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# The Approaches to Narrowing Urban – Rural Income Gap—From the Perspective of Rural Social Security

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**Abstract** From the situations about the incomes and life quality of the urban and rural residents, the thesis briefly introduces the status quo of the urban – rural income gap and explores the impact of the income gap on social economy; firstly, it hampers economic development; secondly, it is detrimental to the social development. Then the thesis analyzes the role of a sound social security in narrowing urban – rural income gap: at first, it broadens the institutional environment of improving the agricultural efficiency; secondly, it eliminates the uncertainties influencing the farmers' income; thirdly, it improves the farmers' capacity to increase income; at last, it enhances the farmers' consciousness of wealth. Next the thesis inquires into the problems existing in the system of rural social security: the first problem is more obviously fragmented system; the second is inadequate security projects and narrower coverage; the third is an obvious lack of equality in urban and rural security; the fourth is even less sound management system; the last is the lagging of legislation. Afterwards the thesis proposes the countermeasures and suggestions to improve the system of rural social security and narrow urban – rural income gap: firstly, to integrate the social security system in rural areas; secondly, to perfect security projects and enhance the security system; thirdly, to integrate the administrative management of social security; at last, to enforce the legal system.

**Key words** Income distribution, Urban – rural income gap, Rural social security, Urban and rural residents, China

30 years have past since the reform and opening up, the income of Chinese people has increased substantially, but the problem of the overbalanced distribution is increasingly serious. Gini coefficient has increased from 0.28 before the reform and opening up to 0.48 in 2007, and still keeps rising for the last two years, actually already above 0.5<sup>[1]</sup>. Income gap is the main reason leading to social "crack" and conflicts, therefore, the government should eliminate the increasingly sharp polarization between the rich and the poor, especially the urban – rural income gap. Based on this, the author probes into the approaches to narrowing the urban – rural income gap from the perspective of perfecting rural social security.

## 1 The status of our urban – rural income gap and its influences

In the context of certain social and economic conditions, income gap generally refers to the differences expressed in the same currency unit or physical index in the incomes of different social members from different regions and different industries or within the same regions or industries, including the absolute income gap and relative income gap, it is an important measure of the equality of distribution in a country or region. People's income reflects their life, and generally people's basic life is correlated positively with their income.

### 1.1 The status of urban – rural income gap

**1.1.1** The income status in urban and rural areas. As the reform and opening up intensifies, especially after the establishment of market economy, the overall income of our urban and

rural residents has been greatly improved. But meanwhile the problem of overbalanced distribution becomes increasingly protrusive. The disposable income of urban residents is 1 510 yuan in 1990, 6 280 yuan in 2000, 13 786 yuan in 2007, 15 781 yuan in 2008 and 17 175 yuan in 2009, while the per capita net incomes of rural residents during the same period are respectively 686 yuan, 2 253 yuan, 4 140 yuan, 4 761 yuan and 5 153 yuan. The ratios of urban – rural income are 2.201:1 in 1999, 2.787:1 in 2000, 3.329:1 in 2007, 3.315:1 in 2008 and 3.333:1 in 2009 respectively. Form all those above it can be seen that the urban – rural income gap is expanding. If the differences in distributing water, electricity, transportation, communication, culture, health, social security and other public products are taken into consideration, then the income gap of urban and rural residents will be larger.

**1.1.2** The status of the life quality of urban and rural residents. Engel's coefficient is the proportion of income spent on food in the whole expenditures; it is treated as a reflection of the living standard of a country. The rules of Engel's coefficient can be expressed as; the lesser the income of a household, the bigger the proportion of the income spent on food, while the household expenditures on food will decline as income rises. Similarly, the poorer a country, the greater its proportion of the average income of each people spent on food, and this proportion will fall as the country becomes richer. The Engel's coefficients of urban residents are 54.2%, 39.4%, 36.3% and 37.9% respectively in 1999, 2000, 2007 and 2008, while that of the rural residents at the same time are 58.5%, 49.1%, 43.1% and 43.7%<sup>[2]</sup>. The above data shows that the life quality of urban and rural residents has improved significantly, but the urban – rural gap is still very large, and the gap between urban and rural Engel's coefficient has risen from 4.3% in 1999 to 5.8 in 2008.

