

Major Challenges, Historical Experience and Key Measures of Capital Distribution in the Context of Common Prosperity

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Abstract: Capital is an important factor of production. Capital distribution is directly related to income distribution. In the process of common prosperity, it is of great significance to solve the problem of capital allocation. At present, capital enjoys excess profits, differentiation of capital accumulation, asset price bubbles, and declining population growth challenge China's capital allocation pattern. The government intervened in capital distribution through administrative means in history and the Antitrust Practice of the western society both failed. In the new era, we should adhere to the "two unwavering", improve the property income tax legislation, encourage fertility and advocate three-time distribution, take multiple measures to optimize China's capital distribution pattern and promote common prosperity.

1. Introduction

In his report to the 20th Party Congress, General Secretary emphasized that the distribution system is a fundamental system for promoting common prosperity, and that it is necessary to improve the system of distribution according to factors, to explore a variety of channels to increase the factor income of middle- and low-income people, and to increase the property income of urban and rural residents through a variety of channels. The importance of property income or capital income in the national income distribution system has risen, and according to Thomas Piketty's summary in *Capitalism in the 21st Century*, the imbalance in the possession of social capital far exceeds the imbalance in the distribution of labor power, which leads to the imbalance in the distribution of capital income far exceeding the imbalance in the distribution of labor income. Obviously, it is important to emphasize the balance of capital distribution in order to improve the distribution system and thus the common prosperity of the whole society. According to a recent study by McKinsey, more than two thirds of China's wealth is held by the richest 10 per cent of households. At the current stage, the phenomenon of uneven distribution of capital in China exists objectively.

The Twentieth National Congress of the CPC put forward the idea of comprehensively promoting the great rejuvenation of the Chinese nation through Chinese-style modernization. Chinese-style modernization is the modernization for the common prosperity of all people. Capital, as a necessary factor of production, plays an important role in the socialist market economy. However, because of its natural movement and value-addedness, it can easily lead to an imbalance in the pattern of capital distribution, which will have a negative effect on the socialist market economy and ultimately affect the realization of the goal of common prosperity. Therefore, the Central Economic Work Conference in 2021 proposed that "traffic lights" should be set for capital, to regulate and promote the orderly development of capital, and to form a benign development pattern with a reasonable distribution of public and non-public capital. At this point in time, how to deal with the challenges of capital distribution is of paramount importance in the process of moving towards a modernized and common prosperity in China. It is undoubtedly very important to elaborate the main challenges of capital distribution, to sort out the existing experiences in dealing with capital distribution, and to put forward the key initiatives to deal with the challenges of capital distribution.

2. Literature Review

Concerns about the distribution of capital are widespread. In feudal agrarian society, land was the main material carrier of capital. Qian Mu, in his book *Economic History of China*, analyzed that during the Warring States period and the Qin Dynasty, the well-field system, which had the attribute of equal land, was destroyed, land annexation and land appropriation became more and more prevalent, and the structure of land possession was unbalanced, which eventually led to the social inequality between the rich and the poor [1]. Indeed, it is widely recognized in historical scholarship that the serious imbalance in the structure of landholdings in the middle and late feudal dynasties not only undermined the simple ancient Chinese concept of common prosperity that "Yellow Emperor was able to name all kinds of things for the people so that they would know the names of things and share the wealth.", but also ultimately led to the cyclical turnover of feudal dynasties.

Early classical political economy emphasised the decisive role of the distribution of capital in the division of social classes [2]. The agrarian school believed that land was the only source of wealth and the most important means of production. Landowners were the true capitalists. Turgot, a representative of the French agrarian school, divided the social classes from high to low into three major social classes: landowners, commercial and lending capitalists, the agricultural class and the industrial class. With the development of classical political economy, the unequal distribution of capital led to the gradual study of social division and even class conflict. In the era of machine industry in which Marx lived, capital in the form of fixed assets and monetary assets replaced land as the most important type of capital, and Marx, through the "dichotomy of labour" and the scientific division of the value of labour and the price of labour, saw that the unequal distribution of capital led to the dependence of labour on capital. Marx divided social capital into constant capital (c), variable capital (v) and surplus value (m), scientifically revealing the nature of capital's appropriation of the surplus value of labor, and elucidating from the root the social division and class antagonism brought about by the uneven distribution of capital.

