China's Fear of the Huddled Masses

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The beginning of China's transition to capitalism can be marked by the enactment of a personal income tax decree in 1980. In the Mao years state funding came primarily from production. In agriculture it was based on the value of an average yield. A salt tax on tonnage. A slaughter tax based on weight and retail price. And various others – real estate, private for profit industries, customs duties, export duties.

So as not to upset the working class the initial exemptions in 1980 meant that fewer than 1% had to pay any personal income tax. As of 2008 it was 20%. A March 13 editorial in Caixin – located in China (not Hong Kong) and subject to official review – headlined: *Government, Public Must Grasp Essence of Personal Income Tax Reform.* Apparently that essence is a comprehensive taxation that incorporates various income streams.

China had hoped that the good old prosperous days would return, but it has now become clear that the world slump will continue to generate after shocks indefinitely preventing anything like a real recovery to take hold. That means that the masses who in 2007 had been promised nation wide prosperity in 2020 will likely become restive about the unkept promises of capitalism. That means the current grossly unfair personal tax system in which the employer deducts a tax from wages while the nouveau riche enjoy a bountiful untaxed income from diversified sources will need adjustment, along with the grossly regressive Value Added Tax of 17%.

The Chinese state did not wait for capitalist development to make its class differentiation progression on its own. The state fed and fattened up the juvenile parasitic class by making capital gains on stock trades exempt, half of dividends of stocks listed on the China exchanges are tax exempt, bank deposit and government bond interest are tax exempt, and enacted no estate or transfer tax so that the loot could be passed on to the next generation. Having a significant sector of the population living well off the labor of others provides a safety barrier for those at the very top and thrive off everybody. But now Caixin is warning that middle class that the gravy train will now have to offload some of its cars for the benefit of the lower classes or risk becoming derailed.

In January the government and investors were worried that the economy was so hot that a sudden burst of inflation was on the horizon. The Atlanta Fed predicted a 5.4% GDP in the 1st quarter, that would surpass the 5.2% of the 3rd quarter of 2014 and be the strongest quarter since 2009. The Hurricane Effect and bogus

PMI figures eventually ran their course and suddenly saw markets fearful of a slump. Now things have settled down, and so has the Atlanta Fed prediction for the first quarter – from 5.4% to a much more sensible 1.9%.

Rents in Manhattan have fallen for the third consecutive month. Landlords can usually get away with waiting out prospective tenants with ever higher rents, but over time a fear sets in that the tide may be about to turn. Supporting the Atlanta Fed's realization that the economy is weakening, in February apartment rentals spent just 34 days days on the market before an agreement was made – the shortest stretch since October 2011. The median rent was 2.8% less than the same month previous year. Besides a cut in the asking amount, concessions included free months rents, security deposits less than a months' rent, free Wifi and cable, lifting restrictions on pets, paying part of moving expenses. 5,630 new apartments will be listed this year – about 1500 more than last year.

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