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## 1.2 The impact of urban – rural income gap on social economy

There is a large gap in both the income and life quality of urban and rural residents, and the gap mirrors the urban – rural income gap to a certain extent, which will cause a series of negative effects.

**1.2.1 Hampering economic development.** Economic development means not only the expansion of national economic scale, but also the improvement of economy and life quality. Urban – rural income gap is an obvious departure from the above statement. Keynes finds that consumption and savings are the increasing function of incomes while the marginal propensity of consume is declining in degrees. The higher the income, the higher the savings rate, and the uneven distribution of incomes has a positive correlation with the saving rate, which means that, it will result in a decrease in consumer demand, while the insufficient consumer demand will restrict the increase of investment demand, thus resulting in insufficient effective demand and further affecting the growth and sustainable development of economy. To be specific, the restrictions of the expanding urban – rural income gap on economy mainly manifest the following two aspects: firstly, the expanding urban – rural income gap will reduce the social marginal propensity of consume, which is bound to reduce the investment multiplier and inhibit the role of investment in stimulating economic growth; secondly, there is an obvious lack of mid-range consumer goods, resulting in decreased efficiency in the investment of related industries and further triggering an industrial structural imbalance<sup>[3]</sup>.

**1.2.2 Detrimental to the social development.** With the rapid development of economy, China has entered into the "period of highlighting the social contradictions", for example, the "Weng'an event" of Guizhou Province and "Menglian event" of Yunnan Province in 2008, as well as "Shishou event" of Hubei Province and "murder in the kindergarten" in 2009 happen one after another, arousing high concern among the public. The deep-rooted causes of these problems are related to the poor social construction. Since the reform and opening up, our economic construction has made great achievements, while the urban – rural income gap has also been expanded, causing a series of social conflicts and resulting in the overbalance of social structure. The expanded urban – rural gap is one reflection of the overbalanced social structure, while social structure is the important content of social construction. Thus, the gap between the incomes of urban and rural residents hinders the social construction.

## 2 The role of perfecting rural social security in narrowing urban – rural income gap

The elimination of urban – rural income gap is a social systematic engineering involving the reallocation of the interests of each social member, thus it will burden the pressures from different quarters. However, in the context of building a harmonious and people-oriented society, to perfect the social security system could protect the interests of farmers and narrow the urban – rural income gap. Moreover, social security system is not only a key factor regulating the gap between the rich and the

poor in the redistribution area, from a long – term point of view, people even expect to achieve the social welfare target of justice, freedom, equality and dignity. Therefore, to perfect rural social security is the best breakthrough point to narrow the gap between the incomes of urban and rural residents. To be specific, the role of a sound rural social security system in improving the peasants' income is mainly expressed in the following four points:

**2.1 Broadening the institutional environment of improving the agricultural efficiency** The building of rural social security system is an important act in solving the problems concerning agriculture, rural area and peasants, coordinating urban and rural economic development and building a harmonious society, as well as a benefiting policy to solving the peasants' most concerned endowment problem, it is of far – reaching significance in narrowing urban – rural gap, changing the dual urban – rural structure, driving the equalization in basic public services and promoting social justice. The improvement of rural social security system will enable the farmers to get rid of the worries, shake off the fetters of lands, and work in cities or start business on their own so as to improve their non – agricultural income on the one hand; and effectively transfer the labor resources, broaden the institutional environment of improving the agricultural efficiency and increase the peasants' incomes on the other.

**2.2 Eliminating the uncertainties influencing the farmers' income** Under an open, competitive, blind and lagged market economy, the farmers will inevitably be confronted with various risks, especially that agriculture is naturally influenced by natural conditions and will suffer from flood, draught, plague of locusts and other natural disasters. Therefore, to build a sound rural social security system could preclude various risks and provide institutional guarantee for the income growth of the peasants, rural social security essentially aims at precluding various risks, providing a stable and harmonious social and economic environment for the subsistence and development of rural residents and eliminating the uncertainties influencing the farmers' incomes to a certain extent through the application of various institutional forms.

