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# Preventive Countermeasures for "Immiserizing Growth in Expanding Economies" in China's Rural Areas in the New Era

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**Abstract** On the basis of defining the concept of "immiserizing growth in expanding economies", through analysing the status quo of economy in China's rural areas in the new era, this paper aims to find out the factors responsible for economic weakness of China's rural residents. It analyses the impact of market consuming economy on growth economy, and points out the phenomenon of "immiserizing growth in expanding economies" which may be triggered by China's rapid rural economic growth as follows: first, the income disparity between urban and rural residents increases ceaselessly, the commodity prices continuously soar, and the rural residents' market consuming capacity is short; second, the wealth concentrates highly and the majority of farmers' income is low. Thus we put forward the countermeasures and proposals for preventing "immiserizing growth in expanding economies" in rural areas as follows: we should reform household registration system so that the rural residents have the right to migrate freely, and farmers' status is promoted; we should coordinate urban-rural development, strengthen agriculture and rural infrastructure building and achieve impartial allocation of public resources; we should carry out redistribution on income scientifically and effectively, consolidate rural social security system, bridge urban-rural income gap, transform the comparative advantage into competitive advantage, so as to circumvent "immiserizing growth in expanding economies".

**Key words** Immiserizing Growth in Expanding Economies, Social security, Poverty, China

In the new era, the living standards and income levels of China's rural residents have been significantly improved, thus the rapid economic growth will undoubtedly become a major force and objective condition for poverty reduction in rural areas. Nevertheless, in the process of China's economic development, not everyone can benefit from economic growth equally and the contradictory problem of rural areas lagging behind urban areas has become increasingly prominent. Based on this situation, conducting the researches on countermeasures for preventing "immiserizing growth in expanding economies" in rural areas will be particularly important, so as to provide economic theory and policy support for building a harmonious society.

## 1 Definition of concept of "immiserizing growth in expanding economies"

In China, the concept of "immiserizing growth in expanding economies", was first proposed by Zheng Bingwen in Latin American Research Institute, Chinese Academy of Social Sciences. "Immiserizing growth in expanding economies" means that one the one hand, the economy in one country or region is growing; on the other hand, the economic growth does not make contribution to poverty alleviation in this region, thus the phenomenon of poverty is getting worse<sup>[1]</sup>. Over the years, the problem of poverty is one of the main body of the World Development Report. In 2000, World Development Report defined poverty as material deprivation, low-level education

and health, including risk and the vulnerability in face of risk<sup>[2]</sup>. According to researches on the relationship between economic growth and poverty at home and abroad, it can be divided into two views: one view is that economic growth will enable everyone to benefit, and absolutely reduce poverty. They believe that, even without any specific means and measure for advancing and ensuring the goal of poverty reduction, economic growth will also enhance domestic economic activities and increase financial revenue and taxation. The former will create more employment opportunities for the poor, while the latter will provide adequate funding for increasing government spending including transfer payments for the poor. These two aspects will both play an important role in reducing poverty. And it holds that economic growth does not have much impact on inequality, because the income distribution usually does not change too much over time. Another view is that the impact of economic growth on poverty is uncertain. If the benefits brought by economic growth can not make everyone benefit equally, the poverty, especially relative poverty will worsen. In developing countries, economic growth is not enough for poverty reduction.

We believe that specifically "immiserizing growth in expanding economies" involves many economic theories and evaluation indicators, which is complex. From point of view of economics, poverty is a impoverished survival state arising from lack of income. However, the "poverty" is not just a simple state of material living, and poverty is also a phenomenon of social structure. Thus, to be short, "immiserizing growth in expanding economies" means that with economic growth in a country or region, although the absolute poverty decreases to some extent, due to long-term existence of unreasonable social

policies and institutions, especially constraints of the distribution policy, it fails to make timely adjustments and reforms, resulting in the widening gap between rich and poor, and the number of relatively poor people gradually increases and there is even an increasingly deteriorating trend. With economic growth, how to distribute income, affects the impact of growth on poverty reduction, because not all people can get a fair return.

## 2 The status quo of China's rural economy in the new era and reason analysis

### 2.1 The status quo of China's rural economy in the new era

A basic feature of China's economic system is that there is significant dual economic structure in industry and agriculture, and especially in the context of continuous advance of market-oriented reform, the economic gap between rural and urban areas arising from dual economy, is difficult to narrow but tends to expand. Income inequality in China shows a relatively rapid trend of expansion, and the income gap of residents continues to expand, which brings a series of continuous socio-economic problems. In the new era, China's GDP per capita in the period 2000–2010 grew by over 8%, and the rural economy has made considerable progress. The rural income per capita increased from 2 253 yuan in 2000 to 5 919 yuan in 2010, while urban income per capita increased from 6 280 yuan in 2000 to 19 109 yuan in 2010. Urban and rural economy grows rapidly, but the growing residents' income gap has become China's most serious and challenging problem. There is not only urban-rural gap, but also the gap of industry, ownership and region.

