

# Analysis on China's Income Distribution at the Present Stage

<sup>1</sup>Lei SUN, <sup>2</sup>Ying-jun SUN

<sup>1</sup> Business School, University of Shanghai for Science and Technology, Shanghai 200093, China

<sup>2</sup> Business School, University of Shanghai for Science and Technology, Shanghai 200093, China

Email: [sunlei0330@126.com](mailto:sunlei0330@126.com)

**Abstract** –The China's income gap becomes an increasingly serious problem at the present stage. It appears not only between the urban and rural residents, but also among different fields, different areas and so on. The paper is written on the three parts which makes an initial analysis for China's income distribution at the present stage. From the viewpoint of the disequilibrium economy, the economic system, the taxation system, and the public service, this paper analyses the reasons that cause the serious situation, puts forward some advices to deepen reform of the system for income distribution. It is significant for the authorities to reduce the income gap and improve the existing situation.

**Keywords** –Income distribution; Income gap; Reform of system; Individual income tax; Social security system

The pioneer of development economics Nobel Prize winner Arthur Lewis pointed out that the changes in income distribution is the most politically significant aspects of the development process, but also the most likely to cause jealousy of psychology and confusion unrest aspects do not understand why these changes will occur, and what role it will play, it is impossible to formulate a viable policy, "the fact that China's widening income gap is recognized, but its performance is very complex, different people about the pattern of income distribution from different angles, there are different descriptions have their own truth. However described, are in fact the reality of a simplified, cannot be completely accurate to describe the real world. This article was generalized the main features of the income distribution at this stage, from urban and rural areas, industry, region and other aspects.

## 1. China's income distribution gap Analysis

In 2010, China's urban and rural residents' income has a substantial increase in the per capita net income of rural residents reached 5,919.0 yuan, a real growth of 14.86%

over the previous year; capita disposable income of urban residents reached 19,109.4 Yuan, a real growth of 11.26%. But as incomes rise, the gap in income distribution has become increasingly serious; the income gap has significantly increased, mainly in the following areas:

### 1.1 The urban and rural residents' income disparities

Weak foundation for the development of the rural economy, the labor productivity is difficult to improve, the slow growth of farmers' income, urban and rural residents' income gap has been too large. From the differences between urban and rural areas in 2010, China's urban residents per capita disposable income of 19,109.4 Yuan, per capita net income for rural residents 5919.0 Yuan, 3.23 times; Engel coefficient of urban residents was 35.7%, the Engel coefficient of rural residents was 41.1%. In the years 2005-2010, the absolute gap between urban and rural residents' income from 7238.1 yuan expanded to 13,190.4 yuan. As can be seen from Table 1 data listed, the amount of urban and rural residents' income gap is significantly increased, and

the Engel coefficient of rural residents was significantly higher than the Engel coefficient of urban residents.

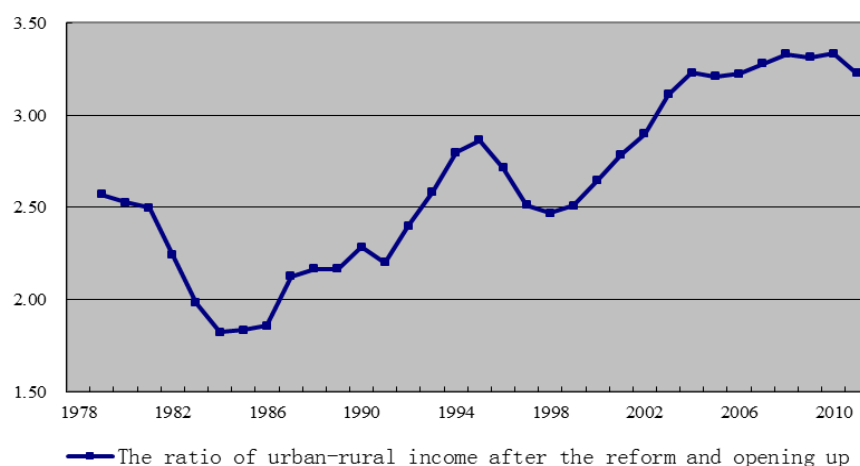
**Table 1** China's urban and rural resident's per capita household income and the Engel coefficient

