Exploring the Path to Improving the Social Security System and Narrowing the Wealth Gap

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Abstract. China's rapid economic growth over the past four decades has been accompanied by a widening wealth gap and systemic inequities in access to education, healthcare, and employment. With a Gini coefficient of 0.466 for income and 0.704 for household net assets, inequality is entrenched through housing disparities, digital economy monopolies, and intergenerational poverty. The fragmented social security system exacerbates these challenges, as evidenced by urban-rural divides in medical reimbursement rates (72% vs. 55%) and pension benefits (72% vs. 18%), alongside insufficient fiscal investment (2.8% of GDP). This study proposes a triple reform strategy to transform China's social security system into an "empowerment engine" for common prosperity. Key measures include expanding coverage to gig workers and migrants via portable benefits, harmonizing urban-rural healthcare reimbursement, and modernizing governance through blockchain technology. Phased goals aim to reduce the Gini coefficient to 0.45 by 2025 and below 0.4 by 2030, supported by increased fiscal redistribution (5% of GDP) and unified legal frameworks. By addressing institutional fragmentation and leveraging digital innovation, the reforms seek to narrow wealth disparities, enhance intergenerational equity, and foster sustainable social protection.

Keywords: Social Security System, Wealth Gap, Urban-rural Inequality, Governance Modernization, Common Prosperity.

1 Introduction

China's rapid economic growth over the past four decades, driven by reform and opening-up policies, has positioned the nation as a global economic powerhouse. However, this growth has been accompanied by a widening wealth gap, now recognized as one of the most pressing social challenges of the 21st century. According to the National Bureau of Statistics, the Gini coefficient for resident income—a key measure of income inequality—reached 0.466 in 2022, exceeding the internationally recognized warning threshold of 0.4. While the urban-rural income ratio has declined from 3.33:1 in 2009 to 2.50:1, the absolute disparity continues to widen, with rural households facing persistent disadvantages in access to education, healthcare, and employment opportunities [1]. This imbalance not only suppresses domestic consumption—evidenced by the stark contrast in marginal propensity to consume (MPC) between high-income groups (0.48)

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and low-income groups (0.92)—but also entrenches intergenerational inequality, creating a cycle of disadvantage that spans generations [2]. For instance, the proportion of rural students enrolled in elite universities has plummeted from 48% in 1980 to a mere 16% in 2022, reflecting systemic disparities in human capital investment and educational mobility [3]. Contemporary inequality in China extends beyond income to encompass wealth accumulation and opportunity access, forming a multidimensional system of disadvantage. Housing value disparities alone account for 67.3% of the household net asset Gini coefficient, which stands at 0.704, highlighting the critical role of property ownership in wealth polarization [4]. Meanwhile, the digital economy's "winner-takes-all" dynamics exacerbate wealth concentration, as tech giants and platform monopolies capture disproportionate market shares, leaving smaller players and low-skilled workers marginalized. Addressing these multifaceted challenges necessitates a comprehensive reform of China's social security system, which currently suffers from theoretical and practical limitations. Existing studies often narrowly focus on short-term fiscal transfers, such as cash subsidies or temporary welfare programs, while neglecting the long-term institutional design required to address systemic inequities. For example, disparities in medical reimbursement rates between urban employees (72%) and rural residents (55%) under the New Rural Cooperative Medical Scheme widen health expenditure burdens by 19 percentage points, effectively reinforcing health inequality. Furthermore, China's social security expenditure, at 2.8% of GDP, lags significantly behind the OECD average of 7.9%, resulting in insufficient coverage and quality of services, such as rural pensions being only 18% of urban workers' levels [5,6]. Cross-sectional data, commonly used in existing research, further obscure dynamic institutional effects. For instance, while the 2016 integration of urban and rural medical insurance raised rural hospitalization reimbursement rates by 12 percentage points, significant disparities persist in outpatient care, illustrating the limitations of fragmented policy interventions.

2 Structural Challenges and Their Multidimensional Implications

China's social security system has evolved through three distinct phases: the unit-based welfare era (1949–1978), characterized by state-owned enterprises providing cradle-to-grave benefits; the socialized reform period (1978–2012), marked by market-oriented adjustments and the introduction of basic insurance schemes; and the universal development phase (2012–present), which emphasizes inclusive coverage and poverty alleviation [7,8]. Despite these advancements, the system remains fragmented, fiscally strained, and inadequately responsive to emerging risks. While basic medical insurance now covers 96.8% of the population and pension participation exceeds 91%, systemic flaws persist, undermining its redistributive and protective functions. Income inequality remains stark, with the top 10% of households accounting for 41.7% of total income, compared to just 14.1% for the bottom 50%. Wealth inequality is even more pronounced, driven largely by housing value disparities. Residential property accounts for 67.3% of the household net asset Gini coefficient (0.704), reflecting the urban-rural divide in property ownership and the speculative nature of China's real estate market [9]. Opportunity inequality further compounds these issues, as evidenced by the declining representation of rural students in elite universities—a drop from 48% in 1980 to 16% in 2022, which signals blocked upward mobility and the entrenchment of social stratification [10]. Institutional fragmentation exacerbates these challenges. Regional disparities in pension fund management, such as Guangdong's ¥7.8 trillion surplus versus Heilongjiang's ¥1.5 trillion deficit, highlight the inefficiencies of decentralized governance. Identity-based inequities further deepen divides: public sector employees enjoy a pension replacement rate of 72%, compared to a mere 18% for rural residents, creating a dual-tiered system that privileges urban and state-affiliated workers. Fiscal misallocation compounds these issues, with over 56% of social security expenditure directed toward healthcare and less than 3% allocated to unemployment insurance, leaving vulnerable groups such as gig workers and rural migrants underserved. Rural subsistence allowances, intended as a safety net, cover only 75% of urban standards and suffer from a 34% targeting error, failing to reach many eligible households. Sustainability pressures further threaten the system's viability. Pension fund reserves have dwindled from 18.6 months of coverage in 2012 to 11.2 months in 2022, while medical fund expenditures outpace revenue growth (14.3% vs. 9.8%), raising concerns about long-term solvency.

