

Impacts of China's Social Security on Urban–Rural Income Gap

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Abstract: This paper analyzes the effect of social security to regulate the income distribution of urban residents from 2007 to 2017 in Fujian Province of China. This study introduces the concept of “bad index” and compares the proportion of per capita net income and per capita social security income of different income households. The income redistribution effect of social security shows a phenomenon of “reverse adjustment” between urban-rural low-income households and high-income household. The investigation finds that social security has further widened the urban–rural income gap due to insufficient investments in social security and unreasonable expenditure structures. The results suggest that the government should adopt a series of measures to increase the financial investment in social security and to improve the coverage of social security system.

Introduction

Since the reform and opening up, China's gross domestic products rapidly grow, national wealth has accumulated rapidly, and the living standards of people's lives have also greatly improved. However, the urban–rural income gap also widened which has caused widespread dissatisfaction in the society. According to the 19th National Congress Report of China clearly pointed out that “socialism with Chinese characteristics has entered a new era, and the main contradictions in our society have been transformed into contradictions between the people's growing needs for a better life and the development of inadequate and imbalances. The gap between urban and rural development and income distribution is still large”. Exactly, after the reform and opening up, the urban-rural income gap is still large, it has restricted the improvement of people's living standards to some extent. To this end, solving the problem of income distribution gap has become a major problem that the society needs to solve urgently, and it needs to play a regulatory role in the income redistribution mechanism. The public's recognition of social fairness and justice has fallen sharply. Not only low-income groups such as the unemployed and migrant workers, but also vested interests such as party and government officials, private business owners and corporate executives are highly dissatisfied. According to data released by the World Bank, 5% of the US population accounts for 60% of the country's wealth, while China's 1% of wealthy households account for more than 40% of the country's assets, making it one of the countries with the largest gap between the rich and the poor. The widening gap in income distribution has not only seriously undermined the fair competition of the market economy, but also greatly damaged social equity and justice, intensified the contradictions of all social strata, and led to the potential enlargement of potential social risks, which will eventually lead to “individual dissatisfaction--- Group dissatisfaction --- group action --- social turmoil” risk chain.

Although the worsening income distribution gap is the result of the interaction of multiple factors, the failure of social security as an important “regulator” of income distribution to be fully effective is

one of the key factors. It is generally believed that social security is an important tool and effective means to regulate the income distribution of residents, and has a comprehensive income distribution adjustment function. However, after years of reform and development, although China's social security system has entered a new stage of "urban and rural integration and universal coverage", the gap between the rich and the poor in society has continued to expand, and has aroused widespread concern from all walks of life. Therefore, it is urgent to understand the adjustment effect of China's social security on income distribution, analyze possible problems and propose targeted solutions. This paper will discuss the related issues of social security for urban residents' income distribution including the income redistribution mechanism of social security and the impacts of social security in the urban-rural income gap.

Literature review

With regard to social security and the distribution of income of residents, the academic community has given more attention and has achieved some fruitful research results. Some scholars have found that social security is an important means to regulate the income distribution of residents, and can effectively narrow the income distribution gap of residents. They believe that social security has a "positive adjustment" effect on income redistribution. Korpi and Palme (1998) used the data from the Luxembourg Institute of Income Research (LIS) to conduct empirical studies of different types of welfare states, and found that the level and goal of social security transfer-payments targeted to the poor play an important role in reducing income inequality. Smeeding (2004) tracking of the relationship between income inequality, poverty and income redistribution in Western countries found that pensions can effectively alleviate poverty among the elderly and reduce the inequality of income distribution among residents. However, some scholars expressed the opposite view. Jia (2014) pointed out that China's new rural pension insurance system has obvious income redistribution effect. Gao (2012) used the method of the Gini coefficient to find that the social security transfer income reduced the income inequality within the urban residents and rural residents of China to a certain extent. Ding and Zhu (2013) pointed out that although the current income redistribution effect of social security in China is not significant, its positive effect begins to appear. However, other scholars' research indicates that social security in China has not only narrowed the income distribution gap of residents, but has further widened the income distribution gap of residents. Huang et al. (2003) used the GE index and its decomposition method to find that the social security transfer income exacerbated the income inequality of urban and rural residents in China, and then used the same method to study the income gap in Zhejiang Province and reached similar conclusions. Based on the analysis of provincial panel data, Lei and Cai (2012) found that the gap between the rich and the poor in urban and rural areas in China has gradually widened due to the tendency of "thick in towns and thin in villages" in fiscal and social security expenditures.

Impacts of social security on the income redistribution

The data accessed from the Fujian Statistical Yearbook (2007 ~ 2017). o analyze the specific effects of social security to regulate the income distribution of urban residents, it is necessary to compare the income gap of urban residents before and after social security regulation. Thus, this paper introduces the concept of "bad index" which is put forward by Xie and Yang. (2015) The bad index refers to the ratio of the income of different income households to the income of low-income households. The larger the ratio, the greater the income gap.

