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GOVERNMENT

Is China's "Common Prosperity" plan good or bad for luxury?

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President Xi Jinping is pushing "common prosperity" to help support China's middle class. But can this agenda benefit luxury in the long term? Image credit: Shutterstock

By Adina-Laura Achim

Ahead of the 20th National Party Congress, China's President Xi Jinping has added "common prosperity" to his agenda as a way to throw his support behind the country's middle class.

Currently, it appears that Mr. Xi's end goal is to "adjust excessive incomes" and work towards the elimination of poverty. But the government's big-money crackdown has sent stocks plunging, echoing shock waves through the investment community.

According to *Fortune*, shares in LVMH have fallen by nearly 10 percent since Aug. 17, knocking luxury mogul Bernard Arnault down to third place on *Forbes'* list of the richest people in the world.

Kering also registered dramatic losses, with shares falling 9.47 percent during the same period, as Richemont declined by 6.6 percent, and Burberry slipped by 5.51 percent.

Forbes and *The Wall Street Journal* reported that a massive selloff of LVMH, Kering, Herms and Richemont stocks created inconveniences, ultimately leading to a market loss of $70 billion during the week following Mr. Xi's speech.

The Jing Take: At first glance, luxury brands should celebrate the call for "common prosperity."

Minimizing the risks of income inequality should be a priority for every government because, in the long-term, these policies will encourage economic mobility, boost consumption and promote economic growth.

However, it is still unclear how Beijing intends to restrain "unreasonable income."

If the authorities decide to pursue a wealth tax, upper-class citizens will see their after-tax incomes reduced.

Moreover, Beijing might even place a luxury tax on specific product categories and goods.

In 1991, the United States tried a similar approach when President George H. W. Bush added luxury taxes to

expensive goods such as yachts, private jet planes, jewelry and cars to ease the country's budget deficit. But the policy remained tainted because of the disastrous impact on various industries.

Bush's luxury taxes claimed 7,600 jobs in the yacht industry, 330 jobs in jewelry and 1,470 jobs in aircraft manufacturing, according to the Joint Committee on Taxation and *The Boston Herald*.

Furthermore, these steep job losses cost the government more than $20 million in income tax revenue and the treasury an additional $2.7 million in unemployment compensation, according to a study by Republicans on the Congressional Joint Economic Committee.

A tax-the-rich mantra does animate middle-class voters, but it has disastrous repercussions on luxury consumption.

Most brands are ill-prepared to navigate the rocky road ahead, considering that over the past decade luxury brands bet their future on China without fathoming a reality in which Chinese demand could cool off.

With the highly contagious Delta variant wreaking havoc in the West and Beijing pushing China towards a new long-term strategy, it is about time for the luxury industry to envision a diversification strategy.

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