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Absolute Fairness and Relative

Fairness

Dajian Xu

Professor at the School of Humanities, Shanghai University of Finance and Economics,
Shanghai 200433. Email: dajianxu@online.sh.cn

Liberty and equality have now become two basic values of modern people and societies, evaluating and directing the human behavior and the reforms of social economic systems. In the realm of economic institutions, the pursuit for liberty and equality is incarnated by the pursuit for efficiency and fairness which has become two basic principles in economic ethics and basic evaluation criteria to direct economic behavior and work out economic policies.

However, most economists think that there is irreconcilable conflict between efficiency and fairness, in which peoples are made bogged down in the dilemma of “efficiency versus fairness” when directing their economic behavior and working out economic policies: either efficiency or fairness. Hence a big problem in economic ethics: how to handle the relation between efficiency and fairness and how to balance efficiency and fairness.

This paper tries to explain that the key to the difficulty is the absolutist concept of equality and fairness. According to the author’s opinion, there is no irreconcilable conflict between efficiency and fairness, the real fairness should be consistent with efficiency although either of the two is reducible to its opposite.

Modern Views on Fairness

From the standpoint of economics, it should be said that efficiency criteria such as Pareto Optimum, are the only evaluation criteria to weigh economic systems and policies. It is not strange because economics is just a science studying efficient allocation of resources, its basic concept is efficiency and its purpose is to develop economy but not for fairness in distribution. Even if the resources to be allocated include human resources and the effective allocation of human resource will necessarily have something to do with the fairness in distribution, the economists would still reduce fairness to efficiency, namely the distribution that can increase X-efficiency.

But from the standpoint of ethics, we cannot take only efficiency into account when using evaluation criteria to weigh economic systems and policies. Because the aims of economic system and policy are not only for development of economy but also for increment of welfare of all stakeholders including the real freedom or substantive freedoms said by Amartya Sen.¹

In the views of contemporary economists and moral philosophers, fairness is generally a category in the distribution of values concerning the relations among human beings, which is a problem of distributing social values among people.²

Generally speaking, the social values that can be distributed could be divided into two kinds: the basic human rights which are the political premise to realize the value of human being; and the income and wealth which are the material conditions to realize the value of human being. Concerning the fair distribution of the former, the three main modern standpoints—liberalism, egalitarianism and utilitarianism—are all of the same opinion that the distribution of this kind of social values should follow the egalitarian criterion: everybody should enjoy his or her basic human rights equally, though their reasons may be different. But concerning the fair distribution of the latter, the above three standpoints hold different opinions.

The starting point of liberalism is that everybody has the inviolable human rights such as the rights of life, private possessions and freedom to pursue his own happiness. Therefore everybody is justified in earning everything based on his endowments as long as he do not violate basic rights of others; and then the principle of fair distribution of material benefits should be reduced to fair-play or fair dealing.

So the liberalistic criteria of fair distribution of wealth is a kind of “Endowment-based criteria”. They have two main forms. One is the criterion of “distribution according to one's performance” based on the theory that only labor can create wealth as people like John Locke hold. The other is the criterion of “distribution according to the contribution by resources to wealth creation” based on the theory that all resources make contributions to wealth creation, as new classic economists hold. Obviously, this kind of criteria of fair distribution in wealth will favor the equality of game rules, at most the equality of competition of departure, but not the equality of competition result, nor changing artificially the inequality of competition result.

The starting point of egalitarianism is that everyone is born not only with freedom but also with equality. The egalitarians hate polarization of rich and poor. They either can't comprehend the phenomenon of “behind the red doors meat and wine go to waste while out on the road lie the bones of the frozen” from the point of view of morality; or feel that polarization of rich and poor will necessarily cause people's anger and result in social turmoil from the point of view of politics; or think that it will lower the X-efficiency microscopically and cause the decrease of gross social demand and baffle economic growth macroscopically from the point of view of economics. Thus fair distribution of material benefits should also follow egalitarian criteria.

For some reasons such as worrying about lower efficiency or violations of human rights that caused by equal distribution of wealth, the egalitarian criteria of “equal distribution” become the criteria of “distribution of wealth as equal as possible”. They also have two main forms. One is an egalitarian criterion combined with a kind of liberalistic criterion of distribution, which means that the practice of “Endowment-based criteria” must be predicated on the elimination of poverty in society. The other is John Rawls' egalitarian criterion, which means that the practice of unequal distribution of wealth must be in favor of the poor. According to Rawls, the economic inequality caused either by the class status of one's family or by one's natural endowment cannot be justified morally; therefore we must confine the economic inequality within necessary limits.

