

# Society-scoped Credibility Management and Credibility-based Societal Management <sup>1</sup>

China is experiencing a social management revolution marked by the construction of a social credit system. The fundamental significance of this revolution is that, through the creation of a social credit management system and mechanism, social credit as a whole will now be managed, faith-keeping will be encouraged, and faith-breaking will be punished. Accordingly, a modern state governance system based on social credit management will be constructed; this system will embody the essential requirements of a credit-based economy's developmental rule.

## 1. Credibility-based Societal Management as the Objective Requirement of a Pervasive Credit Relationship

Credit is a type of commitment to economic and social activities among societal members; it is a social behavior that aligns with social management rules and moral codes, and is therefore intended to safeguard the legitimate interests of societal members. Credit can be understood in both broad and narrow terms. In a broad sense, credit refers to social members' obedience of social management and moral codes. It pertains to the scope of morality. In a narrow sense, it concerns the credit relationship between a creditor and a debtor. It pertains to the scope of the economy.

The proliferation of integrity-based relationships and credit relationships marks the transformation of China's social formation. The growth in integrity-based relationships is reflected through the following:

(1) Pervasiveness of an integrity-based relationship between the government and the public

The relationship between the government and the public is one of public rights versus private interests. This relationship manifests in the government's execution of its duties, and its pervasiveness is reflected in the increased management functions endowed to the

---

<sup>1</sup> This article was published in *Economic Information Daily* on May 21, 2015. The offprint was published by People's Daily Press.

government in the course of social development, as well as in the intensified overlapping of government and public interests. The unity of opposing public rights and private interests relies on whether, as the main aspect of the contradiction, the government's actions can be trusted by people and whether the government can satisfy people's expectations for a clean and equitable government. If the answer to these issues is affirmative, then government and public interests are essentially unified. Given that the public endows power to the government, the economic base for the exercise of power originates from the public; the government's responsibility is to serve people and satisfy their legitimate needs to the greatest extent possible. The government's administrative capacity, shown intensively through the credibility of governmental affairs, is vital to the stable navigation of the contradiction between the superstructure and the economic base.

### (2) Pervasive integrity-based relationships between economic entities

Relationships between economic entities are contractual exchanges of interest, and their integrity-based relationships are embodied through the honoring of contracts. Pervasive credit relationships between economic entities imply that the responsibility, rights and interests of economic entities, as manifested through contracts has engendered a state system. The unity of opposites in the socialization of this contractual relationship necessitates that parties involved honor their commitments and the pervasive honoring of these commitments be conducive to business, whereas rampant breaches of contract are destructive to the interests of others and challenge the impartiality and justice of social and economic activities. Whether the interests of contracting parties can be guaranteed through commercial credibility is crucial to the security of a country's basic economic operation mechanisms.

### (3) Pervasiveness of an integrity-based relationship between public service providers and social members

Public products and services determine the quality of people's livelihood. This inherent relationship manifests itself through the integrity-based association between public service providers and members of society. The pervasiveness of this relationship indicates that public products and services have become necessities in people's lives and that the unity of opposites (i.e., the interests of a service provider and a service receiver) is reflected in whether, as the main aspect of the contradiction, a provider can fulfill its public service function and provide quality services to societal members. Its ability to provide social services embodied through social credibility, is crucial to the quality of social members' livelihood and social stability.

(4) Pervasiveness of an integrity-based relationship between judicial institutions and public

Judicial institutions are the enforcers of a country's laws. The essence of the integrity-based relationship between judicial institutions and the public lies in both social fairness and justice. Such pervasiveness means that the judiciary is the final enforcer of social fairness and justice. The unity of opposites in this case is embodied in whether, as the main aspect of the contradiction, judicial actions are able to impartially fulfill the will reflected in a country's laws and safeguard social fairness and justice. State credibility, as demonstrated through judicial credibility, is critical to citizens' favorable living conditions and regime consolidation.

The pervasiveness of credit relationships is reflected in the following outcomes:

(1) Credit relationships have become the basic economic relationships between social members

The proliferation of credit relationships between creditors and debtors drives social members to play either the role of a creditor or debtor, making the opposite side's credit a necessary condition for the maintenance of the relationship. As the core component of this basic economic relationship, a debtor's ability to satisfy its commitment is central to the stability of social and economic relationships based on credit-debt chains. This is the first feature of pervasive credit relationships.