**2.3 Improving the farmers' capacity to increase income** Health is pre-condition of all works, without a healthy and strong body, the farmers could not conduct agricultural and non-agricultural production, thus could not obtain the incomes. Through the building of the medical insurance system and improvement of rural health conditions, a minor illness could be treated in the village health center while a serious disease could be cured in the township and county-level hospitals, and the physical quality of the farmers could be guaranteed, thus their capacity to increase income will get improved. At the same time of benefiting the farmers with social welfare, we should also enhance the training of their skills and improve their cultural quality so as to improve their overall employability and earn them more incomes from both the agriculture and non-agriculture.

**2.4 Enhancing the farmers' consciousness of wealth** Most farmers still hold the traditional consumption concept and

investment ideas, and dare not make time consumption and over consumption, mainly because they are very worry about the latter life without security, while a sound rural social security system could enable the farmers to choose the best production, life and investment style without the worries behind. For example, they could use their money at hand to do some non-agricultural investment instead of purely depend on the interests of savings; they could buy bonds, stocks, etc., to achieve capital appreciation and obtain more non-labor incomes so as to improve their standard of living.

### 3 Problems existing in the rural social security system

The imperfect rural social security system is one of the major reasons leading to the gap between the incomes of urban and rural residents, however, for a long time the state government attaches great importance to the building of social security in urban areas while neglect that in rural areas, which, as a result, leading to a serious disequilibrium in the social security system of urban and rural areas, compared to the social security system of urban areas, that of the rural areas presents the following problems.

**3.1 More obviously fragmented system** Due to the historical reasons, our social security system is significantly fragmented, especially in our rural areas. The new – type rural society endowment insurance disconnects the basic old – age insurance for urban workers and various other endowment insurance systems, and it is divided from the social security for the farmers of the ground that be asked for, supporting policies for the people displaced by reservoir projects, the reward and assist policy for the rural household with good family planning, rural five-guarantee system, special care and the minimum living standard security system in rural areas, the fragmented system further expands the gap between the incomes of urban and rural residents.

**3.2 Inadequate security projects and narrower coverage** Currently, rural social security system mainly consists of rural social relief, special care, rural five-guarantee system, new-type rural society endowment insurance and rural cooperative medical system. In this rural social security system, the welfare hasn't yet really covered the disabled, the women and the children, which lags far behind the demands of rural residents and exists the problem of inadequate security projects. Moreover, rural relief system could not meet the basic needs of farmers, so the security level is quite low. From the coverage point of view, rural social security basically covers few people such as those who live a hard life and the veterans, and only remains at the lower level, most farmers could not get access to the social security. Our rural social security system is imperfect and weak, and its coverage is narrow, which will definitely affect the income growth of rural residents.

**3.3 An obvious lack of equality in urban and rural security** The low coverage and small amount of social security and medical insurance could be seen not only in rural areas, those migrant workers who has been engaged in construction and

service industry for a long time in the city also could not get access to equal social security and medical insurance. By the end of the second quarter of 2009, the rural migrant workers all over the whole country have reached 151 million, of which 15.88% attend the endowment insurance, 27.5% attend medical insurance, 10.1% participant in the unemployment insurance and 33.5% participant in the industrial injury insurance. What's more, in the implementation of social security, most urban people enjoy full medical insurance and endowment insurance while rural people do not. Moreover, in the medical system reform, a large amount of health resources are invested in the urban areas and to the rich people, presenting the coexistence of security surplus and security shortage. This tilted policy orientation will affect the improvement of peasants' income growth and the narrowing of urban – rural income gap.

**3.4 Even less sound management system** The management system of rural social security presents a situation of conflicting policies from different departments and carrying out decisions on their own, the urban and rural areas are divided and under different administrations, there is neither unified institution nor approach to manage different sections, which will definitely cause some troubles to the government to formulate, grasp and carry out policies. Rural social security is handled at the county, township and village-level institutions which are weak (especially after the tax reform and merging the county into town), the handling methods of these institutions are backward, the procedures are not unified and lack specific regulations, which seriously affects the enthusiasm of the farmers to attend the insurance and is also one of the reasons leading to the farmers' lack of trust in social security.