In the view of utilitarian, however, neither human rights nor human equality is the basement on which we should build our moral theory, the only criteria we measure our behavior and institutions should be “the biggest happiness of the most people” or “the maximization of the social welfare”. Therefore utilitarians prefer efficiency rather than fairness, what they concern is that the equality of political and juridical rights can promote “the biggest happiness of the most people” and that fair distribution of material benefits is but a means to attain “the maximization of the social welfare”.³ At

this point their position is close to the position of economists.

Taking the law of “decreasing marginal utility” in economics into account, the utilitarian would prefer to distribute the wealth more equally. Suppose a society constituted by two people. If A and B have the same functions of marginal utility, the utilitarian will propose that wealth should be distributed equally between A and B, because this can cause the maximization of the social welfare. But if two people have different functions of marginal utility, the utilitarian will propose that more wealth should be given to the person who has a higher level of marginal utility (or the person who can obtain more utility from the same wealth), because this will also cause the maximization of the social welfare. It should be pointed out that, when people have different functions of marginal utility, the utilitarian principle of distribution is exactly the opposite to the egalitarian principle of distribution, because in that case the egalitarian will propose that less wealth should be given to the person who has a higher level of marginal utility in order that the people who have different levels of utility can get the same utility in total.⁴

The Conflict and Consistency of Fairness and Efficiency

Then, which point of view of fairness in the distribution of income and wealth should we adopt as an evaluation criterion to measure economic systems and policies?

If we discuss the problem neglecting the development of social history, we can hardly compare the good and bad of the above three views of fairness.

First of all, liberalistic, egalitarian and utilitarian principles of the distribution all match Sidgwick’s classic definition of “fairness”: fairness is giving same treatments to the same people.⁵ Since there are both similarity and difference among human being, any specific principle of distribution can match Sidgwick’s abstract standard by emphasizing some similarity of human being or some difference of human being.

Secondly, fairness in the distribution of income and wealth is a kind of evaluation standard, which is inevitably related to the interests of people. The rich will emphasize the basic human rights and adhere to liberalistic criteria of distribution in order to defend their interests; the poor will emphasize the equality of human being and adhere to egalitarian criteria of distribution in order to defend their interests. In fact everybody can approve a principle of distribution for his or her own interest. But Arrow’s Theorem has proved that there is no best choice in such case. Even Rawls’ “veil” of ignorance is useless here because Harsanyi has proved that people will not necessarily choose Rawls’ egalitarian criteria of the “max-min” only based on human reason.⁶

Thirdly, the above three criteria of distribution in wealth are all compatible with efficiency by encouraging people’s enthusiasm for production in some aspect but incompatible with efficiency by suppressing people’s enthusiasm for production in the other aspect, and therefore unsatisfying when directing people’s practice.

The equality on which liberalism emphasizes is the equality of game rules or fair play. The advantage of this kind of fairness is that the fair play can encourage people’s enthusiasm for production to a large extent and promote the X-efficiency. But the equality of game rules does not include the equality of starting point in competition because it neglects the influence of individual’s natural endowment and class status of his family on competition result. Nor does it take into account the influences of market hazard and natural and man-made calamities on competition result. So it will necessarily cause polarization of rich and poor and result in the social turmoil, which is in turn contradictory with efficiency.

Seeing this blemish, the egalitarian maintain that not only should the equality of game rules be emphasized, but also the inequality of starting point should be dissolved, even the inequality brought by market hazard as well as natural disaster and man-made calamity should be dissolved. Therefore they claim the equality of distribution result by practicing policies such as compulsory education, progressive tax, inheritance tax and social securities. But this kind of equality of distribution result is not only questionable but also will lower the efficiency.

According to its principle of “biggest happiness” or “maximization of the social welfare”, the utilitarian emphasize another kind of equality of distribution result or the equality of utility got by individuals. This kind of equality in utility got by people is different from the equality of income and wealth as the functions of utility are different among the people and have the color of “from each according to his ability, to each according to his needs”. But it is not only unrealistic, as the utility functions of individuals are very difficult to compare, but also will bring lower efficiency.