Year	The disposable income of urban residents per capita (RMB)	The consumption expenditure of urban residents per capita (RMB)	The net income of rural residents Per capita (RMB)	The consumption expenditure of rural residents per capita (RMB)	The Engel coefficient of urban (%)	The Engel coefficient of rural (%)
2005	10493.0	7942.88	3254.9	2555.40	36.7	45.5
2006	11759.5	8696.55	3587.0	2829.02	35.8	43.0
2007	13785.8	9997.47	4140.4	3223.85	36.3	43.1
2008	15780.8	11242.85	4760.6	3660.68	37.9	43.7
2009	17174.7	12264.55	5153.2	3993.45	36.5	41.0
2010	19109.4	13471.45	5919.0	4381.82	35.7	41.1

Source: China Statistical Abstract 2011

China has the world's highest income gap between urban and rural areas, the overall income gap of Chinese residents to a large extent explained by the gap between urban and rural areas. National income gap Theil index can be broken down into three parts: the income gap between the towns internal, within the rural as well as urban and rural. According to the household survey the CHIPS conducted three rounds, in 1988, 1995 and 2002, the income gap between urban and rural residents, respectively, of the interpretation of the country's overall income gap was 33%, 37% and 40%. As can be seen from Figure 1, the urban-rural income gaps in China

since the reform and opening-up since change trajectory. 1978, the income gap between urban and rural areas was declining, the lowest point of 1.82 in 1983 reached nearly 30 years, and thereafter maintained for two years and continue to rise. Appeared in 1994 a decline stage low of 2.47 in 1997, and then until 2003, the income gap between urban and rural areas is fast rising, reaching 3.23. Since 2003, the value is slowly rising phase, 3.33 in 2009, but also after the founding of the history of the highest value, declined slightly in 2010, to 3.23. The middle part of the year had dropped, but the overall trend is upward.

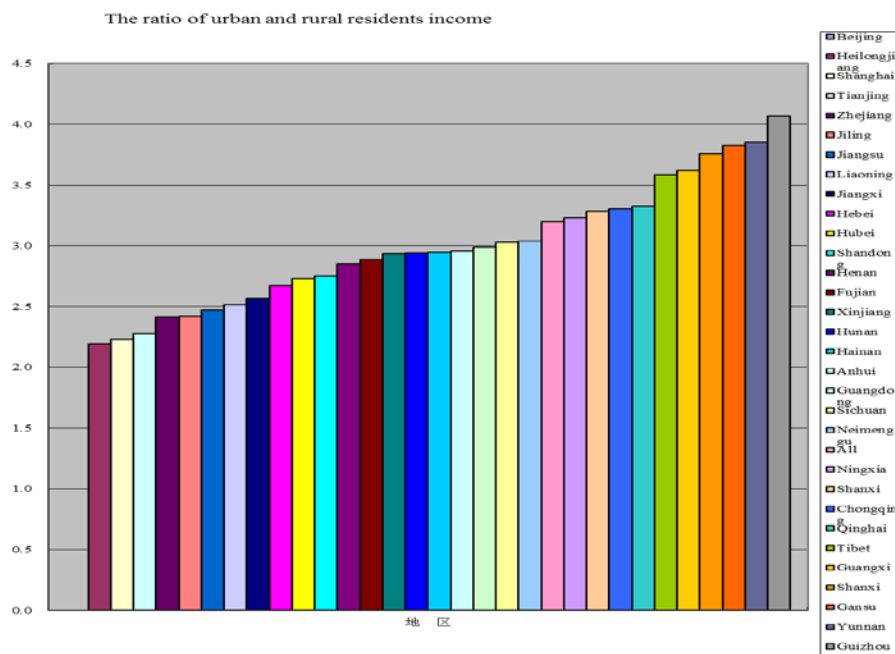


**Figure 1** ratio of urban and rural residents' income, 1978 - 2010

Source: Author calculated according to the China Statistical Abstract (2011)

