax deal is a prominent example.

The decision to focus on individual tax policies is due to the major reforms expected in corporate income taxes globally. However, as there is a clear connection between the marginal individual income tax rates for the highest income earners and the corporate tax rate, we expect a consideration of the principles set out in this paper to be broadly applicable in justifying the basis of corporate income taxes as well.

The rest of this introduction outlines the structure and main findings of this paper. Section 1 presents the empirical background to Singapore's current public finances, tax system and economic inequality. The data suggests that an increase in tax revenues is justified as the country recovers from the pandemic, and further that the tax system could be redesigned to address economic inequality in Singapore. In light of this, traditional approaches to analysing tax policy are considered in Section 2. From a moral perspective, the principles of equity (e.g., benefit principle, ability to pay) are the most common criteria by which taxes are evaluated. However, it is argued that principles of equity fall short as a moral principle because they do not consider how taxes will be spent, and they assume that people have absolute entitlement to market rewards. Justice in taxation cannot be determined solely by who pays from the current distribution of resources.

Section 3 explores this flaw of the principles of equity and finds it rooted in a theory of Libertarian property rights. Instead, Murphy and Nagel (2002) argue that property rights are consequential. Consequential theories provide a stronger moral justification for private property rights, as exemplified in Singapore. Under consequential property rights, tax justice is no longer independent from principles of distributive justice — principles that describe the just distribution of economic benefits and burdens in society. Justice in taxation is therefore determined by the outcome of the economic system and distribution after taxes have been levied.

Having established how taxes should be evaluated, Section 4 considers several principles of distributive justice relevant to Singapore’s specific context. The paper shows that the principles of egalitarianism, utilitarianism and liberal egalitarianism all provide relevant moral guidance for policy and political debate in Singapore. These principles also provide critical analysis as to shortcomings in current debate on distributive justice in Singapore. To conclude, Section 5.4 summarises what these principles of distributive justice suggest about tax policy in Singapore.

While it is safe to assume most Singaporeans aspire to build a fair and just society, the questions of what is fair and just, and how the economic system imbues these values deserve greater moral reflection in public and political debate. This paper aspires to serve this purpose.

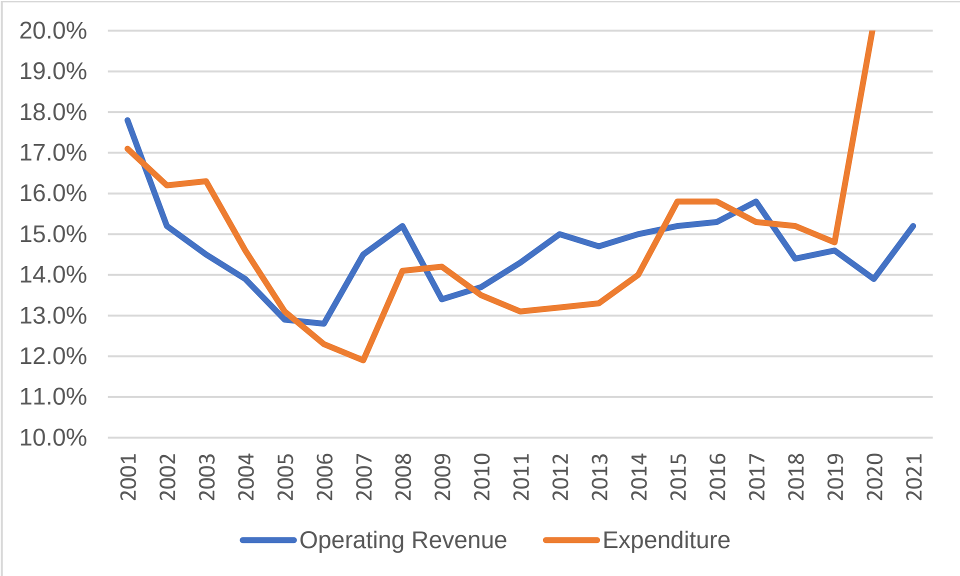
2. INDIVIDUAL TAXES AND ECONOMIC INEQUALITY IN SINGAPORE

This section begins with a brief review of Singapore’s current public finances and current individual tax policies, highlighting the requirement for tax revenues to rise to meet Singapore’s growing expenditure needs. Next, a brief analysis of income and wealth inequality in Singapore is presented. It is argued that economic inequality in Singapore is multi-faceted and that the “felt” experience of inequality is not reflected in macro-level statistical trends.

2.1 Public Finance and Tax Revenues

Figure 2.1 below shows how Singapore’s operating revenues (primarily taxes) and expenditure have changed since 2001, as a percentage of GDP. While the shares of both revenues and expenditure declined from 2001 to 2013 — most likely as a result of Singapore’s rapid GDP growth over that period — there is a clear trend of expenditures rising from 2013. This has frequently been attributed to the increased social spending and healthcare needs of an ageing population. Total social development expenditures (including healthcare) increased from 6.3 per cent of GDP in 2013 to 8.9 per cent in 2019 before the pandemic (Ministry of Finance, 2021b). The sharp increase in expenditures in 2020 and 2021 is due to the increased fiscal stimulus and healthcare spending in response to the pandemic.

Figure 2.1: Government Operating Revenue and Expenditure as Percentage of GDP

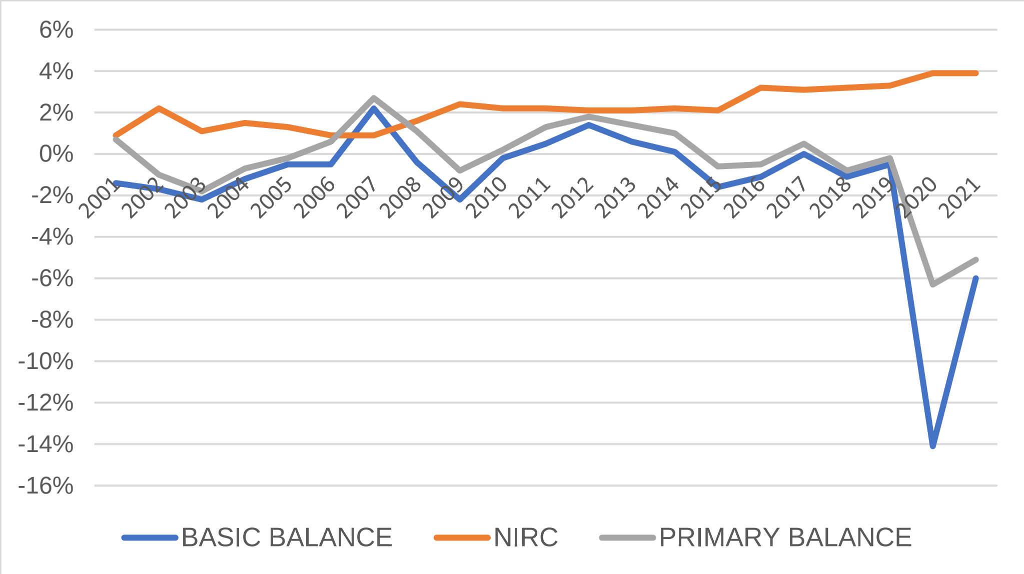


Source: Ministry of Finance (2021b)

With expenditures rising faster than operating revenues, it is to be expected that Singapore's budget balance would come under pressure. Figure 2.2 shows the government's primary and basic balance and the contribution of Net Investment Returns Contribution (NIRC) since 2001, while Figure 2.3 shows the overall fiscal position, all as percentages of GDP.[3] As the figures show, the government's basic balance has effectively been in deficit since 2014 with the overall fiscal position being positive from 2016 to 2019 due to increasing contributions from NIRC.[4]