(2) Credit relationships have become the economic foundation of modern society

In essence, credit relationships are a capital form consisting of a creditor and a debtor. When this capital form joins the flow of social capital and becomes the main type of liquidity on which social reproduction relies, the social and economic base turns into a credit relationship. The stability of a credit relationship is vital to the superstructure. This is the second feature of pervasive credit relationships.

(3) Pervasive credit relationships sparked two pairs of contradictions that drive the development of a credit-based economy.

Effectively revealing a debtor's credit risk is a precondition for raising credit capital from society. This increase in credit capital is designed to satisfy the liquidity necessary for social reproduction. This reality demands credit ratings from a third independent party as a medium on which to build credit relationships. Consequently, two pairs of contradictions are produced. The first is that between production and credit. When credit relationships become the source of social consumptive power, the contradiction between production and consumption evolves into one between production and credit. The essence of this incongruity is production's incessant requirement for credit scale expansion intended to enhance

consumption capacity. This contradiction, therefore serves as a pro-cyclical force in the development of a credit-based economy. The second contradiction is that between credit and rating. Its essence is the rating's function of revealing the quantitative border of a debtor's maximum debt to a creditor, thereby imposing a boundary on credit expansion. The purpose of this contradiction is to prevent excessive credit expansion and is thus a counter-cyclical force in the development of a credit-based economy. The third feature of pervasive credit relationships is that these two pairs of contradictions become the driving force behind sustainable credit-based economic development.

A number of connections and differences characterize integrity-based relationships and credit relationships. An integrity-based relationship is the observance of rules and morals. It represents a contradiction between subjective consciousness and objective rules and morals as well as a kind of ideology that belongs to the superstructure. Integrity is also the soul of credit. A credit relationship represents the fulfillment of economic commitment. It is a contradiction between a creditor and a debtor. It is a result or consequence of an action and belongs to the economic base. Conversely, credit is the basic requirement of integrity. Thus, the consciousness of integrity influences the behavior of credit, and the behavior of credit determines the consciousness of integrity.

Credit pervasiveness is ushering China into a credit-based societal era typified by a new paradoxical combination: credit and social management.

Society-scoped credit management. Credit pervasiveness covers six dimensions: urban, industrial, economic entity, rural, individual, and Internet-based credit. Cities contain all of these social credit elements and, thus, act as pivots of social credit. Different industries serve as connectors of credit pervasiveness, and arteries of social credit. Meanwhile, economic entities are cells of credit pervasiveness and the cornerstone of social credit. Rural areas, as the units of credit pervasiveness, have an integral role of social credit. Individuals, as carriers of credit pervasiveness, are the dominant players of social credit. The Internet, as a new carrier of credit pervasiveness, accelerates social credit. Credit pervasiveness enables the economic and social activities of all members of society to appear as credit relationships, which connect an entire society together. Credit relationships on different dimensions intertwine among and interplay with one another and are mutually reliant. Social credit risks are increasingly manifested in the collisions and conflicts of people's credibility in socio-economic activities and social management rules and moral codes. When it comes to credit pervasiveness, therefore, a necessary requirement is to examine the connection between credit and social management from a social perspective. It is also necessary to develop

credibility-based societal management via efficient and effective credit risk controls throughout society. Such control, in turn, is realized through the essential requirements of credit pervasiveness.

Credibility-based societal management. Credibility and social management constitute a principal contradiction as China enters the era of a credibility-based society. As the principal aspect of the contradiction, credibility is reflected in people's social behaviors, namely, whether they follow social management rules and moral codes. The management of the behavioral information on social members is a way to strike a balance between credibility and social management. Moreover, it is the only correct approach to fulfilling social management objectives. Social management, at this point, means managing the credit relationships of social members for the purpose of addressing the social credit information asymmetry that gravely affects the sound development of credit relationships. By nature, integrity-based relationships and credit relationships are a pair of contradictions between the superstructure and the economic foundation. The status of the integrity-based relationships of an entire society determines whether the social governance rules that represent the will of the state can be implemented effectively and whether public administration can succeed. The status of credit relationships, on the other hand, determines the orientation of a country's economy, the stability of the economic foundation, the status of the integrity-based relationships of social members, and the effect of social management. Managing the integrity-based relationships and credit relationships of social members for credibility-based societal management supports the harmonious development of both the superstructure and the economic foundation it likewise represents the essential requirement for establishing a national governance system during the credit-based economic development phase.

