

# Research on China's Income Gap

Caizhe Zheng<sup>1,\*</sup>

<sup>1</sup>*the arktown school, Markham, Ontario, Canada*

*\*Corresponding author. Email: zcz2022@163.com*

## ABSTRACT

Since the reform and opening-up, China's income gap has widened rapidly. According to an analysis of the current situation of urban-rural income gaps, inter-industry, and inter-regional income gaps, it is essential to pay more attention to redistribution which leads to the income gap. This paper believes that the government should use transfer and payment as tools, focus on vigorously developing the economy, and gradually promote the three property tax methods to improve the problem of uneven income distribution in my country.

**Keywords:** *Income Gap, Government, Income Tax, Income Distribution*

## 1. INTRODUCTION

Since the reform and opening-up, China's economy developed rapidly and achieved great success. However, the rapid economic development also brought many side effects, which leads to serious income distribution problems in China, and most of the resources and wealth are in the hands of a few people [1]. China's Gini coefficient increased from 0.288 during the reform and opening-up period to 0.45 in 2000, exceeding the UN's 0.4 warning line, which attracted people's attention from all walks of life [2]. From the perspective of economic development, unequal income distribution will have negative constraints on economic development; from the perspective of social culture, unequal distribution will dampen the creative enthusiasm of workers and make them suspicious of reform. The following paper will discuss the situation, cause and solution of China's Income Gap.

## 2. THE CURRENT SITUATION OF THE INCOME DISTRIBUTION GAP IN CHINA

### 2.1. Widening urban-rural income gap

The uneven income distribution between urban and rural areas is an essential manifestation of the uneven income distribution. The income gap between urban and rural areas in China has been widening since the 1980s. As shown in Table 1, the income gap between urban and rural residents has widened from 1.8:1 in the 1980s. It reached 2.5:1 in the 1990s and exceeded 3.2:1 in 2003-2007, becoming the country with the most significant urban-rural income gap globally, far exceeding the expected level of the world's urban-rural income gap [3].

### Income Gap Between Urban and Rural Residents

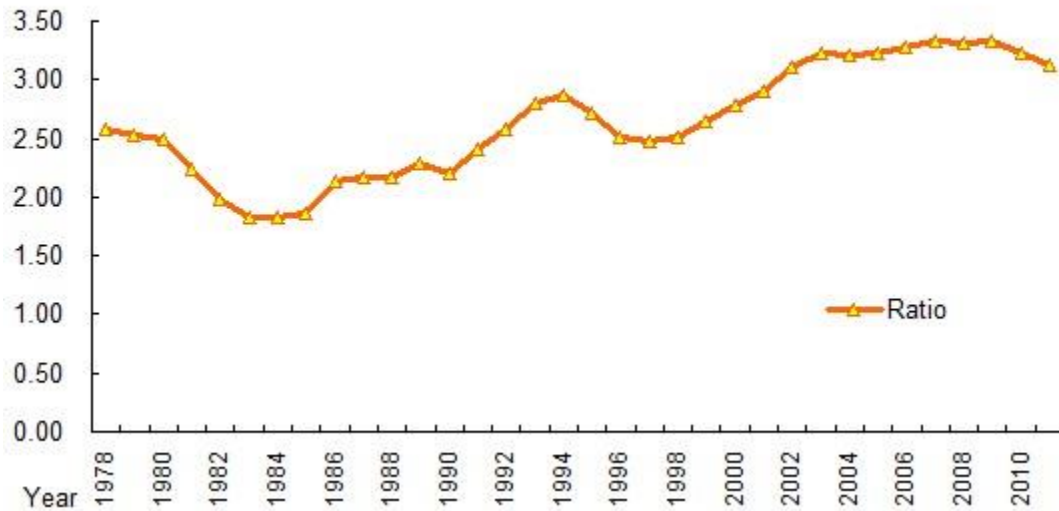


Figure 1 Income Gap Between Urban and Rural Residents

The main reason for the widening income gap between rural and urban areas is that the income growth of rural residents is too slow. The income growth rate of urban residents is much higher than that in rural areas, and the income gap between rural and urban areas has widened. Secondly, rural enterprises are lack funds; technology is immature and minor in scale. Due to the restrictions of the Chinese household registration management system and urban employment system, various activities are challenging to carry out, so the development of rural enterprises is prolonged [4].

#### 2.2. Widening income gap between regions

Due to political policies, geographical environment, cultural history, transportation, and regional advantages, the income of the eastern region is generally more significant than that of the western and central regions [5]. It could be illustrated in Table-2. Since the reform and opening up, to let some people get rich first, priority has been given to the development of the eastern region. In recent years, the Chinese government has also adopted a series of policy measures to help and adjust other regions, such as paying more attention to disadvantaged groups, implementing policies for developing the western region, and revitalizing the Northeast [6]. These regional preferential policies help to a certain extent alleviate the regional and urban-rural gap. However, the regional income distribution gap is still widening [6].

