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Take the Problem of Social Cost into Account in the Process of Establishing Harmonious Society

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Abstract: During the process of building a well off society in an all-round way, establishing socialistic harmonious society is one of China's important strategies. Social equity is the basic value orientation of harmonious society. Social cost is the sum of private cost and external cost. The focal point of social cost theory study is the internalization of external cost. When establishing harmonious society, the split and compensation of social cost should be taken into account. At the present stage, firstly, we should strengthen control of total social cost so as to avoid resource waste, and enhance the quality and efficiency of economic development Secondly, expediting the establishment of law and regulations concerning about property right. It's also an important phase of regurgitation feeding to undertakers of social cost during transformation at the present level of economic development.

Key words: harmonious society; social cost; cost split; cost compensation

Establishing socialistic harmonious society is one of China's important strategies. The proposition of the object makes the object of social development clearer and more concrete. Harmonious society is described differently, but its basic content is the same, viz. democracy and monarchy, equity and justice, faith and friendship, full of energy, stability and orderly and people getting well with nature, i.e. forming a sort of social situation which is developmental, stable, orderly and healthy .The propose of harmonious society indicates that social equity is becoming more important in the process of the development of an

economic society. It also shows that on the premise of developing firstly, we have paid more attention to the harmony of total society so as to promote the continuance and circulation of an economic society, ensure well run of the society. In 1994, rational choice mathematician Peter G, Fishburn had pointed that social risk is dependent on the opinion about inequity of social members. The essence of establishing harmonious society is promoting social equity continuously. When the problem of social equity becomes visible, it means the social risk increases, what certainly will affect establishment of harmonious society. At present, such unfair feeling mostly comes from the enlargement of income differential. The academe has got considerable scale achievement on the analysis of the reason for the enlargement of income differential and policy advice on solving the problem, but the problem is still serious. In order to solve the problem, I think we have to see clearly about a problem, which concerns to social cost. The main reason for inequity is social cost undertaken by different microcosmic subject and his income isn't symmetrical. Once we make every microcosmic subject get some when lose some on the premise of development, the income differential may become smaller and social equity can be rebuilt on the basis of priority of efficiency, thus, necessary condition will be supplied for the establishment of harmonious society.

I. Social Cost: General Theoretical Analysis

Social cost was first proposed by famous economist A,C,Pigou when analyzing external violation. After this, R,H,Coase had more detailed discuss on social cost in his famous published paper "The problem of social cost". He not only kept to the category of externality, but gave more analysis on the mutuality of social cost, viz. "avoid doing harm to the second will do harm to the first".^[1] Though the two had different opinion on the mutuality of social cost, but they had the same point of view: social cost came from existence of externality. On condition of no externality, private cost was total cost of product, private cost equaled to social cost, actually, concept of social cost was not existent at this point. So in the "New Palgrave economics dictionary" social cost is depicted: "The meanings of social cost is very simple: when somebody does something, he is not charged with entire expense or receive entire benefit, what he undertakes is called private cost, the part he doesn't undertake is caller external cost, the sum of them is social cost."^[2](VOL4.P421) The definition has already explained accurately about what is social cost, but it still doesn't avoid the difficulty in adding individual cost .So the writer of this lemma J,De V,Graaff pointed out preciously in the end "the discussion on social cost(involve appropriately in trading cost)hasn't be expanded sufficiently ,because of such situation and the involved adding problem, we must be very cautious using this notion."^[3](VOL4.P423). Though 20 years has passed, no one has done better job than Coase on the research of

social cost. Before applying social cost formally, some explanations must be stressed: the paper accepts the definition: social cost equals to the sum of private cost and external cost. Then, the paper doesn't study the gross social cost specifically, only about the individual social cost, namely avoid the difficulty in adding individual cost. Last, the paper mainly studies the problem of splitting and compensating cost on economic unity.

II. The Split and Compensation of Social Cost: Using Present China as Background for Analysis

1. Basic analysis of the split and compensation of social cost

In the realistic economy, assume that pure competition and zero trading cost are unrealistic, and externality should be existent. Under this hypothesis, let us give specific discussion on social cost. The concreteness of social cost mainly includes two part: (1) natural cost during production, like consumption of raw materials, operating expenses, distribution expenses, namely private cost in narrow sense. (2) External cost, viz. cost caused by externality of production and operating activities, which includes consumption of natural resource, damage to environment, influence to economic situation, infection to system environment and so on. By depicting the split and compensation of social cost specifically, we can see that the split and compensation of social cost is mainly the split and compensation of external cost. As a matter of fact, the essence of Coase's social cost theory was also talking about how to solve the problem of externality.