**3.5 Lagging of legislation** At the beginning after the founding of New China, although the government has issued "Labor Insurance Rules" as well as a series of "decisions", "regulations" and "provisional measure", covering the content of modern social security such as endowment, industrial injury, medical care, unemployment, compensation, relief and so on, most of which are available only for urban residents except several items, the basic livelihood of rural residents only relies on their only economic resources-lands. Although in recent years, the State Council also draws up "Rules of Rural Five Guarantees" and *Suggestions of the State Council on Carrying out the Experiment of New-type Rural Social Endowment Insurance*, compared to the legal provisions about "endowment insurance for employees" issued by the state government, there is still a large gap between the social security of urban and rural areas. There is neither specific regulation for rural areas nor the laws synchronized implemented with the urban areas, which could not fully guarantee and protect the interests of the peasants, hinder the comprehensive implementation of rural social security and is not conducive to improve the farmers' capacity to resist risks and their incomes.

## 4 Countermeasures and suggestions to improve the system of rural social security and narrow urban – rural income gap

To narrow urban – rural income gap is a huge and system-

atic engineering involving all aspects of society, and social security is the best breaking through point to effectively resolve the urban – rural income gap. Only with a perfect and sound social security system could the farmers' income be effectively improved and then the urban – rural income gap be narrowed to a certain extent.

#### **4.1 Integrating the social security system in rural areas**

The integration of fragmented rural social security system and perfecting of our social security system should be based on the social welfare objectives of equality, extensive benefits, freedom, justice and dignity. Currently we should focus on the cohesion and coordination of new – type rural cooperative medical system, new – type rural society endowment insurance, the basic old – age pension for urban workers, the endowment insurance system for migrant workers, social security for the farmers of the ground that be asked for, supporting policies for the people displaced by reservoir projects, the reward and assist policy for the rural household with good family planning, rural five – guarantee system, special care and the minimum living standard security system in rural areas, we should not only achieve the overall structural planning of social security system, but also make rational use of other policies or mechanism to support their sustainable development. Moreover, we should give full play of the special role of commercial insurance in precluding the risks in the income of the farmers, and establish a multi-level rural social security system.

#### **4.2 Perfecting security projects and enhancing the security system**

When accelerating the building of rural social security system, the first problem to be considered is to explore an approach to integrating the social security system in the urban and rural areas. Nowadays, driven by the tides of the reform, a large quantity of rural surplus labors flood into the city and make great contributions to the city construction, they are engaged in the most dangerous, hardest and most laborious work, but they are not entitled to the same social security and welfare as the urban residents, therefore, we should implement the same and unified social security system to the migrant workers as the urban employees, and improve the security projects for those migrant workers. Firstly, we should put forward and perfect the social security system for those migrant workers as soon as possible so as to protect them, improve their incomes and narrow the urban – rural income gap. Secondly, the integration of the basic model should be established so as to guarantee the multi – level and complete security system which covers all rural residents. Then we could actively explore and implement the minimum living standard security system in rural areas. Lastly, according to local economic development level, we could scientifically determine the minimum living standard in each region, improve the relief standards as economy develops, really protect the interests of disadvantaged people and narrow the income gap.

**4.3 Integrating the administrative management of social security** We could establish independent social security handling institution in accordance with the principle of separating

the functions of government from those of institutions and separating the institution functions from enterprise management. And then integrate and streamline the existing various organization of social insurance agency, and explore the feasibility to incorporate the endowment, medical, unemployment, industrial injury and maternity insurances into the management of one institution. Organization of social insurance agency is a public unit led by the executive department while relative independent from the administrative department, performing the functions of collecting social security fund, supervising, allocating and extending the entire finance, as well as information consultation and other social services. Organization of social insurance agency is established in the province, city (prefecture) and county level, the agent organ will be set up at the places below the county level, and even the village – level agent would be established if necessary. Social relief and social welfare and other social security projects could be handled by referring to this model.

**4.4 Enforcing the legal system** Ruling a country by law is the fundamental strategy of governing the country, without the clear regulations of law, neither of the stipulations and policies could be really put into practice. Because compared to other policies, the law is more compulsory and regulatory as well as more stable. Since the rural social security has a wide range and its process is very complicated, therefore it is quite necessary to conduct legalized management. Moreover, we should also establish and improve the legal guarantee for the implementation of social security so as to interlock each link of legalization, form a complete system and realize the real legalized management. Thus the transformation from the dominant economic legislation to the livelihood-oriented legislation could be achieved so that the normal operation of social security could be guaranteed, the peasants' interests could be truly protected and the vast rural residents could share the achievements of the reform and development.