Another manifestation of the urban-rural income gap is the different provinces, the imbalance between different regions (see Figure 2). Overall, the economically developed provinces gap between urban and rural areas is less than the economically backward provinces, the eastern part of the gap between urban and rural areas is

less than the west. The smallest gap is 2.19, largest Guizhou and Yunnan provinces of 4.07, 4.06, 86 percentage points higher than in Beijing. In 2010, Beijing urban and rural incomes, Guizhou Province, 2.06 times and 3.82 times respectively.



**Figure 2** In 2010, respectively, the provincial urban and rural income ratio (order)

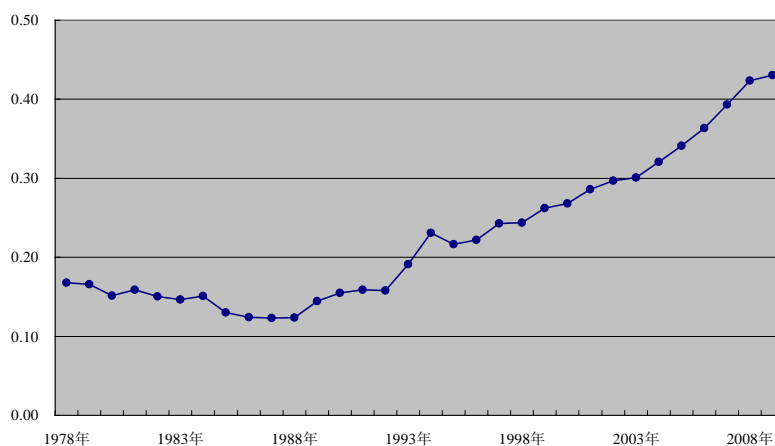
Source: Author calculation derived according to the China Statistical Abstract (2011)

## 1.2 The income gap between our industries

Explore the income gap in China, is an unavoidable aspect of the industry income gap. Figure 3 is a wage coefficient of variation of some of our industry 1978-2010. Industry involved in agriculture, forestry, animal husbandry, fisheries, mining, manufacturing, electricity, gas and water production and supply industry, construction, transportation, warehousing and postal and telecommunications industry, the financial industry and the real estate industry and other industries is difficult to find the year 2002 data. The diagram data analysis, 1992, the industry wage gap began to expand, so far, the trend has been upward. In 1978, the industry wages highest electricity, gas and water production and supply industry wage of \$ 850, which is the lowest in agriculture, forestry, animal husbandry and fisheries 470 \$ 1.81. In 2010, the highest wages in the industry for the financial industry,

70,146 yuan, 16,717 yuan, 4.20 times the lowest in agriculture, forestry, animal husbandry and fisheries. The industry gap is widening, the only constant is the minimum wage in the industry has been agriculture, forestry, animal husbandry and fishery.

Industry income gap in this century and then gradually caused widespread concern. Industry income gap is mainly reflected in: monopoly industries and non-monopoly industry workers, the income gap is too large, excessive monopoly industry workers; emerging industry and traditional industry workers, the income gap between the income levels of the emerging industry workers, faster growth; knowledge, capital-intensive industries and labor-intensive industry workers gradually expanding income gap, the higher the income of workers of the intellectual and capital-intensive industry.