Theoretical research and practical operation have shown that the free development of capitalist society will inevitably lead to the over-concentration of capital, and that the transition from a *laissez-faire* capitalism society to a monopoly capitalist society will bring about an over-capitalization and an oversupply of labor, which will ultimately lead to the emergence of an economic crisis or even a social crisis. In fact, the perfect situation of "income equals marginal output" described by Marshal (1890) for a *laissez-faire* capitalism society does not necessarily hold. The wage of labor often deviates from the marginal output of labor, and the compensation of capital is always inconsistent with the marginal output of capital [3]. The research of Kalleberg (1984) [4], a representative of the institutional school of thought, pointed out that the income of labor and capital also depends to a large extent on the relationship between labor and capital. If the distribution of capital is unbalanced, the bargaining power of labor over capital will be weakened, the capital factor in the distribution of income will prevail, and the labor factor will be at a disadvantage, and the distribution of income will be unbalanced.

Studies by Chinese scholars Li Daokui (2009)[5] and Gong Gang et al. (2010)[6] have shown that the more unbalanced the distribution of capital in an economy, the more most of the income in the economy will be obtained by the owners of capital, which will lead to an unbalanced structure of the distribution of social income and an increase in the Gini coefficient. If the capital distribution of an economy is balanced, most of the income in this economy will be obtained by the workers, and the social income distribution will tend to be balanced, and the Gini coefficient will be lower. Cai Fang et al. (2001)[7] and Lu Ming and Chen Zhao (2004)[8] studied the urban-rural labour income dichotomy from the perspective of capital distribution. For a long time, capital investment in urban areas has been much higher than that in rural areas, and urban areas are capital-rich, with a weaker capital discourse and relatively higher labour incomes, whereas rural areas are capital-poor, with a stronger capital discourse and relatively lower labour incomes.

3. Historical Experience of Capital Allocation

In the course of human development, from the perspective of capital distribution, it is always a historical process from capital distribution equilibrium-capital distribution imbalance-capital distribution reequilibrium. Coping with capital distribution is always the core proposition for maintaining stable economic and social development. Generally speaking, there are two ways to deal with capital allocation: the first is the violent conflict, which is to achieve an imbalance in capital allocation through destructive means to the re-balancing of capital allocation. Although the goal is achieved, the process of normal economic and social development is often also violently interrupted, at a high cost. The other is active regulation, that is, the adjustment of the system design to realize the imbalance of capital distribution to the relative balance of capital distribution. The process of normal economic and social development is not interrupted, and the social productive forces take on greater vitality. The latter path is worthy of our reference in the process of our common prosperity today, and is also a valuable asset left behind by the economic and social development of mankind.

3.1. Administrative response to capital allocation imbalance in the middle and late Western Han Dynasty

At the end of the Qin and the beginning of the Han Dynasty, the society experienced a long period of war and chaos, the social materials were scarce, the people lived in poverty. According to Han Shu·Monograph on Food and Currency: the world had just been unified and pacified, the people and the nobles were in great distress, the emperor could not travel in a four-horse horse-drawn carriage of the same color of the fur, and the high-ranking generals and civil officials could only travel in oxcarts. After the period of rest and recuperation of Emperor Gaozu of the Han Dynasty and the "rule of Wenjing", the economy and society developed naturally, the country's vitality was gradually restored, the wealth of the people continued to accumulate, and the society was polarized between the very rich and the very poor. The possession of land and labor, the two most important factors of production at that time, by families with social status and wealthy families that had been prominent for generations reached an unprecedented level of concentration. In order to cope with the disruption of the social and economic order caused by the excessive concentration of capital, according to the most important work of economic thought in the Western Han Dynasty, The Treatise on Salt and Iron, Sang Hongyang, the Grand Agriculturist under Emperor Wu of the Han Dynasty, proposed to set up a system of "equalization and leveling" throughout the country, which was to set up warehouses of material reserves at various places in the country by administrative means to collect the important materials of the whole society and open the warehouses to sell the materials to the society at necessary times. At the necessary point in time, the reserve warehouses were opened to sell materials to the society, which was used to prevent unreasonable fluctuations in the prices of socially important materials brought about by the excessive concentration of capital, which had a strong color of the planned economy in the early period. Although the Han Emperor Wu Di period of the Grand Agricultural Sang Hongyang's "equalization" system makes the country become rich, due to the frequent over-involvement of the state in the private economic life, in the later operation of the natural disguised to another extreme, the private economy endogenous mechanism suffered damage, the private economic activities lost vitality, the government "competing with the people for profits" to the extreme to stimulate strong dissatisfaction of the people. The government's "competing with the people for profits" went to such an extreme that it aroused strong dissatisfaction among the people. Sima Qian, in his Book of Equalization, recorded the following ballad: "Boil the mulberry goat, and it will rain on the heavens. The "equalization" policy was short-lived.

