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On Fairness and Justice of the Primary Distribution of National Income

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Abstract:

Today the fair distribution has become a global issue and it entails an urgent resolution. The fairness of distribution is supposed to include the process and results of the distribution. Both the primary distribution and the redistribution of the national income shall highlight the fairness. It is dangerous to downplay the fairness of the primary distribution and the fairness of the primary distribution of the national income forms the foundation of that of the social income.

The distribution ethics are taken as the important preconditions for achieving the fairness of the primary distribution. The unavailability of the labor's right can lower its position in the distribution process. Therefore, the distribution right is crucial for the labor's position in the distribution, which also determines the proportion of labor in the primary distribution.

Therefore, in order to improve the fairness of the primary distribution, the most important thing is to solve the lack of labors' distribution right with a view to providing the labors with the genuine income distribution right and rights in scheduling the distribution plan. The achievement of the distribution rights of labors shall be guaranteed in legislation, the supervision of the government and the promotion of distribution ethics.

Keywords: Distribution; Fairness; National Income

I. The fairness of the primary distribution forms the foundation of that of the social income

Today the fair distribution has become a global issue which entails an urgent resolution as the fair distribution itself could create conditions for the sustainable economic development and promote the logical and stable development of the whole society (world). The issue of fair distribution was brought forth based on the fact of an unfair distribution. The unfair distribution can be explained in two aspects, wherein, the first is distribution equalitarianism, for instance, the "everybody eating from the same big pot" practiced before the China's reform and opening-up; and the second means uneven income distribution which has created a gap between the rich and the poor. The present issue of fair distribution means the latter apparently, namely: excessive disparity of income distribution. The Gini Coefficient, invented by the Italian statistician - Corrado Gini based on the Lorenz Curve, has provided a mathematical basis for the measurement of disparity, which has been widely acknowledged and practiced globally. According to the UN specification which has encapsulated the historical and moral factors, the income distribution is absolutely equal if the value of the Gini Coefficient is lower than 0.2; near fair for 0.2-0.3; relatively acceptable for 0.3-0.4; large disparity for 0.4-0.5; extreme disparity for 0.6 and above; in which 0.4 is commonly taken as the "warning line" of the disparity between rich and poor.

China has attained high speed economic development since the reform and opening-up policy was launched 30 years ago and a double-digit growth in its gross domestic product has been remained over the past five years. At present the domestic GDP ranks top globally and the economic benefits and the people's living standard have been boosted dramatically. However, the negative issue is that the China's Gini Coefficient is growing simultaneously and it has exceeded the warning line - 0.4 up to now. According to the Asian Development Bank, the China's Gini coefficient has already risen to 0.47 in 2006 from 0.407 in 1993, and now China has become a country having a huge income disparity. It is undeniable that the disparity between the rich and the poor is growing and the "Poverty of the Poor" has come out unavoidably, though arguments are still present on how to look on the China's Gini Coefficient.

The unacceptable disparity of income distribution may even disrupt the social stability in some cases, which deserves our more attention. The exploration of income distribution can not be limited on the disparity, but be viewed from the perspective of the utmost requirements for man and social development. The ethics and values shall be covered thereof as the issue of income distribution can also imply the social values and ethics. From the perspective of the ethics, the reasonableness and fairness shall be explored firstly for the disparity of income distribution. The warning line for the Gini Coefficient is not only an indicator for social security, but also for an indicator of unequal income distribution. Inequality is the prelude for the insecurity and the insecure social factors can not be eliminated until we have understood and solved the unequal distribution.

From late 1990s, the rise of China's Gini Coefficient has been underscored by the academic circle and the government, thereafter some solutions and multiple policies are put forward accordingly by the government. However, the effect is unnoticeable and the upward trend of the Gini Coefficient is far from being controlled, and it worsens. The causes may come from the misunderstandings of the adjustment of income disparity which compromise the pertinence and effective implementation of economic polices. The misunderstandings of income distribution have close relations with the “Fairness and Efficiency”. For a long time, either the academic circle or the government relies on the redistribution to achieve the fairness of the distribution, downplays the fairness of the primary distribution, and bring forth the measures and thoughts of “Primary distribution underlines the efficiency and the redistribution focuses on the fairness”. Therefore the primary distribution completely relies on the market regulation and the fairness of the primary distribution has been abandoned, which applies more moral pressure on the redistribution and disrupts the incompleteness of the fairness of the distribution.

