CURRENT HISTORY

September 2024

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The Quest for 'Common Prosperity' in China

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In early 2021, President Xi Jinping announced a new national goal of achieving "common prosperity" (*gongtong fuyu*) by reducing the yawning wealth gap between China's rich and poor. Since then, the phrase has been promoted widely by state media. To Chinese people who experienced the Mao era, however, the idea of common prosperity is not new. Mao Zedong used the term in 1954 in support of introducing cooperatives during agricultural collectivization. Xi's reinvigoration of this phrase as a slogan for raising living standards while shrinking inequality in the twenty-first century capitalizes on the nostalgia of some Chinese for the state socialism and egalitarianism in Mao's time.

Deng Xiaoping, who succeeded Mao as China's top leader in 1978 and orchestrated market economic reforms over the subsequent three decades, set aside the goal of common prosperity, detouring to "let some people get rich first." Through Deng's strategy of incremental economic development, China transformed from one of the world's poorest countries into its second-largest economy—and from a relatively equal society into one of the most unequal in the world. China's gross domestic product per capita dramatically increased, from the equivalent of $229 in 1978 to $6,301 in 2012. The Gini coefficient—a measure of income inequality scaled between 0 and 1—also shot up, from roughly 0.3 in 1980 to almost 0.5 in 2012, an alarmingly high level.

Xi Jinping took power in 2013. Given the persistence of this elevated inequality, Xi has emphasized that achieving common prosperity is a political imperative for the Chinese Communist Party (CCP), though he has maintained strategic ambiguity by not explicitly defining the term. Xi's goal is consistent with the various campaigns he has commanded since 2013, such as anti-corruption and anti-poverty initiatives. They are all designed to help the CCP boost public support and confidence in its leadership, especially among impoverished and young people who lack hope for the future in a corrupt and unequal society.

According to Cai Fang, an adviser to China's central bank, the country must cut its Gini coefficient to under 0.4 to achieve common prosperity. Yet the party-state has not set national numerical targets for the campaign; the plan remains vague. Meanwhile, China's economy is slowing and facing many uncertainties, from declining consumption caused by the COVID-19 pandemic to competition with the United States, housing market failures, and skyrocketing local government debts. The implementation of common prosperity will entail an unprecedented attempt at "hard" redistribution as the CCP seeks to maintain domestic stability and social quiescence amid intensifying geopolitical tensions and economic challenges.

FROM EASY TO HARD REDISTRIBUTION

The social insurance system, which privileges state employees and urban formal workers, is the primary mechanism of social welfare provision in China. Since 2003, it has been layered with several new programs, including basic health insurance and pensions designated for groups such as peasants, urban informal workers, and labor-market outsiders. The inclusion of non-elite groups in these social protection measures was mostly financed by general taxes, with funding delivered in the form of government subsidies and fiscal transfers from the central government to local administrations.

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The system's broad coverage helps the central government win popular support. Yet Chinese social insurance is still a form of regressive redistribution: lower-income groups receive considerably lower benefits than higher-income groups. In this sense, the welfare expansion in China during the first decade of the twenty-first century was an easy redistribution process—relatively cheap, but still rewarding in political terms.

Ongoing and anticipated developments, such as the economic slowdown, a rapidly aging population, rampant income inequality, and radical technological change, have put enormous pressure on the easy redistribution schemes implemented by the administration of President Hu Jintao and Premier Wen Jiabao from 2002 to 2012. Ordinary citizens, especially those with lower incomes and fewer skills, need enhanced social protection to counteract growing risks. But elite groups such as civil servants, state-sector employees, and urban formal workers are reluctant to contribute more or share costs as the risks grow. These challenges, combined with the suboptimal policy design and implementation of existing social insurance programs, will make welfare reforms imperative yet contentious.

The idea of common prosperity is not new.

Since 2013, Chinese welfare policies have been characterized by careful calibration and a broader pooling of individual risks, rather than by notable benefit expansion or enhancement. Although the growth rate of pension benefits for formal workers has slowed in recent years, the pooling level for pension funds moved up from cities to provinces and eventually to the national level in 2022. Similar changes are ongoing in social health insurance.

An important motivation for the centralized pooling of social insurance funds is that the previous stratified expansion strategy for welfare provision cannot achieve the common prosperity goal, given the country's new normal: slower economic growth and a shrinking workforce. The CCP must carry out a "hard" redistribution, with painful measures to sustain and improve the social welfare system within the current political framework, but without a substantial increase in fiscal commitments and social insurance contributions. As privileged groups resist increased cost-sharing and disadvantaged groups demand more social protection, the CCP faces the challenge of deepening redistribution without causing political turmoil.