3 Reform Pathways: Expanding Coverage, Enhancing Equity, and Modernizing Governance

To address these challenges, systemic reforms must prioritize three interconnected dimensions: expanding coverage to marginalized groups, enhancing equity through institutional redesign, and modernizing governance to improve efficiency and accountability.

3.1 Expanding Coverage

China's burgeoning gig economy, with over 200 million workers, represents a critical frontier for social security reform. Currently, only 12% of gig workers participate in formal social insurance programs, leaving millions vulnerable to workplace injuries, income volatility, and old-age poverty. Adopting Germany's "quasi-employee" model, which mandates platform companies to contribute to injury insurance based on workers' earnings, could reduce work-related poverty by 35% if coverage reaches 80% Additionally, integrating urban and rural healthcare systems is imperative. Zhejiang Province's pilot program, which harmonized reimbursement rates and eligibility criteria, raised rural hospitalization reimbursement by 18% and reduced medical impoverishment by 7%, demonstrating the potential for nationwide scaling. To address the needs of 280 million internal migrants, a "social security card" system, inspired by the EU's portable benefits framework, could enable seamless cross-provincial transfers of pension and medical insurance contributions, eliminating bureaucratic barriers.

3.2 Enhancing Equity

Pension reform must prioritize narrowing the gap between urban and rural beneficiaries. Establishing a unified national replacement rate benchmark, such as 50% of pre-retirement income, coupled with allocating 20% of state-owned enterprise (SOE) profits (approximately ¥1 trillion annually) to pension funds, would enhance equity while ensuring fiscal sustainability. Adjusting rural subsistence allowances to dynamically align with local income levels, as demonstrated in Jiangsu Province, where allowances increased from ¥450 to ¥750 per month and reduced poverty by 12%, offers a replicable model for other regions. Extending unemployment insurance coverage to 36 months for gig workers and aligning policies with OECD standards—where a 10% increase in coverage reduces the Gini coefficient by 0.03—would strengthen social safety nets.

3.3 Modernizing Governance

Central coordination mechanisms are essential to address regional imbalances. A national pension fund, modeled after Germany's interstate fiscal equalization system, could redistribute surpluses from affluent provinces like Guangdong to deficit regions like Heilongjiang, ensuring nationwide equity. Digital innovations, such as Estonia's blockchain-based social security platform, which reduced administrative costs by 30% through transparent fund tracking, could revolutionize China's governance efficiency. Performance evaluation systems that link local government funding to equity indices, as seen in Sweden's social fairness framework, would incentivize policymakers to prioritize inclusive growth. Public-private partnerships, including tax incentives for commercial "inclusive insurance" products akin to the U.S. Affordable Care Act, could complement state efforts to build a multi-tiered safety net.

4 Conclusion

China's social security system is both a reflection of wealth inequality and a driving factor. Currently, institutional fragmentation, insufficient financial investment, and low governance efficiency threaten intergenerational equity and hinder the achievement of the goal of common prosperity. To this end, a triple reform strategy must be adopted: first, promote legal unification, formulate a national social security benchmark law, eliminate regional and identity differences, such as setting a unified medical reimbursement rate of 70%; Secondly, will strengthen fiscal redistribution, increase social security expenditures to 5% of GDP, and transfer 20% of state-owned enterprise profits annually, prioritizing support for rural healthcare, unemployment insurance, and pension sustainability; Thirdly, relying on technological empowerment and drawing on Estonia's e-government model, aim to establish a national blockchain platform by 2025 to achieve transparency in fund flows and reduce administrative costs.

The phased implementation path includes: integrating urban and rural medical insurance in the short term (2023-2025), expanding gig worker coverage to 80%, and reducing the Gini coefficient to 0.45; Reduce the urban-rural medical reimbursement gap to 10% in the medium term (2026-2030), achieve 90% unemployment insurance coverage, and stabilize the Gini coefficient below 0.4; Long term (2031-2049) construction of a "developmental" social security system, integrating education, healthcare, and housing support, and breaking the cycle of intergenerational poverty. Ultimately, through coordinated reforms in legislation, finance, and technology, China can upgrade social security from a "survival net" to an "empowerment engine", making it the cornerstone of common prosperity rather than a hierarchical incentive.

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