The fairness of distribution is supposed to include the process and results of the distribution. Both the primary distribution and redistribution of the national income shall be considered based on the fairness. Fairness shall be applied for the whole process of the distribution. The acceptable distribution of the national income shall be practiced in the pattern “The fairness of primary distribution dominates and the fairness of the redistribution serves as an auxiliary means.” If it fails to do so, the huge disparity will occur in the primary distribution, which will not only hinder the economic development and efficiency, but also compromise the fairness of the redistribution. For the past years, the high proportion of low and middle-income people substantially results from the unfairness of the primary distribution, which can also explain the low consumption demand in China. The trouble of “Latin America trap” occurred in some Latin American countries indicates that the disparity of primary distribution causes massive impoverished and unemployment crowd, the government is left to carry on the excessive welfare policy to correct the unfairness in the redistribution, which will inevitably create unbearable financial deficit, frequent fiscal and financial crisis and instability of the society.

As can be seen from above, it is dangerous to downplay the fairness of the primary distribution. The fact itself demonstrates the fairness of the primary distribution is extremely important and the fairness of the primary distribution in national income forms the foundation of that in the distribution of entire social income.

II. Introduction about the unfair primary distribution in China

How the fairness of the primary distribution can be achieved and accepted, which deserves our exploration in depth. The distribution of income involves a plurality of elements: the distribution has close relation with the economic efficiency and the output of production; the awareness of distribution is dominated jointly by the national cultural tradition and prevailing interest-pursuing desires; different interest groups have different views about the fairness, for instance, it is acceptable for the employer that the distribution is established in proportional to the factor contribution based on the priority of efficiency, while the employee favors the “Distribution According to Work”, however, there are differences between the simple and complicated work when talking about the “Distribution According to Work”. As a result, the fairness of primary distribution is required to judge in a

comprehensive manner. According to the economists, the fairness of primary distribution has there measures: the distribution rate, the welfare expenditures of man-hour cost and the proportion of personal income tax and social security tax in the government tax revenue.[①]

Firstly, let us take a look at the distribution rate, which indicates the proportion that the total laborers' remuneration represents the gross domestic product. The higher the remuneration is, the more distribution is available, vice versa, lower remuneration means less distribution. The distribution rate can not reveal the distribution disparity directly, but serve as the precondition of the distribution and may exert influence on the distribution results to some degree. In the developed countries, the figure of the distribution rate ranges between 54% and 65%, which is relatively high as a result of mature market economy, e.g. 54.18% in Japan in 1999, 58.31% in America in 2000, 53.84% in Germany in 2000, and 55.27% in England in 2000. However the figure is relatively low in China, which is 51.45% in 2001, and the developed areas in china has lower distribution rates compared with the average level, such as 45.75% in Beijing, 46.47% in Guangdong province and 34.90% in Shanghai, while the rate of operation surplus reaches as high as 25.72%.[②]

Secondly, let us discuss the welfare expenditure of man-hour cost. The higher welfare expenditures of man-hour cost mean more fairness of the primary distribution. In western countries, the social security growingly relies on the profits obtained from the capital of enterprises and companies. In 1991, the man-hour cost in the countries of the European Community measures $17.61 in which the welfare expenditure is $7.57, while the figures are $14.5 and $4.13 in America and $14.59 and $6.20 in Japan, respectively. [③] However, the man-hour cost is $ 8.7 only in China due to inexpensive labor source and the welfare expenditure is less than $1. The low labor cost, in the short run, is the competitive advantage, but in the long run, contains the social unfairness and twists the relationship between the money capital holder and human capital holder, which inevitably will become principal constraint that will endanger the stability of county and hinder the development of productive forces.

