



The Situation of Income and Distribution in Monopoly Industries and the Public Policymaking

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Abstract

Due to its public characteristic and authority background to some extent, monopolizing enterprises can possess limited resources alone so as to amass excess profits and widen social gap in income and distribution by setting up systems such as entering a barrier and restricting competition. August 30th, 2007, China's "anti-monopoly law" first introduced, but the whole law articles working out aiming to solve the unfairness of income and distribution in monopoly industry are still full of shortcomings. On this basis, this paper analyses the formulation of relevant public polices from the angle of both administrative as well as economic means.

Keywords: Administrative monopoly, Income and distribution gap, Anti-monopoly law, Administrative monopoly, Economic monopoly

1. Introduction

In China, the traditional socialist public ownership is that state controls economic lifeline. Meanwhile, the infrastructures are generally obliged to be invested by authority because of the characteristics of a long life cycle, and slow return by investment, thus from which derived natural monopoly industries such as coal, electricity, oil, transportation and so on. Since the early 1990s, with a planned economy shifting to a market-oriented mechanism, some monopoly enterprises are gradually entering the middle stage of reform, and at the same time enjoying the benefits of both systems, forming dual features as "chasing economic profits" and "administrative monopoly". Unreasonable primary distribution as well as a lack of intensity and fairness at the second time makes the income and distribution in monopoly sectors have huge superiority when compared to the other industries, causing certain social problems. Moreover, the relevant laws promulgated, like the "decade of pregnancy," are still full of defects after arduous birth.

2. Grand feast for "twelve rich and powerful families" - the status and characteristics of income and distribution in monopoly industries

2.1 Excess profit

From the information published by State Assets Committee, 40 state-owned monopolizing enterprises have divided 95% of 600 billion RMB equally, which is tantamount to the amount of 169 Central authority enterprises' profits; Among them, the "twelve rich and powerful families" (such as China Mobile Communications Corporation, China national petroleum corporation, China petroleum chemical corporation, China national offshore oil corp., ect. twelve far-ahead enterprises) have completely swept away 78.8% of the total profits of Central authority enterprises. (Shan, Dong, 2007)

According to the economist Wyss' concluding observation, "a considerable amount of research indicates that from different historical periods for the longitudinal study, the higher marginal rate which is under the higher concentration has relatively stability."(Qi, Yudong, 2007) State-owned economy, itself, is a kind of "owner shortage" economy to a great extent, and monopoly industries have a certain degree of public nature and power background. Exactly because of this, monopolizing enterprises can sustain high profits by possessing the critical resources alone, or having been granted by the government to produce exclusively.

2.2 Excess distribution

The data from National Bureau of Statistics of China showed that at present the average wage in the electric power, telecommunications, finance, insurance, water and power supply, tobacco industries is 2 to 3 times of that in the other industries, and if coupled with the off-payroll income and benefit, the real disparity gap is possibly between 5 to 10 times. (WWW.PEOPLE.COM.CN, 2007) However in fact, the distribution of monopolies is not entirely equivalent to the commercial viability of the enterprises. In their compensation systems, side money, namely monopoly welfare is precisely the main form in which monopoly profits transform into personal income. Relying on the administrative authority, they transfer this kind of national usufruct, which is obviously contrary to the interests of society.

2.3 Pseudo-market

2.3.1 Non-opening environment – setting up market access barrier and restricting competition

The fundamental characteristic of market economy is competition. However, In China, a complete, fair and reasonable market has not formed yet so that the specific monopoly economy is the result of administrative power rather than market development. Absolutely, by using the administrative power and resources, monopoly sectors enact unreasonable market access policy to repel competitors and maintain monopoly position under the mask of declaring to regulate unfair competition. For instance, the Postal sector revised 8th draft for "Postal Law" in that "the business of delivering letters within 150 grams should be franchised to the sector itself only " in September, 2006. (WWW.ZGJRW.COM, 2006) Apart from blocking off the access, the measure of intervention is also visible in practice. Once at a disadvantage when competing with private enterprises, monopolies will make good use of their inherent superiority to force the competitors out of market.

