

Original Paper

Analysis on Basic Cognition and Representative Issues of the Income Distribution Pattern in China (Note 1)

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Received: February 16, 2020

Accepted: March 3, 2020

Online Published: March 7, 2020

doi:10.22158/ibes.v2n2p1

URL: <http://dx.doi.org/10.22158/ibes.v2n2p1>

Abstract

The analysis and recognition of China's current income distribution pattern is a major practical issue that involves the idea and essentials of advancing modern state governance in the stage of economic and social transition, and also a controversial issue. In this paper, the author focused on two major points. First, the analysis on the basic situation of the proportion of resident income in the overall income distribution pattern in recent decade in China, which first went down and then rose slightly, is conducted. Then the paper emphasized that the key to solve the paradox formed by two mainstream views was to understand more deeply the institutional causes of the unfairness and non-standardization inherent in high Gini coefficient of income distribution in China, which was an essential real problem. Second, based on an examination of the significance of cultivating and developing the mid-income class in China, the serious shortcomings of official statistics about income quintile information must be pointed out. Thus, it is imperative to recognize the covered contradictions, face the anxiety state and related challenges that the mid-income class in China has been stuck in, and then seek to solve the contradiction and eliminate the anxiety in a targeted manner.

Keywords

class

How to optimize China's income distribution pattern and related institutional mechanisms is a major practical issue in promoting the modernization of the country's governance system and governance capacity during the economic and social transition. This paper examines the basic pattern of the current

income distribution and its key issues in China, and outlines the specific challenges of nurturing and expanding the middle class.

1. The Proportion of the Resident's Income Has Risen Slightly after a Downturn, and Some Residents Have Considerable off-the-Books Incomes. The Critical Issue Is to Focus on Unfairness and Non-Standardization and Its Institutional Causes

Since the reform and opening up, there has been a series of changes in the overall pattern of national income distribution with the economic and social development in China. From 2000 to 2014, compared with the growth rate of per capita GDP, the residents' income experienced a process of falling first and then rising. In the first 8 years (2000-2008), the actual average annual growth rate of per capita GDP in China was 10%. The actual average annual growth rate of urban per capita disposable income was 9.9%. The actual average annual growth rate of rural per capita net income was 6.4%. Both of them were lower than the economic growth rate. In the following 6 years (2008-2014), the actual average annual growth rate of per capita GDP was 8.1%, while the actual average annual growth rates of both urban per capita disposable income and rural per capita net income were 8.2% and 10% respectively, which exceeded the economic growth rate. It can be seen that the proportion of household income in national income experienced a process of first falling and then rising.

According to the data of the National Bureau of Statistics, from 2000 to 2014, the proportion of the government, enterprises and residents in the primary distribution and the secondary distribution of the national income can be calculated and shown as follows. (Refer to Tables 1 and 2 respectively).

Table 1. The Primary Distribution of National Income from 2000 to 2014

Year	Primary Distribution (Unit: 100 million Yuan)				Proportion			
	Household	Government	Non-financial Corporate	Financial Institutions	Household	Government	Non-financial Corporate	Financial Institutions
2000	65,811.00	12,865.20	18,529.92	794.40	67.15%	13.13%	18.91%	0.81%
2001	71,248.72	13,697.28	21,617.68	1,504.54	65.93%	12.67%	20.00%	1.39%
2002	76,801.57	16,599.95	23,666.49	2,027.70	64.49%	13.94%	19.87%	1.70%
2003	86,512.46	18,387.52	27,132.28	2,944.75	64.09%	13.62%	20.10%	2.18%
2004	97,489.67	21,912.66	36,979.34	3,071.90	61.14%	13.74%	23.19%	1.93%
2005	112,517.06	26,073.94	41,532.18	3,494.24	61.28%	14.20%	22.62%	1.90%
2006	131,114.93	31,372.99	48,192.56	5,223.88	60.73%	14.53%	22.32%	2.42%
2007	158,805.28	39,266.86	61,525.47	6,824.39	59.61%	14.74%	23.09%	2.56%
2008	185,395.44	46,549.14	74,609.24	9,476.51	58.66%	14.73%	23.61%	3.00%
2009	206,544.03	49,606.34	73,275.18	10,894.40	60.69%	14.58%	21.53%	3.20%
2010	241,864.51	59,926.74	83,385.82	14,582.48	60.50%	14.99%	20.86%	3.65%

2011	284,282.94	72,066.93	94,853.93	17,358.58	60.67%	15.38%	20.24%	3.70%
2012	319,462.37	80,975.88	97,023.47	20,753.02	61.65%	15.63%	18.72%	4.00%
2013	353,759.88	88,745.04	120,826.03	19,865.78	60.66%	15.22%	20.72%	3.41%
2014	387,473.11	98,266.40	137,142.34	21,909.25	60.09%	15.24%	21.27%	3.40%

Source: Flows-of-funds accounts revised in the economic censuses in 2008 and 2013.

