

DISCUSSION THE RELATIONSHIP OF THE FACTORS OF PRODUCTION AND INCOME DISTRIBUTION BETWEEN TAIWAN AND CHINA

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—Abstract —

This study discusses the relationship of the factors of production and income distribution between Taiwan and China. Both of Taiwan and China increasingly tend to privatize on labor, land, and capital. It is much more serious that the factors of production only gather on minority. Then definitely the distribution of output is much more unreasonable. It still exists differences on the unreasonable distribution of labor, land, and capital, due to the different environment of Cross-Strait (Taiwan and China) society.

Besides, in the tax system of income redistribution, both Taiwan and China have the same situation that people, who have low income, burden with highly real tax; whereas those who have high income burden with low real tax. This situation deepens unreasonable distribution of income. In the issue of promoting reasonable distribution of income, the Cross-Strait policies can be reference, and work hard to create an average and affluent society together. Not only can achieve the ideal socialism (average) but also satisfy the purpose of market economy (affluence).

Key Words: *The Factors of Production, Income Distribution, Cross-Strait (Taiwan and China)*

JEL Classification: H30

1. PREFACE

The basis of gaining income is based on owning factors of production. Therefore, the reasonable distribution of factors of production is a first step to build a reasonable distribution of income. In this kind of concept, this study discusses the relationship of the factors of production and income distribution between Taiwan and China.

2. THE LEGISLATIVE REGULATIONS OF FACTORS OF PRODUCTION BETWEEN TAIWAN AND CHINA

2.1. China

2.1.1. Labor

From regulations of law (According to the article of 46 of the Constitution of People's Republic of China and the article of 36 of the Education Act of Republic), the investment of human capital is the even opportunity of education to citizens in China. In fact, it exists uneven education problems in different areas, groups, urban and rural because it exists not only giant gap between supply and demand of educational resources but some old policies.

Furthermore, the right of residence for those citizens cannot be guaranteed because of the unique Household Registration System in China, thereby existing unequal opportunities of employment.

2.1.2. Land and Natural Resources

Although land and natural resources belong to government and all citizens in regulations (The article of 9 and 10 of the Constitution), it exists a policy to regulate the right of the useful year of land. Hence, some part of land, real estate, and mineral resources can be transferred. It causes the redistribution of income due to sharply increasing price of real estate and natural resources. Then it finally enhances social gap between rich and poor.

2.1.3. Capital

China carries out socialism, and it does not have any regulations about capital in Constitution. However, after reform and open, government positively carries out economic marketization, and gradually open non-public economy. Then it lets private capital have a great accumulation.

2.2. Taiwan

2.2.1. Labor

In the Constitution (Article of 159 to 163 of the Constitution of Republic of China, and the article of 2 of the National Education Act) and Educational Basis Acts' article of four, the investment of human capital is so-called even opportunities of education. However, in the situation of high tuition, income has become an essential factor of influence education opportunities. After tuition tends to freedom and deregulation, it will have more children, who are in the backward family, in the disadvantageous position to the opportunities of human investment. (Huang, 1998: 148)

2.2.2. Land and Natural Resources

We can know that land and natural resources belong to citizens in the Constitution article of 143. People acquire the owning right of land; then definitely it will have limitation. It not only has Land Value Tax, Land Value Increment Tax but also can levy or buy it at the same price if it is necessary. Therefore, land and natural resources are not as common commodities.

However, land and natural resources are viewed as common commodities in Taiwan's current situation. Furthermore, they are also capitalization and securitization. People are seen land as an investment target, which lets land and natural resources lose its subjectivity.

2.2.3. Capital

According to the Constitution of 142, national economy should be Livelihood as a basis, implements the equalization of land rights, and restrict capital in order to achieve the equalization of livelihood. However, due to the theory of free market economy, the capital is encouraged to have accumulation of private capital instead of restriction it.

3. THE CONTRIBUTION OF ENTERPRISES' FINAL OUTPUT BY EVERY FACTORS OF PRODUCTION

3.1. China

We can be viewed wages income as the reward of human resource input. The family operating income is seen as individual operating reward. The property income is thought of as fixed assets such as real estate, natural resources, and securities. Moreover, the transfer income is considered a part of capital which was transferred to residents by government. The revenue structure did not change greatly from 2001 to 2007 to those residents in China's downtown. Wages income which is still a main subject has trend of decline. However, the family operating income and property income increase. From the statistics, we can find that the family operating income increases from 3.99% to 6.31% and the family property income increases from 1.96% to 2.34%. The transfer income maintains in 22% to 23% (The informational resource from National Bureau of Statistics of China-The Yearbook of China Statistics 2001 to 2008).

