

Zhou Qiren

ONE TENDENCY IN INCOME DISTRIBUTION, AND YET ANOTHER TENDENCY

13 November 2006

[While China was formerly a very poor country, it was also a highly egalitarian one. A consequence of the reform movement has been the development of a wide gap between the rich and the poor, something that would not be expected in an ostensibly socialist country, and the country's rulers worry, not without reason, that this gap will lead to social unrest. The essay translated/paraphrased below distinguishes between an unequal distribution of income and an unfair distribution of income. The author, a professor at People's University, says that it is misleading to measure income equality simply on the basis of legal money income, since much income in China is come about through illegal means or is paid out in non-monetary forms. He argues distinctions must be made between income derived through the open working of the market and income resulting from corruption, extortion, or the perquisites of office. Policies designed to equalize legal money incomes could have the side effect of exacerbating even graver injustices in the distribution of income or wealth.]

Very few people consider their own incomes to be too high, but lots of people, like me, easily discover that others have incomes that are unreasonably high. This shows that it is difficult to discuss income distribution in a calm and objective manner. Although the distribution of income has already aroused widespread attention, we will still try as best we can to explore it objectively. This essay recognizes a relationship between disparities in income and an unfair distribution of income, but in the end distinguishes these concepts, concentrating on the economic issue of an unfair distribution of income.

The Gini Coefficient and the Concept of Income

In 2002 China's Gini coefficient was 0.46. Very few other countries in the world had a higher number, aside from Latin America, where the highest number reached 0.57. This worried people. Professors Li Shi and Zhao Renwei, who were doing research on this, found many difficulties in measuring income. For example, people in different localities had differences in disposable income because the price indexes in different towns or districts were not the same. However, the World Bank's research team used the 2001 price index to adjust the Gini coefficient. Prior to the adjustment the Gini was at 0.447, and the adjusted figure was 0.395. Because regional variations have a huge effect on the Gini figures, the Gini coefficient fell after the price index was taken into account. From another aspect, currently the Gini coefficient is calculated on the basis of legal currency, not taking into account income in terms of real goods or social services. In addition, the social services available to urban residents are different from those available to rural residents.

Nonetheless, even though the adjusted figures have not come out, Professor Li Shi has asserted recently that the

numbers will certainly be higher.

Therefore, it is evident that there are factors in the current studies leading to both overestimates and underestimates. Naturally, it is insufficient simply to consider income in terms of real goods and welfare benefits, since in a transitional society there is also a certain amount of illegal income and gray income. Thus, it is necessary to do more work to determine how to adjust these figures in order to achieve a more objective and more valid understanding of the consequences of reform and opening on incomes.

In economics, income is not a simple concept. Income, as defined by Irving Fisher in his study, includes wealth (capital, resources) and the services regularly provided to the individual as a result of his own efforts. Fisher believes that the most important function of income is the provision of enjoyment. As an explanation of human behavior this implies that the struggle for income is a struggle for enjoyment, and this means that any form of wealth of a service nature must be included as income. To put it simply, we cannot simply consider money income, since there is much enjoyment that has nothing to do with money compensation, particularly in a transitional society such as ours. In fact, we should combine money, non-money income, income in kind, legal incomes, illegal incomes, gray incomes into one general concept of income in order to consider how income is distributed.

Definitions by Power and Market Supply and Demand Determine Income

If we focus simply on legal monetary gains, we will ignore other issues. If we adopt policies addressing only gaps in legal monetary income, this might give rise to other serious issues. We must ask before we study policies relevant to the distribution of income, how precisely is income distributed among different components of society. To put it simply, it is done in two basic ways.

The first is definition of income by power, since income is first of all a kind of power. The use, benefit, and transfer of wealth all affect the service-use of property, or income from production. Therefore, the system of property rights decides the general structure of distribution. For example, in the past peasants had to cultivate their fields in accord with the plans of the Center. They could not plant freely or engage in sideline work, nor were they free to take outside jobs. The structure of power was set, the distribution of income was set, and the peasants were universally poor. After reform, peasants were allowed to do what previously was not allowed and the real and money incomes of most peasants increased. Later the growth in rural incomes flattened out. This is because the market demand for rural goods in the towns did not increase so fast. The question then became whether peasants could engage in non-agricultural work, whether they could come work in the cities, whether they could establish urban residency.

It is like this for peasants, but the situation is analogous for all other social strata. Let's take Yao Ming as an example. What determines his income? First of all it is defined by power: may or may not an athlete nurtured in China

go abroad to some other country to carry on his trade? The previous system would not allow this. It is said that the physical culture departments drew up an agreement with Yao Ming allowing him to go abroad and join the NBA. This distribution of power decides Yao Ming's income. There are similar circumstances with other talented Chinese who have been recognized by the market. For example, Lang Lang [a pianist] is world-famous. He recently gave a performance in Hong Kong, and Hong Kong officials welcomed him to establish permanent residence in Hong Kong. Ordinary people must live in Hong Kong for seven years before they can establish permanent residence. This is a kind of important non-monetary form of income. Chinese can visit more than a hundred countries world-wide without a visa. Some blessed with talent can find opportunities throughout the wide world. Lang Lang's income has been defined by power.