Table 2. The Secondary Distribution of National Income from 2000 to 2014

Year	Secondary Distribution (Unit: 100 million Yuan)				Proportion			
	Household	Government	Non-financial Corporate	Financial Institutions	Household	Government	Non-financial Corporate	Financial Institutions
2000	66,538.67	14,314.06	17,152.68	517.59	67.90%	14.61%	17.50%	0.53%
2001	71,865.34	16,324.18	19,327.19	1,254.42	66.50%	15.11%	17.88%	1.16%
2002	77,423.32	19,505.94	21,313.62	1,927.53	65.01%	16.38%	17.90%	1.62%
2003	87,268.45	21,946.82	24,339.09	2,866.89	64.65%	16.26%	18.03%	2.12%
2004	98,508.92	26,517.58	33,246.66	3,075.63	61.78%	16.63%	20.85%	1.93%
2005	112,910.16	32,573.69	36,987.87	3,100.65	61.49%	17.74%	20.14%	1.69%
2006	131,426.42	39,724.85	42,687.11	4,303.44	60.87%	18.40%	19.77%	1.99%
2007	158,558.63	51,192.09	54,207.96	5,284.53	59.51%	19.21%	20.35%	1.98%
2008	185,926.31	60,544.07	65,450.94	7,106.18	58.83%	19.16%	20.71%	2.25%
2009	207,302.37	62,603.34	64,171.08	8,405.70	60.91%	18.40%	18.86%	2.47%
2010	243,121.74	74,116.25	72,069.17	13,206.55	60.82%	18.54%	18.03%	3.30%
2011	285,772.58	90,203.21	78,990.47	15,179.18	60.99%	19.25%	16.86%	3.24%
2012	321,399.16	101,301.11	78,875.93	16,855.35	62.02%	19.55%	15.22%	3.25%
2013	357,113.36	110,375.99	100,204.35	14,963.20	61.23%	18.93%	17.18%	2.57%
2014	391,109.95	121,574.23	116,262.29	15,932.81	60.66%	18.85%	18.03%	2.47%

Source: the same as Table 1.

According to Tables 1 and 2, the proportion of the residents dropped firstly and then rose slightly after experiencing the low point in 2008. But overall, it has fallen by about 6 percentages during this period. The change in the division of the national income has once become a hotspot for many parties, who believed that it is closely related to the phenomenon of low consumption rate in China. Relevant research conducted by scholars such as Bai Chong'en calculated the declining proportion and had influence on the mainstream views of the academic circle in China.

However, the influential view that has been directly confirmed by Tables 1 and 2 constitutes an incompatible paradox with another equally influential achievement. According to Wang Xiaolu's research, there is a huge amount of off-the-books incomes in China's national income distribution,

which is not reflected in the data of the National Bureau of Statistics. It is a hidden income. In 2008, the total scale was about 4.6 trillion Yuan. According to another round of his estimation, the basic conclusion was that in 2011, the total scale of off-the-books income in China was 6.2 trillion Yuan, which was equivalent to 12.2% of GDP. The distribution of such hidden income was extremely uneven: 63% of this income belonged to the top 10% high-income families and 80% of this income belonged to the top 20% high-income families.

Wang Xiaolu's research results attracted great attention and had great influence on mainstream opinions. However, scholars such as Bai Chong'en put forward their view according to the research conclusion of the official statistics, which was precisely different from that of Wang Xiaolu. Taking the great influence into consideration, the proportion of the residents' income did not decline, but should rise according to the basic logic. In the end, there will be discussions of different opinions. But limited by various conditions, the quantitative results of various views cannot be very accurate. However, it should be noted that the unique value of Wang Xiaolu's research results is undeniable, that is, including the non-standard income problem that people have already felt in real life into the serious academic research framework. Although the quantitative analysis results cannot be precise in the specific value, we cannot deny its significant practical significance from the perspective of the nature of the problem. In other words, neither shall we be limited to understand the problems of the income distribution in China only by the official figures of the Bureau of Statistics, nor shall we be limited to the declining proportion of the residents' income. We should explore the income distribution structure behind the hidden off-the-books income in depth, that is, the income gap, the property gap, the fairness and standardization of income distribution, and their relevant institutional reasons in depth.