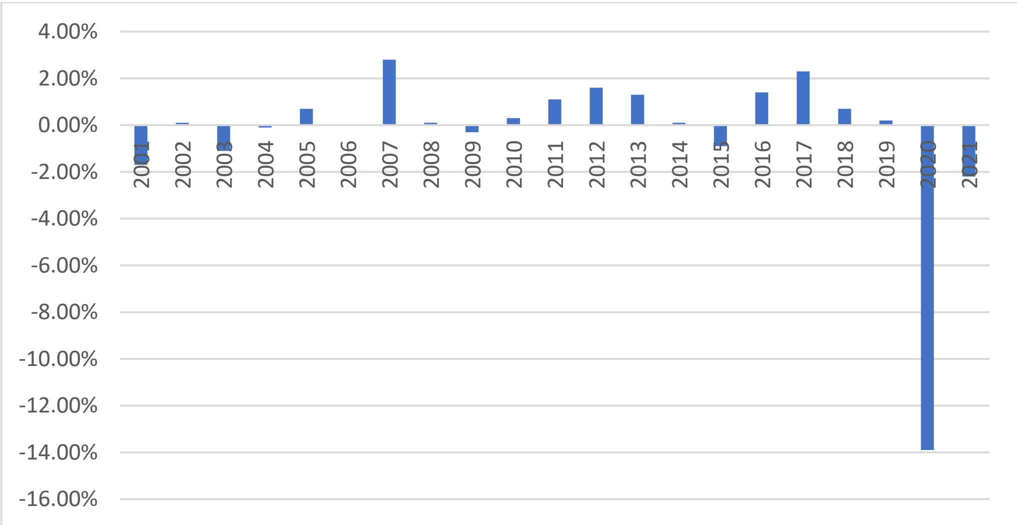
[3] The government's primary balance is equivalent to operating revenues less operating and development expenditures. The basic balance is the primary balance less special transfers such as the Jobs Support Scheme (2020–2021), Wage Credit Scheme, Workfare income support, etc. As these special transfers are current in nature, the basic balance is a more accurate position of the account of current revenues and expenditures.
[4] The constitutional amendment to include returns from Temasek in the Net Investment Returns framework was passed by Parliament in 2015 (Ministry of Finance, 2021c).

Figure 2.2: Government Fiscal Positions and Net Investment Returns Contribution as Percentage of GDP



Source: (Ministry of Finance, 2021b)

Figure 2.3: Government Overall Fiscal Position as Percentage of GDP



Source: (Ministry of Finance, 2021b)

The government has always placed emphasis on fiscal discipline by running balanced budgets and not borrowing for expenditures (Ministry of Finance, 2019a). Given the stress on the final Budget position since 2014, the government had been considering increases in tax revenues before the COVID-19 pandemic. In 2018, a planned increase of the Goods and Service Tax (GST) from 7 per cent to 9 per cent was announced with the hike to take place between 2021 and 2025. The economic crisis caused by the COVID-19 pandemic has delayed this planned hike, but the government still intends to raise the GST rate before 2025 (Ministry of Finance, 2021a). The COVID-19 crisis, however, has clearly brought further attention to Singapore's fiscal sustainability as expenditures are predicted to rise to help the country recover from the pandemic and any tax increase must be carefully evaluated to not hinder overall economic recovery and activity.

The government's commitment to running balanced budgets over five-year parliamentary terms and therefore not issuing debt for expenditures is commendable in its approach to intergenerational equity.[5] The requirement for tax revenues to increase to maintain balanced budgets also needs to be viewed through the lens of intergenerational equity. Where current revenues are not sufficient to meet current expenditures, it is equitable that the current generations contribute through taxes to ensure balanced budgets. This is to ensure future generations are not unfairly laden with debt that was issued for current expenditures that primarily serve the current generation.

[5] IPS Working Papers No. 32 (Shih, 2018) and No. 38 (Gee & Pawa, Public Debt and Intergenerational Equity in Singapore, 2021) analyse the moral concerns of intergenerational equity in Singapore with reference to fiscal management of reserves and the issuance of debt. The government's adopted SINGA bill details how borrowing for infrastructure is fair to future generations.

2.2 Individual Income and Wealth Taxes

Having established the need for taxes to increase, we now detail current tax policies levied on individuals in Singapore. Singapore's overall tax system is progressive, with high-income groups paying a larger proportion of their income, and a large proportion of total tax revenues collected.

Table 2.1 below shows the marginal tax rates of taxpayers based on the chargeable annual income of resident taxpayers in Singapore (resident taxpayers include foreigners who work full-time in Singapore). As the table shows, marginal tax rates are progressive with higher-income earners paying a larger proportion of their earnings. For example, a taxpayer earning S$30,000 a year is liable to pay taxes of S$200 per year (2 per cent of total income) while a taxpayer earning S$100,000 a year is liable to pay taxes of S$5,650 (7 per cent for first S$80,000 of income, 11.5 per cent of next S$20,000).

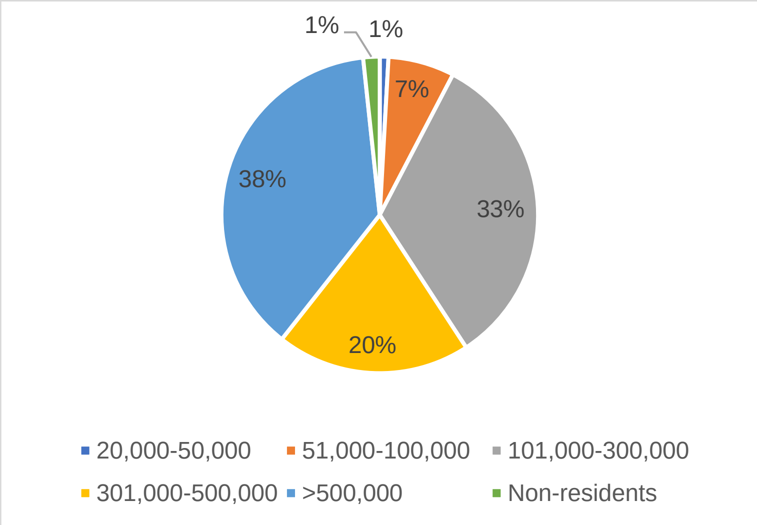
Table 2.1: Resident Taxpayer Marginal Tax Rates.

First $ of Chargeable Income (S$)	Current Marginal Tax Rate
20,000	0.0%
30,000	2.0%
40,000	3.5%
80,000	7.0%
120,000	11.5%
160,000	15.0%
200,000	18.0%
240,000	19.0%
280,000	19.5%
320,000	20.0%
Greater than 320,000	22.0%

Source: IRAS (2021)

Given the progressive nature of the tax system and the subsidies available to many taxpayers, it is estimated that only about 46 per cent of the resident population in Singapore paid personal income taxes in 2019. Further, as Figure 2.4 shows, 38 per cent of total income tax revenue are paid by taxpayers earning more than S$500,000; 20 per cent paid by taxpayers earning between S$300,000 and S$500,000; and 33 per cent paid by taxpayers earning between S$100,000 and S$300,000. These figures are notable because the mentioned income groups only represented an estimated 0.6 per cent, 1.1 per cent, and 9.4 per cent, respectively, of the resident population in Singapore at the time.

Figure 2.4: 2019 Income Tax Revenue Per Chargeable Income Group

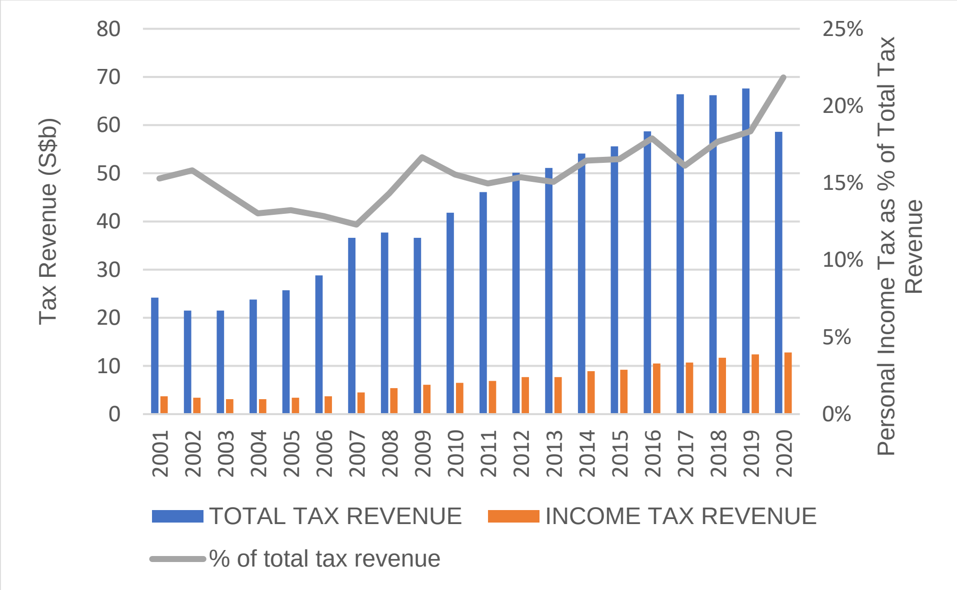


Source: IRAS (2021)

Lastly, Figure 2.5 shows that individual income tax revenues have been rising as a percentage of total tax revenue — from 15 per cent of total tax revenue in 2015 to 20 per cent in 2020. This represents a nominal increase of close to S$5 billion and, given the progressive nature of the tax system, most of these additional contributions would have come from higher earning groups.[6]

[6] Between FY2015 and FY2019, the top 10% of income earners (approximately 190,000 individuals) with chargeable income above $150,000 paid 71% of the increase in individual income tax receipts. This same group contributed about 78 per cent of total individual income tax collected in FY2019, up from 74 per cent in 2015. (Authors' own calculations from IRAS data).