The rules governing credit pervasiveness across all walks of life are that the effective management of a credit-based society is impossible without the appropriate management of society-scoped credibility and that managing society-scoped credibility is key to effectively managing a credit-based society.

## 2. The Realization Mode for Credibility-based Societal Management and Society-scoped Credibility Management

Managing a credibility-based society fundamentally means managing people's credibility-related behaviors and accordingly adjusting social management rules for social members to perform in line with these regulations. People's behaviors and relevant rules make up social credit relationships, with behaviors acting as the principal component of this

contradiction. Compliance with or violation of rules is the only solid ground from which to evaluate whether a person acts in good faith. Against the backdrop of credit pervasiveness, the top priority in social management is managing social credit information, which constitutes the theoretical basis for our endeavor to design a mode for realizing credibility-based societal management and society-scoped credibility management.

A credit information management system that covers every member of society is the top-level design for realizing credibility-based societal management and society-scoped credibility management (“two management systems”). Constructing a credit system involves two tasks: collecting social credit information and applying that information. The realization mode is that an institutional system for collecting and applying social credit information, as well as a credit information service system, should be established.

In the realization mode of the “two management systems”, two agents are accorded responsibility: the government and the organizations that provide professional credit information services. They are intrinsically connected, but each has its own role to play. This division of responsibilities is determined by the essential requirements of the “two management systems.”

First carrying out credibility-based social management and society-scoped credibility management necessitates that credit information regarding social members be integrated into the social management spectrum. Under this condition, shaping a system that effectively manages societal members’ credit information is expected to be of high priority in the government’s agenda. The responsibilities of governments in constructing a social credit system include the following:

(1) Acting in line with the rules governing the development of a credit-based economic society and establishing an institutional system for social credit management;

(2) Shortlisting non-governmental organizations that provide credit information services as credit information providers and encouraging them to serve as credit information management assistants; and

(3) Serving as a role model in credibility-based government administration for social members and realize the transformation of public administration underpinned by credit information.

In performing these responsibilities prompted by the “two management systems,” the government should avoid the following two problems:

First, the government may act as both judge and actor, arrogating the design of a social credit management system and the provision of a credit information service. Institutional

development ought to be a task within the scope of the government's responsibilities. In this case, however, the level of expertise in the credit information service and rating service that it provides would damage its image. New conflicts between the government and the public may arise, thereby possibly disrupting the groundwork achieved by the public administration.

Second, the principle behind conventional market competition may be introduced to regulate credit information service providers, thus creating an unfavorable institutional environment where "bad" money can drive out "good" money. When credit information service suppliers are selected as public administration assistants through market competition, the results may be the opposite of expectations: that is, the situation may exacerbate credit information asymmetry and hamper the implementation of the "two management systems."

Credibility-based societal management and society-scoped credibility management will ultimately be realized through consistent, comparable, and flowable credit information throughout the full spectrum of society. Consequently, the status of credit information service agencies plays a vital role in the success or failure of the "two management systems." While building a social credit system, credit information service providers are expected to conduct themselves in the following manner:

(1) They are expected to adhere to a sense of duty as assistants to the government in managing social credit, studying rules governing the formation of social credit risks in China, establishing a theoretical system for social credit management, and providing methodological guidance in precisely identifying credit risks. These endeavors will equip credit information service providers with the expertise and knowhow needed to perform their functions.

(2) They are envisioned to build the capacity to fulfill the public responsibility of providing credit information services and delivering innovative and professional credit information services in an endeavor to meet the growing need for the "two management systems" amid the development of a credit-based economy.

Credit information service agencies should also guard against the following problems:

First, they should avoid pursuing profit at the cost of public interest. Credit information service agencies have special functions granted by the government in the context of the "two management systems." Thus, these organizations should refrain from giving priority to the wrong target; that is, since they are primarily tasked with performing this government function, they should realize their own value through the provision of public services.