2.3.2 Inefficient market – state subsidies and egalitarian practice

As price mechanism's vital component, the compensation disparity plays function of inducting and optimizing labor resources. In addition, this rule is available on one premise that compensation as the price of labor is a function of productive efficiency. That is to say, high salary is directly proportional to high efficiency and it should be approved as one sector's high labor value by society. (Luo, Biliang, 2006)

Facts seem to violate this rule none the less. First, take State Grid Corporation of China for example, who is well known for its' high compensation system, the total ROI is only 2.63%. (Shi, Jingtao, 2006) Besides, China Petroleum & Chemical Corporation made up the losses with subsidies (up to 15 billion RMB) by Ministry of Finance from 2005 to 2006. As an old saying goes - "good shade under big trees", personal incomes were ready to rise instead of declining in these loss-generating enterprises. So it is not difficult to tell which factor contributes more to profitability in monopolies, early-development advantage, right timing and right place, or simply starting from scratch. Second, there's no doubt that it is criticized by the public that monopolies match low service and operating efficiency with high wages and benefits when shifting in roles from quasi-public product provider to staff benefit spokesman. Because of prevalently internal egalitarianism, staff income level not only deviates from but also far higher than labor market price. (Hu, Jingbo & Li, Li, 2002) A considerable trifle can be seen as the tip of the iceberg. On June 2006, as soon as one article exposed the fact that the most common staff gained 100,000 RMB annual salaries in power plant", it aroused strong reaction in society. Market division results in homogeneous labor force with discrepant income, which will definitely widen rich- poor gap and accelerate polarization.

2.3.3 Unclear position – government-industry alliance

Existence is identical in the interests between government sectors and monopoly enterprises, on basis of which they are in league together through marriage, making the government as a "participant" instead of "supervision". To conjure up the whole thing through seeing part of it, take increase in price after public hearing and preferential policies such as tax support for example, monopolies don't have to obey the famous "zero profit theorem" so that consumers can only passively accept unilateral fixed pricing. Once the so-called meager profits and deficit generated, the means of price hike at the expense of social benefits to make up for the economic gap would be prevalently used. Only if government changed the vague position to separate government functions from enterprise management and have public participate in political affairs sufficiently, can we regulate the indispensable mechanism in monopoly industries.

3. Backtracking of "anti-monopoly law" promulgated course within 13 years

The harm brought by the formation and expansion of income and distribution disparity should not be underestimated. For example, it might increase industry operating cost and affect industry competitiveness; It might damage public benefit and impact on industry image and service quality; It might aggravate income inequality and influence social stability ; It might lead to corruption and hinder social progress; Meanwhile, it might over-exploit resources in order to grab quick money. As the root of its malformation owes to the structure, system reform and legislation improvement are inevitable.

In China, since "anti-monopoly law" was included in National People's Congress (NPC) legislation agenda in 1994, it was not until on June 24th 2006 that the draft got first submitted to the Tenth NPC at the 22nd session, and adopted at the 29th session of the Tenth NPC after third-time review on August 30th 2007 finally. All impossibly, any law can embody the interests of a particular group, but is the result of balancing. Having experienced arduous birth for thirteen years, the dispute as well as obstruction among the latent old pattern of interests is obviously a fierce battle. The appearing new law aims at protecting social and public interests and preventing invulnerable group from abuse of authority(Lin, Zhiyuan, 2006), however, it would be idealistic as accomplishing the whole task at one stroke if only depending on such a unperfected law to clear up all the barriers.

Although according to article 37, it is said that "Administrative power shall not abuse administrative power to stipulate

regulations including contents to eliminate or restrict competition", (Xinhua News, 2007) in fact the administrative monopoly has not been included in the category of anti-monopoly genuinely. Unfortunately, there isn't any single word mentioned about the transaction limit caused by administrative examination and approval as well as the competition deficiency brought by high access threshold. Furthermore, the definition of "abuse of administrative power" is only limited to discrimination against commodity operators and regions. Likewise, state-owned economy dominant in national economy lifeline and national security is excluded from the scope of anti-monopoly. As far as price manipulation is concerned, it lacks rigorously defined stipulation. (Shen, Minggao, 2007)

In a word, from the unsolved key aspects above – specifically, the environment of competition, the definition of object, the scope of legislation and the control of price, we can see that there isn't a clear line between administrative and market decentralization yet for the new law maintains the fixed pattern of interests to some extent rather than adjust to the reform direction.

4. Relevant public policymaking

The economist Hong Sheng once suggested that "Competition comes after non-monopoly, similarly regulation along with non-competition. Therefore, the best way to counter monopoly is creating its competitor. And the government shouldn't involve in regulation unless there is competitor in natural monopoly industry." (Xu, Zhibo, 2007) As has been noted, monopoly industries should establish a framework giving first place to competitive market with state regulation as auxiliary to reduce improper intervention in resource allocation and market distribution. In other words, if enterprise chooses to pursue profits only, the government ought to fully liberalize market and give away to its judgment in the survival of the fittest; On the contrary, if it determines to keep the monopoly status, public responsibility should be undertaken as a payback of possessing resources.