Figure 2.5: Personal Income Tax and Total Tax Revenue



Source: IRAS (2021)

While individual income taxes are the second largest contributor to tax revenues, Singapore does not impose any direct wealth taxes. The government also does not levy capital gains taxes on individuals. The estate duty in Singapore, payable on the death of a deceased person, was repealed in 2008. Asset taxes, which primarily consist of property taxes, contribute about 4.8 per cent of total government revenue in 2021, growing from 2.8 per cent in 2010 (Goh, 2021). Responses by the Ministry of Finance in 2019 and 2021, addressed the question of wealth taxes in Singapore, noting that Singapore does impose taxes on wealth, and has been raising asset taxes such as in the budgets of 2010, 2013 and 2018. The government has committed to a continued review of wealth taxes with the practical aim of designing wealth taxes that are effective (Ministry of Finance, 2019b and 2021d).

Gerber et al. (2018) note that the main way tax policy can reduce income inequality is through progressive income taxation. Although Singapore's top marginal tax rate of 22 per cent is lower than the Asian average (28 per cent) and global average (31 per cent) (KPMG, 2021), Gerber et al. (2018) note that the tax system's progressivity also depends on how it taxes median wage earners. By this measure, Singapore would be ranked highly in terms of progressivity because most median wage earners pay quite low taxes.[7] Despite Singapore already having a progressive tax system, concerns with economic inequality have risen in recent years. We turn to provide a brief review of economic inequality and redistribution in Singapore next.

2.3 Economic Inequality and Redistribution

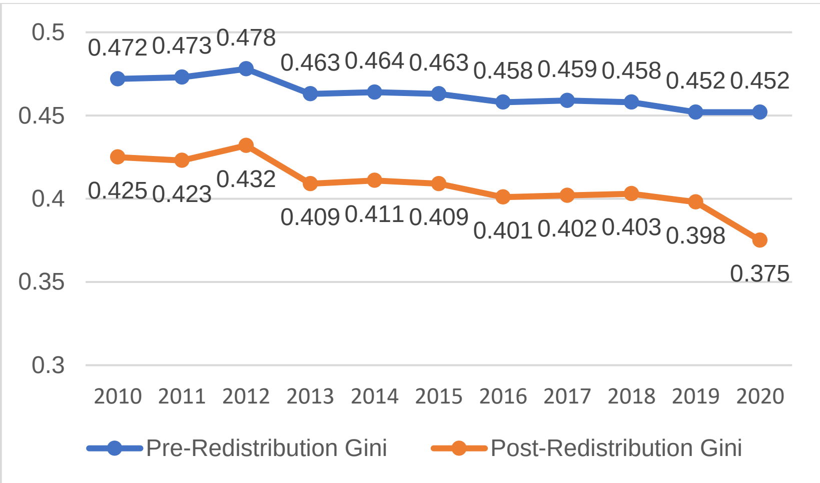
It has been noted so far that the government needs to increase tax revenues to meet rising public expenditures. Public expenditures, as Murphy and Nagel define, can be divided into two major categories: 1) public goods, which are available to all, and 2) benefits, which are instead provided to individuals on a group or per person basis (2002, p. 48). Benefits directly perform the redistributive functions of tax and transfer systems and consist of policies providing fiscal support. In the Singapore context, such benefits and transfers

[7] Median gross monthly income from work of full-time employed residents in Singapore was \$4,534 in 2020. This equates to a gross annual income of \$54,408 (Ministry of Manpower, 2021). At this gross income level, the median wage worker would pay income taxes of \$1,558 per year or about 2.86 per cent of their income.

include educational and healthcare subsidies, workfare support and GST vouchers, among others.

The Gini coefficient is a common metric by which income inequality is measured, and the pre- and post-redistributive coefficients also help to see how the tax-and-transfer system redistributes income. Figure 2.6 below shows Singapore’s pre- and post-redistribution Gini coefficient since 2010.

Figure 2.6: Singapore Pre- and Post-Tax Gini Coefficients (2010–2020)



Source: Singapore Department of Statistics (2021)

As the figure suggests, income inequality has declined since 2010 in both pre- and post-redistributive terms. Peng (2019) notes that the effect of government transfers and taxes has doubled since 2000, with the percentage change in Gini due to taxes and transfers increasing from 6.3 per cent in 2000 to 12.4 per cent in 2017. This means that the degree to which government transfers actually lower inequality has steadily and significantly increased since 2000 (Peng, 2019).

Though the Gini coefficient is the most common metric by which inequality is measured globally, it is not without its flaws. Menon notes that the Gini coefficient is highly sensitive to observations in the extreme upper and lower ends of the income distribution (Institute of Policy Studies, 2021). Tan (2021) also notes that the Gini's calculation in Singapore only reflects labour income inequality and hence does not consider one's capital income, or income earned from assets or wealth. The 2019 Global Wealth Report by Credit Suisse[8] noted that Singapore's wealth Gini coefficient is 0.76, far higher than its income Gini coefficient (Credit Suisse, 2019). While this is not surprising, as wealth tends to be more concentrated in most nations, it is notable because it means the income Gini coefficient in Singapore is likely understated due to its exclusion of capital income.

To understand the full picture of economic inequality in Singapore however, one must look at more than just the Gini coefficient. Peng and Menon note that the ratio of incomes between the 90th and 10th percentiles has increased from 18 times in 2000 to about 24 times in 2018. However, Menon also makes the point that the ratio between the 80th and 10th percentiles has remained roughly the same, indicating that it is only at the higher end of distribution that incomes have increased substantially. In terms of wage growth, Menon notes that real median wages have grown by 2.6 per cent per annum from 2011 to 2020, which is

[8] Credit Suisse (2019) calculates wealth inequality based on Singapore's Household Assets and Liabilities. These figures should be treated with caution, however, as Menon notes that Singapore does not have good wealth data (Institute of Policy Studies, 2021).

commendable when compared with other advanced economies. However, the ratio of wages of the 20th to 50th percentiles in Singapore is lower than in most OECD countries (Institute of Policy Studies, 2021; Peng, 2019).

The statistics provided so far present a complex and multi-faceted picture of inequality in Singapore. While the Gini coefficient indicates decreasing concentration of income and the redistributive function of the tax and transfer system working, it does not account for capital income and wealth inequality. Median wage growth has been relatively strong, but the ratio of income and wages of those in the low end of the distribution are less than global averages. At the same time, incomes in the higher end of the distribution have grown much faster than others in Singapore. Despite these nuanced complexities and the notable efforts of the government to address inequality, there is a prevalent rise in concern with inequality in Singapore.

Peng explores this divergence between largely stable macro-level trends and the "felt" inequality experienced by citizens. He notes a "recasting of inequality as a serious societal problem" in recent years with both the Prime Minister and President highlighting the problem of inequality in 2018, as well as a serious parliamentary debate on the matter in the same year. Outside of the macro-level economic data, Peng shows that educational performance and people's sense of belonging are tied to one's socioeconomic backgrounds, with higher-income groups scoring higher on both. Peng then states, "juxtaposing these insights against a qualitative analysis of Singapore's meritocracy… the issue of inequality makes sense against a backdrop of lived realities having become increasingly devolved from promises of equal opportunities" (Peng, 2019, p. 355).

The concerns of equal opportunities and intergenerational social mobility are intertwined in meritocracies where those deemed the most qualified have higher probabilities of socioeconomic success. A 2015 report on inequality and mobility trends by the Ministry of Finance is telling in evaluating equality of opportunity in Singapore. The report found that Singaporeans born in between 1978 and 1982 had a higher chance of moving up in income ranks compared with other countries. In addition, 24 per cent of Singaporean children born in the lowest quintile remained in the lowest quintile, compared with 34 per cent in the US. Furthermore, 14 per cent of Singaporean children from the lowest quintile managed to reach the top quintile in their own cohorts, showing a higher probability of success for Singaporean children than children born in the UK, Denmark or Canada.