Finally, let us explore the proportion of social security tax and personal income tax in the government tax revenue. The social security tax and personal income tax are the sources of income redistribution practiced by the government, which mainly come from the division of capital profit and worker's wages in the primary distribution. In the countries with developed market economy, the social security tax and personal income tax represent more than 40% in the government tax revenue, and even 60% in some countries. According to the statistics from the Word Bank, the proportion of personal income tax in the total revenue measures 28% in the developed countries and 11% in the developing countries, while the personal income tax only amounts for 0.75% of the GDP in China in 2001 and a leap has been made in 2006, that is 11.5%[④]. The social security tax contributes 28% that of the government tax revenue in the developed countries and 6% in developing countries, while the social security tax has not been employed in China so far. Speaking of the social security expenditures, the proportion is 10% with respect to the GDP in China, which is lower than 16% in America, 30% in France, and 20% that of

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① Junpeng Li: "questioned 'initial distribution focuses on efficient, while redistribution focuses on fairness'", *China Economic Times* (April 29, 2004).

② Zhixin Zhu: 2002, International Statistical Yearbook -2002 (China Statistics Press, Beijing), pp.102.

③ Zhixin Zhu: 2002, International Statistical Yearbook -2002 (China Statistics Press, Beijing), pp.102.

④ http://www.sina.com.cn, 24,01,2007.

Poland, Russia, Iran, brazil, etc.[⑤]

According to the analysis described above, all three indicators have low performance in China, which indicates that the capital factor holders have higher income in the primary distribution of the national income; the increase of government tax revenue grows too faster and the remuneration is too lower, which naturally produces the Gini Coefficient as high as 0.47, where the income of the one fifth highest income groups is 33 times that of one fifth lowest Income groups. There is an apparent unfairness in the primary distribution.

The unfairness of the primary distribution in China can also be observed in the following areas: the first is the disparity between the urban and the rural incomes, which is the main contributor creating the gap between the rich and the poor in the whole country; the second is the disparity between different sectors, namely, the uneven income between the monopolistic sector and non-monopoly sector, the third is the regional disparity, mainly between the coastal areas and the inland areas, and the fourth is education which plays a more important role in the income distribution, where the education opportunities are not provided in an equal way and the income disparity between the highly-educated groups and the lowly-educated groups widens.

III. Causes for excessive income disparity between the primary and secondary distribution in China

There are complicated causes for the excessive income disparity between the primary and secondary distribution in China, which can be explained in several aspects described below:

Firstly, the issues left over from the history and the social structure: China has maintained a long-term social-economic structure based on the agricultural economy. The system of the market economy had not been established to achieve a fast development until the introduction of reform and opening-up in 1978, though the modernization has been launched as early as the 19th century, the modernization and urbanization experienced extremely slow development as a result of wars. Nevertheless, the urbanization has not completed half of the target so far. The agricultural population is much higher than that of the urban and the agricultural modernization faces many constraints. As a result it is difficult to narrow the gap between the urban and the rural overnight under such a background.

Secondly, the unavoidable loopholes in the transition of the economic system: the China's economic reform is a self adjustment of social economic relations, which is nothing less than a revolution in the field of economy. As the unprecedented economic reform has no models to follow, from the every beginning it is a “feeling the stone at the riverbed to cross the river” and the reform can only advance step by step. The process is incomplete and the new systems may not be fully justified sometimes, where loopholes can create the disparity, for instance, the preferential policies of economic development in the coastal areas and state-owned monopoly status in certain sectors has caused the disparities between regions and enterprises.

Thirdly, the distribution system in the modern enterprise system has not yet been fully established. The management level generally determines the distribution plans as no proper laws, regulations and rules are available, where the rights of the grassroots labor are not warranted and particularly the bosses in private enterprises have the final say.

Fourthly, incomplete law system and poor enforcement: the minority obtains huge sums of money through illegal means, such as “rent-seeking”, control of insiders, trading power for money, etc. The “rent-seeking” widens the income disparity, which is the main cause to create the high-income groups. The insiders can transform the public assets into private

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[⑤] YuanTiezheng:“International comparison of the payout of social security”, *Chinese labor*,1st issue,2003

profits of the sector, region, enterprise and individuals in some cases. Given a grey distribution is present; it is never to achieve a fairness. In recent years, there are numerous inside stories in the field of real estate development. Some developers and individuals from the local authorities reap huge profits and commission, which is the most unfair fact and shall never be allowed in laws by means of trading power for money.