Production of public goods and private goods basically covers the entire economic activities on macro lay, so the social cost of public and private goods makes up the total social cost of entire economic activities. Because of different characteristics of public goods and private goods, the way to split and compensate social cost is different, too. Take pure public goods for example, because its complete noncompetitive and nonexcludability, it has positive externality to each consumer, government takes on social cost, other economic entity splits the cost in an indirect and fair way. The aim of split and compensation of external cost is to promote social equity, on the basis of characteristics of pure public goods, which split cost automatically, and fairly, our study stress turns to quasi-public goods and private goods. Considering length of the paper, we use prominent problem happened to China at present as an instance to study. We use the experience of a selected spot to promote the work in the entire area.

2. The split and compensation of social cost: take the prominent problem of present China for example

Let's talk about quasi-public goods, education, medical treatment and sanitation are the typical in present China. Split social cost of quasi-public goods includes two layers of split: (1) both government and consumer of quasi-public goods take on the cost, so it helps to

relieve the pressure of government and improve the development of industry. (2) Split cost among consumers in different weighing according to distinct consumer demand and paying capacity. Compensate consumers who are in need but not having sufficient paying capacity so as to form social equity. Educational cost means, "direct and indirect educational fee paid in the course of getting education". At present in our country, educational cost is mainly shared between government and individual consumer; they have sort of more or less relationship. The invested amount and direction of government determine educational quality of the area and educational level of resident to a great extent. Ratio of government investment on basic education is increasing all the time, but the investment structure is not well enough. Government invest more in city than in country, according to the statistic of related department, in the five years from 1995 to 1999, the national compulsory educational investment was ¥ 694.4 billion, local government had invested ¥ 371.3 billion (not include normal financial transfer payment), additional educational fee was ¥ 96.5 billion, raising money in country is ¥ 59.6 billion, incidental fee is ¥ 63.1 billion, the rest is ¥ 103.9 billion, nearly half of compulsory educational investment was bared by farmers. Obviously farmers who are in relatively low income level partake comparatively higher educational cost than citizens, the ratio of educational cost split between city and country is not rational; besides once the low income resident give up getting education, they will take on another sort of indirect cost: opportunity cost. There out educational social cost is increased. A fair mode of splitting educational cost should promote the diversity of cost split; the government should reinforce its investment in compulsory education and low-income area and its residents.

The current situation of splitting medical treatment and sanitation cost is a bit different from that of education. On the one hand, free medicate system and a labor-protection medical care system supplied better medical service mostly for government employees and their family, veterans, educators, college students and employees of state-owned enterprise and their family, so they shared less cost; on the other hand since the great mass of medical sanitation resource concentrate in cities especially big cities, private medical cost is special high for most country residents because of far way and no other channels to split medical fee. The irrationality of splitting cost is one obvious reason for the enlargement of income differential, meanwhile it is also the main unstabilizing factor leading to social conflict and affecting social injustice. Along with aging population, income increase and transformation from contagion to chronic, the problem of splitting cost becomes more prominent as the medical need grows. (World Bank, 1993)

Let's talk about social cost of private goods next. The production, distribution, exchange, consumption of private goods are done strictly following the train of property right, every ache is carried out strictly following principle of equivalent exchange. Take

production of clothes for example, manufacturer gain raw materials according to principle of equivalent exchange, and consumer should also follow it in order to buy clothes. But the purchase of whole raw materials and distribution of clothes are priced according to private cost of suppliers of raw materials and clothes manufactures, the external cost in the whole process is not put into consideration, such external cost is the typical environmental cost. The problem is especially prominent in our country, in the pursuit of higher profit, some manufactures discharge pollution without cleaning treatment, so the environment has been destroyed seriously and environment and people's health and life have been threatened badly. On the situation of breaking the rule actively or not instituting the rule properly, environmental cost of manufacturers would pass on to all social members unconditionally, and it's an obviously illogical social cost split. Though such situation has been improved a bit, but the problem is still serious and the environmental equity problem is becoming the concerned focus.

III. Harmonious society and social equity: symmetric optimization of social cost split and welfare distribution

1. Harmonious society, social equity and social cost

The raise of establishing harmonious society means our target is pursuit of higher quality and harmoniously developed social situation. Enlargement of income and welfare distribution differential among city and country, different areas, morbidity of social security system, disequilibrium distribution of educational and medical treatment and sanitation resource, all of which will bring serious restrict to the realization of harmonious society. What the harmonious society request is satisfaction of legitimate interest of different population. Forming a sort of social condition where economical, political and correlative rights get guaranteed, so the society may have the stable run basis. All the realization of these rights must go through the proper approach, viz. avoidance of destroying equity no matter in the process or in the result. We should use valid regulations to restrict it when such kind of behavior happens.

Social equity is the basic value orientation in harmonious society, its basic content not only includes opportunity equity, regulation equity, but also comprises basic rights like political equity, educational equity, judicial equity, medical treatment and sanitation equity, environmental equity social security equity and so on.. What it maintains is the spiritual value including political value, cultural value, and ethical value besides economical value. ^[5](P65) The essence of it is to ensure fair and complete development of all the people. The split and compensation of social cost is obviously the basic premises and condition to realize such value goal, we have analyzed the importance of educational, medical treatment and sanitation, environmental cost split combining with present situation in our country.