## **5 Conclusion**

It is the essential requirement of socialism as well as our goal of building a socialist harmonious society to narrow the urban – rural income gap, realize common propensity and achieve the nationwide sharing of social and economic achievements brought by the reform and opening up. And the key to narrowing the urban – rural income gap lies in the improvement of the incomes of vast rural residents. A sound and perfect rural social security system is one of the effective approach to protecting the interests of the farmers and improving their incomes, as well as the best cut-in point to narrowing the gap between the incomes of urban and rural residents. Thus through establishing reasonable funding mechanism, strengthening the legal system, perfecting security projects and enhancing the awareness of attending social security, we can perfect and improve the rural social security system so that the rural residents could be favored by social security and share the economic and social achievements.

the existing political structure and right framework, the government dominates the society and the political space of farmers is limited in an extremely narrow scope. As a disadvantaged group, farmers are impossible to seek the equal rights with the well organized strong powerful groups in cities, and they do not have a big say in the governmental policies and system arrangement, let alone forming the functions of check and balance, so when their rights are violated, they have to accept it helplessly. Therefore, the improvement of the degree of organization is in absolute demand. Under the recent political environment, the direct protection of farmers' land rights from the government is limited. Besides, accelerating the cultivation of farmers' cooperative economic organization is not only the demand of socialist market economy, but also the objective demand of protecting farmers' land property rights<sup>[6]</sup>. In addition, the government should spare no effort on speeding up the development of farmers' cooperatives according to the Farmers' Cooperatives Law.

The real threats to the violation of farmers' land rights mainly come from two aspects. Firstly, the threat comes from the excuse of the local government. The local government collaborates with the real esteem developers under the mask of "public interests", to expropriate farmers' lands and violate farmers' land rights. Secondly, the threat comes from the villagers' committee. Some villagers' committees ignore farmers' land rights. They cater to the needs of land expropriation of the local governments negatively or positively driven by the interests. What's worse, some villagers' committees intercept the low allowances of land compensation by abusing their rights. A saying goes like that "in order to eradicate the barriers for the realization of collective land rights by developing democratic politics, the strict limitation on public power should go ahead"<sup>[7]</sup>. But the protection of farmers' land rights and the supervision on public power can not go without the support of organizations. A practical way of protecting farmers' land rights is to guarantee farmers' rights of association and allow farmers to organize their own associations. In the modern society, characterized by strong government and weak society, strengthening the power of the third party is a good way for smoothing the conflicts between the government and the society, then realizing the communication between the two, and it is the necessary choice for building harmonious and law-governed society. Farmers' associations are helpful for keeping the land rights of farmers, as well as for smoothing the conflicts between the government and the society. We can say that the associations have formed an effective cushion mechanism of check and balance. Meanwhile, farmers' association is an effective mechanism of check and balance for inhibiting the land expropriation

impulse of local governments and the willful violation of farmers' land rights.

### 3 Conclusions

In order to construct the harmonious society and coordinate urban and rural development, the government should highlight the effective solution of the three agricultural problems concerning agriculture, countryside and farmers. Protecting the development rights of farmers is the main aim of Chinese rural reform in the new era and the initial task for solving the problems concerning farmers. Lands are essential to farmers, and are the basis for the development of countryside and agriculture. The land rights are the most important property rights of farmers and the important content of farmers' development rights. Only by perfecting the system of protecting farmers' land rights and creating favorable environment for realizing farmers' development rights, the development of rural economy would be facilitated and the construction of socialist harmonious society would be laid a solid foundation. To truly realize the protection of farmers' land right, China needs to rearrange and innovate the system for coordinating urban and rural development. The protection of farmers' land rights is a systematic project and it is a time-consuming and tough task. However, the improvement of the legal protection mechanism of farmers' land rights will bring a new glimmer of hope for the solution of the issues concerning agriculture, countryside and farmers.

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