**Figure 3** Industry wage income coefficient of variation, 1978 -2009

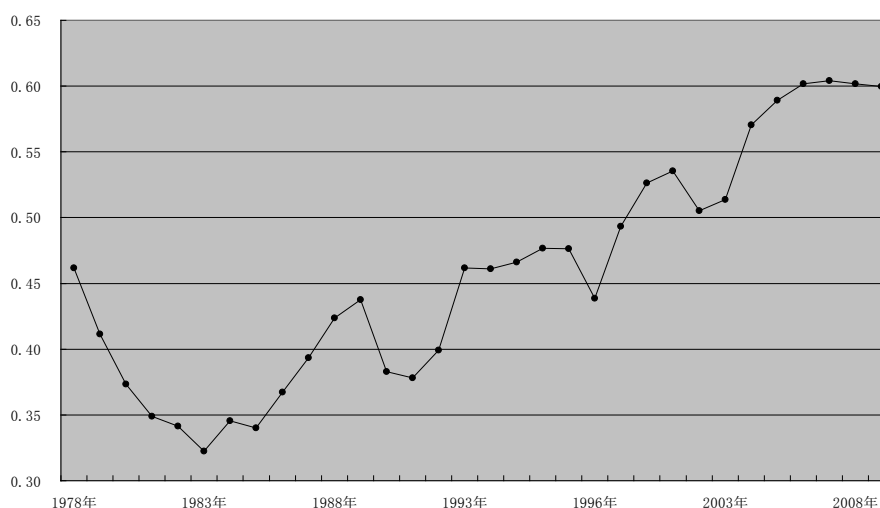
Source: Shanghai University of Science and Technology School of Management 2008 National Economics Alistair Quan, according to the China Statistical Yearbook (2010) calculated to draw

### 1.3 The distribution of income regional gap significantly

Larger income gap between regions is another important feature of the pattern of income distribution in China. After the reform and opening up the eastern coast and western inland regions widening income gap, the formation of the more obvious gradient pattern of development in eastern, central and western. The imbalance of income distribution in the region has not only exacerbated the conflict of interest between the regions, but also poses a challenge to the sustainability of China's economic development.

of the paper focuses on regional disparities. The statistics application support system taken from the data in this article, no direct data in per capita income, based on the data available, the use of  $y_i = p_{ir}y_{ir} + p_{iu}y_{iu}$  per capita income. Where  $y_i$  per capita income for the  $i$ -th province (region),  $p_{ir}$  and  $p_{iu}$  represent the proportion of the province (region) rural population and the proportion of the urban population, and on behalf of the province (region),  $y_{ir}$  and  $y_{iu}$  the per capita net income in rural areas and urban per capita disposable income. Chongqing municipalities classified as in 1997, is to ensure that the data of the same caliber, 1997 Chongqing data incorporated into Sichuan Province.

Due to the data crippled serious, before the reform and opening up data is not readily available, after the reform



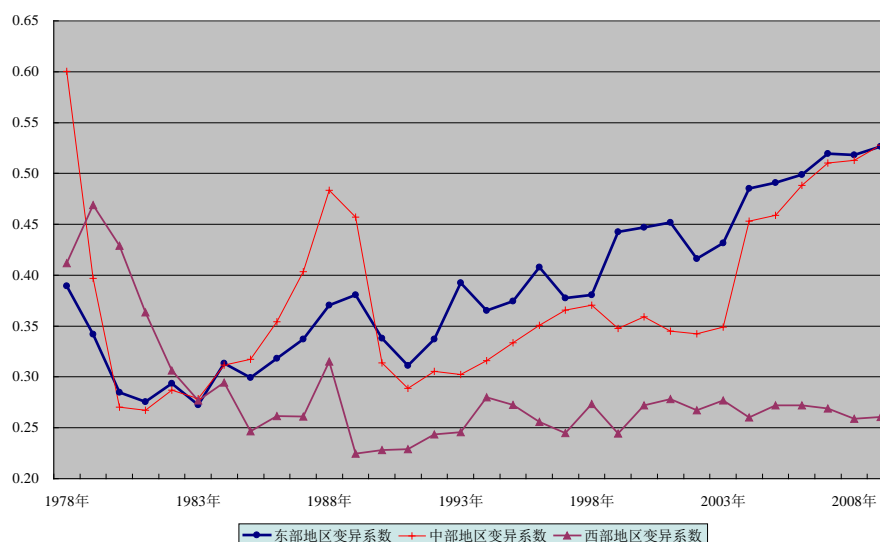
**Figure 4** coefficient of variation of per capita income 1978 2009

