

# A Study on the Income Distribution Effect of Social Security

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**Abstract:** *With the rapid and high-quality development of the economy, the disposable income of Chinese residents has continued to grow. The main social contradiction in China is the contradiction between the people's growing needs for a better life and the unbalanced and inadequate development, which requires the social security system to play a role as a social stabilizer for residents, to protect people's lives and improve their living standards. The social security system plays a certain role in the three distributions of residents' income. It has the advantages of ensuring the minimum income, reducing income inequality and promoting national development. However, at the same time, it also has limitations, involving the entire process of income distribution, which needs to be solved urgently.*

**Keywords:** Income distribution, Social security, Mechanism of action.

## 1. The Mechanism of Income Distribution in Social Security

The social security system realizes the income protection function through three income distributions. The primary distribution is based on production factors, and the wages of workers are the most critical link in the primary distribution of national income. On the one hand, the main components of social insurance are the expenditures of enterprises and the contributions of individuals, which are directly related to people's income. Therefore, there is a close connection between the payment of social insurance and labor remuneration. By paying social insurance premiums, it can have a direct impact on the income level of residents. At present, the proportion of social insurance payment in most provinces and cities is more than 40% of the total salary, and the proportion of employers' contributions is about 30%, including pension insurance, medical insurance, unemployment insurance and work-related injury insurance. Individuals also need to pay pension, medical and unemployment insurance, accounting for about 11%. On the other hand, unemployment insurance provides the unemployed with the guarantee of professional skills. The government takes the initiative to arrange learning courses for the unemployed and guide their employment direction, thereby promoting employment. Educational welfare and elderly welfare guarantee the basic life of the elderly and children to a certain extent, reduce the family burden of workers, and help them better devote themselves to work. These systems have a direct or indirect impact on residents' income.

As the core of the secondary distribution, social security plays a vital role. It is based on the results of the primary distribution and readjusts part of the income and wealth. It is a way of secondary distribution of national income by means of national taxation and fiscal transfer payments. Through the adjustment of the secondary distribution, the fairness of income distribution is achieved, so as to narrow the income gap between residents and make up for the shortcomings in the primary distribution. In the process of primary distribution, the social security fund is composed of social insurance premiums jointly borne by enterprises and individuals and national fiscal investment. The rational use of social security

funds and the allocation of funds to the protected persons in accordance with the law will improve the living conditions of residents from multiple levels such as social assistance, pension, and medical care, and ensure the quality of life of low-income people. Therefore, the essence of the social security system can also be regarded as an income redistribution system, which realizes the redistribution of national income by transferring and adjusting national income.

Unlike the first two distributions, the third distribution emphasizes the principle of voluntariness. It is not mandatory and there is no legal requirement. It includes charitable donations, volunteer services, community mutual assistance, corporate social responsibility and other methods. Through individual or corporate donations, not only material assistance can be provided, but also spiritual comfort can be provided, thereby improving the material and spiritual life of vulnerable groups in society. By mobilizing the power of the whole society, we can make up for the shortcomings of the first two distributions, realize social fairness and justice, reflect the social responsibility of residents, and promote social harmony. The role played by the social security system in the third distribution is smaller than that in the first two.

## 2. The Significance of Income Distribution in Social Security

First, income distribution in the social security system plays a role in guaranteeing the minimum income. It covers the whole population and has a bottom-line function. The social security system allows all citizens to obtain equal rights to be protected, especially for people in vulnerable situations. Through collective insurance, personal insurance, state subsidies, compulsory savings and other means, the social security system funds are raised. The state provides subsidies to those whose living standards cannot reach the minimum standard, and provides basic living security for those with temporary and permanent disabilities. Social assistance is the system that best reflects the function of the social security system as a social safety net. The state has continuously improved the social assistance system. Basic living assistance is provided to low-income people who meet the conditions for minimum living and special hardship support; on this basis,

corresponding assistance systems are established for different situations of specific groups, such as medical assistance, education assistance, housing assistance, judicial assistance, etc.; low-income groups that encounter temporary serious difficulties in basic survival due to sudden, urgent, catastrophic and other problems are given emergency social assistance in a timely manner in accordance with the law. A series of assistance measures have continuously met the people's needs for a better life. The reason why China has been able to get out of the plight of absolute poverty also fully demonstrates the function of social assistance and reflects the humanity of the social security system.