However, if we follow Wittgenstein’s teaching “do not go to think but go to see” and look at the development of human history, we can see that there have been various concepts of fairness in the history and each had its reason for flourish and decline: predominant in the society for promoting productivity and then replaced by others for obstructing productivity. Fairness and efficiency are not incompatible as fire and water although they are not always harmonious; both have been changing and the lower efficiency accompanies with the lower level of fairness and the higher efficiency accompanies with the higher level of fairness. From this historical fact we can conclude:

Firstly there is no absolute fairness or equality in the world, any absolute fairness or equality, such as Sidgwick’s “giving same treatments to the same people” or “dealing with people equally”, is essentially a Kantian categorical imperative and a formal standard; they exist only in mind but not in reality.

Secondly the fairness in reality is an equilibrium of benefits among the social classes attained by social games, or so-called “being in keeping with the law”, in which the violent clashes among social classes could be avoided and the benefits of the most people could be guaranteed. Therefore, any realistic fairness is comparative and temporary, varying with the history; a predominant fairness in a certain period will be no longer fair in another historical period. Fairness is a concept of comparison. Viewing from the angle of historical development, the relations among the people are becoming more and more fair alongside the development of history and there will be no end.

Hence we could get two criteria to measure real fairness: one is being beneficial to improving the living quantity of the most people; the other is being favorable to comparatively more fair relations among the people. The former criterion means that the essence of the real fairness is not the absolute equality but the enjoyable human rights and material benefits of the most people in a certain period, which can be tested by the general feeling of the people or reflected by Gini Coefficient. The later criterion means that there is no absolute fairness, the real fairness is always concrete and should be suited to the development level of the society and productivity.

According to such criteria of fairness, the real fairness must be in accordance with the efficiency. But on the contrary, the above three views on fairness, namely the liberalistic, egalitarian and utilitarian doctrines of fairness which are predominant in the academic circles, are all products of absolutism. All of them are in conflict with efficiency theoretically and will make people in a dilemma when directing all kinds of social economic policies.

The Distribution Institution of Contemporary China: An Example of Fairness

The history of contemporary China or the People's Republic of China could be a footnote of this relativist concept of fairness. It can explain that there is no absolute fairness in reality and the real fairness lies in the comparative satisfaction of the people got by it so that the X-efficiency is promoted and the living standard of the most people is raised.

Since the establishment of the People's Republic of China, the Chinese distribution institutions in wealth and income have experienced two stages alongside the social development and are now going to the third stage.

From 1949 to 1978, China follows the Soviet Union mode of socialism and adopts planned economy along with an egalitarian distribution system characterized by a very small disparity between the rich and the poor in society. In rural areas, the "Land Reform" was carried out at first and the land was distributed to the peasants equally, and then a movement of socialist collectivization was carried out in 1956-1958 in which the land was collectivized and an egalitarian distribution system was practiced to distribute the means of livelihood mainly according to the number of family members. In towns and cities, the so-called "socialist reform of industry and commerce" was completed in 1956, the private ownership of means of production was abrogated and an egalitarian wage system as well as an egalitarian system of social securities including health care and pensions was practiced. In this historical period, the egalitarian distribution system of this kind experienced the transition from fair to unfair.

At first, as it removed the unfair phenomenon of polarization of rich and poor in China before 1949, this kind of wealth distribution system was felt as a more fair system. As a result it aroused people's enthusiasm for production and promoted economic growth in China and raised the living standard of the majority to a large extent, and therefore could be said as a fair distribution system. But as time went on, the blemish of this kind of wealth distribution system matched with planned economy was being exposed gradually from 1960s hereafter. Putting aside that planned economy of high centralization inhibit the initiative of the people, the basic blemish of the egalitarian distribution system is that it would encourage laziness and punish diligence, and eliminate the people's enthusiasm for working hard. At that time, it was common that workers in the factory dawdled and chatted over their work and that the crops in the private plot grew far more luxuriant than the crops in the collective land. Hence the Chinese people was placed in poverty for a long time. Can we still say that this kind of egalitarian distribution system is fair?