Whether the split and compensation of social cost is rational directly influence the realization of social equity and establishment of harmonious society.

2. Symmetric optimization of social cost split and welfare distribution

The reason for the differ in personal benefit and cost with social benefit and cost is the existence of externality, the focal point of the split and compensation of social cost is the split and compensation of external cost. One of specific solution was proposed by Pigou in 1932, it suggested proper government intervention. But in 1960 Coase criticized Pigou's "governmental key" in "The problem of social cost", he thought Pareto optimality could reach by argy-bargy of both sides without government intervention. Though Coase had raised an idea of arrangement of property right and pointed the deficiency of Pigou's "governmental key", but until now, proper government intervention has been necessary means to adjust economical operation, and deficiency of Pigou's "governmental key" can be avoided in the real economic condition. Just as Coase said " On the premises of improving decision respectively, when choosing every kind of social structure, we should memorize that the change of some decision improving existing institution may lead to deterioration of other decisions. Besides, we must take running cost of every kind of social structure and cost of turning into a new institution into consideration (no matter it's market mechanism or government regulatory mechanism). We should consider the total effect in designing and selecting social structure. This is the change of method I advocate." The reason for changing the method is the reciprocity of analyzing problem; viz. avoiding damaging the second may damage the first. "The real problem to decide is whether to permit the first to damage the second or permit the second to damage the first? The key is to avoid more serious damage. Enforcing management or improving institution can proceed on the premises of avoiding more serious damage; despite it's a bit hard to control the scale. So we think proper government intervention and efficient arrangement of property right are the two basic traits of thought in solving the split and compensation of social cost.

(1) Control of total social cost. Although it is hard to estimate the amount of total social cost, but we didn't have to know it. We can control the total social cost by indirect control of private cost or external cost generated in the economical activities. Gross control is the basic premise of splitting and compensating social cost and basic demand of sustainable and recycling economic development. Or just for the sake of splitting social cost equally, a number of institution or procedure is added to. As a result, the total cost is increased, part of resources are wasted virtually, which is not in accordance with the goal of economic development and inconsonant with our original intention of pursuing social equity. Therefore, we improve the quality of economic development and efficiency of entire economy by strengthening technological transformation and improving technical reform, using new energy sources and materials, utilizing advanced experience and method in administration. We rebuild social equity on the base of preference for efficiency to promote the establishment of harmonious society.

(2) Enact and complete the law and regulation related with property right. The rational and efficient property right institution could reduce the influence of irrational externality, property right is a set of right, one complete property right includes rights to own, use, benefit, distribution convey and so on, “on the premise of efficient implement of property right institution, party of every trade should get what he deserves (namely internalization) and pay for the cost bared by him.”^[8](P259) Just as the description about function of property right by H.Demsetz, one main function of property right is inspirit people to internalize the eternity.^[9]。The present socialist market economic institution in our country takes effect; law and regulation of property right are not perfect enough. So it is urgent to learn from developed country and accelerate legislation.

(3) Standardize the act of government, and promote social equity. Pigou raised “proper government intervention” in his “governmental key”, another problem was brought forward, how to do with proper? By this time we could give a narrow answer: proper intervention should guarantee the free competition of market economy and supply good environment of competition .In fact, the split and compensation of social cost is the corrective change of externality and basic way to ensure efficient run of market. Firstly, government should actively take on social cost of public goods, such as cost of compulsory education and public medical treatment and sanitation. Secondly, government should actively correct behavior affecting social equity, reinforce intervention in advance to make up the failure of market. Such as is an important reason for social inequity in our country, part of people gets additional benefit but passing on cost, but the other part of people have to bear the loss because of environmental inequity. In this way, the government should reinforce environmental legislation and provide health permit, thus manufacturers would take on the polluting cost. But we should pay more attention to the avoidance of excessively reduction of output, which bring even worse damage. Thirdly, government of our country should start to consider compensating social cost generated in the course of society transformation. During the process, for the need of policy support and reform, our government sacrificed benefit of some people on its initiative to support the construction of overall situation. By now, all the policy support has become an impotent cause of social inequity, such as scissors gap between the prices of industrial product and farm product, reform of property right in state-owned enterprise, a great many problems in the building of stock market. It’s time to regurgitation-feed cost bearer during transformation. Such cost compensation is a kind of compensation afterwards, but the before-mentioned law and regulation, government share of special social cost are to establish forehand symmetry between social cost split and welfare distribution. At last a kind of private cost in broad sense is posed—private cost in narrow sense plus its external cost—is equal to deserved social welfare. It makes for the anticipative form of social cost only in this way and drive better establishment of socialistic harmonious society.

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