Regarding to the issue of "large income gap" from the perspective of the resident income distribution structure in China, it has long been concerned by all parties. According to the official data of the Gini coefficient, it reached a historical high point of 0.491 in 2008, and then gradually decreased, but it remained at above 0.46 in 2016, which was still too high. China's Gini coefficient calculated by non-official research group was often significantly higher than the official value. For example, the research conclusion of the Ganli team of Southwestern University of Finance and Economics was as high as 0.61. Corresponding, the Gini coefficient of the distribution of the residents' property was higher. *China People's Livelihood Development Report 2015* formed by China Family Panel Studies (CFPS) of the Peking University was based on baseline samples of 14,960 households in 160 districts and counties in 25 provinces and cities across the country. The result was that the Gini coefficient of the property of households across the country expanded from 0.45 in 1995 to 0.73 in 2012. The top 1% households occupied about one-third properties of the country, and the bottom 25% households had a total of only 1% properties (Refer to Table 3).

Table 3. Comparison of Gini Coefficients of Various Sources

Gini Coefficient	National Bureau of Statistics	CHFS in Southwestern University of Finance and Economics		CFPS in the Peking University
2002	0.454	-	-	0.55 (property)
2003	0.479	-	-	-
2004	0.473	-	-	-
2005	0.485	-	-	-
2006	0.487	-	-	-
2007	0.484	-	-	-
2008	0.491	-	-	-
2009	0.490	-	-	-
2010	0.481	0.60	-	-
2011	0.477	-	-	-
2012	0.474	0.61	-	0.49/0.73 (property)
2013	0.473	-	-	-
2014	0.469	-	-	-
2015	0.462	0.60	-	-
2016	0.465	-	-	-

Source: Organized according to public reports.

A particularly critical understanding is that the unfair and non-standard income distribution is inseparable from the widening gap of the residents' income and wealth. A large amount of hidden income, including off-the-books incomes (involving various non-standard distributions that should not be directly identified as illegal and disorderly) and black income (involving criminal acts such as corruption), are considerable in quantity and cannot be ignored in the distribution pattern. Its causes shall be naturally focus on the lack in the effectiveness of relevant institutional supply, and shall be corrected with the reform.

If we take into account the non-standard off-the-books income estimated by Wang Xiaolu at the scale of 5-6 trillion Yuan, the scale of the residents' income has not been reduced in these years, but likely to has increased. It is difficulty to identify the increased scale and thus unable to form authoritative interpretation. However, based on the logical relationship between common sense and related indicators, we should know that part of the hidden income alleged by Wang Xiaolu will be transferred from the non-resident sector to the resident sector in the financial and statistical information, which will not affect the total GDP of China, but affects the structure of the income distribution. But the other part will be used in the way of meeting expenses with cashes and will not enter the financial and statistical

information. So it is logical to say that this part should be additive factors affecting the total amount of China's GDP, that is, the contribution factors to the total income. But in fact, this addition will certainly not be accepted by official statistics departments. We would like to emphasize in particular that, under various constraints, based on Wang Xiaolu's research results, quantitatively increasing the total scale of China's GDP is considered to be non-operable, but it is appropriate and necessary to increase the share of the resident sector from the perspective of China's internal structure of GDP. As for the increase, it is indeed difficult to determine accurately, but at least this review has significantly dilute the need to focus on the declining proportion of residents' income, and it has inspired us to pay more attention to the true problems of China's national income distribution, unfairness, non-standardization and income gap. In particular, we should follow the logic of reform to deeply understand the underlying institutional causes associated with it, and then explore effective countermeasures.

