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THE VIEW
RICHARD HARRIS

Bridging the divide

Dominance of Hong Kong's rich leaves the labour masses with no voice but strong Singapore-style pension fund could provide an elegant solution

Embattled Chief Executive CY Leung's comments that democracy meant that the largest sectors of society would dominate the electoral process were widely ridiculed. Newspaper headlines screamed "Democracy would see poorer people dominate Hong Kong" highlighted the shocking statistic that half the wage earners in our World City earn less than HK$450 a day; some HK$14,000 per month.

Nevertheless, Mr Leung raised a serious and important illustration of the soft underbelly of our economy, which is that the owners of capital in Hong Kong are so dominant that the owners of labour have no voice.

Economics has an uncanny way of righting imbalances over time and the revolting students are merely part of this process. Students rebel because they are well educated, knowledgeable, articulate, energetic, not yet on the rat race treadmill and have the biggest stake in the future.

In the late 1970s, no less than superstar economist Milton Friedman held that capitalism was synonymous with success and that Hong Kong was its leading proponent. We were proud to say that if the cake gets bigger, it gets bigger for all. We were told, "Look at Li Ka Shing". "If I work hard, I can be like him one day!"

Much of Hong Kong's wealth is legally stored offshore. Photo Reuters

Yet income distribution, as propounded by modern-day superstar French economist Thomas Piketty, is getting worse over time as owners of capital continue to outstrip owners of labour.

Young people see that their escape strategies of hard work and education have been denuded or destroyed by technology that traps graduates in low-pay jobs. In 1986, a newly minted MBA could achieve three to four times their pre-qualification earnings, it is now just 1½ times. If you can find a job.

Robots are taking over in the operating theatre and jumbo jets don't need pilots – it just makes the passengers feel better to see a man in uniform.

Professionals are increasingly people who tell computer programmers what they do; before they retire.

CY Leung is correct; democracy and flexibility to change produces different winners. If poor people have the vote, they will vote themselves more money. Just as if rich people have the vote, they will vote themselves more money. However, as we say in the stock market, always leave 10 per cent for the other guy. If you crush him, he won't trade with you again.

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The Gini coefficient is a measure of wealth disparity with the lowest in Scandinavia in the point twos and highest in Southern Africa in the point sixes. Hong Kong's Gini coefficient is around 0.54, about 15th in the world.

Our coefficient is understated as much Hong Kong wealth is located legally in offshore companies and there are no figures for the Cayman or the British Virgin Islands.

China was recently calculated to be 0.55, resulting from 20 years of unbridled capitalism; while the US stands at 0.48, resulting from 200 years of rampant capitalism and some redistribution of income through taxation.

The capitalist, democratic, welfare state in Europe was born out of two world wars, which destroyed faith in the judgment of powerful men to lead in the interests of others. "Lions led by donkeys," they said.

Europe has income disparities in the point threes because the welfare systems tax heavily, progressively and actively. Some income disparity is not a bad thing – technology cannot yet stack the dishwasher.

But how do we get the Gini back into the bottle? Piketty's plan is to tax the rich, which is the antithesis of Mr Leung's position. Taxation is not entirely fair, unless they were given an easy ride to get rich in the first place. We can lower Gini by ensuring equality of opportunity for the next generation to apply their aptitude, application and hard work.

Our large public financial reserves are held in trust by the government for the people of Hong Kong.

Mr Leung is rightly terrified of frittering it away through welfare handouts but being easy on the real estate barons is not the answer.

One elegant solution is to seed a hypothecated, living, fully funded pension plan like that in Singapore, with our public reserves. The Lion City's fund is now HK$1.7 trillion in size (which sounds smaller if you say it quickly) and supports a membership of just 2 million, or HK$850,000 per head.

Such a nest egg would seal Hong Kong's future as a major financial centre just as it has Singapore's. It would boost the economy, be a tool of policy, and protect the underprivileged. It would be easy to do – if it were done professionally.

It would also be a non-contentious way for Mr Leung to put the Gini back into the bottle – far from being ridiculed, he would become the most popular man on both sides of the Shum Chun river.

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