THE URBAN-RURAL GAP

According to a 2010 empirical study by sociologists Yu Xie and Qiang Zhou, China's high level of income inequality has been mainly driven by two structural factors: the urban-rural gap and regional disparities in economic development. Most of the Chinese state's efforts to expand social welfare provision and enhance redistribution have concentrated on these factors, but have not completely corrected them.

Without addressing widening class inequality and cleavages among demographic groups, such as young and old people or women and men, reducing urban-rural and regional disparities is insufficient for achieving the CCP's goal of common prosperity. Nonetheless, the state's emphasis on addressing these gaps in income distribution reconfigures the social inequality and stratification structure in China, for better or worse.

During the Hu–Wen era, the CCP promoted a "people-oriented" and "scientific" developmental outlook, devoting more government attention and spending to improving people's well-being (*min sheng*). Acting on this ideological change from its predecessors, who focused more on increasing economic efficiency and GDP growth, the Hu–Wen administration implemented a bundle of social reforms. These included abolishing agricultural taxes; introducing social health insurance and pensions designated for non-employee residents, such as peasants and unemployed or self-employed people; and building up a system of minimum subsistence allowances and assistance (*dibao*) to support low-income residents.

The modest protection given by these social welfare programs is insufficient for high-risk social groups, such as the rural elderly and rural-to-urban migrants. But they established the institutions for a broad, though thin, safety net for all.

In its later years, the Hu–Wen administration began the process of integrating social welfare programs that had been separated between urban and rural populations. Basic health insurance programs for urban and rural residents were merged in 2011, followed by resident pensions in 2014 and dibao in 2015. Meanwhile, many localities canceled the distinction between agricultural (rural) and non-agricultural (urban) statuses in the household registration (*hukou*) system, removing an administrative barrier to reducing the urban-rural gap in social welfare.

Under Xi, urban-rural income inequality has been tackled through top-down, campaign-style social reforms to improve rural incomes and livelihoods. Yet the gap remains, and it is unlikely to disappear in the near future.

Since taking power in 2013, Xi has attempted to address rural poverty by employing a new approach. The so-called Targeted Poverty Alleviation (TPA) campaign identified 29.5 million households and 89.6 million people as requiring assistance. Heightened bureaucratic pressure and massive mobilization of local officials and various organizations to eradicate absolute poverty marked this campaign as different from previous ones. The CCP assigned about 775,000 government officials and 188,000 party cadres to live in villages for one to three years in order to design and implement poverty alleviation measures tailored to local conditions.

In 2020, the CCP proclaimed that China had realized "a comprehensive well-off society" (*xiaokang shehui*) by moving more than 70 million rural residents above the country's official poverty line. But the sustainability of these economic outcomes is a lingering question, since TPA policies were politically motivated and relentlessly carried out in a relatively short period via mass campaigns outside the technocratic dibao system.

REGIONAL RECKONINGS

Though the urban-rural gap in social entitlements has been reduced since the Hu–Wen era, the regional cleavage has become more prominent. Although China is a unitary state in a legal sense, it is a country whose economy and public finances are managed in a decentralized manner. The central government has delegated a great deal of authority over economic and social policies to provincial and even lower levels of government, such as cities and counties.

Under the decentralized system, local governments have ample discretionary power in policymaking and implementation. Particularly in social welfare provision, the central government has relied on local governments to develop specific policies, such as setting contribution rates of social insurance programs, designing benefit packages, and defining eligibility. This approach has complicated the goal of achieving common prosperity in two ways.

One is that decentralization puts hundreds of millions of internal migrants at a disadvantage in terms of social benefits and citizenship. Although the urban-rural divide in hukou management has been mitigated, restrictions on changing one's registration status from rural to urban, or from nonlocal to local, are still alive—especially in megacities that attract the most migrants with better job and living opportunities. Consequently, most internal migration in China is temporary and does not lead to settlement.

Enrollment in social welfare programs, most of which are locally funded, requires local hukou. Migrants who live in a region different from their place of hukou registration must return to their hometowns to be eligible for the social benefits and services designated for local residents. Otherwise, they must forgo those benefits while receiving little or no protection in the cities where they live and work. This problem is especially salient for migrant workers' pensions: they usually lose most of their share of the funds contributed by their employers if they leave the region for a job change or return to their hometowns for retirement.

The other complication is that decentralization amplifies the influence of local policy choices and constraints in income redistribution and social welfare provision. Local governments bear responsibility for about 70 percent of total government social spending, including subsidizing social insurance for the nonworking population. The coverage and generosity of local social welfare provisions, determined by a constellation of fiscal and political factors, vary widely across regions.

Paying the bills for social welfare and services in full and on time is a heavy burden on local budgets for many less-developed localities. Almost half of the 31 Chinese provinces cannot sustain employee pension funds for more than 12 months without new social contributions or fiscal transfers. Lockdowns imposed in response to COVID-19 outbreaks between 2020 and 2022 put an additional burden on public budgets. The fiscal vise has tightened even more since then: additional government expenditures are needed to stabilize and stimulate the economy, even as government revenues are declining due to the economic slowdown and the real estate crisis.

