

Chinese Entrepreneurs' Preference in Income Redistribution Policy

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Abstract: This paper delves into an intriguing phenomenon: the low preference for income redistribution policies among Chinese entrepreneurs when compared to other employment statuses in China. Understanding this unique policy preference is crucial for policymakers aiming to implement effective socio-economic strategies. Drawing comprehensive insights from an array of existing studies and utilizing data from the World Value Survey (WVS), we proposed three hypotheses. These hypotheses were centered around entrepreneurs' education level, their attribution of success to effort or luck, and their inherent trust in the government, respectively. The WVS data supported two of these hypotheses. Firstly, entrepreneurs in China tend to hold the belief that success is mostly attributed to effort rather than serendipity. This belief affects their preference for redistribution policies. Secondly, among Chinese entrepreneurs, there is a lack of confidence in the government's in general, which may extend to their skepticism regarding the government's aptitude in overseeing fair income redistribution.

Keywords: redistribution, policy preference, entrepreneurs

1. Introduction

The past few decades have seen a drastic transformation of China's economic life. Since the founding of the people's Republic of China, continuous economic policies have been enacted to elevate China from a war-stricken nation to the world's second-largest economy. In this remarkable journey, all social classes have performed an indispensable role, including the entrepreneurial class. Driven by various emerging opportunities, many people seized the opportunity to become self-employed. This rise of entrepreneurial ventures has not only pushed the innovation and job creation but has also contributed significantly to China's overall wealth accumulations.

Nevertheless, under such a rapid growth, economic problem of income disparity is bred. In fact, China's Gini Coefficient, a measure of income inequality, fluctuated between 0.3 and 0.5 in the past decade [1]. The affluence in major cities like Shanghai and Beijing contrasts sharply with the poverty that prevails in developing and third-tier cities, which constitute most of China's population. This stark inequality has drawn attention from both the government and the public and is attributed to the wealth gap. China's GDP is mainly concentrated in a few developed cities, and these areas continue to absorb more resources, resulting in higher income for their residents, while the developing cities face resource scarcity.

Income redistribution, then, seems vital in addressing this social problem. Income redistribution policies are applied in the form of subsidizing the poor and taxing the rich and providing state aid to the poor. However, such policies require broad public support, and the preferences of entrepreneurs, who have a substantial economic impact, are particularly significant. According to data gathered from the World Value Survey, this paper examines the attitudes of entrepreneurs towards income redistribution policies in China.

In what follows, Section 2 reviews the existing literature and Section 3 discusses the main hypotheses. Section 4 introduces the data and methodology used to answer the research question. The analysis results are presented in Section 5 and finally, Section 6 concludes.

2. Literature Review

This paper contributes to the growing literature on redistribution policy preferences.

Dimick et al., in their study titled “The Altruistic Rich? Inequality and Other-Regarding Preferences for Redistribution” explores factors that shape an individual’s political stance on resource allocation [2]. Through the concept of “income-dependent altruism”, they challenge the conventional theory and suggest that an individual’s preferred level of redistribution decreases in income, increases in inequality, and the inequality effect increases in income. The theory suggests two implications. First, “an increase in macro-inequality will lead to more support for redistribution from all individuals ... Therefore, because individuals are altruistic — meaning that they are concerned about social welfare — they will support more redistribution in response to an increase in inequality.” Second, “an increase in macro-inequality will lead to a larger increase in support for redistribution from the rich than from the poor. In this case, because the rich value an additional dollar less than the poor, an increase in redistribution aimed at reducing inequality is less costly (in welfare terms) to a richer person than to a poorer person.”

Occupation is another important factor in explaining redistributive preferences. In Kitschelt and Rehm in “Occupations as a site of political preference formation” emphasize that individual’s attitude toward redistribution of resources is based on his/her work experiences on his job and occupational status [3]. They argue that this occurs through a process of socialization within professional communities, exposing individuals to shared norms, values, and experiences that shape political views. Furthermore, the authors highlight how political inclinations of occupational groups are influenced by broader economic and political contexts, including shifts in labor markets and government policies.