The report, however, does indicate that while Singapore's reported income mobility is relatively high, the figures likely reflect the rapid economic transformation of Singapore in the sample cohort's growth to adulthood. Maintaining this level of mobility will be difficult as Singapore progresses, as the case of other advanced countries show (Ministry of Finance, 2015). A further point to note about the 2015 Ministry of Finance report is the recognition that most countries face a "trilemma" of sustaining income growth, mobility and containing inequality. Singapore has seen relatively strong income growth across a broad base of citizens, as well as higher mobility, and “this provides an important context for viewing income inequality” in Singapore (Ministry of Finance, 2015, p. 3).

While a complete analysis of economic inequality in Singapore is outside the scope of this paper, this section showed that inequality in Singapore is multi-faceted, and its significance will be elaborated on in later sections. The tax system is the most direct way for the government to address concerns of raising tax revenues and economic inequality. When raising taxes however, the government must pay careful attention to how the revenue is raised among unequal income groups and the corresponding effect on the economic distribution post-taxes. This is where normative concerns, of who *should* pay for taxes, must be considered.

3. TRADITIONAL CRITERIA OF TAX POLICY

This section will show that many of the traditional criteria of evaluating tax policy remain relevant and continue to be practised in countries today. It is argued however that the traditional criteria fail to provide adequate moral guidance in taxation because they consider taxation independently of expenditure, and secondly, assume that individuals have absolute entitlement over their earnings.

Steinmo (2003) notes that "modern" tax policies (efficient, universal and equitable) were seen as a partial solution to the problem of inequality as capitalism grew in the beginning of the 20th century. Followed by the substantial financing needed by states to fund the world wars, progressive income and corporate taxation went on to have implications for the eventual development of the modern welfare state. "Taxes, it was now clear, *could* and *should* be used as an instrument of economic redistributive policy" (Steinmo, 2003, p. 210). However, taxation and its ethical analysis have their roots in far earlier societies as well. Early political economists and philosophers Adam Smith and John Stuart Mill both considered the ethics and economics of taxation in offering their normative criteria for the administration of taxes.

Table 3.1 below displays the criteria and guidelines encouraged by Adam Smith in *The Wealth of Nations* (1776), the Institute of Fiscal Studies' *The Structure and Reform of Direct Taxation* (1978), and the OECD's *Fundamental Principles of Taxation* (2014).

Table 3.1: Traditional Criteria of Tax Policy

AUTHOR	**Adam Smith (1776)**	**Institute of Fiscal Studies (1978)**	**OECD (2014)**
CRITERIA	Equity	Distributional effects	Equity
	Certainty	Simplicity and costs of administration and compliance	Certainty and simplicity
	Convenience	Transitional problems	Effectiveness and fairness
	Efficiency	Incentives and economic efficiency	Efficiency
		Flexibility and stability	Flexibility
		International aspects	Neutrality

As the table shows, the fundamental criteria of sound tax policies have not changed much over time. From a practical perspective, all criteria are no doubt important as well. Taxes should be: 1) efficient, so as to not unduly disrupt economic activity; 2) certain and stable, such that taxpayers can plan their consumption; 3) administratively simple; and 4) flexible, such that the democratic process allows for their deliberation. From a moral perspective, however, it is only the criteria of equity that is relevant to the analysis in this paper.

3.1 Equity

Equity is typically seen as a condition of fairness; a standard for evaluating differential tax treatment of people. Vertical equity is what fairness demands in the tax treatment of people at different income levels, while horizontal equity is what fairness demands in the tax treatment people at the same income level. Essentially, the criteria of equity are concerned with what the relevant differences are that justify differences in tax treatment (Murphy & Nagel, 2002). For example, what makes it fair for rich people to pay a higher proportion of their income in taxes than the poor? Murphy and Nagel provide two principles that are frequently offered in justifying differential treatment: (i) the benefit principle and (ii) the ability to pay principle.

3.1.1 Benefit principle: Those who benefit pay

The first is the relatively straightforward benefit principle, which states that "taxpayers contribute in proportion to the benefit they derive from government" (Murphy & Nagel, 2002, p. 16). The benefit principle therefore provides a simple answer to why differential tax treatment is fair: the amount that people benefit from government is different.

Further moral analysis, however, shows the principle's shortcomings to function as a complete principle of tax justice. For one, any accurate measure of who benefits, and by how much, would require knowledge of each taxpayer's marginal utility functions. Secondly, the principle does not give guidance on what tax rates should be, because it gives no guidance to what the appropriate level of government expenditure would be. As Murphy and Nagel note, the nature and extent of government services must also be subject to questions of justice (2002, p. 18). The incompatibility of the benefit principle with the provision of government services can be highlighted by recognising that political justice almost always requires for economic support for the poor and destitute. Thus, if the benefit principle were to be implemented completely, it would suggest that the poor too have to contribute through taxes, while simultaneously receiving subsidies.

The intuitive appeal of the benefit principle instead arises from its suggestion that those who benefit most from market economies, i.e., those at the high end of the distribution, should contribute more. This seems to flow from a political belief in the ability of markets to produce just outcomes. The principle therefore assumes that the welfare or income distribution produced by the market before government taxes and transfers is just (Murphy & Nagel, 2002, p. 19). This assumption, however, fails to recognise that the mutually beneficial exchanges that characterise market economies are supported by the protection of property rights and legal structures created and supported by government. For the reasons elaborated, Murphy and Nagel argue that the benefit principle is "inconsistent with every significant theory of social and economic justice" (2002, p. 19).

3.1.2 Ability to pay principle

Other than the benefit principle, the second difference thought to be relevant to justify differential treatment is the different ability to pay of taxpayers. Murphy and Nagel note that the criterion of ability to pay has achieved constitutional status in Germany, Italy and Spain (2002, p. 20). In practice, taxes and transfers are strongly linked with the criterion of ability to pay since this is typically based on one's current income, family situation or disabilities and disadvantages (Stantcheva, 2020). The criterion of ability to pay is also typically the justification used colloquially when one argues that it is fair for the rich to pay higher taxes since they are able to pay more.

From a moral perspective, ability to pay appeals to a principle of equal sacrifice as suggested by the philosopher John Stuart Mill in his *Principles of Political Economy* (1965). The principle of equal sacrifice states that each taxpayer should sustain the same absolute loss of welfare, so that the *real* as opposed to monetary sacrifice is the same for all. Alternatively, it could also suggest a principle of equal proportional sacrifice, such that the proportion of welfare loss is equal for all. As the above shows, the criterion of ability to pay has egalitarian ideals in that it is suggesting that differential tax treatment is fair, if it is to ensure that the tax system treats everyone equally.

Despite its practical relevance, the principle of ability to pay also falls short of being a complete principle of tax fairness or justice. One initial ambiguity with the principle is whether one should pay according to one’s current ability to pay, or potential ability to pay. A focus on individual responsibility and incentives would suggest that potential ability to pay bears more weight morally, for why should one subsidise another’s indolence? More fundamentally however, the principle commits the same moral flaws as the benefit principle. By solely focusing on one’s ability to pay from the current market distribution, it does not consider the justice of government expenditure, and secondly assumes that one has full entitlement over one’s market rewards.

Therefore, the conventional criterion of equity, as displayed by the benefit and ability to pay principles, fails to provide adequate moral guidance on fair and just tax treatment. As Murphy and Nagel argue, taxes are imposed for a purpose and what matters is “not whether taxes — considered in themselves — are justly imposed, but rather whether the totality of government’s treatment of its subjects, its expenditure along with its taxes, is just” (2002, p. 25). Both the benefit and ability to pay principles also claim that justice in taxation is in determining who pays from the current market distribution. This ignores the process by which one's distributive outcome is earned and assumes that citizens are fully entitled to their pre-tax incomes (Nam, 2021; Murphy & Nagel, 2002). This assumption leads to the political belief that government comes in after market distributions are established, to alter a presumptively just distribution and tax *your* money.

Murphy and Nagel term this assumption *everyday libertarianism*: the widespread idea that pre-tax market rewards belong to us or are deserved (2002, p. 15; Murphy, 2019). The next section will show that this assumption and its correction have important moral implications for tax policy and economic justice.

4. TAXES, PROPERTY RIGHTS AND DISTRIBUTIVE JUSTICE

Murphy and Nagel contend that *everyday libertarianism* is widespread and hard to banish from our everyday thinking because we are inclined to feel that what we have earned belongs to us and that what happens to that money, morally speaking, is a matter of our saying (2002, p. 35). This section will first show that this idea has its roots in Libertarian theories of property rights. Property rights here and elsewhere in this working paper are defined as individuals' entitlement to govern access and control of resources (including money). Murphy and Nagel argue instead that property rights are legal conventions, justified by their consequences. The justification of private property has moral importance because under conventional property rights, justice in taxation is not separate from larger concerns of distributive justice. As legal conventions, both taxes and property rights must be evaluated by their ability to achieve just distributive outcomes.

