

Regulation of Income Distribution in Developed Countries and Its Enlightenment to China*

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Abstract—After 30 years of reform and opening up, China has achieved rapid economic growth. However, the national income gap is showing a growing trend. There are large income inequalities among regions, urban and rural areas and industries. In fact, the income gap is a worldwide problem, which exists to varying degrees in both developed and developing countries. This paper analyses the income distribution of the residents in the major developed countries from the macro and micro levels and puts forward the general direction for the adjustment of income distribution in China. The macro aspect should be inclined to the residents and the micro aspect should narrow the income distribution gap.

Keywords—*income distribution; middle-class; regulation*

I. INTRODUCTION

Governments govern their countries with the goal of achieving fair and just income distribution and eliminating inequality and poverty. Income distribution involves a wide range of factors, including economic factors, as well as institutional and policy factors. The pattern of income distribution can be analyzed from two aspects: macro-income distribution pattern and micro-income distribution pattern.

II. MACRO-INCOME DISTRIBUTION PATTERN

Macro-income distribution pattern refers to the distribution of national income among social and economic entities such as government, enterprises and individuals. It reflects the process of initial distribution, redistribution and triple distribution of social production results. The macro income distribution pattern plays an important role in the healthy development of a country's economy. The general

practice of income distribution in major developed countries is as follows: The initial distribution is based on legal means and supplemented by government regulation. The redistribution mainly relies on the government's tax, social security, compulsory education and transfer payments to adjust the initial distribution results and narrow the income gap. The third distributions mainly depend on the development of philanthropy and the establishment and improvement of the social donation system to readjust the results of the first two distributions.

A. *In Terms of Initial Distribution, Legal Means Are the Main Means, Supplemented by Government Regulation*

Law is the main means to realize the regulation of income distribution. Countries establish wage decision and regulation mechanism through wage negotiation mechanism, wage guarantee legislation, minimum wage legislation and other laws.

1) *Wage negotiation mechanism*: It is the basic form of wage determination. Through relatively equal collective bargaining, workers can share the fruits of improving labor efficiency and increasing profits. It can regulate the behavior of both employers and employees and protect the legitimate rights and interests of employees. Industry associations and trade union organizations in many developed countries negotiate with employers on behalf of employees to obtain higher wages. For example, Germany pays more attention to social fairness and justice. Employers and employees are social partners rather than antagonists. Their relationship is coordinated by corresponding trade unions, trade union federations and employers' federations. Employers and employees sign labor agreements through trade unions and employers' associations, which stipulate the rights and obligations of both sides and labor relations. In this process,

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the government should not intervene. The same is true in Sweden, where wages are also coordinated.

2) *Wage guarantee legislation*: For example, Germany promulgated the Collective Agreement Law and the Organic Law of Enterprises in 1918. France enacted the Special Law on Collective Agreements in 1919. The United States promulgated the National Labor Relations Act in 1933. These legal documents constitute the legal framework of industrial autonomy.

3) *The minimum wage law*: The federal minimum wage was first introduced in the Fair Labor Act of 1938 in the U.S, when the standard was \$0.25 an hour. In 1966, Congress amended the Fair Labor Act again, raising the minimum wage to \$1.4 an hour. By 2009, the latest minimum wage in the United States was \$7.25 per hour. It has increased nearly 30 times in 70 years. For the initial distribution, the governments of market economy countries persuade and demonstrate wage adjustment through non-compulsory means.

B. As for Redistribution, Tax, Social Security, Compulsory Education and Transfer Payment Policies Are Generally Available for the Government to Choose in Order to Achieve the Goal of Fair Income Distribution and Adjust the Income Distribution Gap

1) *Taxes*: It is the main source of a country and regional revenue, but also an important tool for the distribution of income, His influence on the income gap can be direct or indirect.

The U.S. government has attached great importance to the establishment of a relatively perfect tax system. It established a tax regulation system with individual income tax as the main body, supplemented by inheritance tax, gift tax, personal property tax, personal consumption tax and social security tax, giving full play to the coordination of different taxes. The current personal income tax in the United States implements a progressive tax rate policy. Different types of taxpayers have different levels of exemption and payable tax. They adopt the principle of more income, more tax, less income and less tax.

