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## Social Equity Is Also The Absolute Principle

**From:** Wang Shaoguang

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### Comments

Social Equity Is Also The Absolute Principle By Wang Shaoguang, Guest Professor at Tsinghua University, Beijing Translated by Hongyi Yin China's reforms can be divided into approximately two phases, with the first one lasting from 1978 to 1993, and the second one spanning from 1993 to the present day. The first phase is characterized by a winning game for all; that is, every social stratum benefited from these reforms. The only difference was one of degree. Of course, there was an exception to this period: from 1988 to mid-1989, 30% of the population suffered an absolute fall in living standards. Reforms then were termed "optimization of work groupings" instead of unemployment. As a result, they were somewhat slowed down. After 1993, driven by the momentum of Deng Xiaoping's inspections of the southern coast of the country, new reforms surged, and structural adjustments accelerated. This wave of adjustments was one of the greatest magnitudes in human history. And it took just five years. It was also a period of rapid economic growth in China. It is estimated from 1993 or 1994 onward, then average annual growth rates exceeded 8%. But as wealth was created in abundance, living standards of parts of the population deteriorated in absolute terms, with 50 million workers getting fired. This should not be viewed as inevitable, because with better mechanisms, a fairer sharing of the fruits of these reforms could have been achieved. Those who bore the brunt were not only the urban unemployed, but also many peasant farmers. As the government sharply raised its purchasing prices of food grains, farmers' incomes increased compared with the previous years. Thereafter, although the government tried in every way to boost farmers' income, statistics about their social welfare, including health care and education, fell rapidly. This was by no means inevitable, because every aspect

of it needs to be re-examined, including guidelines, redistribution mechanisms, and mechanisms through which ordinary citizens make themselves heard and participate in society. Firstly, the idea of downsizing state-owned enterprises needs to be analyzed. Emphasis should not be placed solely on economics and the interests of a single company, but on the social costs. This is an issue of guiding principles. Secondly, as wealth was oozing out abundantly, it could have been possible to let everyone share in the fruits of the reforms. But due to considerable lagging in reforming the public finance system, we were found lacking in effective redistribution mechanisms. The mechanisms have not been fully established which would ensure that those social classes which have benefited more pay more in individual income taxes, so as to compensate those who have suffered losses. Furthermore, the disadvantaged groups are barely audible in the decision-making processes. To provide simple indicators, among representatives to the Fifth National People's Congress, those from ordinary workers and peasants accounted for more than 40%, whereas nowadays, with 64% of the population living in rural areas, they merely account for 8% of the NPC representatives, down sharply from 21% during the period of the Fifth NPC. And it is also stipulated that to elect a representative, the ratio of rural/urban voters must be 4:1. The number of representatives from ordinary workers is also in constant decline, from 27% during the Fifth NPC to 11% by the time of the Ninth NPC, while "the democratic parties", who have been allies of the CPC, merely total 570,000 party members, but occupy 13% of the NPC seats. The same has been true of the CPC congresses. Leading cadres take up huge proportions, sometimes reaching 75%. Representation of the general populace should be enhanced, either at the NPC, CPCC or the NPPCC (which is viewed as the upper house in the West). One social group is not to be represented by others in its stead. Without solving this issue, there could be no way to adequately stress the redistribution mechanisms. In recent years, as a few people have grown extremely rich, living standards of some social groups have not been raised, but declined for the first time. The amount of money the government is extracting from the population is already no small figure. But a lot of it does not come in the form of taxes. The sums from real taxes from the people and enterprises merely account for 18% of the GDP, a tiny fraction compared with those of other countries. Personal income taxes only take up 0.5% of China's GDP, compared with 4-5% generally in developing countries, 10 times of our own. And they reach 20% in advanced countries. Compared laterally, the tiny share of our income taxes is shocking. Compared historically, income taxes were created by the British in the late 18th century. The US Supreme Court once ruled that collection of income taxes was against the American Constitution, stating: "This is a Communist tax." But by the early 20th century, in response to demands from the populace, income taxes were incorporated into the Constitutional system through amendments. At their peak, personal income taxes reached 90%. Federal income taxes are now in the ranges of 35%. In addition, there are personal income taxes and social security taxes to be paid to the states. And in other countries, such as the welfare states in Europe, personal income taxes still exceed 60%. But in China, in estimates made with Professor Hu Angang, I have found that the poorer a city dweller is, the higher the taxes he or she has had to pay. The nature of our income taxes

is now recessive instead of progressive. Property rights are not absolute, but human rights are. If some groups in a society do not even enjoy basic security, then the rich should contribute part of their incomes. This is in the interests of the rich themselves as well. For if the poor do not have their livelihood ensured, the edifice of society will be destabilized. How rich and poor can manage to coexist has become a challenge we must meet. Decades ago, Deng Xiaoping proposed that some people should be allowed to get rich first. His assumption was that when they are already wealthy, they will voluntarily and willingly share their riches with the public, and wealth for all will be thus achieved or through government policies. The situation now is that those who have got rich first would not do so. And they have an edge not only in the distribution of wealth, but also in resources for influencing public opinion. And they are gaining political momentum and impacting on public decision-making. Some people hold that if you are not represented, you should not pay taxes. This slogan is right in general. But since it has been mouthed by vested interests, it has been designed to set the stage in the public opinion arena for their representative institutions to expand their turfs. Personally, I detest the concept of “the taxpayer” mooted by some people. For in my opinion, it presupposes that only taxpayers should be protected. I believe that citizenship is a much more important idea. Even citizens who don't pay taxes should be treated on par with taxpayers and enjoy equal rights due to citizens. Some are worried about the problem of incentives for creativity on the part of the rich. That entrepreneurship would be undermined by it is one of the arguments raised by theorists on the right in Western countries. It is in fact not the case. Although America collects less income tax from the rich, her average growth rates have been lower instead of higher than some European welfare states since the end of World War II. This shows that taxes may not affect economic growth. Theoretically, a 1% increase or decrease in income for the rich will not be much of a stimulant on them, but in the case of the poor, such changes will be different. A 1% increase for them will promote their productivity and enhance social stability. Such impact would be obvious. Efficiency and equity do not have to be in conflict. Many empirical studies across different countries and periods indicate that, in the long term, more equitable countries enjoy higher average economic growth than less equitable ones. We stress social stability because it faces serious challenges. In the short term, solving these problems still depends on the conscience of policy makers. I generally would not use the word “democracy”, not deliberately but because I feel that it would be interpreted as referring to Western style multi-party systems. Instead, I emphasize two ingredients: mechanisms for expression and participation, which constitute the essence of democracy. To state it further, I attach great importance to channels for expression and participation by groups at the bottom of society. I prefer to use these more specific terms. Expression and participation as defined here are not only embodied by the representative institutions at the national level, but also include the enterprises and communities that are the concerns of the people on a daily basis. In some Western countries, trade union representatives sit on corporate boards of directors, whereas China's Enterprise Law does not include such requirements. The purpose of strengthening these expressions and participation is to enable more social

strata to share in the fruits of reforms and the open policies. It is already high time that we asked Chinese reforms of the question of how to distribute the fruits that they have produced.

Translator's Note: The title of this article is in response to ideas of the late Chinese top leader Deng Xiaoping, who famously said: "Development is the absolute principle."

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