4.1 Moral Theories of Property Rights

Murphy and Nagel label everyday libertarianism as such because they find that it is a muted version of Libertarian theories of property rights. Libertarians typically argue from the position of individual sovereignty (or self-ownership), that individuals have a right to come to own resources resulting from the free exercise of one's labour. As long as the resources were justly acquired, Libertarian theories hold that individuals have full control to do as they please with it. This reasoning forms the basis of colloquial claims that "taxation is theft" because the government takes away money one believes is "theirs" (Goff, 2014). Libertarian property rights are substantially shaped by a right of individual freedom and hence defend that individuals have *natural* or pre-political rights to private property (Murphy & Nagel, 2002, p. 43–44). For the Libertarian, one's natural property rights are justified independent of the consequences of a private property system, even if it results in excessive inequalities.

In contrast, consequential theories of property rights argue that individuals' entitlement to private property are justified specifically because of the improved consequences and welfare of a system granting private property rights. As Murphy and Nagel explain, political and social systems that provide and protect property rights allow for economic cooperation, long-term planning and capital accumulation thereby fostering economic growth.[9] Property rights in this sense are not pre-institutionally inherent, or a natural right of individuals. Instead, they are a consequence of laws, rules and conventions designed to promote other values, such as prosperity and to secure the economic expectations of society (2002, p. 45).

The consequential justification of property rights has great relevance in the Singapore context. After the country gained independence in 1965, the newly formed government passed the Land Acquisition Act in 1966. The objective of the act was to make private land readily and cheaply available for clear public purposes such as the housing, commercial and industrial projects of agencies such as the Housing and Development Board (HDB), Urban Redevelopment Authority (URA) and Jurong Town Corporation (JTC) (Lim & Oon, 2014). As former Permanent Secretary Ngiam Tong Dow notes, the Act allowed Singapore to develop affordable public housing and transport infrastructure that would not have been possible if property rights were absolute (Ngiam, 2007). Between 1967 and 1984, the government acquired about one-third of all land and owned about 76 per cent of all land by 1985. After 1985, as Singapore developed economically, plots of land were sold back to the private sector and to citizens to allow for capital accumulation and greater economic development.

[9] Another way to see this is to note the argument that giving individuals private property rights prevents the "tragedy of the commons": the situation in which individuals with access to a shared resource act in their own interest and, in doing so, ultimately deplete the resource (Spiliakos, 2019).

The example above is mentioned not to justify the government's action or the compensation paid in acquiring most of the land in Singapore. Rather, it displays how property rights in Singapore function as legal conventions that are designed and amended to achieve greater welfare and consequences for society. Murphy and Nagel argue for this very view, that property rights are conventional, "but that there is room in their design and justification for the consideration of other rights and deontological values that are more fundamental, as well as consequentialist values" (2002, p. 45). Further, when one considers that the contemporary institutions that support all forms of income and wealth (e.g., money, banks, stock exchanges, etc.) are supported by legal systems administered by government, the view that property rights are legal conventions makes more sense than the pre-institutional rights promoted by Libertarian theories (2002, p. 32).

4.2 Moral Implications of Property Rights on Tax Justice

Why private property rights are justified has important moral implications for the justice of taxation. Under Libertarian theories, individuals are naturally entitled to property, hence there is a natural entitlement of what is "mine" that needs to be overcome if taxes are to be morally justified. Under consequentialist theories, however, property rights are a legal convention — part of a system of laws, conventions and rules of which the tax system is a part of as well. Since there is no pre-institutional conception of "your" money, there is no valid presumption against taxation (Murphy & Nagel, 2002, p. 45).

To elaborate further, if property rights are legal conventions, people are entitled to their income and property. However, the moral force of their entitlement depends on the background of procedures and institutions from which that income is earned. As Murphy and Nagel argue, such procedures can only be fair if they include taxation for the support of forms of equality of opportunity and distributive justice. Pre-tax income and wealth distributions therefore have no independent moral significance. Instead, the tax system defines the moral entitlement to income that arises through different economic transactions — employment, investment, trade, etc. (Murphy & Nagel, 2002, p. 74).

Thus, the logical order of property rights and taxes assumed by *everyday libertarianism* is false. Justice in taxation cannot be determined by thinking about who pays from the current market distribution, as the traditional criterion of equity prescribes. A progressive marginal tax rate structure, on its own, cannot tell us if a tax system is fair or just. Instead, what is required is to analyse whether the current economic system and its outcomes are just and fair, and how the tax system and government expenditure should be *designed* to achieve the outcomes prescribed by justice.

Justice in taxation is therefore not independent of larger concerns of distributive justice at all; tax systems should be evaluated by their ability to achieve distributive justice. Distributive justice, therefore, determines the design of property rights *and* taxes: property rights secure one's moral entitlement to post-tax income, while taxes transfer pre-tax income to meet the principles of distributive justice. We provide principles of distributive justice relevant to Singapore in the next section.

5. DISTRIBUTIVE JUSTICE IN SINGAPORE

Distributive justice refers to principles that describe the just distribution of economic benefits and burdens among individuals in a society (Favor & Lamont, 2017). These principles provide normative guidance for the choices that a government makes when changing laws and policies, such as the tax system, that affect the economic distribution. This section will consider three principles of distributive justice (egalitarianism, utilitarianism, liberal egalitarianism), and discuss their relevance and importance for Singapore's tax system.

5.1 Egalitarianism

Although the theory and concept of egalitarianism is familiar to most, many different forms of equality are promoted from the equality of welfare and resources to the equality of opportunities. As Hausman and McPherson note, "in order to decide *what* to equalize, it is good to know *why* one wants to equalize anything at all" (2006, p. 177). Those that view equality as intrinsically good — that it is good in itself — may argue for the strict egalitarian view that everyone should have equal economic resources. This view, however, is rarely promoted because of the welfare-based argument that everyone can be made better off if incomes are not strictly equal (Favor & Lamont, 2017). Others instead argue that the value of equality is instrumental: economic equality is morally good because of its causal connection with other important moral goods such as freedom, self-determination and dignity. Equality in this sense is a means towards other ends.

It is in this vein that egalitarianism is promoted in Singapore. As Menon notes, the majority of society in Singapore would agree that market economies provide the best basis of economic development and that some level of inequality is inevitable and even desirable in a market economy (Institute of Policy Studies, 2021). Further as Section 1.3 noted, inequality in Singapore is multi-faceted. For these reasons, different strands of egalitarianism are relevant to Singapore.

The first is a *sufficientarian* position, that is concerned with making sure that each individual has enough (Huseby, 2019). Sufficientarian positions are the basis of political debate around the “low-wage problem” in Singapore (Chua, 2021). As is well established, Singapore does not have a strict minimum wage across industries, but instead implements a Progressive Wage Model (PWM) which aims to lift workers’ wages as they upgrade their skills and improve productivity. While debate around the policy continues, Menon suggests that what is important is not whether a minimum wage exists or not, but at what level the wage is set at to prevent unemployment rising (Institute of Policy Studies, 2021). This is analogous to the moral analysis, as the positive thesis of sufficientarianism states that there is an absolute level of income that everyone should hold. It is therefore suggested that society comes to agree to what this absolute level of income is.[10] The negative thesis of the sufficientarian principle holds that once this level of sufficiency is met for all citizens, no further distributive concerns matter. This is another view that society has to grapple with, which is to determine what citizens are owed beyond the established level of sufficiency.

The inclination to ensure people have enough often reflects a humanitarian concern for those worse off. This benevolent humanitarian concern is what drives the principle of *prioritarianism*. Although the distribution itself is of no intrinsic importance to the prioritarian, the principle argues that the worst-off be given priority over the better off in economic decisions (Hausman & McPherson, 2006). Singapore's fiscal recovery package in response to the COVID-19 pandemic can be viewed with this lens. Wu (2021) notes that the government's fiscal package was targeted with those deemed less privileged receiving larger cash payouts, subsidies and vouchers. As a result of this focus towards the less privileged, Singapore's Gini coefficient after government taxes and transfers reduced from 0.398 in 2019 to 0.375 in 2020 (Wu, 2021).

As a principle, prioritarianism is subject to a similar analysis as sufficientarianism since society must decide on thresholds or qualifying constraints to identify the worst-off. However, while a humanitarian concern is

[10] The Minimum Income Standard Project by Ng et al. (2019) found that single, elderly households (65 years of age and above) require $1,379 per month to live their lives with "dignity" (as defined by focus group participants).

hard to argue against, the point of contention with prioritarianism is to determine how much priority the worst-off are given. Are the most vulnerable to be prioritised against all other concerns? How much priority does the rest of society owe to the worst-off? This will be discussed further in section 5.3 with Rawls' (1999) Difference Principle.