Amartya · Sen believes that the impact of China's rapid economic growth can also be seen from the sharp decline in the poor. Here the poor refer to the income level of people below the accepted minimum standard. Although the precise estimation on decline in China's poverty rate is still in controversy, yet to be further researched empirically, the fact that sharp decline in poverty rate is beyond doubt. Despite the eased poverty problem in China in recent years, another problem related to this—urban-rural income inequality problem looms large. Reform process is the process of growing inequality within urban and rural areas<sup>[3]</sup>. Although the existence of urban-rural income gap is not unique in China, the magnitude of this gap in China is absolutely unique. Income level comparison between urban residents and rural residents from 2000 to 2010 can be seen in Table 1.

According to analysis of Table 1, in the new era, rural residents' income in China increases continuously and dramatically. However, the income of rural residents has been growing slowly. The income gap between rural and urban residents in the year 2000–2010 tends to expand (except for a few years with a small decline). With the new adjustment of industrial structure, China's economic growth focus more shifts to urban areas, so the rural industrial layout becomes single and vulnerable. Although the impact of economic growth in rural areas in eradicating poverty is obvious, the effect has been relatively weakened. In summary, we hold that reasonable difference between urban and rural incomes is a normal social phe-

nomenon. If the endless urban-rural income gap expands, and even if we eliminate absolute poverty, it is nothing more than a conversion of absolute poverty into relative poverty, which will be undoubtedly the fuse to "immiserizing growth in expanding economies" in rural areas.

**Table 1 Income level comparison between urban residents and rural residents from 2000 to 2010**

Year	Rural residents' net income per capita Yuan	Urban residents' disposable income Yuan	Urban-rural residents' absolute gap Yuan	Income ratio of urban-rural residents
2000	2 253	6 280	4 027	2.79:1
2001	2 366	6 860	4 494	2.90:1
2002	2 476	7 703	5 227	3.11:1
2003	2 622	8 472	5 850	3.23:1
2004	2 936	9 422	6 486	3.21:1
2005	3 255	10 493	7 238	3.22:1
2006	3 587	12 719	8 172	3.28:1
2007	4 140	13 786	9 646	3.32:1
2008	5 140	17 067	11 927	3.31:1
2009	5 153	17 175	12 022	3.33:1
2010	5 919	19 109	13 190	3.23:1

Note: The data is from *China Statistical Yearbook* over the years.

### 2.2 The reason analysis of rural residents' economic weakness in China

For the reason of economic disadvantage of China's rural residents, there are different interpretations. Amartya · Sen believes that in recent years, the huge success of continuous income growth seems to be achieved by increasing inequality, even in terms of poverty eradication, the amazing success achieved also differs over time, and there are still regional differences<sup>[4]</sup>. "In the process of industrial modernization, a certain degree of inevitability exists in urban-rural income gap. In the early stage of reform and opening up, the Chinese government proposed the policy of "letting some people get rich first", in order to provide incentives to stimulate economic activity. The implementation of this policy becomes the outset of China's rapid economic growth and rapid expansion of polarization<sup>[5]</sup>. Inappropriate government intervention in the economy, non-institutionalization of income distribution, and government corruption can also lead to the expansion of the income gap<sup>[5]</sup>. This is because in the case of power monopolizing resources allocation, some people can seize wealth by unfair means, dodging market competition. In the new era, China's urban-rural income gap has reached a very critical stage, and economic disadvantage of the rural residents have a deep historical and institutional root.