The "initial income bad index" refers to the ratio of the income of different income households before social security adjustment to the income of low-income households. The "adjusted income bad index" refers to the ratio of the income of different income households to the income of low-income households after social security adjustment. The "regulation effect index" is the difference between the initial income bad index and the adjusted bad income index. Assume that the adjustment effect index is E, the initial income bad index is A, and the adjusted income bad index is B, then: $E = A - B$.

When E is positive, it indicates that social security narrows the income distribution gap of urban residents when other conditions are unchanged. When E is negative, it indicates that social security has widened the income distribution gap of urban residents when other conditions are not changed, that is, there is a “reverse adjustment.” Based on the data from the statistical yearbook, the values of A, B, and E can be calculated, as shown in Table 1. According to Table 1, in the 11 years from 2007 to 2017, the E value was negative for 9 years. At the same time, during the 11 years, the maximum negative value of E value was -0.66, E value of the high-income household in 2014. The maximum positive value is 0.37 for medium-low-income households in 2013.

Table 1 Analysis on the implementation impacts of social security on the income redistribution of urban residents in Fujian (2007-2017)

YEAR		LOW-INCOME HOUSEHOLD	MEDIUM-LOW-INCOME HOUSEHOLD	MEDIUM-INCOME HOUSEHOLD	MEDIUM-HIGH-INCOME HOUSEHOLD	HIGH-INCOME HOUSEHOLD
2007	A	1	1.19	1.70	2.22	2.80
	B	1	1.28	1.68	2.22	2.86
	E	0	-0.09	0.01	0.00	-0.06
2008	A	1	1.25	1.58	2.14	2.90
	B	1	1.29	1.65	2.19	2.91
	E	0	-0.04	-0.07	-0.05	-0.01
2009	A	1	1.31	1.74	2.20	3.17
	B	1	1.32	1.73	2.28	3.04
	E	0	-0.01	0.01	-0.08	0.13
2010	A	1	1.25	1.64	2.22	2.92
	B	1	1.27	1.65	2.16	2.89
	E	0	-0.01	-0.01	0.06	0.03
2011	A	1	1.36	1.78	2.51	3.33
	B	1	1.31	1.76	2.36	3.14
	E	0	0.05	0.02	0.15	0.19
2012	A	1	1.36	1.35	1.36	3.44
	B	1	1.31	1.31	1.34	3.09
	E	0	0.05	0.02	0.15	0.19
2013	A	1	2.10	1.32	1.43	4.04
	B	1	1.73	1.33	1.35	4.20
	E	0	0.37	-0.01	0.08	-0.16
2014	A	1	1.64	1.28	1.39	4.38
	B	1	1.67	1.32	1.33	5.04
	E	0	-0.03	-0.04	0.06	-0.66
2015	A	1	1.70	1.30	3.06	4.75
	B	1	1.64	2.19	2.90	4.86
	E	0	0.06	-0.90	0.16	-0.11
2016	A	1	1.72	2.31	3.09	4.52
	B	1	1.60	2.15	2.85	4.64
	E	0	0.12	0.15	0.24	-0.12
2017	A	1	1.76	2.30	3.23	4.70
	B	1	1.64	2.22	2.98	4.90
	E	0	0.12	0.08	0.26	-0.19

During the 11 years from 2007 to 2017, for medium-low-income households, the E value increased from -0.09 to 0.12, and the number of negative years was 5 years, indicating that social security has a significant effect on narrowing the income distribution gap. And it shows the characteristics of further narrowing the income gap; For middle-income households, the E value is generally stable, and the number of years with negative values is 5 years, indicating that social security has narrowed the income distribution gap; For medium-high-income households, the E value increases from 0 to 0.26, and the number of years with negative values is 2 years, indicating that social security narrows the income distribution gap; For high-income households, the E value changes from -0.06 to -0.19, and the number of years with negative values is 7 years, indicating that social security has widened the income distribution gap, and this trend is likely to be further enhanced.

In addition, it can be concluded that social security shows a particularly significant “reverse adjustment” phenomenon in the income adjustment between low-income households and high-income households. This shows that the effect of social security on the adjustment of income distribution of urban residents in Fujian is less significant. Moreover, there is a trend of further widening the income gap between low-income households and high-income households, while the income gap between low-income households and medium-low-income households and medium-high-income households is further narrowing. In summary, social security has a relatively serious adverse adjustment to the income distribution of urban residents especially between high-income and low-income households, which further widens the income distribution gap of urban residents in Fujian, and there is a phenomenon of wealth rushing from the low-income class to the middle and high income class which is not conducive to social harmony and stability.