Liu He pointed out: "The income distribution gap is the biggest imbalance in China's economy." (Comments for Peng Wensheng's monograph *The Drifting Dividends-Seeking a New Balance in China* (Social Sciences Academic Press, 2013)). The non-standardization and unfairness inherent in the income distribution gap are mainly caused by inadequate practices, corruption, power and money transactions, turning public properties to private properties, and loss of state-owned assets, etc. due to insufficient institutional supply in real life. It is the most serious problem. It is related to the basic well-being of the people, the fairness and justice of the society, and the fate and future of the ruling party and the country. It is one of the core and key issues that need to be resolved in order to ensure proper income distribution in China in contemporary.

2. Understanding and Judgment of the Significance of the Mle Class, and the Challenges of Cultivating the Middle Class

The recognition of the basic income distribution pattern in China requires special attention to the situation of the Chinese middle class and their nutrition and strengthening.

China's basic aspiration in implementing its modernization strategy is a peaceful rise based on humanistic position, and maintaining and promoting the harmony between the internal and the external. The basic experience of linking income distribution to the harmonious state of society is that the cultivation and expansion of the mid-income class "middle class" is an important condition for promoting and achieving social stability and harmony. The society in which the mid-income class becomes the main body of society, and the higher-end rich and the lower-end poor are a minority, which can be visually called "olive" ("small at both ends and large at the middle" resembling an olive), is a society with the most stable and harmonious characteristics. There are a large number of mid-income class people with "constant properties", who tend to have the "perseverance" of dedication and joy, and relatively small wealthy class above the middle class and lower-class below the middle class. Objectively, it helps to alleviate the contradiction between the high and low ends. The empirical

situation of many advanced economies is the basic basis of this judgment. The obvious difference between China and this type of society is considered to be the situation requiring efforts to change. This is the inner logic and necessity of cultivating and strengthening mid-income class.

Naturally, the middle class will increase when transiting from the excessive egalitarianism under the traditional system to the situation of “some people and some regions getting rich first” in the reform and opening up. However, at present, there are stilling different understandings and many tangles about how to estimate the development of the middle class in China. In particular, the basic understanding on the following two levels is explained.

First, in terms of related concepts, it should be emphasized that the mid-income class is a relative and qualitative concept. The so-called relative concept means that we should not care too much about the absolute value of comparison with other economies, and we should mainly look at the up-down contrast between the residents in the economy in which they reside. The so-called qualitative concept is to understand that the mid-income class should be such members of the society: they have constant properties. Chinese people value the house and car (especially when they have a house, they should not be a slave to the house in pain). In addition, there must be a certain amount of savings, matching high-level living services in education and medical care, etc., and corresponding social security system. Besides, they should also have the ability to enjoy leisure life such as tourism. For such a mid-income class, to understand it qualitatively, we should further explore how to eliminate some illusions and try to get closer to the real situation with reference to the existing official statistics.

In 2016, according to the data from the National Bureau of Statistics, the national residents were divided into quintile income groups. The basic situation was shown in Table 4 and Figure 1.

Table 4. Statistics of Quintile Income Groups of National Residents in 2016

	Per capita disposable income (Unit: Yuan)	Proportion of total disposable income
Low income group	5529	4.23%
Lower middle income group	12899	9.88%
Middle income group	20924	16.02%
Upper middle income group	31990	24.49%
High-income group	59259	45.37%

Note. The quintile income grouping of the national residents means that all households surveyed are arranged in descending order of per capita income level, and are divided into five equal parts. The top 20% income group is high income group, followed by upper middle income group, middle income group, lower middle income group and low income group.

Source: 2016 National Economic and Social Development Statistical Bulletin on the website of the

National Bureau of Statistics.