Social security is rich in content, serves the masses, and involves all aspects of people's lives. Social insurance includes pension insurance, medical insurance and unemployment insurance, which can help people in difficult situations under specific circumstances. To a certain extent, the social security fees paid by enterprises for individuals can be regarded as a delayed wage. For example, individuals use part of their income to pay social pension insurance when they are young and middle-aged and have the ability to work. After retirement, they use the pension insurance to ensure their living conditions. Relevant surveys and studies show that for some elderly people, social insurance accounts for 14.5% of their total income and is an important source of income for the elderly. Medical insurance is when individuals lose their ability to work due to illness. In order to avoid falling into poverty, they can obtain corresponding subsidies through insurance to protect their income, so that residents can get income from the beginning of work to retirement. Since my country officially formulated and promulgated the unemployment insurance system, it has occupied an unmatched position in maintaining the daily livelihood of the unemployed, maintaining social order, and promoting reemployment. First of all, unemployment insurance can pay allowances regularly. There are two main purposes for granting subsidies: first, to ensure that the basic living needs of the unemployed and their family members can be met during the period of unemployment; second, to prevent the unemployed from losing their ability to reproduce. Secondly, they can also help them receive vocational training to improve their ability to re-employ. The social security system guarantees the income source of all members of society who are in trouble and guarantees the basic rights of the people.

Second, the income distribution system in the social security system has the function of reducing income inequality and maintaining social stability. The establishment of the social security system is to disperse social risks to the whole society, so as to help the vulnerable groups and promote social fairness and stability. For example, the social insurance projects in the social security system are different from the project conditions in commercial insurance from the day they were born. They obviously exclude the weak and the poor. Only the social insurance projects organized and implemented by the state include all members of society in risk protection. In this sense, the social security system is a basic system design that allows members of society to share the fruits of economic development. However, the current problem of unbalanced development in my country is still prominent, and the gap between urban and rural regional development and income distribution is still relatively large. The income gap is

manifested in the urban-rural gap, regional gap and industry income gap. First, with the rapid economic development and the overall victory of poverty alleviation, the urban-rural gap in my country is constantly narrowing. However, compared with cities, the material foundation of rural areas is relatively weak. Therefore, the development speed of rural areas is slower than that of cities. According to the comparison of the common prosperity index constructed by Xi Heng and others, it is found that the urban common prosperity index is higher than that of rural areas. Secondly, there are large regional differences in my country's common prosperity, with the eastern region being higher than the central and western regions. The "Western Development" strategy implemented by the state has played a certain role in promoting regional development, but regional gaps still exist. To achieve common prosperity, it is urgent to carry out more practices and develop according to local conditions. Finally, from the data of the National Bureau of Statistics, it can be seen that the wages of high-tech industries such as software technology services are generally higher, while the wages of traditional industries such as agriculture, forestry, animal husbandry and fishery are relatively low, and the wages of non-private units are also significantly higher than those of private units.

Social security policies realize the transfer of national income through the distribution and redistribution of national income, which can narrow the income gap, reduce inequality, and improve fairness to a certain extent. Since entering the new century, China's social security system has gradually extended from cities to rural areas. It has successively established a new rural cooperative medical system, a minimum living security system for rural residents, a new rural social pension insurance system, etc., combined with the actual situation of rural residents, A suitable social security system has been formulated, which has significantly improved the social security level of rural residents. At the same time, migrant workers who work in cities, farmers whose land has been expropriated and other groups can also enjoy the corresponding social security system to ensure that They enjoy their own rights. Promote the reform of the new rural social pension insurance system, integrate the basic pension insurance system for urban and rural residents, do not implement a "dual-track system" based on different urban and rural household registrations, eliminate the dual structure phenomenon between urban and rural areas, and narrow the gap between urban and rural areas. In our country, due to differences in resources and economic development strategies, income differences between regions have resulted. The social security system has continuously improved the overall coordination level. For example, the basic pension insurance for employees is based on the provincial social average wage as the pension. The wage base has narrowed the gap within the province. At the same time, the scale of central fiscal transfer payments has continued to expand, thereby promoting equality between regions, reflecting the fairness of income guaranteed by the social security system, and conducive to social stability.

Third, the income distribution system in social security can promote national development. my country's social security system has benefited all people to varying degrees and has become the basic path for all people to share the fruits of national development. This means that the social security

system with Chinese characteristics can provide solid protection for the basic lives of the Chinese people, who account for nearly 1/5 of the world's total population. This is a miracle in the history of world social security development and a concentrated embodiment of the advantages of the socialist system with Chinese characteristics. The victory in poverty alleviation has further proved the importance of the social security system. China's achievement of the poverty alleviation goal means that one-fifth of the world's population will completely bid farewell to poverty, which in itself is a major contribution to the development and progress of human society as a whole.