The same situation also existed during the reign of Wang Mang in the late Western Han Dynasty, who was also faced with a society in which the distribution of capital was extremely deformed. According to the Book of Han - Biography of Later Yuan Dynasty, during the period of Wang Mang, some of the families of the officials and eunuchs possessed slaves amounting to more than 100,000 people, and their wealth amounted to billions of dollars, while the merger of fields and the sale and purchase of slaves were prevalent, thus making the concentration of capital even more intense in the society. After Wang Mang came to power, in order to cope with the imbalance of capital distribution,

he ordered to prohibit the sale and purchase of fields, houses and slaves. Wang Mang longed for the well-field system of the pre-Qin period, so he stipulated that each household should have 100 mu of land, one-tenth of the grains in the land was taken as the tax. The state treasury was rich, as well as the people. He also renamed all the fields in the world as "king's fields", and the slaves were characterized as "private servants", and were not allowed to be bought and sold. However, Wang Mang's administrative intervention in response to the imbalance in the distribution of capital at the time, the "equalization of land and abolition of slavery", was obviously difficult to integrate with the characteristics and laws of the economic and social development of the time, and encountered great resistance in its implementation, and failed to be carried out, ultimately leading to the abolition of the decree four years after its promulgation.

From the viewpoint of the implementation effect of the administrative intervention initiatives launched in the mid-to-late Western Han Dynasty to cope with the imbalance in capital distribution, it can be clearly recognized that even though the initial intention of the administrative initiatives to cope with the imbalance in capital distribution is good, if such administrative initiatives are merely top-down rigid instructions, ignoring the endogenous laws of economic and social development, the resistance to the implementation of the policies is very great and the effect of policy implementation is also counterproductive.

3.2. Antitrust instruments in Western societies respond to imbalances in the distribution of capital

The "invisible hand of the market" elaborated by Adam Smith in *The Wealth of Nations* has always been the "guiding principle" of the Western economic schools. It seems that the market can always ensure that the economic operation can maximise the overall welfare of the society under the premise of Marshall's assumptions of perfect competition and full employment. With Marshall's assumptions of perfect competition and full employment, it seems that the market is always able to ensure that economic operations maximise the overall welfare of society. In fact, the flawlessness of the theory is seriously questioned by the reality of economic operation. When the western society stepped from the stage of laissez-faire capitalism into the formation of monopoly capitalism, monopoly is no longer an exceptional phenomenon, but more and more has become the norm of the capitalist economy. The concentration of capital has accelerated in all walks of life, with a small number of capital oligarchs and a large number of unemployed people coexisting. A small number of capital oligarchs and a large number of unemployed people coexist. There is a serious imbalance in the distribution of capital. In the United States, for example, by 1904, 318 trusts had been formed in American industry, of which a whopping 236 were formed in the short period after 1898. Of these trusts, 26 controlled more than 80% of the production of the industry in which they were located, 57 controlled more than 60% of the production of the industry in which they were located, and 78 controlled more than 50% of the production of the industry in which they were located. The culmination of the accelerated concentration of social capital in the United States was reflected in the horizontal integration of financial and industrial capital. By the beginning of the 20th century, the financial oligarchy, represented by the eight major consortia of Morgan, Rockefeller, Kuhn-Loeb, Mellon, DuPont, Chicago, Cleveland, and Boston, had formed a broad influence and strong control over the United States' national politics, economy, society, and foreign policy. In contrast, a large number of small and medium-sized enterprises were merged or went bankrupt. A large number of industrial workers are unemployed, labor surplus and commodity surplus coexist simultaneously, and the distribution of capital in Western society is seriously polarized, affecting the overall level of social welfare.

Western economics has begun to carry out theoretical research on the problem of monopolies, which are extremely polarized in the distribution of social capital, and has come to realize that monopolies affect the overall welfare of society in at least the following ways. The first is that monopoly leads to social capacity being lower than the optimal desired capacity, resulting in social goods not being produced at the lowest cost of production. Secondly, the failure of producers to utilize their existing production capacity leads to the existence of idle existing capacity and low capacity utilization. Firms produce according to their own profit-maximizing output rather than the Pareto

optimality of output for society as a whole. The loss of social welfare as a direct result of monopolization is described in economics as a dead-lost triangle. There is also the fact that monopoly profits from a monopoly can lead to "rent-seeking". In order to obtain the excess profits from a monopoly position, enterprises will use means that do not create economic value to lobby the relevant authorities to obtain a monopoly position. "Rent-seeking" leads to a large amount of economic resources that should be allocated to productive uses being spent on non-productive uses, resulting in a large amount of wasted social and economic resources.