3.2. Taiwan

The result of final output can be allotted by contribution of every factor of production. The allotted types can be divided into four parts. First, the investment of human resource is viewed as the employees' reward. Next, the investment of fixed assets is rent. Then the capital investment is interests, and the enterprises' reward. To Taiwan, labor reward which accounts for 52.4% is the largest in the net value-added factors of production in industry and commerce. It declines 5.8 percents comparing to 58.2% in 2001. The enterprises' reward which accounts for 41.6% ranks in second, and it increases 8.6 percents comparing to 33.0% in 2001. The ratio of rent increases slightly to 4.6%. Nevertheless, interests expenditure declines sharply to 1.5% because of the decline of the interest rate, varieties of enterprises' financing tools, and the flexibility of capital scheduling. Hence, we can obviously find that the labor reward declines and the enterprises' reward increases. Both of them present the variation from the value-added which is created by industry and commerce and allotted to every factor of production (The summary analysis of preliminary result of commerce and service census in 2006).

4. THE DIFFERENCES OF INCOME SOURCES AND TAX BURDEN FROM PEOPLE WHO HAVE HIGH AND LOW INCOME

4.1. China

4.1.1. The Differences of Income Sources from Those Who Have High Income and Low Income

According to living and price of China's cities and towns of the yearbook in 2008, wages income presents in the shape of high in the middle and low on both sides. It means that the ratio of wages income is less on high and low income family; whereas middle income is large. The family operating income has characters of low in the middle and high on the both sides. It means that the fraction between high income and low income is large; however, the middle income is small. In the aspect of property income, we can know that the higher property income that household earned, the larger proportion is. Relatively, the lower property income that household earned, the smaller proportion is.

4.1.2. The Heavy Real Tax Burden on Those Who Have Low Income

(1) The Limitation Adjustment Effect of Direct Tax

Although Wages and Salaries Income Tax which is an Individual Income Tax belong to progressive tax, the proportion which wages and salaries account for income is less to those who have high income from different groups' income factors. Then the adjustment effect of individual income is less.

In fact, the high-income group burden with Enterprise Income Tax in part of income such as direct investment of company. However, we should pay attention to one thing. Most of the entrepreneurs will remain some part of earnings in the enterprises or transfer it in the form of tax avoidance through other wages and salaries. Briefly, the Individual Income Tax has become a veritable Payroll Tax due to Wages and Salaries Income tax which is withheld by enterprises. However, the high-income groups have light tax burden due to varieties of income factors.

(2) The Indirect Tax Has the Regressive Effect

According to the information from the State Administration of Taxation (<http://www.chinatax.gov.cn/n8136506/n8136593/n8137633/n8138817/8224304.html>), Value-added Tax is more than the sum of Enterprise Income Tax and Individual Income Tax. Hence, the main source of tax revenue is from indirect tax.

It does not have obvious influence on the adjustment effect of income distribution due to the small scale of direct tax. At the same time, the great amount of indirect tax will cause the regressive effect which has benefit on high-income groups instead of low-income groups. People who have low income have higher marginal propensity to consume, and their income are utilized to consume in majority. Then they also undertake the tax burden during the process of consumption.

4.2. Taiwan

4.2.1. The Differences of Income Sources from Those Who Have High Income and Low Income

According to the Individual Income Tax Brackets in 2007, we can find that Salaries and Wages gather on low income hierarchy, whereas Income from Capital gathers on high income hierarchy, especially the Income from Dividends (According to the Ministry of Finance's Yearbook of Tax Statistics 2007 of graph 106 and the Yearbook of Financial Statistics 2009 of graph 3-11).

4.2.2. Tax Burden of High and Low Income

(1) The Low Real Tax Burden on Those Who Have High Income

We can find that source of Individual Income Tax has 70% of Salaries and Wages by observing categories of Individual Income Tax accounting for total income from 1995 to 2007. Income from Capital (It is mainly Income from Interest, Profit-seeking, Dividends, Lease and Royalties, and Property Transactions) is only 20%. Furthermore, Interest Income annually declines and Income from Dividends annually increases

(2) The Low Real Tax Burden on Those High Profits of Profit-seeking Enterprise

According to the profit-seeking enterprise annual income tax information in 2004, the proportion amount of firms which applied the tax exemption of Statue for upgrading Industry increases as annual income. The ratio of applied statue for upgrading industry is nearly 46% to those firms which earn nearly five hundred million or over five hundred million (Article that involved in Taiwan use New Taiwan dollars as a unit).

The total profit for those firms which earn nearly five hundred million or over five hundred million accounting for the whole firms' total profit is 61.80%, and its tax payable accounting for overall firms' is 62.22%. Both of them are similar. However, the real proportion tax payment is only 45.71% because the total

deduction is 86.03%. Thus, the total tax payable and real tax payment have difference of 16.51%. (Yang, 2007:22)

Seriously, it has 63 firms whose real tax payment of profit-seeking enterprise income is zero in the one thousandth of firms which have highest income (earn nearly five hundred million or over five hundred million in the whole year) because of the regulations of Statue for Upgrading Industry and those tax exemption.