The third strand of egalitarianism relevant to Singapore, *limitarianism*, is focused on the upper end of the distribution. Limitarianism holds that it is not morally permissible for individuals to have more resources than are needed to fully flourish in life. The philosopher Ingrid Robeyns argues that such a principle is justified based on two reasons: (1) that by eliminating excess wealth, super rich people cannot undermine political equality, and (2) that by redistributing excess wealth, there will be more resources available to address unmet needs or collective action problems in society (Nicklas, 2021). Limitarianism is the basis of claims, such as those of US Senator Bernie Sanders, that billionaires should not exist (Pizzigati, 2019).

The limitarian approach is relevant to Singapore because of the recent rise of the number of wealthy individuals in Singapore. Singapore has the second-highest growth rate of ultra high net worth individuals (net worth of at least US$30 million) in Asia, and the number of millionaires is expected to grow by 60 per cent from 2020 to 2025 (Siow, 2021; Karve, 2021). The increase in the number of wealthy people might explain recent public interest on wealth taxes (Goh, 2021). Robeyns' reasons for limiting people's wealth therefore appear to have moral and political significance to Singapore: political fairness and justice should not be undermined by wealthy elites, and taxing the wealthy may also help to solve Singapore's need to raise tax revenues.

Although separate principles in themselves, the three strands of egalitarianism elaborated here are connected in their focus on distributions. Scanlon believes that the fundamental idea underpinning these principles is that of "basic moral equality" — "the idea that everyone counts morally, regardless of differences such as their race, gender, or religion" (2004, p. 1), an idea remarkably similar to "regardless of race, language or religion" in Singapore's pledge. For Scanlon, an inequality is morally objectionable when institutions or individuals that have an obligation to provide a certain benefit to each member of a group provide this benefit at a higher level for some than for others, without special justification (2019, p. 2). The need for traditional egalitarian principles to consider institutional bases of unequal treatment led to the development of procedural justice and equality of opportunity which will be discussed in Section 5.3.

5.2 Utilitarianism

Utilitarianism differs from egalitarianism in that it is concerned about aggregate welfare, as opposed to the distribution of welfare in society. To the utilitarian, the most just distribution is the one that maximises aggregate welfare, or utility (Hausman & Macpherson, 2006, p. 99). Thus all other concerns — material equality, the level of basic goods to the least advantaged, resources — are derivative concerns to the level of aggregate welfare of society (Favor & Lamont, 2017).

As a principle, utilitarianism has an intuitive appeal because it removes the subjectivity of concerns and instead offers an objective standard, that of aggregate welfare, as the standard upon which different options can be compared (Favor & Lamont, 2017). Yet this intuitive appeal is suspect because comparisons of aggregate welfare require interpersonal comparisons of well-being. "If policy 1 benefits Ira and harms Jill while policy 2 benefits Jill and harms Ira, then there is no way to say which has greater welfare benefits unless one can compare how much Ira and Jill are benefited and harmed" (Hausman & Macpherson, 2006, p. 104). Thus, to determine which economic distribution is better for society, a utilitarian must know how much each group will benefit or be harmed, depending on each group's marginal utility. As a result of this practical difficulty, utilitarians tend to prescribe different forms of economic distributions.

The variance of utilitarian prescriptions can be witnessed in debate in Singapore. If income or consumption is a satisfactory measure of welfare, then arguments for laissez-faire approaches to keep Singapore a low-tax regime to continue to spur GDP growth are utilitarian arguments. This is the common refrain that "we first have to grow the pie before we can share it" (Low, 2014, p. 21). For a traditional utilitarian though, income is not an appropriate substitute for welfare or utility, and when one "takes a purely utilitarian approach, there is a case to be made for redistribution" since "an additional dollar is worth more to the poor person than it is to a rich person" (Low, 2014, p. 22). Thus utilitarians may also argue for strong egalitarian structures with lots of state intervention (Favor & Lamont, 2017).

However, to view the government's approach to Singapore's economic development as utilitarian would be a misperception. Krishnadas (2014) argues that the government's approach can be characterised as following "trickle-down" economics, that following pro-growth policies is beneficial for all in society including the worst-off. Trickle-down economics and utilitarianism are not the same philosophy, but trickle-down can be utilitarian if it maximises aggregate welfare. Recent empirical evidence, however, casts doubt on the ability of trickle-down economics to work to the benefit of all. Hope and Limberg (2020) survey 18 OECD countries to find that major tax reforms on the rich lead to higher income inequality, while not having any significant effect on economic growth or unemployment. The concern then is that by following "efficient" policies focused on economic growth, the worst-off may not have benefited as much as they could have with other policies.

This brings to light a more important moral criticism of utilitarianism, that it fails to recognise the distinctness and rights of individuals. This is because utilitarianism may require for some to sacrifice themselves if it benefits the aggregate welfare of society. While it is acceptable for a person to choose to suffer for some period of her life so that her overall life is better, it is immoral to make some people suffer so that others gain. In the individual case, there is a single entity experiencing the sacrifice and gain. This single experiential entity does not exist for society as a whole (Favor & Lamont, 2017). Asking some to suffer for the gain of the rest could have severe political consequences if taken to the extreme.

To summarise, although utilitarianism can morally guide policies in reminding that it is important to improve absolute and aggregate levels of welfare, without knowledge of people's marginal utilities, its practical application can be ambiguous. Even if everyone's marginal utilities were known, aggregate social welfare should consider more than just the sum of each individual's well-being. John Stuart Mill, for example, argued that "higher order pleasures" such as justice and equality should be given greater weight in utilitarian calculations (as cited in Bird-Pollan, 2016). Utilitarianism's intuitive appeal is therefore deceiving unless it includes consideration for the rights and responsibilities of all individuals in society.

5.3 Liberal Egalitarianism

The principles of egalitarianism and utilitarianism have been labelled as end-state theories for they claim that distributive justice can be evaluated by looking at the outcome, or a snap-shot, of distributions (Summers, 2020). In contrast, *liberal egalitarianism* argues that justice is achieved by ensuring that society's institutions, including taxes, are arranged such that distributive shares are the result of one's choices, and not circumstances. To accommodate individual rights and personal responsibility, liberal egalitarians believe that “a distributive scheme should be ‘ambition-sensitive’ and ‘endowment-insensitive’” (Kymlicka, 2002, p. 74).

The reason offered for this view is that people’s socioeconomic and natural endowments are *morally arbitrary*, and therefore should not affect distributive shares (Rawls, 1999, p. 63–65). Liberal egalitarianism thus typically argues for substantive equality of opportunity, which is a stricter requirement than mere formal or legal equality of opportunity. While formal equality of opportunity grants all the same legal rights and opportunities, children from wealthier families will still have higher chances of socioeconomic success due to greater access to superior training and education. Rawls (1999, p. 63) instead argues that,

> “Assuming there is a distribution of natural assets, those who are the same level of talent and ability, and have the same willingness to use them, *should have the same prospects of success regardless of their initial place in the social system.*”

Although the moral justification for substantive equality of opportunity is widely accepted, the difficulty instead rests on the practical application of the principle. Rawls suggested that policies, such as taxes, be instituted to prevent the excessive accumulation of property and wealth, and equal opportunities for education for all. Rawls believed that a family’s decision to have a private tutor should only be permitted if the state intervened to provide similar tuition or at least the equivalent monetary value of such tuition to all the other families. Alas, Rawls himself recognised that this principle would be impossible to implement perfectly given the liberty of families (Rawls, 1999, p.64).

While substantive equality of opportunity primarily deals with one's social circumstances, one's natural assets or disabilities can still affect socioeconomic outcomes. For example, someone who is born tall has a higher chance of succeeding in basketball than someone who is born with disabilities. Remember that for liberal egalitarians, natural and social contingencies are equally arbitrary and therefore should not affect distributive outcomes. Although liberal egalitarians such as Dworkin accept that achieving full equality of circumstances is not possible, they believe society's institutions should still be arranged to compensate those who are disadvantaged (as cited in Kymlicka, 2002, p. 77). For Dworkin, the tax system could be used to collect revenues from the naturally advantaged, and welfare schemes used to redistribute to those who are disadvantaged (p. 79).

