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A viable blueprint for PM's proposal to tax rich nations

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PRIME Minister Datuk Seri Dr Mahathir Mohamad, in a speech on February 27 2001 in China during the official launching of the BOAO Forum for Asia proposed that the rich countries be taxed to finance infrastructure projects in the poor countries. It is obviously an idea whose time has come.

Despite the technological advances, mankind has failed so far in its collective effort to end poverty.

The sub-Saharan Africa is a good example. Half of sub-Saharan African's 600 million people live on less than US\$0.65 a day, and recently they have been getting even poorer. The rules of the game in international trade continue to be biased against the poor countries.

According to The Economist (February 24 2001), if North America, Europe and Japan were to eliminate all barriers to imports from sub-Saharan Africa, the region's exports would rise by 14 per cent, an annual increase worth about US\$2.5 billion (US\$1 = RM3.80).

The developed countries' farm subsidies, which hinder the agricultural exports of developing countries, amount to over US\$360 billion a year, some US\$30 billion more than Africa's entire gross domestic product (GDP). To make things worse, while the prices of the exports of the rich countries have been rising, those of the developing countries' primary products have been generally falling.

In the context of the worsening conditions in many poor countries, there is a need to consider Dr Mahathir's tax proposal with seriousness and a sense of urgency.

The purpose of this article is to discuss the Prime Minister's proposal in greater detail with the objective of translating this idea into a reality. The intention is to stimulate discussion so that we can quickly formulate a comprehensive and viable blue-print for this proposal.

The basic parameters of the proposal should be easy to define, viz:

- * Tax the rich countries on a sliding scale;
- * Use the tax proceeds to build infrastructure projects in poor countries; and
- * Use an existing international institution to perform the task of collecting the tax and to carry out the projects identified, by the recipient countries together with the managers of the Infrastructure Fund. Both must agree before the project is implemented.

To move the concept forward, a number of issues need to be clarified and resolved. One of the issues is why should the rich countries agree to pay the tax? It is considered logical and right for those who make a good living in a country, through business for example, to pay tax on their income.

The conditions in the country have enabled them to earn an income and they should return a part of it to the people through taxes levied by the Government. Such taxes on incomes are based on a sliding scale with allowances made for normal needs, while the highest portion of the income is taxed at the highest rate.

This way the poor would be able to enjoy amenities which they would not be able to afford otherwise. But the rich too would enjoy the infrastructure built by the Government.

In the globalised world there will be rich nations and poor nations, and very poor nations. The rich would be able to enrich themselves further as

the opening up of countries provide more opportunities for them to invest their capital, technology and world-wide network. They would become even richer.

The poor may benefit a little from the inflow of investments but their earnings would be minimal. In relative terms they would actually become poorer. Besides, should the rich decide to pull out their capital, the economy of the poor countries can collapse completely.

The result would certainly be to widen the gap between the rich countries and the poor. A globalised world divided into rich countries and poor countries would be quite meaningless, as meaningless as a rich country having segments of the population in a state of permanent poverty.

Today globalisation seems to be focused on those countries which had developed sufficiently for the rich to move in and exploit. Little attention is given to the very poor countries which are so poorly developed that they will not provide opportunities and a good market for the rich. Thus the countries of Africa, Central Asia and the islands of the South Seas are ignored by the international bankers and the giant trading and manufacturing corporations.

If this continues then the globalised world would be unevenly developed. Despite talks about poverty eradication within countries there will be glaring poverty in the community of nations. Is this the new world order that we are aiming for with globalisation?

If we believe in poverty eradication then we must eradicate the poverty of countries also. How can rich countries be proud when all around them are poor countries? Western media are fond of displaying pictures of Malaysia's Petronas Twin Towers with slums in the foreground, even though the slums may be 100 miles away.

Similarly, the sight of rich countries and their wasteful consumption in the midst of abject poverty is shameful. Surely the rich must be prepared to part with a little of the wealth they earned from the globalised world, so the poor countries can also enjoy some of the amenities the rich take for granted.

But why infrastructure? It is common knowledge that the construction and provision of infrastructure stimulate economic activities. Wherever a road or a rail track is built, towns spring up. Local producers will not only find a market in the new towns but will be able to market their produce in far away places, including in foreign countries. With infrastructure, all kinds of new business activities will develop and the people will benefit from these activities.

The construction of the infrastructure itself will create jobs for the locals, build a market for their produce and earn them better prices. So will the maintenance of these infrastructure.