David Rueda and D. Stegmueller’s 2014 study, “The effects of income expectations on redistribution preferences in Western Europe” claims that the expectation of maximizing the income status throughout a person’s entire life is also important in influencing his preference on redistribution on income [4]. The author provides evidence based on multiple surveys conducted across Western Europe, suggesting that individuals who believe they will earn a high income in the future tend to have negative preference on policy on income redistribution. On the other hand, those who expect to earn lower incomes are more supportive of these policies.

This paper also explores several potential explanations for why income expectations influence redistribution preferences. One possible explanation offered is that individuals with higher income expectations might see redistributive policies as a threat to their prospective wealth, while those with lower income expectations may view them as a means to enhance their financial standing.

Collectively, these works illuminate various dimensions influencing preferences for income redistribution, from income-dependent altruism and occupation-based socialization to future income expectations.

3. Hypotheses

3.1. Education Level

The first variable examined is the education level. A common trait among successful entrepreneurs is a higher level of education. The significant investment in education, including high tuition fees, fuels their ambition for high-paying jobs and a corresponding lifestyle. Therefore, many entrepreneurs believe that they are the upper class and anticipate a higher income level. Consequently, they may view income redistribution policies with skepticism, fearing that such policies would diminish their future earnings. Therefore, I hypothesize that a higher education level might correlate with a negative preference among entrepreneurs towards income redistribution.

3.2. Locus of Control

Another possible explanatory factor is the attribution of success, often referred to as locus of control. Successful self-employed entrepreneurs, often being part of or aspiring to join the upper class, may have a strong sense of pride in their achievements [5]. This pride is frequently attributed to their hard work, superior education, and efforts in starting a business. They may believe that their success is solely the outcome of their own diligence, and consequently, view those receiving redistributed income as undeserving or lacking effort. Hence, this perspective may lead entrepreneurs to reject redistribution policies, reinforcing the belief that success is the result of hard work and merit.

3.3. Confidence in Government

Lastly, the level of confidence in government may also explain the low preference for redistribution policies [6]. Though most of the entrepreneurs are not willingly redistributing their income to the lower class, some of whom are still “altruistic”, that the extent to which they value a dollar is less than that of the lower class. However, the confidence in how the government handles this redistribution comes into play. Entrepreneurs pay their taxes to the government, which is then supposed to be allocated to assist the poor. However, if a portion of these taxes is diverted for other government purposes, the intended aid might not fully reach the poor. If entrepreneurs believe that the government will not distribute the income effectively or transparently to those in need, their support for income redistribution policies may wane. Thus, a lack of trust in government might lead to low support for income redistribution, reflecting a concern that not enough redistributed income will actually reach the intended recipients.

4. Data Description

To elucidate the preferences of entrepreneurs toward income redistribution policies, this study utilizes data from the World Values Survey (WVS). WVS is a global research project that explores people's values and beliefs, how they change over time, and what social and political impact they have.