Rawls instead argued that one could allow natural talents to flourish, if it worked to the benefit of everyone in society, especially the worst-off. Natural talents, could be treated as "a common asset" and that "no one gains or loses from his arbitrary place in the distribution of natural assets without giving or receiving compensating advantages in return" (Rawls, 1999, p. 87). This is the basis of his Difference Principle, that socioeconomic inequalities are allowed if it worked to the greatest expected benefit of the least advantaged (p. 266).

Even though Rawls is a liberal egalitarian, his Difference Principle is a prioritarian approach in that socioeconomic inequalities must work to the greatest benefit of the worst-off.[11] Table 5.1 shows how this would apply in practice. Consider a society where substantive equality of opportunity is achieved, and society must choose between three tax policies that would be expected to result in different income distributions for the Poor, Middle and Rich socioeconomic groups. For simplicity in calculating the total income, assume each social group consists of the same number of members. All three distributions have a level of inequality, and Distributions A and B have higher overall income than Distribution C. However, Distribution C works to the greatest benefit of the Poor group. Rawls' Difference Principle would therefore argue that the most just tax policy is the one that would result in Distribution C.

Table 5.1: Thought Experiment on Different Income Distributions in Society

Income Distribution	**SOCIOECONOMIC GROUP**			**Total Income in Society**
	Poor	**Middle**	**Rich**	
A	1	8	10	19
B	2	6	7	15
C (Rawlsian)	3	4	5	12

[11] Rawls puts forward the theory of "justice as fairness": that justice will be determined by the outcome of a fair social contract between rational individuals with equal bargaining power. He believes two principles of justice will result from this hypothetical social contract. Rawls believes the Difference Principle will hold as a principle of justice is because rational individuals in the hypothetical social contract would maximise their worst possible scenario (as cited in Kymlicka, 2002, p. 66; Rawls, 1999, p. 65).

Liberal egalitarianism has also often been labelled “luck egalitarianism” in its attempt to equalise for one’s luck in starting positions in life. In advocating for distributive justice, Dworkin differentiated between *brute luck*, luck where participants never choose to “play the odds” such as the natural and social lotteries at birth, and *option luck* in which participants opt in to deliberate or calculated gambles such as lotteries or speculative investments. Most liberal egalitarians agree that distributive outcomes due to brute luck are unjust, and should be taxed to equalise endowments and opportunities. Dworkin believed that distributive outcomes that arise from option luck are just, since individuals took the responsibility of entering and earning the luck (as cited in Nam, 2021).

The difficulty in practice however, is in untangling brute and option luck from one another. The case of HDB windfall gains in Singapore can elucidate this difficulty. The brute luck of being Singaporean allows one to enter the housing lottery, while option luck accounts for the individual’s responsibility in entering and being selected into the housing project. A liberal egalitarian would argue that the windfall gain due to brute luck should be taxed, but it is not clear how to separate the absolute amount of gain due to brute or option luck.

In a more recent account, Nam (2021) argues that outcomes of option luck should also be taxed. He argues that technological advances have created winner-take-all markets in which the winners of market competition obtain vast riches. Since the level of competition is generally high, and all competitors put in equivalent effort, winners almost certainly benefit from an element of brute luck. Similarly, empirical research on returns on financial capital show that most of the returns are comprised of payment for risk-bearing, because the riskless rate is very low. Insofar as financial investments involve risk, investors with identical *ex ante* positions can end up with wildly different *ex post* outcomes purely as a matter of luck. For Nam, capital income should be taxed to equalise for luck but the tax rate itself should not be 100 per cent. This is because investors bear some responsibility for their risks, and further risk-taking in itself may be beneficial for other reasons (Nam, 2021).

The principles of liberal egalitarianism are of great relevance to Singapore for a number of reasons. The first is what liberal egalitarianism suggests about the role of the tax and transfer system and the welfare state. The welfare state as is practised in European countries is typically characterised by high progressive taxation to support substantial social benefits. Kymlicka notes that most people view liberal egalitarianism as providing justification for the welfare state (2002, p. 88). In Singapore, Ker (2015) notes that the government has rejected the idea of welfarism since independence, fearing that it would dampen individual responsibility or ambition. However, Kymlicka argues that liberal egalitarianism suggests a different philosophy from that of the welfare state. While the welfare state tries to correct *post factum* market inequalities through the tax and transfer system, liberal egalitarianism instead aims to equalise *ex ante* endowments (Kymlicka, 2002, p. 89). A fellow liberal, John Stuart Mill, suggests that to focus solely on *post factum* income redistribution is to “nibble at the consequences of unjust power, instead of redressing the injustice itself” (Mill, 1965, p. 953).

Given the focus on equal endowments, or equal starting positions, liberal egalitarianism commonly features in public and political debate in Singapore on equality of opportunity for education. It is estimated that the private tuition industry in Singapore is worth S$1.4 billion annually (Seah, 2019). Gee (2012) has likened families' preferences for private tuition as akin to an "educational arms race". The 2019 report on household expenditures found that families in the top quintile spent close to four times as much as families in the bottom quintile on private tuition (Singapore Department of Statistics, 2019). Unsurprisingly, as Section 1.3 noted, educational performance in Singapore is correlated with socioeconomic backgrounds, and intergenerational social mobility will be more difficult as Singapore is now an advanced economy.

The government already provides compensatory educational subsidies to less privileged families from pre-school all the way to university. However, given the recent regulations imposed on for-profit educational companies in China, many in Singapore are now again debating if stricter conditions should be imposed on Singapore's tuition industry (Ho, 2021). A liberal egalitarian view would suggest taxing wealthier families more to equalise opportunities for education. Outside of educational subsidies, liberal egalitarians would also support taxation for policies that create a "stakeholder society" by giving people lump-sum funds or an annual universal basic income (UBI) (Kymlicka, 2002, p. 83). The justification is that by reducing inequalities in people's capacity to acquire productive assets or develop their talents, it would help distributions reflect choices rather than circumstances.

The liberal egalitarian emphasis on ambitions, and not endowments, is not without its critics though. Wolff (1998) suggests that liberal egalitarianism may be the best theory of justice from a purely philosophical point of view. Practically however, it may promote the wrong ethos of equality by encouraging the state to view disadvantaged citizens with distrust. Disadvantaged citizens must engage in "shameful revelation" to prove they do suffer from some involuntary disadvantage, and Wolff argues this inevitably results in an erosion of the bonds of solidarity and mutual concern between citizens (Kymlicka, 2002, p. 94). This brings to mind the ethnographic study of low-income households in Singapore, *This is What Inequality Looks Like* (2019) by Teo You Yenn. Among many notable findings, Teo observes that through constant means-testing measures, disadvantaged citizens, including the marginalised group of public housing renters, feel ashamed, confused and discouraged to ask for financial support from the government (Teo, 2019, p. 170–185).

These criticisms are worth mentioning because they point out that it may not be sufficient to only equalise endowments. The state may be obligated to provide for the worst-off beyond equalising opportunities. Rawls' solution was supplementing his principle of equality of opportunity with the Difference Principle. By prioritising the lives of the worst-off, the Difference Principle promoted the idea of *fraternity*, and equality of self-esteem (Rawls, 1999, p. 90).

5.4 Implications for Tax Policy in Singapore

To summarise, principles of distributive justice can provide normative moral guidance to what a fair and just distribution of economic benefits and burdens in a society is. Although these principles have problems with specification and implementation, the system of taxes and property rights can be designed to approximately achieve prescriptions of the relevant principles. In this sub-section, we summarise what each principle suggests about taxing income and wealth. Our findings are collated in Table 5.2.

What do the principles suggest about taxes and expenditure in Singapore?

1) ***Sufficientarianism*:** Given its focus on ensuring everyone reaches an absolute level of sufficiency, the principle would advise taxing everyone above the threshold such that everyone is above this level of sufficiency after taxes. Beyond this, sufficientarianism is also compatible with progressive taxation because even those who are sufficiently well-off face the risk of being pushed below sufficiency (Kanschik, 2015).

   For sufficientarianism to be more prevalent in Singapore, the first step would be to define the level of sufficiency (or in its negative sense, a poverty line). Reddy (2018) details a comprehensive approach to determining such a level. Such an approach emphasises the need to identify and detail commodity requirements for individuals to avoid a set of identified deprivations (or equivalently to attain specific achievements) and their associated costs. Conceptually, such a framework would be absolute in the space of achievements, and relative in the space of resources necessary for those achievements (Reddy, 2018). The Minimum Income Standard Project by Ng et al. (2019) follows this approach; however, the study is focused on elderly Singaporeans and a further study should be done for all Singaporeans.