Source: Shanghai University of Science and Technology School of Management 2008 National Economics Alistair Quan, according to the China Statistical Yearbook (2010) "calculated to draw

Measure of regional income disparities, scholars use the Theil index, the Gini coefficient, the coefficient of variation, standard deviation, income flow measure, the advantages and disadvantages of different indicators. Based on data availability, and ease of processing, the selection of the coefficient of variation to measure the coefficient of variation throughout a given year standard deviation of its average income ratio calculated formula,  $C.V = S / \bar{x} \times 100\%$ , where  $S$  is the standard deviation and  $\bar{x}$  is average. Shown in Figure 4, the coefficient of variation of the national per capita income in 1978-2009 years, seen from the figure, the overall coefficient of variation is rising. The coefficient of variation after the reform and opening up, once dropped, and reached its lowest point in 1983, after rising up the middle, despite

the decline for several years, but the overall trend is rising nationwide regional income gap in expanding.

Shown in Figure 5 is the eastern, central and western region of the country is divided, and the coefficient of variation were calculated within the regional income gap. As shown, prior to 1983, the income gap in the three regions are declining, the central region at the beginning of the reform of the income gap is the largest, and the subsequent changes in the most dramatic. The coefficient of variation in the eastern region in 1983 in a steady upward trend in the middle of 1987, the income gap is significantly larger after basically stabilized after the 1990s, but rose rapidly after 2003; while in the western region basically stable since the 1983, the income gap in the region did not change significantly.

**Figure 5** three regions coefficient of variation of per capita income gap between 1978 and 2009

Source: Shanghai University of Science and Technology School of Management 2008 National Economics Alistair Quan, according to the China Statistical Yearbook (2010) "calculated to draw

The above description of the basic pattern of income distribution in China than described above, of course, in reality, much more complex. The pattern of income distribution, there are a lot of dimensions, such as within the urban and rural income gap within the income gap caused by the human capital, productivity, different income gap due to financial development has led to the income gap and so on. However, these descriptions are

not exhaustive, also exists between the different dimensions to cross each other. This article will discuss the main aspects to describe in detail.

## 2. China's income gap Cause Analysis

There are many reasons for the widening income gap in China, uneven economic development gap between

regions, urban and rural income distribution; market economic system brought about by the development of competition caused by the industry, the gap between personal income distribution; create a monopoly of the government division of responsibilities is unclear, lead the income gap between the industry; same time, the state in taxes, transfer payments, spending on education, social security system and other aspects of a problem, lead to further China's income gap gradually widened. Below are analyzed from several aspects.

## 2.1 Non-balanced economic development

The formulation and implementation of economic development strategies are inextricably linked to the formation of a country's income gap with the country. China from the 1950s launched the heavy-industry development, agricultural support industry in rural areas to support the policy of the city, due to long-term funds extracted from agriculture, resulting in a lack of agricultural ability to accumulate a serious impediment to the development of agriculture. Not only that, in the early years, the state has taken a strict household registration system to limit rural dwellers to move into the city, resulting in a large number of rural laborers gathered in a limited amount of arable land, the income gap between urban and rural China's development of a historical problem. Adapt to this particular stage of economic development, along with the regional development disparities, as well as industry, the rise and fall of the imbalance in China's economic development characteristics have become increasingly prominent. The beginning of reform and opening up, a lot of money to give priority to the location, the southeast coastal areas with better economic base tilt, the establishment of special economic zones at the same time to give more tax, investment, trade and other preferential policies, the eastern part of the economy rapid development, but also lead to the gradual expansion of the income gap between regions. Eastern region of unbalanced economic development strategy to promote the improvement of the social productive forces, enhance the economic vitality of the country as a whole, but undeniable, its adverse impact is also very prominent, such as rural areas lagging behind in the city, has a unique advantage The long-term economic development than the Midwest, emerging and

high-tech industry development speed and efficiency than traditional industries.