**2.2.1 System factor is the most principal factor responsible for rural residents' aggravated economic weakness.** Ownership structure is one very important factor. China's transformation from planned economy to market economy has experienced the process of shift from public property system to private property system. On one hand, market economy, property privatization will lead to unequal distribution of property and income; on the other hand, the literature also pointed out that the market development will help to reduce the income gap (World Bank, 2003). The long-standing urban-rural social structure in the economy, such as two-tier price system, results in serious imbalance of agricultural and industrial development; in the case

of emphasizing efficiency priority, economy grows by leaps and bounds, but equity and justice may be neglected. However, too much emphasis on equity may undermine economic growth and efficiency. China's early reform of the rural market has rapidly increased the income of rural residents, to some extent, reducing the urban-rural gap. In some areas with full-fledged market economy, non-state economic development provides substantial employment opportunities for the majority of workers, reducing unemployment and poverty. In some regions with underdeveloped non-state economy, due to weak economic growth, there is a serious shortage of employment opportunities, and poverty and the phenomenon of rural-urban income gap stand out. As far as we are concerned, China's household registration system implements strict urban-rural dual system, and urban-rural dual household registration system, is essentially the hierarchical system of urban and rural residents' identity, which will lead to inequality of opportunities, income, status, rights and obligations. With China's rapid economic growth, inequality of urban-rural dual system is reflected in more and more evident gap of benefits from economic growth. Highly uneven the urban and rural industrial development results in rapidly increasing urban-rural income gap. In terms of experience around the world, with economic development, the decline in proportion of the primary industry is a inevitable trend of industrialization and urbanization in one country, but in China, such proportion declines rapidly, in addition to restrictions of various policies, the population in the primary industry fails to transfer to the secondary and tertiary industries smoothly. A huge number of farmers and low agricultural productivity, leads to relatively low labor productivity in agriculture<sup>[6]</sup>. In the initial distribution pattern of the national income, rural residents are at irreversible disadvantage, which is the fundamental reason of economic disadvantage of rural residents.

**2.2.2 Urban-rural disparity of income redistribution.** Redistribution of income, in essence, is a kind of financial compensation, and a complement to imbalances and adjustment. It is generally believed that government-led redistribution of income will reduce the income gap, but some worry the effectiveness of income redistribution and its impact on efficiency<sup>[7]</sup>. At present, China's income redistribution, does not play the role in narrowing the gap between urban and rural areas, but shows a reverse regulation, further expanding the urban-rural income gap. As important mechanism of income distribution, finance and taxation are two very important tools, directly related to the construction of social equity and justice. Thus, from the initial distribution, secondary distribution and other aspects, the implementation of various policies and measures, rationalization of the income redistribution mechanism, and bridging gap between the rich and the poor in the process of social distribution, has become an inevitable choice for the Chinese government. This requires the government to use tax, social security, input to health and education and other means to participate in income redistribution, narrow the gap between urban and rural areas, and enhance social stability and harmony, which has become basic function of modern responsibility-oriented government.

**2.2.3 Supply imbalance of public resources and infrastructure.** Many literature data emphasize public resources and in-

frastructure, and especially the positive impact of political, cultural, and educational resources on narrowing the income gap. The development of culture, medical care, health, transportation, communications and other infrastructure, may also bring more employment and development opportunities for middle and low income group. Yang Jun, Zhang Zongyi (2003), through empirical studies, suggest that economic development is not a major factor in determining income distribution, there is no spontaneous "inverted U" process, and only the human capital plays the role in reducing the income gap of residents. The current popularization of Chinese education also needs to be developed and promoted continuously. Low-level education makes the rural residents' stock of human capital short, leading to insufficient ability of their employment and income as against that of the urban residents. In the process of public resources and infrastructure supply, the government regards public resources, social infrastructure and other major social projects as supporting measures for building well-off society in the long run, but fails to consider from the perspective of socially vulnerable people as a whole, to establish configuration mode covering all classes of society, resulting in large differences of public resources and infrastructure between urban and rural areas. And even redistribution of income increases the reverse regulation of the first distribution gap, for example, urban-rural income gap, in conjunction with social welfare gap, makes urban-rural gap appear to be more serious, and the data indicate that the gap increases from threefold to five-sixfold.

### 3 Analysis of impact of market consuming economy on "immiserizing growth in expanding economies" in rural areas

Due to income distribution problem formed in the long run, income gap between urban and rural areas has aggravated trend of increase, and the contribution of rural household consumption to GDP has been declining. Continuous expansion of urban-rural income gap, abates China's economic stability and long-term development potential, and even has affected social stability.

#### 3.1 The income disparity between urban and rural residents increases ceaselessly, the commodity prices continuously soar and the rural residents' market consuming capacity is short

The ratio of income per capita of China's rural and urban areas, has increased from 2.79:1 in 2000 to 3.23:1 in 2010 (Table 1). Engel coefficient of urban and rural households remains high in the long term, and the Engel coefficient of urban households declines from 39.4 in 2000 to 35.7 in 2010; the Engel coefficient of rural households declines from 49.1 in 2000 to 41.0 in 2009. The Engel coefficient of rural households is significantly higher than the Engel coefficient of urban households in the long term (Table 2). With rapid economic growth in China, the income of rural residents is generally low, but the Engel coefficient is high, so this will inevitably lead to insufficient spending power of rural residents. For a long time, in rural areas, the social security and medical care have inadequate coverage, social welfare is low and the price of consumer goods in market is high, therefore the rural economy will

be strained. If we do not take effective measures to increase rural incomes and arrest price of goods, the Engel coefficient of households continues to maintain a high level. It thus becomes one of inducements responsible for the phenomenon of "immiserizing growth in expanding economies" in rural areas.