Wealth is constructed by labor, capital, and natural forces. The wealth created by labor among labor, capital, and natural forces is far less than the wealth created by capital. Compared with developed countries, labor in China is cheaper, and income distribution is more uneven[7]. Investment industries such as real estate, mining, finance, etc., which account for relatively large

capital, generally have higher incomes, while industries with a large labor share, such as agriculture and handicrafts, have lower incomes[7]. As a result, income distribution problems between industries have been exacerbated—the gap between rich and poor.

### 3. THE IMPACT OF INCOME DISPARITY ON THE ECONOMY AND SOCIETY

#### 3.1. Social instability

The excessive income gap is not conducive to social stability. The inequality of income distribution is significantly related to the level of violence. The level of violence is much higher in unequal areas than in relatively equal areas. Due to the increasing income gap, people will be dissatisfied and even resentful in society compared with each other. This is easy to deepen social contradictions and cause social problems. For example, the psychology of "hatred of the rich" and "poverty" is produced[8].

#### 3.2. Labor loss

The development of low-income areas is slow. Due to the market economy, factors of production flow to places with a high return on capital, a large number of migrant workers flock to cities, and labor from the west moves to the east, slowing the development of low-income areas such as rural areas and the west. According to the data from China's seventh national population census, Guangdong had the highest proportion of the population aged 15-59 among the 31 provinces. The number in Guangdong was 68.80%, 5.45 percentage points higher than that the average number of the whole country[9].

Guangdong has the highest GDP among any provinces in China [10].

Compared with 2010, its permanent population increased by 21.7904 million, accounting for 30 percent of the national increase. In this part of the increase, more than half belongs to mechanical growth [10].

In contrast, compared with the sixth National census in 2010, the population of the northeast region decreased by 1.20 percent points [10]. In terms of the proportion of the national economy, the northeast region just accounted for 5.03% of the total [10].

#### **4. ANALYSIS OF THE CAUSES OF THIS STATUS QUO**

##### ***4.1. Analysis of the impact of power rent-seeking on income distribution***

Power rent-seeking refers to an unproductive activity in which people with public power use power as a bargaining chip to obtain their interests [11]. The law of value requires commodity exchange value quantity as the basis, and the implementation of equivalent exchange power rent-seeking is to commoditize power and use power as capital to participate in commodity exchange or market competition. The search for money or material benefits is what we usually call the right-to-right transaction: power and property transactions, power-for-money transactions, power-color transactions. Often the cost of rent-seeking is lower than the benefits obtained through rent-seeking. Otherwise, rent-seeking would not be possible [11]. Through collusion between government and business people, business people and related institutions can obtain huge profits at the same time. However, all this often happens among high-paying people. The high-paying people have a vast network of resources, high incomes, and a high probability of bribery [11]. Ordinary people generally find it challenging to obtain high profits through rent-seeking, thereby gradually increasing their income levels.

##### ***4.2. The inevitability of market economy***

The market economy has added vitality to the economy to a certain extent and is more efficient than the planned economy [12]. However, relying on the market to operate alone, the speculative and blind nature of the market economy will inevitably cause unfair distribution, increase income gaps, and change the distribution. Unfairly, the market economy cannot automatically prevent the uneven income distribution, and it also ignores the interests of disadvantaged groups and low-income groups [12]. Moreover, from the integration of the planned economy to the market economy, some problems will inevitably arise due to the imperfection of the system. For example, the illegal income and grey

income obtained by many illegal businessmen through loopholes in the policy will widen the income gap [12].

#### **5. SUGGESTIONS**

##### ***5.1. Adopt transfers and payments to narrow the income gap***

The government mainly reduces high income through taxation and then transfers funds to the same level, lower-level government, or residents free of charge. It is closely related to the income distribution of residents. It is not only an essential mode of the secondary income distribution, but also a concentrated expression of the role of fiscal non-market redistribution. As a transfer payment policy, the external time lag is relatively short, and it has an immediate effect on subsidizing low-income groups and reducing income inequality [13]. Therefore, transfer payments can help alleviate the multi-dimensional income distribution gap between urban and rural areas, regions, and even industries, maintain social stability and improve the quality of economic growth.