## 2.2 Economic system is unreasonable

China is currently in the planned economic system during the transition period to a market economy system, the government has gradually liberalized the right to operate in many areas, so as to promote competition in the market, but there are some people and organizations to take advantage of this opportunity to seek illegal interests. The economist pointed out in the article of the income gap is too large the crux "A lot of evidence that, not too large income gap, to a large extent by the public wealth and public relations opportunities equality, corruption and monopoly, is unequal opportunities mainly. In some industries, the government's administrative monopoly disrupt or even limit the role of the market, resulting in unfair competition phenomenon, such as finance, insurance, transportation, electric power and other industries monopolized the market by virtue of executive power, high monopoly profits, so its industry's income is much higher than other non-monopoly industries. The existence of administrative monopoly, resulting in the serious inequality of income distribution, regardless of effort, because the employees of the monopoly industries can get above-average income, and other enterprise employees in the market can only get normal income This leads to the inequality of the income distribution between employees. In recent years, a series of reform of monopoly industries continue to intensify anti-corruption efforts, but many industry monopoly still not been fundamentally changed, many affect income distribution is unfair, unreasonable phenomenon did not fundamentally change, In addition, part of the party and government officials taking advantage of his rights, corruption, bribery, embezzlement of state assets, or other means of profiteering; allocation of state funds there are serious loopholes in management, there are a large number of assets even from financial management, abuse and serious dropout; in state-owned fixed assets investment, there are the subcontract investment projects, jobbery phenomenon, huge dropout, formed a huge amount of gray income tax department can not be effectively monitored, resulting in the loss of state tax revenues.

## 2.3 The imperfections of the tax system

Typically, government regulation of the distribution of income through fiscal and tax policy, and tax government income redistribution, an important means to achieve social justice, strengthen regulation of income distribution of the high-income class, and to improve the income of low-income strata allocation through transfer payments. situation, in order to achieve the purpose of narrowing the income gap. China's tax system lags far behind the pace of reform of the market economy, the regulatory role of the government in terms of income distribution is affected. In our current tax system, personal income tax, excise tax, property tax and urban land use tax can affect the distribution of income, but rather related to the adjustment of income distribution to the gift tax, inheritance tax and social security tax has not levy the same time, due to levy several taxes tax system design is not perfect, does not play an active regulator. According to the data in the "China Statistical Yearbook" computing, in 2009, the proportion of including value-added tax, consumption tax and business tax of tax revenue accounted for the total income tax of 54.19% (including consumption tax accounted for 8%), and the income tax accounted for the proportion of total tax revenue 26.02 %, personal income tax accounted for only 6.64%, limited role in regulating income distribution of the personal income tax, while in the case of personal income tax to the classification levied mainly, due to the lack of effective regulation, appears less tax the rich, the poor more tax and working-class reverse regulation, coupled with the legal system and supporting system is imperfect, so that high-income earners advantage of the loopholes of the hands of the terms of reference, and get a lot of gray income and illegal income, further widening the gap between ordinary workers ; countries in 2006 consumption tax reform, the original 11 items and adjusted to 14, but some high-end consumer products not yet included in the scope of taxation, such as luxury, high-end furniture, high-end wine, rather like the rice wine and mass consumer goods such as potato liquor also exist in the tax base, the tax on these items would no doubt make in the tax burden borne by the consumption of low-income than high-income class; property tax and urban land use tax in the tax basis, the collection of the

scope of the tax system design limitations, these are so greatly reduced the tax adjustment function.