2) *Social security*: It is a social security system that takes the state or the government as the main body and guarantees the basic right to life of social members, especially those who have special difficulties in life. Through vertical distribution, it shifts wealth from high-income class to low-income class, and through horizontal redistribution, it transfers wealth in health and disease, labor and non-labor. Social security, to a certain extent, compensates for the inequity of social distribution and effectively improves the income level of backward areas. For example, The United States established the social security and welfare system in 1935. It is a perfect social security system including social insurance, social relief and social welfare.

3) *Compulsory education*: In today's society, the main reason for the unfair distribution of income is that labor income is not property income, and labor income mainly

depends on people's ability to work. Education is an important means to improve people's ability to work. If equal opportunities for compulsory education are not guaranteed, the original income gap will continue to expand. The 16-year free compulsory education system is implemented in the UK, and primary and secondary education is compulsory for school students. In order to fulfill its commitment to increase funding for education, the British government has steadily increased its share of gross national product in basic education year by year. British schools are financed mainly by the state government's financial allocation, and local fiscal revenue will provide some support.

4) *Transfer payment*: It is a common phenomenon in the process of social and economic development when economic development is balanced. Due to the differences of national conditions and different stages of development, the specific measures taken by various countries to narrow the gap in regional economic development are different, but strengthening the intervention and support for the economic development of backward regions is one of the measures generally adopted by all countries. In order to promote the economic development of backward areas, Japan has formulated and implemented the "Villages Revitalization Law", "Special Measures for Oversparse Regions Revitalization Law", "Industrial Development Promotion Law for Underdeveloped Regions", "New Industrial City Construction Promotion Law" from the 1960s to the 1980s.

C. In Terms of the Third Distribution, It Relies on "Spiritual Strength" and Pursues "Moral Principles"

The concept of the third distribution was put forward on the basis of the initial market distribution and financial redistribution. It refers to the mobilization of all sectors of society, mobilization of all aspects of enthusiasm, the establishment of social assistance, public donations, charity, volunteer action and other forms of systems and mechanisms. In major developed countries, it is a social responsibility or obligation to make charitable or public donations and to help others. Governments also give economic encouragement or support. There are 1.2 million tax-free charitable foundations in the United States, allocating \$670 billion, or 9% of GDP. In 2016, American charitable donations reached \$29.9 billion, with an average of \$706 per person. In Germany, the government encourages the rich to contribute to public welfare through tax cuts and other means. By establishing charitable funds or donating donations, the rich can not only deduct part of the income tax from donations according to law, and achieve the purpose of tax avoidance according to law, but also improve their visibility, improve their image and get reasonable returns from donations.

III. MICROECONOMIC INCOME DISTRIBUTION MODEL

In the micro aspect, the income distribution model reflects the distribution relations of the proportion of workers' remuneration, the gap between the rich and the poor, the income gap between industries and regions. Its purpose is

to narrow the gap between the rich and the poor and realize the fair and equal distribution of income.

In terms of initial distribution, the proportion of workers' remuneration in national income in major developed countries is relatively large. After the completion of the production stage, workers participate in the initial distribution of the original income in the form of wages and salaries. In developed countries, workers' remuneration accounts for a large proportion of national income. At the beginning of the 21st century, the proportion of workers' remuneration in national income in the United States, Germany and France was about 70%. Japanese and Korean residents' share of workers' remuneration fluctuates considerably, but it is also around 65%.

From the perspective of redistribution, the proportion of residents' disposable income used for consumption in developed countries is relatively high. After the completion of the initial distribution, it enters the stage of income redistribution and forms the disposable income of residents. Most of the disposable income of residents in developed countries is spent on consumption, and the proportion of savings is relatively small, which is closely related to their perfect social security system. Consumption and savings account for 90% and 10% of disposable income in the United States, more than 90% in Britain and Japan, less than 10% in savings, and about 85% in France, Germany and Italy.

From the Gini coefficient, the Gini coefficient of developed countries is lower, all below the international warning line of 0.4. Gini coefficient is the main index to measure the gap between rich and poor or the income gap of residents in a country. The Gini coefficient from developed countries is below the international warning line of 0.4. The Gini coefficient of the United States in 2010 was 0.378. The United Kingdom, Germany, France and other Western European countries are around 0.3.