In order to prevent the loss of social welfare brought about by excessive concentration of social capital, that is, monopoly, Western societies have generally adopted anti-monopoly policies to restrict the formation of monopoly, which mainly include three categories. First, ex ante review of business concentration. Western societies conduct ex ante antitrust reviews of large corporate mergers and acquisitions within industries to prevent the formation of monopolies. Second, ex post pricing restrictions. Western societies utilize the average cost pricing method, the dual pricing method and the return on capital control method to prevent price discrimination brought about by monopoly. The third is the ex post disciplinary means. These include the splitting up of already formed monopolies through anti-monopoly legislation, and the prevention of inter-generational transmission of capital concentration through exorbitant property inheritance taxes.

The anti-monopoly policies of Western societies have had little effect, and the imbalance in the distribution of capital in the West has not only failed to be effectively reversed, but has further widened. Federal Reserve data show that, as of the end of June 2021, income ranked in the middle 60% of the U.S. "middle class" owns the wealth in the U.S. national total wealth fell to 26.6%, a 30-year low. And the income of the first 1% of the United States "super-rich class" owned the wealth in the United States national total wealth accounted for 27%. The statistics of the University of California even reflected the extreme imbalance in the distribution of wealth in the United States society. The average annual income of the top 0.1% of the United States income group was 196 times more than the average annual income of the last 90% of the population. Reflecting on the practice of anti-monopoly in western society, if we don't touch the change of economic base and upper value orientation, and only stay in the technical adjustment of economic operation level, it is difficult to reverse the imbalance of capital distribution caused by the inherent "profit-loving nature" of capitalist economic system. It is necessary to rebalance the distribution of capital to realize the rebalancing of capital which needs to be forged by the economic base and upper value orientation together. The rebalancing of capital distribution needs to be forged by both the economic base and the upper-level value orientation.

4. Key Measures of Capital Distribution in the Context of Common Prosperity

The report of the Twentieth Party Congress emphasizes exploring various channels to increase the factor income of middle- and low-income people, and increasing the property income of urban and rural residents through multiple channels. It has increased the regulation of taxation, social security and transfer payments. The individual income tax system should be improved, the order of income distribution should be regulated, and the mechanism for wealth accumulation should be standardized. The balanced distribution of capital is very important to the implementation of the matters highlighted by the General Secretary, and has a bearing on the process of modernising China in such a way as to bring common prosperity to all its people. How to respond effectively to the current imbalance in capital distribution is of great significance and a key initiative, which can be promoted in the following areas:

4.1. Adhering to the "two no irresolutions" principle and promoting the standardized and healthy development of various types of capitals

State-owned enterprises are the important material and political foundation of socialism with Chinese characteristics, an important pillar and relying force for the Party's governance and the country's prosperity, and an important support and guarantee for the realization of the common prosperity of all people. Private enterprises, like state-owned enterprises, are an important part of the

socialist market economy with Chinese characteristics. According to General Secretary's affirmation of the contribution of private enterprises at the symposium on private enterprises, private enterprises in China have contributed more than 50% of the tax revenue, more than 60% of the gross domestic product, more than 70% of the technological innovations, more than 80% of the urban labor force, and more than 90% of the number of enterprises. Therefore, the development of private enterprises is very important to make a bigger and better "cake" [9]. In accordance with the spirit of the twentieth CPC National Congress, to optimize the pattern of capital distribution and to achieve common prosperity, "the most central thing is to adhere to and improve the basic socialist economic system, unswervingly consolidate and develop the publicly owned economy, and unswervingly encourage, support and guide the development of the non-publicly owned economy". It is vital to clearly recognize the natural law of market economic development and the essential nature of capital as a profit-seeking factor, and give full play to the positive role of capital as a factor of production. At the same time, it is also necessary to effectively control its negative role, set up "traffic lights" for capital, strengthen the regulation of capital in accordance with the law, and prevent the brutal growth and disorderly expansion of capital.