This financial constraint makes it difficult for the party-state to continue reducing social inequality and risks simply through "stratified expansion" (or making the cake bigger by adding new layers)—the easy redistribution scheme it implemented in the early 2000s. Deep and hard redistribution—dividing a cake without making it bigger—will be challenging due to complex and differing regional conditions, as well as strong resistance from privileged groups. In the spring of 2023, signs of health care retrenchment in a reform of personal health-savings accounts provoked a wave of street protests by state-sector retirees and discontentment across China. To avoid such resistance, the party-state has turned to interregional instead of interclass redistribution to cope with growing financial risks and social inequalities.

Vast regional differences in population structure and socioeconomic conditions across China facilitate interregional redistribution. Consider urban employee pensions. Provinces with younger populations, such as Guangdong, Fujian, and Jiangsu, accumulate large surpluses in their pension funds. In provinces with older populations, such as Heilongjiang, Liaoning, Jilin, and Hubei, pension funds have shrunk or even been exhausted.

From 2011 to 2017, the central government issued several directives to unify policies for urban employee pensions within provinces and pushed for provincial pooling of pension funds. In 2018, Beijing mandated that provinces contribute 3 to 4 percent of their urban employee pension funds to build a central adjustment fund, a step toward national pooling of pensions. The central adjustment fund draws a specific percentage from provincial pension funds to make up for gaps among provinces that cannot collect enough pension contributions to pay out as benefits to pensioners.

Chinese social insurance is still a form of regressive redistribution.

In early 2022, Beijing enforced a national pooling mechanism for urban employee pension funds, allowing deficits in certain provinces to be offset by nationwide surpluses, another step toward centralizing the pension system. National pooling of these funds will enable the central government to leverage the existing pension surpluses in some provinces to fill the pension deficits in others, without the need for additional subsidies and transfers from the central coffers. It also enhances the central government's control over local pension policies.

During the COVID-19 pandemic, many localities raced to the bottom by lowering pension premiums for enterprises so they could maintain employment and investments. National pension pooling would prevent such risks to the stability of pension funds by bringing about cost-sharing and policy unification across regions. This meets public demands for social insurance solvency and portability to cope with growing precariousness, while keeping intact the overall social insurance framework that privileges state sectors over others.

CLASS INEQUALITY AND TAXATION

According to a Chinese government think tank's report published in December 2023 and based on income data for 2021, 39.1 percent of China's population lives on a monthly disposable income of less than 1,000 yuan (approximately $143); 69 percent make do with less than 2,000 yuan a month. These people are considered the low-income group in China. Although this group constitutes a majority of the population, the government's efforts to redistribute income across different income groups are lukewarm compared with its touted progress in reducing the urban-rural gap and promoting cross-regional redistribution. Conventional tools for interclass income redistribution, such as progressive personal income tax or property, inheritance, and wealth taxes, are either unused or nonexistent in China.

The personal income tax (PIT) contributes relatively little to the government's coffers. It accounted for 6.6 percent of total tax revenue and 1 percent of GDP in 2018, much less than the average of 23.9 percent and 8.3 percent, respectively, among the mostly high-income OECD member countries.

In 2018, China amended the Personal Income Tax Law, resulting in two significant changes. The first was to increase the basic deduction for PIT from 3,500 to 5,000 yuan per month, in addition to introducing more special deductions, such as for children's education, treatment of severe illnesses, interest payments on housing loans, and rental payments. As a result, the tax base has been narrowed, and the tax compliance rate remains low.

The other notable change in the 2018 PIT reform was to integrate income from wages, salaries, remuneration for personal services, and authors' royalties under the category of "comprehensive income," subject to unified progressive tax rates (ranging from 3 percent to 45 percent), while keeping the 20 percent flat rate for capital income intact. The tax burden on labor income is now relatively high compared with that for capital gains, making the PIT system even more regressive than it was before this reform.

China has yet to formally adopt property taxes, though the government has been discussing it for a decade. People in the high-income group or the privileged class commonly own multiple properties, such as apartments in big cities that can quickly sell for several million dollars each. Property taxes could be an effective mechanism for interclass income redistribution and local revenue collection. But the political resistance is tremendous.

According to *New York Times* Beijing bureau chief Keith Bradsher, the obstacles "range from the technical (it would be complicated) to the economic (it would hurt homeowners at a delicate time for the housing market) to the political (it would expose government officials who own many homes)." Housing prices and sales have been rapidly dropping in recent years. Local governments that used to rely on lucrative land sales and leases for revenue are in a race to the bottom, removing restrictions on home purchases and mortgages in the hope of attracting people and businesses to their jurisdictions. In this context, adopting recurrent property taxes is unthinkable despite the common prosperity rhetoric.