##### ***5.2. Vigorously develop the economy***

While narrowing the income gap, we must continue to develop the economy and promote and expand employment through economic development. The fundamental prerequisite for expanding employment is to develop the economy and maintain rapid economic growth. At this stage in China, it is necessary to vigorously develop labor-intensive industries, create job opportunities as much as possible, and allow more low-income groups to raise their income levels. We could take these specific steps to narrow the income gap: Firstly, promoting efficient agriculture and industry in the inland region, expand the net income of farmers and workers; secondly, encouraging farmers to find part-time jobs and start their own businesses, it may increase their extra wages and incomes; thirdly, use new technologies such as 5G, artificial intelligence, big data to benefit more low-income groups. For instance, Internet finance is used to support rural farmers to expand agricultural production and increase their incomes [14].

##### ***5.3. Gradually promote the property tax to make the distribution of wealth more evenly***

If income flows, then wealth is stock. Once a stock is formed, it is difficult to change because it is difficult to adjust the stock. Wages and salaries can change at any time, but the adjustment of wealth is prolonged. Therefore, reducing the wealth gap is as important as reducing the income gap, and the two feedback to each other. We need to take measures to reduce wealth inequality. The primary way to reduce wealth inequality in Western countries is to levy taxes, such as inheritance tax, real estate tax, gift tax, and other property taxes.

## 6. CONCLUSION

The development of socialist construction in our country has achieved the goal of letting some people get rich first. To make society more harmonious and the country more prosperous and powerful, it is inevitable to narrow the income gap. The report of the 19th National Congress of the Communist Party of China proposed that "encourage hard work and obey the law to get rich, expand middle-income groups, increase the income of low-income people, regulate excessively high income, and ban illegal income. This paper believes that under the guidance of the party, we will surely achieve shared prosperity.

This paper analyzes the current situation, impact, reason, and solution of China's income gap: The income gap between urban and rural areas in China has been widening as well as different regions. It results in social instability and labor loss. There are two factors leading to the income gap: power rent-seeking and the inevitability of the market economy. It can be concluded that the promoting property tax, adopting transfers and payments to narrow the income gap, developing economy can solve the problem of the urban-rural income gap and regional income gap.

## ACKNOWLEDGMENTS

I want to thank Jincheng Liu from University of Miami and anonymous reviewers for their useful comments and language editing which have greatly improved the manuscript.

## REFERENCES

- [1]Zhang Peilu. Influence of China's Income Gap under China's Economic Transform. Nanjing University, 2016, 23:4-6
- [2] Chen, J., Dai, D., Pu, M., Hou, W. and Feng, Q., 2010. The trend of the Gini coefficient of China. Brooks World Poverty Institute Working Paper, (109).
- [3]Sicular, T., Ximing, Y., Gustafsson, B. and Li, S., 2008. The urban-rural income gap and income inequality in China. In *Understanding inequality and poverty in China* (pp. 30-71). Palgrave Macmillan, London.
- [4]Wu, H.X., Findlay, C. and Watson, A., 1994. *Rural Enterprises in China*. Springer.
- [5]Xiang, W.Y.C., 2010. The Chinese Fiscal Expenditure Structure and The Income Gap Between Urban and Rural Residents: Empirically Analyse Based on Provincial Panel Datas of China's Eastern, Central and Western Regions [J]. *Finance & Economics*, 8, pp.49-54.
- [6]Pei-xuan, W.A.N.G., 2012. The Rsearch in Income Gap between Regions of China [J]. *On Economic Problems*, 8.
- [7]Meng, X., 2012. Labor market outcomes and reforms in China. *Journal of Economic Perspectives*, 26(4)
- [8]Xiao-nan, X.I.E., 2012. On Chinese" Psychological Hatred of the Rich" from the Perspective of Economic Philosophy. *Journal of Guangxi Youth Leaders College*, p.03.
- [9]Yang, X., Li, W., Jing, W., Gao, C., Li, R., & He, Y. (2021). Population dynamics in northwestern China. *China Population and Development Studies*, 1-17.
- [10]Zheng, Z. (2021). From the past to the future: what we learn from China's 2020 Census. *China Population and Development Studies*, 1-6.
- [11]Colombatto, Enrico. Discretionary power, rent-seeking and corruption. No. 24-2001. ICER-International Centre for Economic Research, 2001.
- [12]Wu, F., & Yeh, A. G. O. (1997). Changing spatial distribution and determinants of land development in Chinese cities in the transition from a centrally planned economy to a socialist market economy: a case study of Guangzhou. *Urban studies*, 34(11), 1851-1879.
- [13]Wu, Y., Huang, Y., Zhao, J., & Pu, Y. (2017). Transfer payment structure and local government fiscal efficiency: evidence from China. *China Finance and Economic Review*, 5(1), 1-15.
- [14]Xie, P., Zou, C., & Liu, H. (2016). The fundamentals of internet finance and its policy implications in China. *China Economic Journal*, 9(3), 240-252.