Look also at the income of public servants. The actual salary is part of it; benefits are another part; the enjoyment of office supplies is another; the stability of work is yet another. Add to this the illegal or gray income available beyond the market in a transitional economy to those in positions of power. This is first of all a matter of something defined by power. According to a treatise by Zhang Wuchang, human society can be arranged into three types of system. In the first power is determined by wealth; in the second, power is determined by status; the third lies between the other two, with administrative power entering the market to exact rent. He calls this Indian-style corruption or systemic corruption. In a transitional economy, it is easy for those who held positions of power in the original system to gain income from the market. A market economy tends to allocate power through wealth, but getting there is a long and hard road. Indeed, the position of peasants, professionals, and entrepreneurs is defined by power. But can the position of the administrative stratum that previously controlled the distribution, use, and disbursement of all resources make the transition to a market system?

Therefore I say that whatever the stratum or whatever the person, social income up to now has been primarily defined by power.

The second determinant of income is market supply and demand. Peasants have the right to engage in outside work, but those engaged in outside work are too numerous. Competition is fierce and it is hard in this way to increase your income. This is the shape supply and demand take with respect to labor as the economy develops. But in the south there is a labor shortage: if firms do not raise their wages they will not be able to find workers. So market supply and demand also determine incomes.

Distinguishing Differences in Income from an Unfair Distribution of Income

If people consider differences in income to be a major problem, there are two choices about how to deal with it. If we put the difference in income in the first place or focus solely on legal money incomes, this will imply a certain goal

to be approached by particular measures, and these will have a set of consequences. But there is another goal, that is, to address in a collective fashion the issue of unfair distribution of incomes. This is a different concept, different from inequality of incomes; but the two are very easily confused.

Unfair distribution is a major cause of income inequality, but income inequality can also have other causes. For example, there is a very large gap between Yao Ming's income and that of a peasant part-time worker, but I, at least, don't believe there is any great unfairness in that gap. The operation of supply and demand in the market means that some occupations pay extremely well. As long as other elements in society have the right to react to this, this does not require that great efforts be made to intervene to change it—or, rather, there may well be intervention, but this will carry with it various side effects. For example, China's manufacturing industry is growing under changing conditions for each of its different sectors, meaning there is a new market demand for creative entrepreneurs and various kinds technical specialists with particular sets of ability. This brings about a response in the values set by the market. Should someone try to control this, it would weaken the incentives for creativity and growth.

I don't think the Gini numbers should be the main indicators of income distribution, since the actual differences in the distribution of income are not good measures of unfairness in the distribution of income. Not very many people find it hard to live with the high incomes earned by Yao Ming or Lang Lang; but the high income of Chen Zhaogui (former Party secretary of Dingyuan county in Anhui) is something else again. There is also the high income of certain monopolistic administrative departments, not only private firms but also state owned firms.

Therefore I believe that we should separate the issue of an unfair distribution of income from that of unequal distribution of incomes. If we treat them as the same thing, there will be an additional undesired consequence—that is, it will move people to transform much of their cash income into non-cash forms. For example, this year the CDC and the State Supervision Ministry have issued a document forbidding Party and government organs from pooling their money to build houses. What is this pooling of funds to build houses? The original reform had halted the practice of providing housing as a benefit; but now in not a few localities this practice has arisen from its ashes. Because certain departments have a great amount of power they can mobilize their power and build houses on cheap land and with cheap material and then distribute them to cadres at a cheap price; so the pooling of resources to build houses is transformed into income. A policy that focuses purely on differences in money income may give rise to other problems as side effects.

A permanent source of income indicates a property that will continually produce income. The influence of the market on this is relatively great. But today there are great differences in the production of income generated by different positions or different trades. I would say that the income of public servants is unduly high. My grounds for saying so are that the proportion of those applying to take the civil service examination is increasingly great. How can

this be explained? One factor is that the work of public servants is relatively stable. If compared with other positions that have to weather the winds of the market, there is more money to be made over time in a position of public service. But if we look at the question simply from the perspective of money income we would consider the incomes of public servants to be relatively low; we would think they need a raise in pay.

In sum, we must look at one of the tendencies in the distribution of income. Different social sectors have big differences in money income. This is the joint result of the economic reforms leading to marketization, monetization, and political structural reform. At the same time we should look at another tendency in income distribution, and that is that if we simply set ourselves to consider how to shrink the differences in legal money incomes, we will overlook big issues of unfair distribution and also produce undesired policy side effects that will harm economic growth and social development.

Shiji Jingji Baodao, November 13, 2006