5. CONCLUSION AND SUGGESTIONS

5.1. China

5.1.1. The Regulation of Factors of Production

(1) Gradually Open the Household Registration System

Citizens do not have equal citizenship due to the current Household Registration System in China. This causes problem of uneven distribution of labor at first, especially education and employment. Therefore, the Household Registration System should gradually open, and cannot have the relation between civil authority and household. Then government needs to erase the uneven distribution of labor and gradually create the fair opportunities of education and employment (Chang, 2011).

(2) Controlling the Increasing Price of Assets

Real estate, land, and mineral resources are important factors of production, and its limitation of investment is high. Therefore, those things gather on those who have high income instead of those who have low income. The social income is much more uneven distribution due to the increasing price of assets. Then definitely the society is much more unequal than before.

5.1.2. The Revolution of Tax System

(1) The improvement of Property Tax

Currently, the levy scale of Real Estate Tax is narrow and the tax rate is low. The minority of real estate are levied. Government should consider that expand the scale of levy and increase real estate's tax rate.

(2) Lower Down the Tax Burden of Individual Income Tax

It has many methods for those who have high income to avoid tax. Therefore, Individual Income Tax has become Payroll Tax in reality, which is from the majority of wages hierarchy.

(3) Promotion the Consumption Tax of High-quality Goods

When we decline the individual tax burden, we should promote the Consumption Tax of high-quality goods because those who have low income cannot buy those products.

5.2. Taiwan

5.2.1. The Regulation of factors of production

If we want to distribute the factor of labor reasonably, the important point is the even investment opportunities of human capital. Human capital is an important factor to decide whether you have professional technique or not in the post-industrial society. Therefore, it should not have different opportunities of education and employment training due to the different income.

In the aspect of land, people can own lands based on the necessary of agriculture, industry, commerce and living. Hence, people's basis necessary should be assurance, and cannot be complete private-owned. (Huang, 1994: 28-29)

We should enhance the national's capital and restrict private capital to solve the exploitation problems of capital. Government should manage those monopolistic and over scale enterprises in order to avoid controlling citizens by private capital. Furthermore, government restricts the private capital indirectly by the methods of implementing labor insurance, and encouraging labor union. In the tax system, we need to utilize progressive tax to levy capitalists' Estate Tax and Income Tax to avoid endless capital accumulation.

5.2.2. The contribution proportion of final output to enterprises by every factor of production

(1) Revolution of Company Act

The first task is to change the structure of reward from the authority of shareholder to the stakeholder. If all of stakeholders have representatives in this structure, the success of companies will gain long-run profits. Furthermore, it also has work's temptation which works hard toward success. (Perkin, 1996: 202-218)

(2) The Fair Distribution of rewards to all stakeholders

Everyone should share company's profit as ratio. Every employee should acquire rewards as proportion because they contribute the company's profit.

(3) Giving the high rewards to those long-run stakeholders

If shareholders have perspectives of fixed revenue and steady growth for assurance, and are encouraged to be a long-run designation instead of stock's price in the monitor, they will become a real stakeholder and concern about company's long-run prospects.

5.2.3. The Source of Income and the Tax Burden of Those Who Have High and Low Income

(1) Tax Rate is not an Important Element to Influence Economic Growth

The social relationship among people is the key to enhance social productivity and economic growth. The capital investment model of intravenous injection(Block, 1990: 152) is an excuse for those professional elites (professional managers of cross-border companies and government officials) to reasonable the uneven poor and rich. Therefore, professional elites reject the redistribution tax system. Although decline the tax to those who have high income and those profit-seeking enterprises which have high profit does not conform with everyone's expectation in the society, it takes for granted. Hence, we should increase the tax rate instead of continuous decline it in the Taiwan's current tax system. Moreover, we also can promote the fair income distribution by adopting redistribution tax system. Then the economy will grow up as well as the productivity.

(2) The Fair and Reasonable Tax Burden

If tax burden is concentrated on those who have middle or low salaries and wages, the result always deepens cracks of social relationship. The key to promote productivity is promote the fair and reasonable tax burden which cancel the tax exemption to those who have high income and those profit-seeking enterprises which have high profit.

5.3. Comparison of Cross-Strait

There are some parts that China should learn from Taiwan as follows. First, China's government should gradually open the Household Registration System in order to achieve the fair opportunities of employment and education, and promote

the reasonable distribution of labor reward. Second, they should implement Estate Tax. It not only prevents endless capital accumulation but have the effect of income redistribution. Third, they should carry out Real Estate Tax which not only can gain fiscal revenue but promote reasonable income distribution. Besides China, there are some aspects that Taiwan would learn from China. First, enhance national capital and restrict private capital. If we did not do this action, it will cause unreasonable income distribution because capital is over privatization. Second, expand the tax base, and increase tax rate. Adopting redistribution tax system not only can promote the fair income distribution but results in economic growth. Third, we should depend on the people's necessary to distribute land. After all, it will deepen the unreasonable income distribution due to over privatization of land.

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