But the rich will also get their share for only they are capable of providing the technology, the sophisticated machinery and the engineering skills. A portion of the fund will therefore go back to the rich countries in the form of earnings by their contractors and suppliers. The Infrastructure Fund and projects will create a win-win situation benefiting the rich and the poor and creating a much more evenly developed and wealthier world.

The world of today is extremely rich. The combination of raw materials, technology and entrepreneurial skills has resulted in unprecedented wealth. In the information and biotechnology age, the world is going to be even more wealthy more rapidly. It would be grossly unjust if this wealth is not more fairly shared.

If we want to tax the rich we must know who they are. The countries in the world are normally divided into five categories, as follows:

There are a number of ways to define the term "rich countries". One way

would be to equate the rich countries with high income countries, both Organisation for Economic Cooperation and Development (OECD) and non-OECD.

Another method would be to use the nominal per capita income above a certain level. A third method would be to use the per capita income on a purchasing power parity (PPP) basis. I am of the view that we should use the third method, and select US\$10,000 as the minimum level for taxation. On this basis, 45 nations would be eligible to pay the tax, including Malaysia.

With regard to the definition of poor countries, we should include all the 64 countries in the low income category, i.e. with nominal GDP per capita of US\$755 or less.

The people living in the 64 low income countries total 2.4 billion accounting for 40 per cent of the world's population. The population of the high income countries total 890 million, accounting for 15 per cent of the world's population.

Out of the 64 low income countries, 30 are Islamic countries (defined as members of the Organisation of Islamic Countries) with a population of 854 million people, accounting for 69 per cent of the OIC population. The magnitude of the world's poverty level is obvious from the figures above. There is, therefore, an urgent need for the international community to rise to meet the challenge of helping the poor countries.

On a sliding scale, the international infrastructure tax should be as in chart 2.

In calculating the tax amount, the base should be the nominal GDP of the rich countries, although for purposes of defining the rich countries we have used the per capita GDP on a purchasing power parity basis. It is easier to calculate the tax on the basis of the nominal GDP since the nominal GDP, compared to GDP on a PPP basis, is a more easily available figure and it is more official.

The amount of tax collected per year would be about US\$9.4 billion. Details of the tax to be collected from the 45 countries are shown in chart 3.

It is suggested that the tax be collected yearly for 20 years. It may be easier to persuade the rich countries with a proposal for a limited time rather than in perpetuity.

The fund so raised should not be distributed in the way aid was given out before. Indeed the funds should be used to pay for the infrastructure project as construction progresses.

The important consideration is the need for the infrastructure, not the relative poverty of a country or the actual cost. How much fund is needed is not as important as the potential contribution that the infrastructure can make to the country.

With regard to the collection and administration of the tax, it would be better not to create a new organisational structure to avoid unnecessary expenditure on overhead costs. An institution associated with the United Nations, possibly UNDP, can be used for the purpose of collecting the tax and administering it. If additional staff are required, this can be arranged by way of secondment from some of the upper middle income countries. This will be their contribution to the scheme since most of them would not be subject to the tax.

The administrators of the tax will study the request for an infrastructure project together with the recipient country and it will determine the best way to implement it. Some suggested guidelines are as follows:

- (i) Projects must be chosen such that the multiplier and linkage effects in the recipient country are maximised;
- (ii) The infrastructure projects would be largely hard infrastructure,

such as roads, railways, bridges, dams, pipelines and power plants;

(iii) The criteria should be poverty eradication and economic enhancement. They should be free of ideological and other considerations; and

(iv) The projects must be built and administered by the international agency with the recipient country providing all the support necessary. But the locals must be given as many job opportunities as possible and to be trained in the operation of the facilities.

Conclusion

The sum expected to be collected will be at about US\$9.4 billion per year or US\$188 billion for 20 years. This amount, if wisely invested in infrastructure projects in the poor countries, can quickly raise the living standards in the poor countries to decent levels.

In a world where more than half of the population go to bed hungry every night, a significant gesture on the part of the rich countries to help the poor countries by way of the proposed tax mechanism will go a long way in making the world a better place to live in for all mankind. As Dr Mahathir said, there is very little justification for people to remain poor in a world which is so extremely rich.

The proposal made by Dr Mahathir is certainly viable. It can be structured and implemented easily. All that is required is the will on the part of the rich countries to support a proposal which is likely to create a win-win situation for everyone.