**Table 2 Engel's coefficient of urban-rural residents in China from 2000 to 2010** %

Year	Engel's coefficient of urban residents	Engel's coefficient of rural residents	Engel's coefficient difference of urban-rural residents
2000	39.4	49.1	9.7
2001	38.2	47.7	9.5
2002	37.7	46.2	8.5
2003	37.1	45.6	8.5
2004	37.7	47.2	9.5
2005	36.7	45.5	8.8
2006	35.8	43.0	7.2
2007	36.3	43.1	6.8
2008	37.9	43.7	5.8
2009	36.5	41.0	4.5
2010	35.7	41.1	5.4

Note: The data is from *China Statistical Yearbook* in 2010 and *Report on China's Regional Financial Operation* in 2010.

In accordance with the normal state of economic development, the Engel coefficient should steadily decline, and in many countries once encountered by economic bubble in the world, the turning point of the Engel coefficient is rare, Brazil, or Argentina, for instance. China's rural residents, in general, are far from wealthy. For an economy, if there is normal economic growth, but the Engel coefficient rises, we can only say that it is a failure of economic policies, or the social wealth stagnates, or there is an imbalance of wealth distribution mechanism, so that the low-income groups get poorer. Chinese community should carefully consider the relationship between the income level of China's rural residents and the cost of living, strive to improve the income level of rural residents, and establish food consumption price supervision mechanism, so that the Engel coefficient of rural areas comes down, lest social contradictions are intensified, resulting in "immiserizing growth in expanding economies" in rural areas.

**3.2 The wealth concentrates highly and the majority of farmers' income is low** Since the new era, China's rural residents has made great contributions to the development of China's industrial economy and the market economy. However, over the years, more and more wealth concentrates in cities, while increase in rural residents' income and welfare is extremely limited. Income of rural residents, has long maintained at low level, tending to expand continuously. World Bank report shows the average income of 20% of people with the highest income, and the average income of 20% of people with the lowest income. The ratio of these two figures in China is 10.7; the ratio of these two figures in the United States is 8.4; the ratio of these two figures in Russia is 4.5; the ratio of these two figures in India is 4.9; the ratio of these two figures in Japan is 3.4 (the lowest). China's Gini coefficient has increased from 0.28 at the beginning of reform and opening up to 0.49 in 2009. This is a very ominous signal. World Bank report shows

that 5% of the population in the United States controls 60% of the wealth, while 1% of households in China control 41.4% of wealth. Concentration of wealth in China is even far more than that of the United States, which makes it become a country with the worst polarization in the world.

Considering China's Gini coefficient has exceeded 0.49 in 2009, but in fact, relatively poor rural residents in China have been increasing, and the rich get richer, the poor get poorer. This is an extreme form of abnormal society, which can easily give rise to social conflicts. However, in terms of the economic structure, consumption structure and overall level of price, this form has further exacerbated trend. As to the fruits of economic growth, rural residents are difficult to enjoy, but faced with "immiserizing growth in expanding economies" in rural areas. Consequently, we should take appropriate proactive measures to prevent "immiserizing growth in expanding economies", and increase income of rural residents.

## 4 Analysis of path of preventing "immiserizing growth in expanding economies" in rural areas

As far as Bloom o Ackermann (1980) is concerned, the fundamental problem of a free state is distribution problem. In the period of redistribution of interests, a reasonable process of income redistribution, is a Pareto improvement process. In order to prevent the generation of "immiserizing growth in expanding economies", the reform has become an irreversible trend. In view of this situation, the following countermeasures are put forward.

**4.1 We should reform household registration system so that the rural residents have the right to migrate freely and farmers' status is promoted** In China, the urban-rural income difference caused by household registration system can be reflected from status benefits. Status benefits refer to the economic impact denoted by citizen's different non-wage incomes (or non-regular incomes) arising from differences in social status or geographic location<sup>[8]</sup>. The main task at present is how to transfer so many surplus rural labour forces to urban areas. In particular, we should create the conditions for the surplus rural labour forces to concentrate in the places which need the labour forces most in urban areas, ease shortage of resources in rural areas, alleviate population and environmental pressure, and promote rapid growth of rural residents' income.