	TOTAL	Employment status								
		Full time (30 hours a week or more)	Part time (less than 30 hours a week)	Self employed	Retired/pensioned	Homemaker not otherwise employed	Student	Unemployed	Other	No answer
It is against democracy (spontaneous)	0.1% (2)	0.1	0	0	0	0	0	0	0	0
Not an essential characteristic of democracy	10.0% (303)	10.4	14.8	8	8.9	10.7	8.4	8.3	4.9	10.2
2	6.2% (188)	6.5	5.2	7.3	5.4	7.2	5.8	3.4	7.8	4
3	7.3% (220)	7.4	7.4	6.2	3.4	8.7	11.9	4.9	7.2	8.1
4	7.1% (216)	8.3	1.2	7.9	7.3	4.9	11.1	4.4	8.9	4.3
5	11.4% (345)	10.1	16.8	13.5	12.3	9.9	20	11.6	5.3	9.9
6	7.9% (240)	7.5	7.9	8.7	6.9	9.8	13.3	7.2	4	5.8
7	6.6% (201)	7.3	3.3	9.8	7	5.5	4.6	7.2	5.2	2.9
8	13.9% (423)	13.3	15.5	14.3	12.6	14.5	11.9	17.1	28.7	11.8
9	7.4% (225)	7.7	8.5	6.8	7	6.4	4.4	7.1	7.6	10.2
An essential characteristic of democracy	20.8% (630)	20.4	18.1	17	26	22	8.5	28.9	18.3	25.9
Don't know	0.3% (9)	0	0	0.2	1.4	0.3	0	0	2.1	1.4
No answer	1.1% (33)	1	1.5	0.3	1.8	0.1	0	0	0	5.7
(N)	3036	1438	164	279	268	353	146	134	64	189
Mean	6.17	6.11	5.96	6.1	6.56	6.14	5.32	6.88	6.6	6.55
Std Dev.	3.05	3.07	3.15	2.87	3.03	3.11	2.57	2.94	2.88	3.2
Base mean	2994	1425	162	278	260	352	146	134	62	175

Figure 1: Democracy: Governments tax the rich and subsidize the poor.

	TOTAL	Employment status								
		Full time (30 hours a week or more)	Part time (less than 30 hours a week)	Self employed	Retired/pensioned	Homemaker not otherwise employed	Student	Unemployed	Other	No answer
It is against democracy (spontaneous)	0.0% (1)	0.1	0	0	0	0	0	0	0	0
Not an essential characteristic of democracy	2.7% (83)	2.2	0.2	6	2.6	3.8	2.1	3.8	1.4	2.9
2	1.3% (40)	1.3	0.3	0.4	2.2	2.4	0.4	1.6	0	1.2
3	2.0% (61)	1.6	4.1	1.5	0.8	5	2.1	0.9	0	2
4	1.6% (47)	1.2	4.3	2.9	0.8	0.6	4.2	1.2	2	1.1
5	5.7% (173)	4.6	7.7	10.2	6	3.9	7.3	9.1	2.2	5.6
6	6.6% (201)	6.1	6.4	10.3	5.7	4.5	12.8	5.3	1.7	8.7
7	8.7% (265)	11.1	6.8	5.9	8.5	5.3	10.4	3.3	7.1	6.7
8	18.6% (565)	19.1	10.5	15.9	18	18.7	24.2	20.5	28.4	17.7
9	15.3% (465)	14.9	16	16.2	15.1	17.4	17.7	9.5	22.6	12.9
An essential characteristic of democracy	35.9% (1,089)	36.7	40.4	30.1	38.5	38.1	18.7	42.2	34.6	35.5
Don't know	0.1% (4)	0	0	0.2	1	0.3	0	0	0	0
No answer	1.3% (41)	1.2	3.2	0.3	0.9	0.1	0	2.4	0	5.7
(N)	3036	1438	164	279	268	353	146	134	64	189
Mean	8.05	8.16	8.13	7.55	8.16	7.99	7.52	8.07	8.57	8.01
Std Dev.	2.26	2.14	2.22	2.56	2.23	2.53	2.1	2.43	1.63	2.31
Base mean	2991	1421	159	278	263	352	146	131	64	178

Figure 2: Democracy: People receive state aid for unemployment.

The two figures above show results from the World Value Survey database in 2017-2022. The figure presents how people with different employment status responds to the income redistribution questions differently. In the first figure, the responded question is “Democracy: governments tax the rich and subsidize the poor”, and in the second figure, the responded question is “Democracy: people receive state aid for unemployment.” Participants were prompted to answer how they think these two questions are important in achieving democracy, thus revealing their underlying support or lack thereof for income redistribution policies. In both questions, apart from the students, who don’t have a clear picture of political economics yet, the self-employed group of people, which represents the entrepreneurs, demonstrated the lowest percentage in believing that neither receiving state aid for unemployment nor tax the rich and subsidize the poor is essential for democracy. That is to say, in 2017-2022, the Chinese entrepreneurs show the least support for income redistribution among all the employment status in China, demonstrating the phenomena described in WVS data.