Fifthly, unfair exchange creates unequal distribution, such as inequality in the international trade exchange.

Sixthly, imperfection and incompleteness of distribution theories: the imperfect distribution theories have been discussed in the foregoing paragraphs, namely: “Primary distribution underlines the efficiency” and no fairness have been considered in the primary distribution. In doing so, it is evitable to produce unfairness. The incomplete distribution theories indicate “a coexist distribution system with principal Distribution According to Work and a variety of auxiliary distribution modes (allocating by factors)”, where no detailed guidelines are provided, thereby causing the unbalanced proportion between the Distribution According to Work and Distribution According to Factors and creating excessive disparity of income distribution.

When we exclude the historical reasons and some insurmountable objective factors, the subjects of ethics criticism are human errors which cause unfair primary distribution and includes improper distribution theory, e.g. the theory underlines the efficiency and downplays the fairness. According to the distribution ethics, the important precondition of fairness of the primary distribution is to concern about the position of labor in the actual distribution. The author is of the opinion that it is the key factor whether the labor and in particular to the labor of direct material wealth creators can be allocated reasonably in the primary distribution of national income, where it can present the justice. The labor's position in the distribution can be determined through the proportion of the labor in the distribution. The determination of the distribution proportion relates to the rights of income distribution. The primary distribution of national income is carried out among labor, capital (the enterprise) and fiscal revenue (the government). The distribution requires a plan and the results will be controlled by the plan preparer and in-charger. We can further explore the relations among labor, capital (the enterprise) and fiscal revenue (the government). The relationship between capital (the enterprise) and fiscal revenue (the government) is profit and tax, where the tax ratio is controlled by the government and the government dominates the right of distribution, in which the capital (the enterprise) is passive. As for capital (Enterprise profit) and labor (the wage), should abundant labor resources be available, the capital (the enterprise) always has the final say for the labor’s wages under the market regulation. As can be seen, the government has the absolute right of distribution, the capital (the enterprise) has the relative right of distribution, and the labor has no right at all, where the low proportion of labor in the primary distribution can be explained. It is the missing of the distribution right of the labor that lowers the position of labor in the distribution, which allows the capital (the enterprise) to minimize the wages of the labors through market competition. As a result, the right of distribution determines the position of the labor in the distribution and affects the proportion of labor in the primary distribution.

According to the requirements of the economic ethics, the unavailability of the labors’ right in primary distribution is unfair and has departed from the socialist allocation principle - Distribution According to Work. The utmost moral reason for the “Distribution According to Work” comes from that the work is the principle source of social wealth and workers are the creators of social wealth. Therefore workers shall be allowed not only to participate in the allocation but also have the right to determine the distribution, rather than passive acceptance of distribution results.

Given that China is still at its primary stage of socialism, the “Distribution According to Work” is not allowed to be practiced in a complete manner according the current economic system and modes of production, and the “Distribution According to Production Factors” shall be employed as a supplement. The “Distribution According to Production

Factors” means the distribution shall cover labor, capital, technology, management, etc., which is acceptable for current domestic conditions and can satisfy the optimization of resource configuration and meet the requirements of fair income distribution. However the “Distribution According to Production Factors” shall be understood and implemented in a correct manner. Firstly the labor shall be deemed as the first one among all production factors, no other factors may be used to downplay the labor and neglect the importance of labor in the distribution. Secondly, the distribution proportion among factors shall be determined reasonably which involves how to measure the contribution indicators. At present, the income of labors is generally wage being included in the cost and no benefit contribution are covered thereof, namely, the labor has never received the contribution distribution, and even the labor income is extremely low due to market regulation, which is particular for the labor who directly creates wealth. Such a case is not reasonable. The contribution indicator is not clear, which is always determined by the management level or the enterprise owners, typically all the benefits attribute to the management level and owners rather than labors. In such a case, the “Distribution According to Production Factors” may deviate from the original intention and cause the unfair income distribution.