## 2.4 The lack of public services

In recent years, the rising cost of basic public services personally liable, so the low-income groups can not afford the economic gap between regions and between urban and rural areas of long-term economic backwardness - poor infrastructure and other public services - low investment returns - investment flows to developed areas with a higher level of public services - backward areas backward "vicious cycle, visible, the government on public services, such as lack of education, health, social security, employment policy, the gap between the rich and the poor will further expand . At present, China's in the public service shortcomings, mainly the following problems: First, the social security system is weak. Dislocation of the social security system to protect, no urban and rural low objects, such as unemployment and jobless people into the system, but the income level is already high crowd as security objects, which not only can not narrow the income gap, but to increase the personal income gap; Second, the total lack of investment in education, the structure is irrational. 1.043754 trillion Yuan of national spending on education in 2009, the proportion of GDP was 3.06%, lower than the average level of developed countries; investment in education in the region there are also a large gap between investment in education in the western region lags far behind the eastern region; Third, the public services in the regional inequality. Significant differences due to the existence of the level of regional economic development, natural resources, cultural background, resulting in around fiscal revenue and expenditure, fiscal revenues in developed countries, the relatively high level of public service, while in rural areas due to the fiscal revenue is not The high level of services provided is poor, making the development of the region to form a vicious cycle.

## 3. China's income gap Suggestions

(1) Through various channels to promote the employment of rural residents, increasing farmers' income, and gradually narrow the gap between urban and rural areas. The government will, as always, carry out and

implement the Party series Huinong agricultural support policies, and constantly improve the institutional mechanisms conducive to agricultural and rural development. Continue to increase the financial funding of "rural", and actively guide the reform of agricultural industrialization, to vigorously develop intensive, large-scale, standardized agriculture. Guide the rural transferred to the secondary and tertiary industries, vigorously develop the rural and urban enterprises. Guide the transfer of rural surplus labor force, and earnestly solve the problem of arrears of wages for migrant workers, free to extend the working hours in a timely manner. Further stabilize agricultural prices, lower production costs, an appropriate increase in the agricultural and sideline products purchase price to protect farmers' enthusiasm for production, increase farmers' income.

(2) To deepen the reform of income distribution system, rectify and standardize the order of income distribution. China's income gap is too large disorder caused due to the order of income distribution in the initial distribution of the process, so the key is to deepen the income distribution system in the process of rectifying and standardizing the initial distribution of the income distribution order.

(a) The transformation of government functions, reduce the size of government. Due to the lack of effective mechanism, the Chinese government often with expanded powers to control more social resources and the motivation, the existence of such a motive is a source of government involvement in the specific economic and social affairs. More government involvement in economic and social affairs, it has powers growing, more and more control of social resources, will inevitably requires the government's increasing scale. Thus, the key motivation is to limit government expansion of power and resources to rectify and standardize the order of income distribution, which requires the government functions by promoting economic growth into the protection of people's livelihood. According to the a basic principle Shegang because the incident after the withdrawal of the government from the general economic affairs will lead to job reduction, which requires merge agencies, streamline staff.

(b) Break the monopoly, narrowing the income gap between industries. Narrow income distribution

unreasonable income gap between the industry, the most important or to establish a fully competitive market environment, breaking all unreasonable, unnecessary monopoly. On the one hand, the government should deepen reform deregulation, and the use of appropriate economic instruments to adjust; guide the state-owned enterprises but we also need to consider their duties, and to establish and improve the state-owned capital operation budget from the point of view of social responsibility, centralized allocation of a considerable part of the state-owned assets.

(c) And raise labor share in the initial distribution of national income. Accelerate the introduction of the "Wage Ordinance, supervise enterprises to build up a reasonable and fair allocation system, the level of wages and profits, and to ensure that the income of workers and the simultaneous increase in economic efficiency of enterprises, solve the low wages of ordinary workers, slow wage growth, suffered payment of wages social issues; improve the legal system mechanism, strict law enforcement to combat the behavior of wage arrears for migrant rural workers; increase government education, skills training for migrant workers, and improve the quality of workers, and earnestly safeguard the interests of workers. To further raise the level of the basic pension for enterprise retirees, to solve the problem of some corporate retirement of older workers to treatment is too low. Encourage entrepreneurship and SME development, and vigorously expand employment, reduce unemployment, increase the coverage of labor income and population size.

(3) Improve the redistribution mechanism to achieve fair distribution.