Second, the service provision capabilities of these agencies may be poor, and no inherent improvement mechanisms may exist in their organizations. Credit information

service agencies without the endogenous power to deliver improved services and accommodate market demands will ultimately fail to compete.

As previously stated, the government and credit information service agencies are agents endowed with the responsibility of implementing the “two management systems” construct. On one hand, the former’s perception and administration decides the performance of the latter. On the other hand, the effectiveness with which the latter accomplishes its job ultimately determines whether the former can fulfill its objective under the “two management systems.”

The design of management modes showcases the perception and application of the rules governing credit-based economic development; it has a stake in credit-based societal management. We need to avoid unnecessary increases in public administration costs incurred from faulty mode design. The “two management systems” should be deemed a fundamental project amid the modernization of a national governance system against a particular historical background. In designing a roadmap, therefore, one should never take the approach of “crossing the river by feeling for the stones” or “starting the regulation only after disorderly development.”

### 3. The “Two Management Systems” Test the Ruling Party’s Capability for Governance

The “two management systems” structure is the essential requirement for administrative transformation as Chinese society enters a phase of credit-based economic development. Committing to this system means gaining strategic initiatives to realign the relationship between the economic foundation and the superstructure in accordance with the developmental rules of a credit-based economy. In this credit-based economic era, the challenges posed to the Communist Party of China (CPC) are whether it can understand the inevitability of this social management revolution, which is propelled by historical trends, and whether it can govern a credit-based economy in conformance with the developmental rules of such economy. The CPC will be tested in the following respects:

#### (1) Whether it can voluntarily transform its public administration philosophy

The CPC’s capability for governance is reflected mainly in its public administration competency. Its administration philosophy mirrors developmental rules and serves as guidance for the CPC’s governance. The development of a credit-based economy has presented the CPC with the historical task of transforming its philosophy on public administration.

As previously mentioned, China has entered the development phase of a credit-based economy. The major indicator of this shift is that, with the expansion of credit relationships, Chinese society is experiencing a revolution in its economic foundation. The credit relationships that involve creditors and debtors are a form of capital, and the social credit system that is made up of credit relationships creates the capital flow system that is necessary for social reproduction. Credit relationships have become the core engine that drives social consumption. The status of credit relationships plays a decisive role in social reproduction and the satisfaction of consumption needs. A basic modern economic relationship between Chinese citizens therefore manifests as the creditor-debtor relationship, and pervasive credit relationships make up the new economic foundation of Chinese society. This suggests that China has entered an era wherein credit relationships constitute its economic foundation.

Achieving sustainability in credit relationships necessitates a social environment that honors integrity. Social members must observe social management rules and act with honesty and integrity. Whether social members can abide by these regulations will determine the stability of their credit relationships. Therefore, whether the social management rules that reflect the will of the ruling power and whether compliance can meet the essential requirement of credit relationships that function as economic foundation highlight the association between the superstructure and the economic base.

Stabilizing credit relationships by managing social credibility relationships means building the economic base-superstructure relationship in line with the developmental rules that govern a credit-based economy. This requires the CPC to acquire comprehensive insights into the developmental needs of Chinese society, to conduct the timely transformation of the mindset underlying public administration and to develop new social management values. Whether the CPC can voluntarily revolutionize its public administration philosophy is imperative to its governance of a credit-based society and the stability of its foundation.

## (2) Whether the CPC can pursue innovative social management theories

The CPC's governing capability depends on its understanding and command of social developmental rules. A credit-based economy has its own set of developmental rules. Studying them, innovating management theories for a credit-based society and developing the theoretical foundation for advanced social management thought will afford the CPC the confidence to govern a credit-based economic society.

As the most active economic cells of a credit-based economic society, credit relationships are transforming society in a profound way. Gaining an accurate understanding of credit relationships is the basis of developing management theories concerning a credit-

based society. However, we have insufficient knowledge of theories that revolve around the following relationships:

(a) Finance and credit relationships

Finance is, by nature, a credit relationship between creditors and debtors. On this basis, logical deductions can be made: a credit relationship is a form of capital combination; the development of finance translates to splashing pervasive credit relationships; and pervasive credit relationships shape the flow of social capital in the form of debt chains, thus resulting in a social credit system. When the bubbles in credit relationships burst, a social credit system will experience aftershocks and a credit crisis may ensue. The reality, however is that scholars, researchers, and practitioners in the financial field have failed to provide a precise definition of the “essence of finance.” Because of this deficiency, the developmental rules of finance remain incomprehensible to the public, thereby possibly leading to incorrect decision making or even a financial crisis.