The key to the issue is that due to the household registration system and the discriminatory treatment in employment policy, security system and social services supply, the migration of the vast majority of rural labour forces to urban areas, is only expected to be temporary or mobile<sup>[9]</sup>. Scientifically, rationally and effectively carrying out the reform of household registration system, and gradually eliminating control of urban-rural dual system over freedom of rural residents, can greatly reduce the rural population, and realize bearable natural transfer between the rural and urban areas. This will reduce the barriers to labour mobility, promote the farmers to go to city, increase the farmers' income, and play a positive role in narrowing the gap between urban and rural areas.

#### 4.2 We should coordinate urban-rural development, strengthen agriculture and rural infrastructure building and achieve impartial allocation of public resources

In the pursuit of economic growth while ignoring income inequality, the result may be the upheaval in Latin American countries, which in turn will affect the quantity and quality of long-term economic growth<sup>[10]</sup>. The long-term pattern of economic growth in China has not changed. Under the support of proactive fiscal policy and prudent monetary policy, the economy in the future is expected to continue to maintain steady development, which provides a solid foundation for continuous growth of income of rural residents. Establishing long-term and solid agricultural basis can also conduce to the overall stability of increasing farmers' income. In terms of policy, we should offer the equal status of agriculture as industry, accelerate the development of rural economy, increase farmers' income, improve rural living conditions, develop rural small and medium financial institutions to provide funds for rural residents' loaning, and offer more educational opportunities for rural residents, so as to achieve fair allocation of public resources and gradually narrow the urban-rural income gap.

The ultimate goal of coordinating urban and rural development is to break the traditional urban-rural dual economic and social structure, and establish a new pattern of coordinating urban and rural integrated and balanced development of economy and society. Promoting urban and rural integration process and effectively solving issues concerning agriculture, countryside and farmers, is not only the key to promoting comprehensive, coordinated and sustainable development of economy, but also a necessary prerequisite for narrowing the urban-rural residents' income distribution gap<sup>[11]</sup>. The main task at present is still to strengthen building of agricultural and rural infrastructure. In particular, we should create conditions, promote rural residents' level of health care, education, culture, and sanitation, enhance rural residents' employment capacity and the ability to get rich, promote rapid increase in farmers' income, and achieve fair allocation of public resources. Strengthening building of rural basic public facilities, such as transportation, hydropower, communications, schools, hospitals and so on, will play a significant role in promoting rural economic development and increasing the income of rural residents, which is not only a problem of policy objective, but also a realistic option.

#### 4.3 We should carry out redistribution on income scientifically and effectively, consolidate rural social security system, bridge urban-rural income gap, and transform the comparative advantage into competitive advantage

Rawls believes that unfair distribution will scathe work enthusiasm and reduce work efficiency. The unfair distribution of income will be bound to lead to unfair individual rights and development opportunities. Duesenberry, Todaro, *etc.* advocate "growth after distribution", that is, priority should be given to distribution, and the prerequisite of economic growth is fair and equalized distribution of income. By relying on equitable distribution can we promote the propensity to consume and propensity to save of all levels of society, especially middle-and-low-income level of society, thereby stimulating economic growth. In order to realize social justice in China, we must carry out effective and

reasonable redistribution of social wealth. As we all know, the initial distribution of social wealth is to follow the principle of efficiency; redistribution is to follow the principles of justice and fairness, so that all people are rich; the third distribution is to follow the ethical principle, namely social responsibility, to make people getting rich first on the basis of voluntariness and willingness, requite the society and the public through the social mechanism. These three ways of adjustment will make the distribution of social wealth achieve dynamic equilibrium.

At the same time, establishing sound social security system is a necessary condition for narrowing the gap between rural and urban areas. In the integration process of social security system, certain forms of differences existing in urban and rural areas, are normal, and the standard of specific security project should be consistent with the actual situation. In order to establish and improve social security system in rural areas, the Chinese government should input a large portion of fiscal revenue to rural health care, education, culture, environmental protection and other public services, lift the bottleneck constraining rural consumption and improve rural people's real purchasing power. The purpose of social security in rural areas is to gradually achieve urban-rural integration, for example, medical insurance, pension insurance, industrial injury insurance, maternity insurance and minimum living guarantee, should achieve the same level as urban areas, to achieve the goal of eliminating "immiserizing growth in expanding economies" in rural areas.

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