DEMOGRAPHIC DIVIDES

A year after Xi announced the common prosperity goal, China started to experience population decline, an indicator of a looming crisis due to low fertility and a rapidly aging population. According to the World Health Organization, China has the world's largest number of people over 60 years old, estimated at 254 million in 2019. This cohort is projected to grow to 402 million, or 28 percent of the population, by 2040.

The aging population is a major challenge to China's fragmented and stratified social welfare system. Despite the expansion of pension coverage in the early 2000s, when many younger informal and migrant workers were added to public pensions, the dependency ratio (defined as the number of wage earners divided by the number of pensioners) kept dropping. Fewer than three workers support one retiree in the current urban employee pension systems, which the Chinese Academy of Social Sciences predicts will run out of money by 2035. Aware of the risk of insolvency, young people, especially migrant workers, are reluctant to join and contribute to public pensions.

Deferred reform of the retirement age further widens the intergenerational cleavage in welfare support. The current official retirement age in China is 55 for women (50 for women in blue-collar occupations) and 60 for men. These were set in the 1950s, when average Chinese life expectancy was only 43.7. By 2020, it had increased to 77.9. With the pension system on the brink of insolvency, pressure is mounting to raise the official retirement age.

But discussions of reform on this front have been indecisive and controversial. A higher retirement age means fewer openings for younger workers who are entering an extremely competitive workforce with high rates of skill mismatch and unemployment. The government may have to make a trade-off between youth unemployment and pension depletion.

The mandatory lower retirement age for women, combined with greater female longevity and gender wage inequality, has produced a persistent gender gap in pensions, with women receiving lower payouts. An empirical study by Xiaomeng Lu and Krishnan Dandapani, published in 2023, found that pension benefits for white-collar women amounted to 66 percent of those received by men. Blue-collar women retirees' benefits were only 52 percent of male counterparts' benefits.

In Mao's era, the CCP introduced its famous slogan, "Women can hold up half the sky." But growing gender inequalities in employment, wage payment, and pension benefits in the current market economy indicate a stark setback for the pursuit of common prosperity among different demographic groups. The gender pay gap accounts for two-thirds of overall inequality in wages for the same work or position in China. (About one-third of the wage gap is accounted for by individual endowments or characteristics that tend to be associated with higher pay, such as supervisory responsibilities, general labor market experience, occupational skills, and education.)

Besides pension and wage gaps, China also has large gender gaps in labor force participation and occupations. Without promoting gender equality, the CCP's efforts to seek common prosperity would be incomplete.

REDISTRIBUTION AND THE SPECTER OF RESISTANCE

Given the imperative of hard redistribution under various domestic and international constraints, the CCP has opted to rely on interregional rather than interclass redistribution to avoid public resistance and contention. The success of this strategy is contingent on three conditions.

First, there are significant regional disparities in social welfare resources and risks. This justifies pooling risks, sharing costs, and even equalizing benefits across regions despite strong local resistance and discontent. China's uneven socioeconomic development across subnational regions may ironically facilitate government efforts to reduce social inequality and risks without committing to conventional interclass redistribution via progressive taxation, at least in the short run.

Second, the party-state firmly controls local leaders. This is likely to ensure cooperation and compliance with the central mandate of interregional redistribution, even among the regions that will lose out economically. The trends of centralization and concentration of power under Xi's leadership allow Beijing to enforce substantial redistribution across regions, as seen in the national pooling of urban employee pension funds.

The third condition is the absence of a viable coalition of different social groups to push for substantial interclass redistribution. As a result of the strategy of easy redistribution in the early 2000s, China's fragmented social welfare system prevents the formation of anti-regime mobilization across classes, since society is divided by multiple social cleavages without following a single or deep class line. Meanwhile, the Chinese tax system, characterized by a lack of progressive measures, renders interclass redistribution via taxation ineffective or infeasible.

How successfully the CCP can cope with growing economic risks and inequality through interregional redistribution is still to be determined. Another tricky question is whether interregional redistribution can substitute for interclass redistribution to achieve common prosperity. In a hypothetical scenario, interregional redistribution could remove regional disparities in social welfare provision, so that the same class would receive almost the same benefits across regions. But then the cross-class inequality in social welfare provision will stand out.

In this scenario, assuming all other things are constant, class-based mobilization and collective action will become easier than it was when multiple cleavage lines, such as regional and sectoral divides, crosscut society. This outcome is anything but desirable for the CCP, whose overriding interest is to maintain social stability by means of a "divide and rule" policy. In this sense, cross-regional redistribution is not ultimately an alternative or a replacement for cross-class redistribution, but it is a less costly and more feasible choice for the time being. The irony is that a communist party that came to power via class-based mass mobilization proclaims common prosperity without substantive redistribution across classes. ■