(b) Currency issuance and credit relationships

Controlling consumption demand through monetary means is a commonly known approach to national economic management. However, with credit relationships pervading all walks of life, especially with the emergence of Internet finance the impact of currency issuance on the national economy diminish. Pervasive credit relationships create consumption demand entirely through the market; as a result, currency is used primarily for its pricing function.

(c) National economic development and credit relationships

Pervasive credit relationships have served as primary means of creating consumption demand and as a major impetus for national economic development. Such relationships are a kind of national debt, whose scale is decided by their debt repayment sources (credit resources) based on the capability for national wealth creation. A logical relationship is formed as follows: credit relationships - credit resources - national debts - national consumption - national economy. This constitutes a new considerable proportional relation for the national economy. A national economic development plan is reliable only when it is created on the basis of national credit resources.

(d) Economic foundation and credit relationships

Widespread credit relationships have made the creditor-debtor relationship the fundamental economic relationship among societal members. This relationship joins social reproduction in the form of capital and serves as the foundation for the existence of social

reproduction. At this stage, credit relationships emerge as the economic foundation of the developmental phase of a credit-based economic society.

(e) Credit rating and credit relationships

Credit ratings are carried out to gauge debtors' credit risks by employing a scientific methodology. They also build credit relationships between creditors and debtors who have not been previously acquainted. The intermediary function of ratings determines the status of credit relationships, and thus the stability of economic foundation.

(f) Integrity and credit relationships

Having integrity pertains to the efforts of societal members to observe social management rules and moral codes, indicating the relationship between behavioral consciousness and the will for national governance in the context of the scope of the superstructure.

Credit relationships are fundamentally economic relationships between social members. These associations produce the liquidity on which that social reproduction depends. In this regard, these relationships pertain to the scope of the economic foundation.

The association between integrity and credit relationship is that between the superstructure and the economic foundation. Evidently, credit-based societal development poses a practical and pressing task to the CPC: the need for theoretical innovation regarding credit-based societal management.

(3) Whether the CPC can voluntarily innovate the practical management of a credit-based society

Practice is the source of theory, and theory is the sum of practice. Innovation in the practical management of a credit-based society will contribute to improving the ruling party's capability for governance.

The fundamental requirement of such innovation is to discover a credit-based economy's developmental rules, upon which rational innovations on management modes can be explored. Any so-called "innovation" that defies objective rules will lead to failure in credit-based societal management. Innovating social management practice is thus a process of understanding the inherent correlation between the formative factors of a credit-based economy and the development of social management concepts commensurate with a credit-based economic society. It is the process of understanding past and current practices, extracting theories from these practices, and putting the theories into future practice. Exploring the innovation of social management practice is an indispensable component of the ruling party's capability to govern a credit-based society.

Accurately understanding the “two management systems” concept is a prerequisite to innovating social management practice. The “two management systems” approach is a social management mode transformation that must be carried out to stabilize the CPC’s governance foundation. It is a necessity for the government to be able to perform its functions. It is also a prerequisite to identifying a precise position of the construction of a social credit system. Only with this significant project, which holds sway in China’s general governance system, will it avoid reduction to mediocrity. Under this setting, as well, the historical opportunity to enhance the CPC’s capability for governance will be maintained.

The selection of the mode for the “two management systems” is the top-level design for innovation on social management practice. It is fundamentally an innovation on the mode of public administration, and the mode choice determines the success or failure of practice. The core of the “two management systems” concept addresses information asymmetry among social members, regulates people’s social behaviors on the basis of credit information, and adjusts social management rules in a timely fashion through the construction of a social credit system. With an understanding of this process, the CPC can avoid becoming mired in mode choice.

The CPC Central Committee has implemented a series of decisions regarding the construction of a social credit system. This construction guides the transformation of a social management mode. We have an obligation to innovate and submit to people a satisfactory answer sheet.