Generally speaking, when the worker does not have the distribution rights, the “Distribution According to Work can not be practiced in a genuine manner and the “Distribution According to Production Factors” can also fail to achieve fair results.

IV. Measures in promoting the fairness in the primary distribution of national income

According to the foregoing analysis, the disparity in the primary distribution is caused by many factors and the unavailability of the distribution right is the fundamental contributor for the low income of the workers. Therefore, in order to improve the fairness of the primary distribution, the most important thing is to solve the lack of labors’ distribution right with a view to providing the labors with the genuine income distribution right and rights in scheduling the distribution plan. The availability of the distribution right of workers is required to be guaranteed in system.

Firstly, the labor's position in the distribution shall be warranted in legislation. The laws on the labor market and income distribution shall be improved based on the existing laws, in particular to the provision of the wage law, so as to clarify the labor’s right in the income distribution, specify the due responsibilities of the enterprises in ensuring the rights and benefits of the workers, and enable the wage being incorporated in the legal management system. Secondly the labor unions shall be established and improved to ensure the labor’s say in the distribution. The functions of labor unions shall be enhanced in respect of presenting and maintaining the benefits of the workers, where the hiring conditions including wages shall not be determined by the employer unilaterally and the labor union, on behalf of labors, are required to arrange negotiations with management level, employers and contractors. The discussions between the labor and the capital shall satisfy both parities; thirdly, the policy orientation in distribution enacted by the government shall insist on the principle of the Distribution According to Work and increase the income proportion of labor, and balance the labor and capital benefits. According to the strong position of capital factor in the primary distribution and labor factor’s poor performance, the policies of distribution shall favor the labor and improve the income of labor, enhance the labor income in the GDP, heighten the proportion of wages in the cost, enhance the welfare factor of wages and insists on and implement the sharing principle of labor fruits.

In order to improve the fairness of the primary distribution in the national income, it is required to solve the unbalance between the income and the contribution and the problem that the same contribution has not received the same returns. Firstly, the government is required to strengthen the supervision on the monopoly sectors and introduce first anti-monopoly law as early as possible. On the other hand, the government shall restrict the pricing right of monopoly enterprises, where public hearing system may be employed to reflect the benefits of the relevant groups, and monitor and control the distribution right

of the monopoly enterprises within the acceptable level. Secondly, the pay level of the senior management especially the state-owned enterprises must be linked with the performance of the enterprise. The fact that the minority gains excessive income while the majority fails to get more income from the development and profits of the enterprises shall be changed; Theserious inequality of contribution and income among internal management level shall be corrected to achieve the target that the distribution corresponds with the contribution in a genuine manner.

In order to improve the fairness of the primary distribution in the national income, it is required to create fair competitive and distributive social environment. Based on the further improvement of market economic system, the equality of income shall be promoted under the equal chances and processes, and the government shall plays a leading role in making up the market deficiencies and providing the fair competitive environment. The social security system shall be established and improved to provide the public education, medical care, employment service and other public service for everyone, eliminate the various unequal system divisions as much as possible to achieve the relative equality of the income distribution. Also the illegal incomes shall be controlled and confiscated; more efforts are required to crack down the production and sales of fake products, smuggling and selling of smuggled goods, tax evasion and illegal possession of national assets through unauthorized application of rights to ensure the normal order of primary distribution of the national income.

In order to improve the fairness of the primary distribution in the national income, it is required to publicize and promote the information of distribution ethics. A concept of fair distribution shall be established for the government, enterprise owners and labors. The workers shall uphold their distribution rights and pursue the benefits in a legal and acceptable manner; the government should adhere to the ethical principles of the Distribution According to Work, and the tax revenue shall has a proper proportion of the distribution of labor; as for the operators, the labor's position in the distribution process shall be respected and the sharing principle of operational results and economic benefits are required to be followed to achieve the fairness and justice in the primary distribution of national income.

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