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## To become rich is great but to pay taxes is glorious

By Kishore Mahbubani

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Two words can save our turbulent world: social contract. The social contract of the past three decades has died. We need to create a new one.

Ronald Reagan and Margaret Thatcher, Deng Xiaoping and Narasimha Rao may not have agreed on a lot. But they all shared the mood of the time, best captured by Deng's memorable phrase: "To get rich is glorious". The rich would get richer but the poor would get richer too. Everyone believed this fervently.

Montek Singh Ahluwalia, India's chief planner, once told me an interesting tale about a visit in the mid-1990s by a group of Chinese economists, who were keen to explain their economic reforms. An Indian economist somewhat tentatively observed: "But this will create greater inequality." His Chinese counterpart smiled broadly and said: "We hope so!" In short, greater inequality would make the poor better off too. Now we know that this is no longer true.

What went wrong? The simplest answer is that the rich got too greedy. They either forgot or ignored the implicit bargain that the poor were supposed to benefit too. Sadly, the high rolling Wall Street bankers led the way in destroying the social contract that had served them well. They took full advantage of the mood of the time and found ways to justify the millions they earned. "We are adding value to the world with the brilliant new financial instruments we have created," they proclaimed triumphantly.

Now we know that bankers produced no economic value. Instead, they produced financial weapons of mass destruction that almost destroyed the world. When they brought the global economy to the edge, governments had to be called to the rescue using taxpayer money. Luckily, it worked. But if Wall Street bankers and their European counterparts had been socially responsible and politically smart, they would have apologised profusely and promised to respect the implicit social contract.

Instead, they assumed that the zeitgeist that had legitimised their greed would continue. After paying off the nominal debts to governments – but not the debt for the social and economic destruction they caused – the bankers paid themselves fat

bonuses again.

The nub of the problem is that corruption has become legal in America, and perhaps in Europe too. After the destruction caused by investment banks, power should have been handed back to regulators. But in America, Congress can be bought and regulations to control banks remain toothless. What's more, it is all legal.

European bankers are no better. Ignoring common sense, French and German banks lent money to Athens on the assumption that Greece was as solvent as, say, Germany. Why do bankers get paid such high salaries if they cannot use common sense? One reason they did not worry too much was that they were confident that governments and taxpayers would rescue them, and they were right. The result is that bankers and governments have lost the trust of the man on the street. Demonstrations on Wall Street and in cities around the world provide early tremors of powerful earthquakes to come.

Now we have to go back to basics. If there is to be economic growth, rich and poor must both benefit. And if there is to be economic pain, rich and poor must feel it. The northern Europeans are right to get angry with non-tax-paying Greeks. But how much tax is paid by wealthy Greek shipowners? The answer is probably zero.

It does not take a genius to predict that angry middle classes and the poor will seek to engineer a social or political revolution against the wealthy. The view that said "to get rich is glorious" is disappearing day by day. And it is only a matter of time before an activist such as India's Anna Hazare emerges to give political potency to the more reasonable demands of the Tea Party in America. The rich should think deeply about rebuilding a social and political order that once again justifies great inequality. Before it was legitimate to earn obscenely high salaries. Now it is not.

The solution is staring in the face of the rich. Wealthy individuals have created schemes to avoid paying taxes. If they are smart, they should create schemes to pay taxes and ensure that most of it gets channelled to those in need.

Wall Street bankers should calculate the total amount spent on lobbyists to create tax exemptions and give this to the poor. The economic cost to the rich would be negligible and the social gains enormous. It would not take much to create a new social contract. The rich should accept that the short-term price of paying more taxes would bring enormous long-term gains. In short, to pay taxes is glorious!

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