From the perspective of industry, the wage gap between industries in developed countries is relatively small. Because of the difference of workers' talent and working ability, there is a certain gap in wage level between industries. However, the wage gap between industries needs to be maintained at a relatively reasonable level. If the gap is too large, it will affect the work enthusiasm and economic balance and coordinated development. In 2010, the average wage ratio between the highest and lowest industries in the United States, Germany and the United Kingdom was between 2 and 3 times, while that in Japan and Nordic countries was less than 2 times.

IV. SUGGESTIONS ON ADJUSTING THE RELATIONSHIP OF INCOME DISTRIBUTION IN CHINA

Over the past 30 years of reform and opening up, China's economy has achieved rapid growth, and now it has become the second largest economy in the world. With the development of economy, the income distribution system gradually exposes some of its problems, and presents a more and more serious trend. From the macro level, it can be summarized as the disorder of the initial distribution order

and the imperfection of the redistribution system. From 2010 to 2017, the proportion of disposable income of residents in national income declined from 65.5% to 57.5%, a decrease of 8 percentage points. The proportion of workers' remuneration in the initial distribution of national income dropped by 51.4% to 39.7%, 11 percentage points. In the process of redistribution, China's fiscal and taxation system is imperfect, the function of regulating income distribution is weak, the social security system is imperfect, and redistribution means such as fiscal transfer payment and social security have adverse adjustment effects. At the micro level, the income gap among industries, urban and rural areas, people and regions has been widened significantly. Specifically, the Gini coefficient of China rose from 0.3 in 1980s to 0.465 in 2015, the income gap between urban and rural areas increased from 2.56 times in 1978 to 3.25 times in 2015, and the industry income gap increased from 1.81 times in 1978 to 4.8 times in 2015.

In view of these problems, the basic direction of our national income adjustment is as follows: On the macro aspect. The distribution of social achievements should be properly inclined to the laborers, increase the proportion of laborers in the initial distribution and redistribution, and strive to achieve the common sharing of labor achievements. On the micro level, we should optimize the income distribution model of residents and gradually narrow the income gap between urban and rural areas, regions, industries and strata. The concrete manifestations are as follows:

- Increase the proportion of labor remuneration and residents' income in the national income in the initial distribution. We will improve the guarantee mechanism for workers' remuneration, focusing on the system of wage negotiation and consultation, and decide the form and level of wage distribution by collective democratic consultation between employers and employees. We will improve the macro-control system of wages, implement the provisions of the Labor Law, the Trade Union Law and the Labor Contract Law, constantly enhance the legal concept of operators and promote the implementation of the wage growth mechanism for workers.
- In terms of redistribution, we should accelerate and improve the redistribution adjustment mechanism with tax, social security and transfer payment as the main means, and gradually narrow the income distribution gap among residents. We will increase investment in pension, medical care and unemployment for residents, especially those in need; improve the urban and rural minimum living security system; raise the subsidy level of the central government's subsistence allowance for the central and western regions and the minimum living security expenditure level of local finance; and increase the income of urban and rural low-income people.
- In terms of the third distribution, we should learn from the beneficial experience of major developed

countries, encourage and support the development of philanthropy, and establish and improve the operating mechanism of the third distribution, that is, culture, organization, incentive and supervision mechanism.

- Deepening the reform of income distribution system, we should adopt macro-control measures to effectively adjust the income distribution gap. We should strive to raise the income level of the low-income group, expand the proportion of the middle income group, effectively regulate the excessive income, and gradually form an olive distribution pattern of "two small, medium large", so as to finally achieve common prosperity.

V. CONCLUSION

The paper focuses on the income distribution mechanism in major developed countries from macro and micro levels. On the macro level, developed countries narrow the income gap mainly through initial distribution, redistribution and the third distribution. On the micro level, it is mainly reflected in the following four aspects: the large proportion of workers' remuneration in national income, the high proportion of residents' disposable income used for consumption, the low Gini coefficient and the small wage gap. In view of the increasingly serious trend of China's income distribution system, the basic direction of China's national income adjustment is in the macro-level. The distribution of social achievements should be properly inclined to the laborers; we should increase the proportion of laborers in the initial distribution and redistribution, and strive to achieve the common sharing of labor achievements. On the micro level, we should optimize the income distribution model of residents and gradually narrow the income gap between urban and rural areas, regions, industries and strata.

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