4.2. Accelerating the collection of property income tax and legislation, and improving the healthy socialist tax system

Property income tax is important for optimising the intergenerational transmission of capital and the pattern of capital distribution. In 2021, China's total tax revenue was 17.3 trillion yuan, and property income tax was about 6.3 trillion yuan, accounting for only 36%, of which China lacks a property tax in the true sense of the word, except for a very small amount of resource tax and property tax. China's tax structure is still dominated by indirect taxes in the process of circulation, and the direct taxes levied on property income are on the low side. The tax structure of China's tax system is significantly different from that of developed countries such as the United States, Europe and Japan. Indirect taxes levied in the process of circulation will form certain friction to the flow of goods and services, and the ultimate tax burden is borne by the public. Direct taxes levied on property income regulate the accumulation and distribution of wealth, and the ultimate tax burden is borne by the affluent class [10]. Therefore, in the future, the Government may consider rationalizing the tax structure and moderately increasing the number of property income taxes. It can also increase the proportion of property income tax and structurally reduce or waive turnover tax, encourage the flow of social goods and services and the creation of value, regulate the excessive accumulation of wealth and the irrational distribution of capital, and promote "common prosperity".

4.3. Increasing the level of the birth rate and striving to develop a high-quality workforce

The continuous supply of high-quality labour is conducive to the continued enlargement and improvement of the "cake", and at the same time contributes to the further cutting and sharing of the "cake" and the realization of "common prosperity". In recent years, in order to cope with the unfavorable trend of a declining birth rate and a slowing population growth rate in China, the Chinese government has adopted a series of policies to encourage childbirth. In 2011, two-child fertility policy for couples where either is from a single-child family began to be fully implemented in all parts of China. In 2013, China implemented two-child fertility policy for couples where either the husband or the wife is from a single-child family. In 2015, the Fifth Plenary Session of the 18th CPC Central Committee decided to continue to optimize family planning policy and implement universal two-child policy. In May 2021, the Political Bureau of the Central Committee decided to further optimize the fertility policy and implement a three-child policy and supporting measures. With the further development of China's economy and society and the continued introduction of relevant policies to encourage childbirth, the declining trend in China's birth rate is expected to be fundamentally reversed. Stable population growth is conducive to the optimization of the pattern of capital distribution, and will certainly promote the construction of socialist modernization and the better realization of the goal of "common prosperity".

4.4. Inheriting the fine culture of the Chinese nation and advocating the supplementary regulating function of the three distributions

The Twentieth Party Congress emphasized the construction of a coordinated and complementary system of primary, redistribution and tertiary distribution. The role of three distributions in the process of common prosperity has been fully emphasized. It is an act of helping the needy and the weak that is carried out voluntarily through the moral and spiritual pursuits of the economic agents themselves, such as private donations, philanthropy, and voluntary action. The Chinese people since ancient times have advocated friendship and mutual aid. The "Records of the Grand Historian" recorded that "in the Spring and Autumn Period, Tao Zhu Gong earned thousands of gold three times in nineteen years, and he dispersed to the poor friends and brothers with the same name twice ". In modern times, thanks to Zhang Qian, Xiong Xiling, Chen Jiageng and other social sages, charitable donations in China has always been continuous, which is the cultural heritage of the Party Central Committee put forward the three allocations and the ideological core [9]. In 2020, China's charitable organizations will account for 1.1% of the total number of registered social organizations, with donations exceeding 200 billion yuan in that year, an increase of 18% compared to 2019, accounting for 0.2% of the total GDP in the same period. There is still a lot of room for improvement compared to the 2% of annual donations in developed countries compared to the proportion of GDP. The scale of charitable donations in China continues to grow, and social welfare undertakings continue to achieve new results. The three distributions, with their excellent heritage, will help optimize the pattern of capital distribution and will certainly promote the better realization of common prosperity.

5. Conclusion

Imbalances in the distribution of capital are prevalent in today's society and have had a significant impact on social equity and stability. The various measures proposed in the report of the Twentieth Party Congress, such as optimizing the capital distribution system, increasing the factor incomes of the middle- and low-income masses and the property incomes of urban and rural residents, are all important strategies designed to address this problem.

Historical and theoretical studies have shown that a balanced distribution of capital is an important prerequisite for the realization of common prosperity. By actively regulating and standardizing the operation of capital, social problems resulting from excessive capital concentration can be effectively prevented. Whether it is through strengthening tax regulation, optimizing the environment for enterprise development, or encouraging childbirth to ensure the supply of high-quality labour, the implementation of these measures will help to rebalance the distribution of capital and promote the common prosperity of the whole society.

Finally, passing on the fine culture of the Chinese nation and advocating the complementary regulatory functions of the three distributions will also play an important role in optimizing the pattern of capital distribution and promoting social equity and harmony. Through institutional design and the concerted efforts of all sectors of society, common prosperity for all people in the process of Chinese-style modernization is expected to be achieved.

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