It seems quite intuitive that the entrepreneurs would have a low support rate, because they are often the rich ones, and the income redistribution policies could channel their wealth to others. However, this observation calls for deeper examination to uncover the underlying factors of this low support rate. An in-depth analysis can inform more effective design and implementation of income redistribution policies.

5. Data Analysis

To empirically test the hypotheses in Section 3, I ran multiple regressions using data from WVS. I defined the responses to “Democracy: governments tax the rich and subsidize the poor” and “Democracy: people receive state aid for unemployment” as my dependent variables. These responses were analyzed against independent variables representing the hypotheses: the belief in "success – hard work vs. luck" (corresponding to the second hypothesis), "highest educational level" (corresponding to the first hypothesis), and "Confidence in the government" (corresponding to the last hypothesis) To isolate the direct relationships between the independent variables and the dependent variables, I also included several controls such as income, age, and gender.

I focused on the answers to the second question—“Democracy: people receive state aid from the government”—for the analysis. This decision was informed by the observation that the mean values for the responses to the first question, “Democracy: governments tax the rich and subsidize the poor,” did not reveal a significant difference between self-employed individuals and those with other employment statuses. Consequently, results presented below are based exclusively on the data related to the second question, “Democracy: people receive state aid for unemployment”, and the conclusion is made only based on the results to this question.

Table 1: Factors that influence preference in redistribution policies.

VARIABLES	(1) redistributive 2	(2) redistributive 2	(3) redistributive 2	(4) redistributive 2
Self_employed	-0.278*	-0.278*	-0.227	
	(0.165)	(0.164)	(0.165)	
hardwork_luck		-0.0468***	-0.0463***	0.00200
		(0.0172)	(0.0172)	(0.0605)
high school		-0.0599	0.0883	0.0139
		(0.0927)	(0.104)	(0.335)
confidence gov		0.162*	0.150*	0.303
		(0.0906)	(0.0907)	(0.305)
2.gender	no	no	yes	no
income	no	no	yes	no
age	no	no	yes	no
Constant	7.950***	7.810***	7.300***	7.024***
	(0.0481)	(0.223)	(0.307)	(0.769)
Observations	3,036	2,978	2,978	257
R-squared	0.001	0.005	0.009	0.004

The regression model above illustrates how each independent variable may influence the opinions on income redistribution policy. The table consists of four columns, each representing a different regression model, and rows for coefficients (indicating the relationship with the dependent variable), standard errors, and other specifics. In the first column, I focus on the relationship between being self-employed and supporting the claim that “state aid is important for democracy”, without controlling for other variables. It reveals a negative correlation with a coefficient of approximately -0.278. The second and third columns explore the relationship between three independent variables (hard work vs luck, highest educational level, and confidence in the government) and the dependent variable. And lastly, the fourth column is similar to the second column but is restricted only to self-employed people.

Firstly, being self-employed has a clear negative influence in supporting the redistributive policy (receive state aid). The coefficient appears to be approximately -0.27.

For “hard work vs. luck”, the analysis demonstrates a negative correlation with the belief that success is based on hard work, supporting the hypothesis that this belief leads to less support for income redistribution. This significance is considerable ($p < 0.01$) except in the fourth column, where a small sample size (257 interviews) likely affects the results. Therefore, the belief in that hard work is vital for success is a factor that drives to not supporting income redistribution policy.

For education level, the results do not show a clear or consistent correlation with support for income redistribution. Across different samples, controlled variables, and subsets, education level appears not to be a significant factor in understanding why Chinese entrepreneurs might oppose income redistribution policies.