In order to overcome such blemish, China started the economic reform under the leadership of Deng Xiaoping in 1978, in which the economic system underwent a transition from planned economy to market economy and the principle of "give priority to the efficiency and not neglect the fairness" was put forward as the criterion to evaluate economic institutions and policies. At the same time, the wealth distribution system also underwent a transition from an egalitarian distribution to a liberalistic "distribution according to the contribution by resources to wealth creation". In this connection Deng Xiaoping put forward the slogan "let a part of people be enriched before others" in order to arouse the people's enthusiasm for production. This kind of liberalistic distribution principle, however, also underwent a transition from being fair to unfair from 1978 up to now.

It can't be denied that the market economy practiced step by step in China since 1978 and followed by the system of "distribution according to the contribution by resources to wealth creation" at the same time did arouse the people's enthusiasm for production. As a result the Chinese economy have undergone a great development and the living standard of the most Chinese people has been raised greatly. For this reason, the market economy along with the system of "distribution according to the contribution by resources to wealth creation" can be said a more fair distribution system.

The system of "distribution according to the contribution by resources to wealth creation" has, however, produced a lot of problems in the process of reform. For example, large quantity of workers were unemployed as many state-owned companies were compelled to be closed or transformed because of their lower efficiency in market competition; the social securities originally enjoyed by the workers who live in cities and towns have been no longer existent since the reform of the state-owned businesses was carried out; in rural areas, the economic growth is hindered by too many people and less cultivable land, many peasants are forced to leave for cities and towns where they enjoy no equal social and economic human rights with the people who originally live there, and etc. As a result, the disparity between rich and poor is becoming greater increasingly, and the Gini coefficient has risen already from 0.2 in 1978 to 0.523 in 1995,⁷ which produced many social economic problems, such as many people in China are still very poor, the public order is becoming worse. These problems if not solved, will cause decrease of the gross social demand and obstruct economic development, produce politically unsteady elements and even result in social turmoil, which will then hinder the economic growth and depress the living standard of people. For this reason, the present institutions of "distribution according to the contribution by resources to wealth creation" if not revised, will turn from relatively fair to unfair.

In order to resolve these problems, Chinese scholars have made many suggestions for further reforms and Chinese government is working hard to push forward the reforms: with the slogan of "give priority to the efficiency and not neglect the fairness", trying hard to building the system of ensuring the welfare of the citizens by means of social securities such as pensions and health care to eliminate poverty in society on one hand, setting up the system of enhancing the equality of opportunity and insisting on the principle of "distribution according to the contribution by resources to wealth creation" to guarantee the legal income of citizens on the other hand. The essence of this kind of reform is eliminating the poverty at first and then distributing wealth according to the "Endowment-based criteria". Obviously, the distribution institutions of China are now transforming from a kind of liberalism to another kind of egalitarianism, and it should be said that it is a more fair distribution system at present in China.

It can be anticipated that the Chinese distribution system will still be revised alongside the social economic development and will be fairer than before.

¹ Amartya Sen, *Development as Freedom*, Chinese translation published by People's University Press, Beijing, 2002.

² John Rawls, *A Theory of Justice*, Chinese translation published by Chinese Social Science Press, Beijing, 1989.

³ J.J.S. Smart, "Distributive Justice and Utilitarianism", published in *Justice and Economic Distribution*, edited by John Arthur and William H. Shaw, Englewood Cliffs, NJ: Prentice-Hall, 1978.

⁴ Cf. Ping Xinqiao, *Fundamentals of Finance and Comparative Financial*

Institutions, Sanlian Bookstore, Shanghai, 1995, pp.60-62.

⁵ Henry Sidgwick, *The Methods of Ethics*, Macmillan Co. Ltd., London, 1922, pp.267-268.

⁶ John C. Harsanyi, “Cardinal Utility in Welfare Economics and the Theory of Risk-Taking” (1953), “Cardinal Welfare, Individualistic Ethics, and the Interpersonal Comparisons of Utility” (1955), “Can the Maximin Principle Serve as a Basic for Morality? A Critique of John Rawls’ Theory” (1975); reprinted in *Essays on Ethics, Social Behavior, and Scientific Explanation*, Dordrecht, Holland: D. Reidel, 1976.

⁷ Zhu Guolin, Fan Jianyong, Yan yan, “On China’ Consumption Sag and Income Distribution: Theory and Data”, in *Economics in China 2002*, Shanghai People’s Publishing House, 2003.