In reality, monopolistic business and competitive business coexist in monopoly industrial chain. Consequently, the two indispensable control devices, namely administration and economy should be taken into account together in the advancing reform.

4.1 Direct management – administrative method

4.1.1 Supplement of "anti-monopoly law" - detailed rules and industrial regulations

There's still a long way to go for achieving perfection as a result of apparent shortcomings in the newly introduced law. Take, for instance, the unclear legislative purpose, the unestablished subject of investigation and sanction, the exclusion of transitional enterprises from anti-monopoly scope, and the preservation of old authority pattern are obstacles urged to be settled in the coming rules. Besides, each monopoly industry is short of sound laws and regulations – Gas and tap water industries with local laws and regulations only are cases in point. (Wang, Junhao, 2001) Consequently, we should speed up the overall legislative process.

4.1.2 Establishment of market mechanism

The establishment of market mechanism is conducive to the formation of market-oriented price. For the sake of promoting open and fair environment and cultivating new competitive entities, we ought to break the element pattern of interests, lower market access threshold, and support the successors in policies. Equally important, for the first participants, business division and regional segmentation are proposed to weaken their monopoly influence.

4.1.3 Improvement of financial monitoring mode

From the macroscopic management system, monopolies have rights to dispose of state-owned capital gains freely. Thus it is essential to establish the pertinent collection system lest problems of information asymmetry and opaqueness should happen. At the same time, to avoid unreasonably disordered growth, monopoly income should be in the charge of dual control, that is, gross payroll as well as wage level, among which "Sunshine Project" is applied to monitoring the monopoly welfare.

4.1.4 Corporate governance

From the microcosmic enterprise level, implement of share reform is beneficial to separate property right from operation power. And according to Fromm's expectation theory and J.S.Adams' fairness theory, reward – capacity payment management mechanism should be established so as to introduce sufficient competition applying for inner positions.

4.1.5 Participation of third party and the public

Since there's a close relationship between anti-monopoly agencies and monopoly branches in China, according to Stigler's "capture theory of regulation", the government regulatory agencies have actually become captured volunteers. (Chen, Yan & Tian, Tian,2006) Therefore, to clear the supervision main body and improve the regulatory system is still far from enough, in this way, we should attach great importance to the participation of third party (for example special field consumer organization) as well as the public in management. Particularly hearing system needs gauging so that it

is truly worthy of the reputation.

4.2 Indirect management – economic method

4.2.1 Collection of anti-profiteering tax

Economist Ota Sik once proposed that monopoly margin is the decisive sign of macro-monopoly, and the national economy margin is a decisive standard to verify monopoly margin. (Qi,Yudong,2007) Thus, based on the national economy margin level as lower limit, whenever monopoly margin continuously exceeds upper limit of profit rate for a certain years, anti-profiteering tax is charged to control fairness. However, it is noted that as the "invisible hand" government should forewarn and forbidden monopolizing enterprises to pass the burden to consumers which will fall into the "raising the price once again" strange circle otherwise.

4.2.2 Establishment and improvement of a social security system

In August 2007, Shandong province government promulgated one notice as to balance the price inflation and cost-of-living especially for the low-income group, in which stated that "system will be built up after study according to law, to be exact, excessive profits through raising the price in monopoly or resource limited industries, or even in the light of policies should be extracted as special funds of price adjustment, meanwhile the government will centralize partial financial resource to be earmarked for low-income populace and disadvantaged industries which are more greatly influenced by price reform in means of subsidies as well as relevant controls. " (WWW.PEOPLE.COM.CN, 2007)

However, there are still some perplexities. For example, how to extract in practice, what the reasonable extraction ratio is, whether raising the price will happen again after extraction, besides these, the most important one is that the high monopoly profits come from numerous common people but the subsidies are only direct to a small number of low-income groups. Although there is indeed a objective reason of huge population leading to poor supply, fairness has no way to embody sufficiently. The income and distribution gap problem can't be solved only depending on "robbing the rich to feed the poor" way, and the dreaming balance can't get achieved simply relying on monetary plus-minus method either. As the vital means to adjust income and distribution disparity, social security system with establishment and improvement is relatively more rational and feasible to settle the low-income groups' situation.

5. Conclusion

Drawing on the analysis above, it is clear that the focal point of solving the disparity problem should be separating administrative functions from enterprise management so that a newly-organized pattern of interests will be appearing. Consequently appealing for more specific and explicit articles as well as relevant laws is definitely essential. As Rome was not built in a day, the process of laying down adequate rules and regulations is generally long-lasting and full of hardships. In this way, economic methods ought to be taken into consideration simultaneously.

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