(a) Start a deep reform of the personal income tax as soon as possible. The core issues of tax policy should be who really bear the heaviest tax burden, that is, which class to pay the largest proportion of the tax. Our current inadequacies of a tax in addition to the threshold issues, mainly that the classification of the income tax system, and do not consider the burden and expense of the taxpayer's family deductible system. This classification of the income tax system with feebate defects breakdown of taxable income tax of a different nature, is difficult to fully complete manifestation of the taxpayer's real ability to pay the resulting income sources, comprehensive income less tax not even tax, less income sources and



low-income people, more than the tax inequity. Therefore, through a series of supporting reforms and the overall design of the tax system must realize a reasonable and fair tax burden on high-income earners and more tax, low-income burdens, so that the tax return of the fair to promote the healthy growth of the economy.

(b) Speed up the construction of the system of social security system. The social security system is an important mechanism of redistribution, the "shock absorbers" of the reform and development, and social equity "regulator" social stability "safety net". Improve the relationship between the social security system to the fundamental interests of the overwhelming majority of people, is a mechanism to protect the basic livelihood of poor people "shed". To obtain reasonable assurance protection standards and ways to further expand the basic pension, basic medical and unemployment insurance coverage will meet the conditions of the employees in urban areas and gradually covered by social security. To further improve the urban minimum living security system, effectively protect the basic livelihood of the people in financial difficulties. Should attach great importance to solve the difficulties in the lives of the rural poor population, continue to promote the new rural cooperative medical reform pilot, where conditions permit may continue to explore the establishment of a rural minimum living standard security system. Proportion of social security expenditure to improve the finances, multi-channel financing of social security funds; should also actively developing social welfare, and to improve the social assistance system.

#### 4. Conclusions

China has by egalitarianism prevailed in the country, into a larger gap between rich and poor countries, the gap is too large due to the divide between rich and poor will become a "relative deprivation" of yeast fermentation. Reform is not just a process to improve the total economic output and growth rate, but also one of the interests of the re-allocation process. In this process, if the rules are unfair distribution of benefits, and the result of the distribution of benefits was unfair, uneven pattern of distribution of benefits, "relative deprivation" of the public heart will begin to swell, feel "deprived" when they endure The ability to reach a certain critical point, it

is inevitable to take extreme behavior to protect their own interests, which induced the root causes of social conflict. Tony Atkinson believes that poverty caused by the market mechanism, capability deprivation and social exclusion as well as the phenomenon of "marginalized", the government must be changed through institutional arrangements. Institutional change and institutional innovation is the inevitable development of history, of course, this is a gradual process, this process is expected to be done overnight is unrealistic. Only to investigate the root cause of the income distribution gap, we can prescribe the right medicine, targeted institutional innovation, so as to gradually narrow the gap, and to contribute to the great goal of a harmonious society.

#### References:

- National Bureau of Statistics of the People's Republic of China. "China Statistical Yearbook 2011.
- Li Shi, Yue Ximing. China's urban-rural income gap survey [J]. Financial, 2004 (3) :30-32.
- Luo Chuliang dynamic evolution of the urban-rural income gap :1988-2002 [J]. Financial Research, 2006,35 (9) :15-19.
- The Alistair Quanqi. Economic restructuring during the gap between the pattern of income distribution in China [D]. Shanghai University master's degree thesis, 2011 (1) :23-27.
- Wei Lihong personal income tax reform to promote a fair distribution of income [Henan University, a master's degree thesis, 2011 (5) :23-25.
- Shen Weina. Widening income gap in China's urban and rural residents, Causes and Countermeasures [J]. Modern economy, 2010 (7): 204.
- Yucheng Yue institutional level to resolve the causes of the Income Gap in China [J]. Productivity, 2010 (9) :139-141.
- Xue Fang income gap in China the expanding phenomenon Thinking [J]. Border Economy and Culture, 2006 (11) :105-107.

#### Vitae

Sun Lei, was born in 1987 in Nanjing, China. She is studying for her Master degree now in Business School, University of Shanghai for Science and Technology.

Sun Yingjun, was born in 1962 in Heilongjiang. She is the professor in Business School, University of Shanghai for Science and Technology.