Finally, for confidence in government, it exhibits a positive relationship with the dependent variable in all three main columns, aligning with the hypothesis that higher confidence in the government leads to more support for income redistribution. In the fourth column, statistical insignificance arises, likely due to the low sample size.

Taken together, the findings help to elucidate some factors underlying attitudes towards income redistribution policies, highlighting the role of beliefs about success and confidence in government, while discounting the influence of education level among Chinese entrepreneurs.

Table 2: Factors that influence inclination towards becoming self-employed.

VARIABLES	(1) self_employe d	(2) self_employe d	(3) self_employe d	(4) self_employe d	(5) self_employe d
hardwork_luck	0.000619 (0.00186)			0.000574 (0.00192)	0.000617 (0.00191)
high_school		-0.0262** (0.0102)		-0.0262** (0.0103)	-0.0558*** (0.0115)
confidence_gov			-0.00852 (0.00998)	-0.00874 (0.0101)	-0.00581 (0.0101)
2.gender					-0.0309*** (0.0104)
income					0.00375 (0.00276)
age					-0.00194*** (0.000394)
Constant	0.0828*** (0.00858)	0.0973*** (0.00688)	0.105*** (0.0218)	0.115*** (0.0248)	0.210*** (0.0339)
Observations	3,021	3,036	2,992	2,978	2,978
R-squared	0.000	0.002	0.000	0.002	0.014

The second regression model aims to explore how different independent variables influence an individual’s inclination towards becoming self-employed. Similar to the first model, it incorporates the same independent variables and control variables, but the dependent variable is changed to self-employment.

Looking at the first row, believing in that success is a result of hard-working is having a positive correlation with becoming self-employed, though not statistically significant. This represents that

self-employed workers tend to attribute success to hard work. From Table 1, we learn that those who attribute success to hard work are less likely to support redistributive policies. Taking these together, locus of control is one plausible channel for the low support for redistribution among Chinese entrepreneurs.

The second row shows that Chinese entrepreneurs tend to have a lower education level. On the other hand, table 1 revealed that the relationship between education and support for income redistribution policy is unclear. Therefore, the result on education is not consistent with the first hypothesis in Section 3.

The third row shows that the Chinese entrepreneurs tend to have a low trust level in the government. Given that Table 1 showed a positive correlation between trust in the government and preference for redistributive policies, this low trust level provides further insight into why Chinese entrepreneurs might be less inclined to support such policies.

6. Conclusion

Chinese entrepreneurs exhibit a notably lower preference for income redistribution compared to other employment statuses in China, a phenomenon investigated in this paper. Three hypotheses were formulated and assessed to uncover the underlying reasons for this tendency. The first hypothesis is the education level. It was hypothesized that a higher education level would correlate with a lower preference for income redistribution. Interestingly, the data showed that Chinese entrepreneurs generally possess lower education levels, which does not support the education hypothesis. The second hypothesis posits that attributing success to hard work would lead to lower preference in income redistribution policies. The findings supported this hypothesis, showing that entrepreneurs tend to attribute success to hard work instead of luck, and those who attribute success to hard work have a lower preference for income redistribution. The third hypothesis is that higher confidence in the government would correlate with greater support for income redistribution policies. The data aligned with this hypothesis, revealing that entrepreneurs have low confidence in government, and those who have high confidence in the government support income redistribution policies.

This paper still has the deficiency of that the sample size, i.e. the entrepreneurs who answered to the questions, is small. This led to some insignificance in correlations in the tables, suggesting that a larger survey population might yield more statistically significant data and thus more persuasive outcomes.

The future implications of this research extend beyond academic understanding. By uncovering the reasons for low preferences for income redistribution among entrepreneurs in China, policymakers can develop targeted strategies to address this issue. This has the potential to further the goal of reducing wealth inequality and fostering a more balanced and equitable economic landscape.

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