Table 2 Social security expenditure in China and Fujian Province from 2007 to 2017

YEAR	NATIONAL SOCIAL SECURITY EXPENDITURE	NATIONAL GDP	NATIONAL SOCIAL SECURITY LEVEL(%)	SOCIAL SECURITY EXPENDITURE IN FUJIAN	GDP OF FUJIAN PROVINCE	FUJIAN SOCIAL SECURITY LEVEL(%)
2007	13334.96	270232.3	4.93	326.01	9248.53	3.52
2008	16729.39	319515.5	5.24	404.52	10823.01	3.74
2009	19909.28	349081.4	5.70	477.18	12236.53	3.90
2010	24149.52	413030.3	5.85	551.50	14737.12	3.74
2011	29762.30	489300.6	6.08	684.30	17560.18	3.90
2012	35916.82	540367.4	6.65	880.55	19701.78	4.47
2013	42406.84	595244.4	7.12	1054.20	21868.49	4.82
2014	48971.55	643974.0	7.60	1196.92	24055.76	4.98
2015	58006.79	689052.1	8.42	1427.31	25979.82	5.49
2016	68479.85	744127.2	9.20	1629.14	28519.15	5.71
2017	77982.36	824828.4	9.45	1756.8	32182.09	5.46

The social security level in Fujian Province is measured by the ratio of social security expenditures in Fujian Province to regional GDP. Using the social security expenditures and GDP data of Fujian Province in 2007-2017, the social security level of Fujian Province during the period was compiled. In order to compare and analyze, the social security level in the same period is compiled. The specific situation is shown in Table 2. From Table 2, it can be seen that during the period of 2007-2017, the level of social security in Fujian Province has gradually increased, from 3.52% in 2007 to 5.46% in 2017, which is consistent with the upward trend of the national social security level. But the increase is smaller than the national increase. Fujian's social security level rose by 1.94%, while the country increased by 4.52%. In addition, the social security level in Fujian Province is generally low, with an average of 4.52% in 11 years, while the national social security average is about 6.33% in the same period. The social security level in Fujian Province is significantly lower than the national level.

Conclusions and Suggestions

Through the above research and analysis, we can know that the current social security in Fujian plays a role of “reverse adjustment” in regulating the income gap of urban residents. This feature is especially evident between low-income households and high-income households. And the social security income has a tendency to slowly concentrate to the medium and high income groups, and further widens the gap between the rich and the poor in urban areas. There are many reasons for this result, mainly due to insufficient investment in government social security expenditure, unreasonable fiscal expenditure structure, and the target

The issue of social security further widening the income gap between urban residents in Fujian is not a day's accumulation. Solving this problem is not a day's work. Therefore, we must proceed from the overall situation, make overall considerations, and proceed step by step. Through political and economic means to change the status quo of social security of the urban residents' income distribution in Fujian, so as to effectively narrow the gap between the rich and the poor in urban residents in Fujian. The specific practices are as follows:

Firstly, adjust the structure of fiscal expenditure, further increase the government's financial support for social security, and raise the level of social security. As an important “smoother” of residents' income distribution and an important system to promote social harmony, a stable and reliable source of financial fund is an important prerequisite for the healthy operation and effective development of social security. However, due to the current insufficient investment in social security by Fujian Finance, social security has not only narrowed the income distribution gap of urban residents, but has further expanded the income distribution gap of urban residents in Fujian. In fact, Fujian has a very strong local financial strength and is fully qualified to provide relatively complete social security for the residents of the province. Therefore, under the current favorable situation of the steady and healthy development of the national economy of Fujian and the continuous strong local financial strength, governments at all levels should gradually increase the amount of financial input to social security on the basis of rational division of social security rights and financial power, continuously improve the level of social security, and effectively adjust the solid material basis for the distribution of income of urban residents in Fujian for social security.

Secondly, improve the coverage of social assistance, social insurance and welfare systems, and improve the social security system. In terms of social assistance, it is necessary to integrate the rural five-guarantee support and the city's “three noes” personnel rescue system, improve the definition and adjustment methods of the minimum living standard, and continue to promote accurate poverty alleviation; In social insurance, it is necessary to further expand the coverage of social insurance, improve the incentive and restraint mechanism for insured contributions, and rationally determine the basic medical insurance benefits; gradually adjust various social insurance benefits; co-ordinate urban and rural endowment insurance and medical insurance, and gradually narrow the gap between urban and rural social insurance. Actively improve the social welfare, charitable, and special care and placement systems, and gradually establish a multi-level social security system.

Thirdly, improve target aiming mechanism of social security and strengthen social security supervision. With the continuous improvement of the urban social security system in Fujian, there is an urgent need to further improve the target aiming mechanism and strengthen social security supervision and management in the social assistance and welfare areas to ensure that vulnerable groups such as low-income groups most in need are supported in a timely and effective manner. Specifically speaking: First, the Fujian civil affairs department should continue to implement strict “household livelihood surveys”, including income surveys and production materials surveys; Second, the Fujian civil affairs department should regularly conduct “carpet-style” verification of insured persons and resolutely. The third is that the civil affairs staff of Fujian should educate the insured about morality and responsibility, and urge them to withdraw from the insured after they get rid of poverty. Fourth, the civil affairs departments of Fujian and relevant departments should improve the management information system in a timely manner, establish personal files for welfare beneficiaries, and make detailed records of their applications, review and benefits, so as to effectively prevent the “mispayment” of limited welfare resources.

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