10-14-2014

How to Strike the Wealth Balance

Shaomin Li
Old Dominion University, sli@odu.edu

Seung Ho Park
China Europe International Business School

Original Publication Citation
Li, S., & Park, S. H. (2014). How to strike the wealth balance. *FDi Intelligence,* 7 pp.
https://www.fdiintelligence.com/content/companies/how-to-strike-the-wealth-balance-56325

How to strike the wealth balance

The underlying attitude towards wealth within a country can have a big impact on a company's decision to invest there. Shaomin Li and Seung Ho Park look at ways in which 'wealth tolerance' can be measured.

Shaomin Li, Seung Ho Park

October 14, 2014

Since the onset of the global recession in 2008, the world has witnessed a rising resentment towards wealth, with particular attention on the inequality of wealth distribution. In the US, the backlash evolved into the popular 'Occupy Wall Street' movement.

In France in 2012, then-presidential candidate François Hollande ran on a ticket of raising taxes for the rich and won. As commentator Gideon Rachman put it in an article for the *Financial Times*: “The backlash against the rich has gone global.”

This growing animosity towards wealth presents a challenge to governments as well as to multinational corporations (MNCs) and global investors.

Governments, on the one hand, must work to reduce social discontent toward the rich. To do so, they must implement a more progressive tax rate on the wealthy. But, on the other hand, in order to encourage investors and keep businesses from leaving their jurisdiction, they must keep the tax rate low enough to compete globally. Because, as put succinctly by Carly Fiorina, the former CEO of Hewlett-Packard: “Money and people can move anywhere in the world.”

MNCs and global investors have to carefully evaluate the investment climate and social environment of target countries. If a location has a widespread negative perception of wealth, then the living environment for business executives and investors may not be favourable. Moreover, the host government may be pressured to adopt more progressive tax policies and other redistributive measures that will make investing in the country more costly.

A trio of factors

What causes a country to have a more tolerant attitude toward wealth? Can factors be identified that determine socials attitudes toward wealth? Furthermore, will understanding these factors help a government formulate policies that are conducive to a culture of wealth tolerance? Finally, how can MNCs, professionals and entrepreneurs gauge the social attitude towards the rich and effectively deal with it?

We conducted a study examining what factors influence people's attitude toward the rich and estimated 'wealth tolerance scores' across countries. Our first finding was that societies with a high level of public trust – in other words, trust between strangers — tend to have a more hospitable attitude towards the rich. Political economists believe that public trust is one of the most important social capitals, which can serve as a major building block for democracy to function well and for the market to operate efficiently.

Our second finding was that societies that show more tolerance towards the rich and wealthy tend to demonstrate the following cultural characteristics: they put an emphasise on individualism, have a pro-business culture that emphasises material achievement and have a high risk-taking attitude.

Third, in terms of income distribution, our findings showed that it is not the distribution of wealth per se that causes negative feelings towards the rich and wealth; it is whether the society provides opportunities for most people to obtain wealth in a fair way. As the philosopher Confucius said: “In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of.”

Achieving balance

Perhaps the most intriguing finding from our study is that a higher total tax rate does not enhance social tolerance toward wealth, whereas a higher personal income tax as a percentage of total tax is strongly associated with a higher wealth tolerance. In general, governments must strike a balance between a policy of higher progressive taxes, which may gain support from the lower income groups and risk losing investment and business, and a lower tax policy that attracts more business and wealthy entrepreneurs but may anger the wider public.

Our study suggests that this tough choice does not have to be a zero-sum game between choosing higher or lower taxes. It is possible to create a win-win solution by restructuring the components of taxes. Our finding suggests that in order to enhance social tolerance towards the rich, governments should keep the total tax rate relatively low, and restructure the components of the total tax to make the percentage of income taxes – personal income, profit and capital gain taxes – high as a percentage of the total tax.

It is widely believed that economic liberalisation increases intolerance towards wealth. Although this relationship seems to be paradoxical, further analysis shows that it is, in fact, logical. In countries undergoing rapid political and economic changes, such as the transition from communism to a free market, huge amounts of wealth are created due to the liberalisation of their economies. This newly created wealth, however, tends to be in the hands of well-connected and privileged elites, causing a high level of social discontent and the associated negative feelings towards the new wealthy class.

From the perspective of both a government and global investors, it is desirable to have high wealth tolerance. To enhance public perceptions about the rich, factors such as strong public governance, individualism, a high level of public trust, higher personal income tax as a percentage of total tax, a pro-business policy and a policy encouraging entrepreneurial risk-taking are all helpful.

The whole picture

For MNCs and global investors, it is also important that the country they invest or live in is harmonious among people of different income levels.

When evaluating target countries for investment or relocation, executives and entrepreneurs should examine the wealth tolerance score of the target country, and examine the major factors that are closely associated with that score, such as the level of public trust, business culture, pace of social change and tax policies. Armed with this information, executives and entrepreneurs will be better prepared to adopt and effectively interact with local communities, manage labour relations and formulate their development strategies in the target country accordingly.

Shaomin Li is a professor at Old Dominion University and visiting professor at National Taiwan Normal University, and Seung Ho Park is a professor at China Europe International Business School. Contact: Shaomin Li, sli@odu.edu, 1-757-620-5533

Related topics

Feature Companies

RELATED ARTICLES

China
Airbnb pulls out of China
POWERED BY FDI MARKETS

Sustainability
The quest for inclusive growth: FDI and the quadruple-helix

Ukraine war

Ukraine war spotlights cyber crime

Technology

Andorra’s esports facelift

ABOUT US

Products & services

Advertise with us

Contact us

LEGAL

Terms & Conditions

Privacy Policy

Cookie Policy

Copyright Policy

Modern Slavery Statement

Ad Choices

FAQ's

VIDEOS & REPORTS

The fDi Report 2022

Tourism Investment Report 2021

Videos

fDi ON OTHER PLATFORMS

Facebook

LinkedIn

Twitter

YouTube

RSS feeds

Podcast