Following this, those deemed to be living below this level of sufficiency could qualify for negative income tax schemes. Such schemes are to be available to all to allow life in dignity including those in active age unable to earn sufficient income in particular in cases of sickness, unemployment, maternity and disability (Reddy, 2018). This is different from current Workfare Income Supplement (WIS) which functions instead as an earned income tax credits scheme.

2) ***Prioritarianism*****:** As the principle prioritises the worst-off, it would suggest taxing everyone else such that the lives of the worst-off are better. Taxation should thus be arranged with greater weight in decisions being given to the worst-off (Murphy & Nagel, 2002, p. 136). Tuomala and Weinzierl (2020) note that optimal tax theories as provided by Mirrlees (1971) and Saez (2001) have prioritarian emphases. By redistributing to the worst-off, these theories also achieve utilitarian outcomes of improved aggregate welfare. Rawls' Difference Principle is a stricter prioritarian requirement suggesting the tax system be arranged such that the worst-off have the best possible outcome they could possibly have.

Singapore's current tax system seemingly follows a prioritarian approach. Income taxes are progressive and the worst-off groups do not pay taxes. Even though the GST is a regressive individual tax, vouchers are given to offset GST paid by lower-income groups. For Singapore to adopt a stronger prioritarian approach, policies need to be arranged to benefit the worst-off even more. This could come in the form of more redistribution through more progressive taxes on income, wealth, assets or consumption. In general, all optimal tax calculations should give greater weight and priority to the welfare of the worst-off.

3) ***Limitarianism*****:** The principle is commonly associated with wealth taxes to limit people's wealth beyond what is necessary for a fully flourishing life. Robeyns (2019) argues that the optimal tax rate or policy is to be designed according to what purpose the tax is used for. If it is to ensure political equality, she believes the optimal tax rate is 100 per cent of individual's surplus money. If the purpose is however to meet urgent unmet collective action needs (e.g., eradicating poverty, climate change), then the optimal tax rate is that which raises the maximal tax revenues from the rich and richest.

Robeyn's tax suggestions can almost be characterised as a form of extreme progressivity. Singapore has not adopted any explicit limitarian policies for the reason that such policies will be too punitive on the wealthy and will lead to capital flight. Wealthy individuals will base their businesses and investments elsewhere and this could decrease jobs, opportunities and redistribution for all Singaporeans. It is not clear if Singapore can take such extreme positions without any negative consequences on the economy and the worst-off.

However, given the stability and soundness of the country's political and legal systems, the country could consider some limitarian policies to raise further revenues. Analogous to sufficientarian positions, studies could be conducted in Singapore to determine a limit on a person's wealth or assets. Taxes on assets, wealth or luxury goods above a certain value could then be implemented with the explicit goal of raising maximal tax revenues to fund Singapore's rising expenditures. Current asset taxes and stamp duties such as Certificate of Entitlement for vehicles and Additional Buyer's Stamp Duty have traditionally been levied for purposes of controlling prices or supply of market provision of assets such as cars and private housing.

4) ***Utilitarianism*****:** As elaborated in Section 5.2, the difficulty with utilitarianism in practice lies in calculating aggregate welfare. In theory, the principle would approve of any tax policy if it was proven that the aggregate welfare of society would improve with its implementation. Assuming marginal utility of income is decreasing (increasing), the principle would suggest for progressive (regressive) taxation, be it on income, wealth or consumption.[12]

If income (or consumption) were deemed to be an appropriate measure of well-being, then applying utilitarian principles in Singapore would suggest lower tax regimes to boost GDP. This could come in the form of tax breaks on multinational corporations, or on High Net Worth Individuals (HNWI). Apart from growing the aggregate pie, the hope is that such tax breaks will create jobs and opportunities for all citizens and thus improving welfare for everyone, including the worst-off.

5) ***Liberal Egalitarianism*:** In essence, the point that liberal egalitarians are trying to emphasise is that distributive outcomes should be sensitive to, and promote, individual responsibility. Taxes, for the liberal egalitarian, do not disincentivise individual responsibility. Instead, taxes that are used to fund equality of opportunity help to purify the relation between the market and personal responsibility (Murphy & Nagel, 2002, p. 68).

[12] There is empirical evidence that marginal utility may be increasing rather than decreasing at some levels of income (Lawsky, 2011).

Thus the principle would argue that distributive outcomes from brute luck should be taxed to equalise endowments and opportunities. This could come in the form of inheritance taxes, based on the justification that unrestricted inheritance is unjust to the extent that it enables and enhances intergenerational replication of inequality (Halliday, 2018).

The principle would also consider taxing capital gains, since these gains almost always include an element of brute luck (see section 5.3 above). After a year when asset valuations substantially increased due to accommodative monetary policy, Pearl (2021) suggests that states could redistribute windfall gains in financial markets to maintain equality of opportunity. This is because those without the means to hold financial assets have less opportunities in the future to invest in such assets due to price increases. Further, while investors did take the responsibility to earn option luck in markets, it is not clear why that responsibility entitles them to the entire gains earned.

One way the ambiguity between luck and responsibility can be mitigated is through the use of return benchmarks, where the benchmark return signals the luck factor and returns over and above the benchmark are earned through investors' own actions. Benchmark returns should be taxed, while the returns over and above the benchmark signal the individual's responsibility in improving their return.

Table 5.2: Principles of Distributive Justice and Implications for Tax Policy in Singapore

PRINCIPLE	WHO TO TAX	WHO BENEFITS	POLICY IMPLICATION FOR SINGAPORE
1) Sufficientarian	The rest	"The poor"	• Defined level of sufficiency • Negative income tax • Progressive taxation
2) Prioritarian	The rest	"The worst-off"	• Even more progressive taxes and redistribution to uplift the worst-off more
3) Limitarian	"The rich"	The rest	• Defined limit on wealth • Net wealth tax • Taxes on assets or luxury goods above certain limit
4) Utilitarian	Lowest marginal utility of income	Highest marginal utility of income	• Tax breaks on MNCs, HNWIs • Tax incentives on investments • Policies to enhance aggregate post-tax welfare.
5) Liberal Egalitarian	"The lucky"	"The unlucky"	• Inheritance tax • Capital gain tax on benchmark gain

Note: Quotation marks where thresholds have to be determined. First three columns from the left are adapted from Summers (2020).

6. CONCLUSION

The motivation to analyse justice in taxation derives from recognising that the government had moral obligations to both current and future generations. As Section 1 argued, tax revenues have to rise to ensure future generations are not unfairly laden with debt. At the same time, the government has to consider how the tax system could alleviate current unjust economic inequality in

Singapore. This working paper sought to address these concerns by conducting a moral analysis of justice in taxation, and to provide foundational moral principles upon which future tax policies may be debated.

Bearing these concerns in mind, Section 2 analysed the principles of equity, which is the traditional criterion used to analyse fairness or justice in taxation. While the benefit and ability to pay principles make intuitive sense, they cannot be complete principles of tax justice. By failing to consider what taxes are used for, they ignore the justice of government expenditure. A progressive tax rate structure, on its own, cannot tell us if the tax system is fair or just. Secondly, by deciding who pays from the current economic distributions, they assume that market rewards are just outcomes that people have full entitlement over.

Justice in taxation cannot be determined solely by what is fair from the current market distribution. The market generates economic inequalities, partly through differences of people's productivity, partly through performance of investments and partly through parental largesse, and "all of these inequalities raise questions about whether their causes are sufficient to make them morally legitimate" (Murphy & Nagel, 2002, p. 67). The obligation of the state is to ensure that the economic system is just and fair, and as legal conventions, taxes and property rights must be evaluated by their ability to achieve economic justice (Section 3).

Therefore, it is the principles of distributive justice that can guide and evaluate tax policy. While the principles of distributive justice presented in Section 4 all offered reasonable arguments as to what a just distribution is, their purpose is to motivate public and political debate about distributive outcomes to be pursued in Singapore, and how the tax system can be designed to achieve those outcomes.

A pragmatic conclusion might be that the state and its citizens are obligated to provide at least a decent minimum level of welfare and access to opportunity for everyone, and that the tax system should be arranged to fulfil this objective. Murphy and Nagel argue that the moral case for a more egalitarian emphasis is strong. By this they mean that society's institutions (including tax and transfers) should promote the welfare of the worst-off beyond what most people count as the minimum. So long as a determined level of poverty exists, then exceptional interest should be given to the worst-off. This may mean the implementation of more progressive taxation but this is warranted because from a moral perspective, the resources may be better used elsewhere. Such taxation, they argue, could be just even if it results in a reduction of aggregate welfare. The ideal suggested is that of a community committed to making the lives of all its members better (Murphy & Nagel, 2002, p. 141).

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