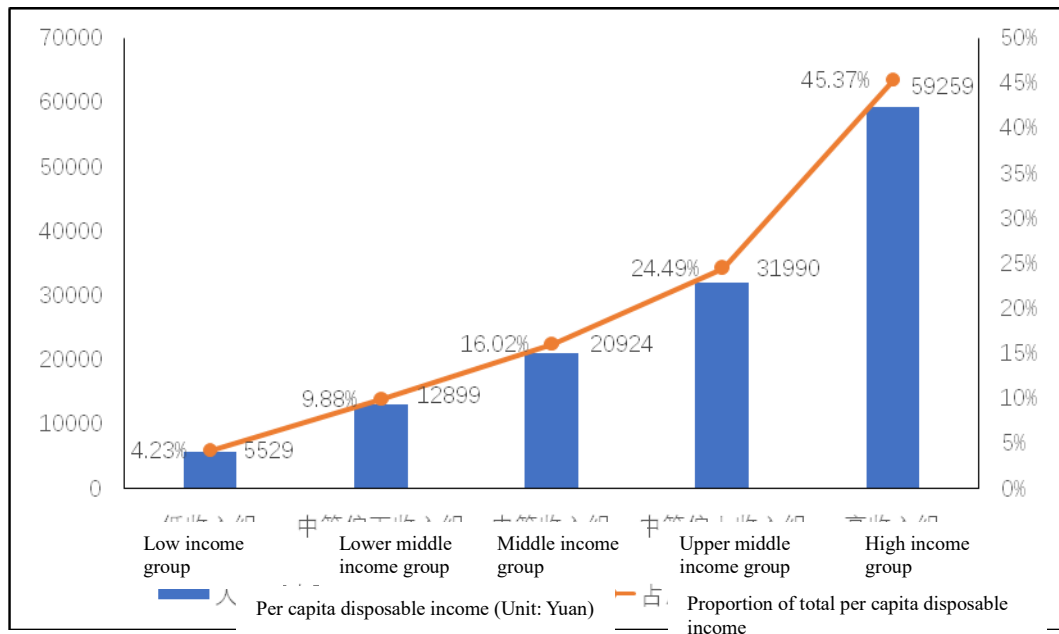


Figure 1. Statistics of Quintile Income Group of National Residents in 2016

Source: the same as Table 4.

Official statistics showed that for the quintile income groups of the Chinese, it seemed intuitively that the two groups with the highest income together accounted for 69.86% of the total per capita disposable income, of which the highest income group accounted for 45.37%. Seen from the distribution of the income structure of social members, one-fifth households held nearly one-half of the total income, and another one-fifth households held about one-fourth of the total income. This was another statistical perspective different from the Gini coefficient, which showed the disparity in income distribution in China. It should be pointed out that the real income difference in Chinese society reflected by this statistical result is still seriously inadequate. The very important reason is that this set of quintile statistics mainly comes from household surveys, which are reported by people voluntarily (involuntary surveyed households are skipped when selected). In real life, no wealthy one is really willing to report. Those who have off-the-books income and black income and have done in-depth research with Professor Wang Xiaolu generally do not report. Even when he did, he would not truly report his off-the-books income or black income. Therefore, when these household survey data are put together, we cannot say that it is meaningless, but it is quite far from the truth of Chinese society. It cannot fully reveal the structural differences between the actual income, the inverted pyramid shape of wealth possession, and the positive pyramid shape of the population from the perspective of income distribution of Chinese residents. It covers the true situation of the middle class income and makes the relevant judgments on the growth of China's middle class tend to be optimistic.

Secondly, the existing middle class in China is suffering from more obvious anxiety, which reflects the

outstanding challenges at this stage.

It should be pointed out that among the “new middle class” people in China that have formed, various objective causes have also contributed to a higher degree of “anxiety” in their subjective mental state, which is manifested by the obvious stability characteristics different from that of the middle class in other economies. In July 2016, the British *The Economist* stated in a special report that there were 225 million middle class people in China, who were the most anxious group in the world. The report defined the Chinese middle class as people whose annual household income was between \$ 11,500 and \$ 43,000, which was about an annual household income from 80,000 to 300,000 Yuan. This range was not measured according to annual household income and was still questionable. The standard was low, but the size of the amount should not be too outrageous. The estimates that were similar to it were the size estimates of McKinsey and Boston Consulting: in 2020, China’s mid-class population would reach 300 million or even higher. In other words, among the nearly 1.4 billion people, with the exception of a few high-income members (certainly less than 100 million) and mid-class members of about 300 million, the rest were all low-income members and lower mid-income members below the middle class. The anxiety of the middle class is mainly due to the rising price of housing, the obvious threat to environmental safety, and the increasing burden of children’s education, medical care and future pensions, too much overwork and the tension brought by squeezed personal time, and so on. How to eliminate these anxieties and enable them to fully reflect the role of helping social stability is the specific challenge China faces in nurturing and expanding the middle class. It is imperative to grasp the substantive disadvantages of China’s income distribution as a whole and the decisive institutional reform issues associated with economic and social issues, and to targetedly find ways to properly resolve conflicts and eliminate anxiety.

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Note

Note 1. This paper is one of the achievements of the major program supported by the National Science Fund of China—Research on the Deepening of Income Distribution System (approval No. 2015MZD035).