The social welfare system is an important symbol of a country's development. It is also a policy measure promoted from the perspective of the country to protect the legitimate rights and interests of the people. First, through the social welfare system, the optimization of the population structure can be achieved. At present, as the country gradually enters an aging society, the elderly population is also increasing. Social welfare has, to some extent, slowed down this process, such as providing medical insurance and elderly welfare for the elderly. Some provinces have also introduced birth subsidies to reduce the economic burden of the family, thereby increasing the fertility rate. At the same time, the poor also have corresponding social welfare, thereby improving their living conditions and promoting the optimization of the population structure. Second, the social welfare system can improve the level of social civilization. My country has built the world's largest education system, and the level of education has made a historic leap, allowing everyone to have the qualifications to receive education, especially for the poor. In the process of poverty alleviation, policies have fully proved the importance of "giving a man a fish is not as good as teaching a man to fish". The poor are not of high quality, lack of cultural level, and lack of skills. These are the main reasons why they are difficult to get rid of poverty. Through education, they can improve their cultural quality and master more skills, thereby helping them get rid of poverty. At the same time, it can also provide more cultural facilities and more cultural activities for the people, thereby promoting cultural exchanges and development. Third, the social welfare system enhances international competitiveness. When a country develops to a certain level, it not only needs hard power such as advanced science and technology and strong national defense, but also needs the soft power of social system and social welfare. In the context of globalization, the comparison between countries directly exposes the gap between the systems and welfare levels of various countries. The social welfare system will form a soft power advantage, thereby improving international competitiveness.

### **3. Limitations of Income Distribution in Social Security**

#### **3.1 Problems with the Operation of the Income Distribution System**

The increasing social security expenditure affects fiscal expenditure. The maintenance and development of the social security system requires a large amount of capital investment. In addition to the contributions from employers and employees, it also requires the government's tax revenue and

the investment of various other resources. Social security resources are basically provided by finance. As the level of social security improves, the funds invested by the state in it will increase accordingly, and the state's fiscal revenue will decrease accordingly. In my country, with the process of reform and opening up and the continuous development of the economy, residents' requirements for social security are getting higher and higher. At the same time, driven by the Internet, new employment forms have emerged, and the economic development environment has become more and more complex, requiring a higher level of social security to ensure the realization of residents' rights and interests. Therefore, my country's social security level continues to improve, and the government needs to invest more funds in it. In 2020, my country's social security expenditure accounted for 9.62% of GDP, and fiscal social security expenditure accounted for 19.57%. At the same time, as my country gradually enters an aging society, the elderly population continues to increase, which will have an impact on social security by affecting investment, savings and other aspects. Due to the increase in the number of retired employees, the pensions paid by enterprises have also increased, resulting in a decrease in the funds they can use for investment, thus hindering the development of enterprises. At the same time, the number of people who need to receive pension insurance continues to increase, and the fiscal expenditure on protecting the elderly population is also increasing, squeezing out funds used for education and scientific research and occupying their resources, which is not conducive to the accumulation of human capital.

Germany's social security legal system can be said to be a model of success, and it has played a positive role in maintaining social stability. However, Germany's social security legal system also has some problems that cannot be ignored, which have led to a series of social problems. Among them is the problem of excessive social security expenditure. The level of social security expenditure established by Germany through legislation is too high and the growth rate is too fast, which has caused great pressure on the country's social security expenditure. This has had a negative impact on its economic development and the healthy operation of the economy, and has caused the German economy to fall into a vicious cycle of "high welfare under low growth, high taxes, high costs, low investment, and low growth." Although the German social security legal system has been reformed, the pressure on social security expenditure has been reduced, but the decline is very limited. Coupled with the problem of an aging population, it can be seen that Germany's social security reform will continue.

#### **3.2 The Effectiveness of the Income Distribution System**

The social security system is not conducive to motivating the labor enthusiasm of workers to a certain extent, and the laziness of workers is also one of the reasons that affect the employment rate. In this case, due to personal laziness, luck and other factors, it is easy to exploit the loopholes in the social security system and maximize one's own interests. At the beginning of the birth of the social security system, its purpose was to hope that the state could solve the unemployment and pension problems under the background of the general environment. However, the implementation of

the social security system must be controlled within a certain range. Too high or too low will cause a series of chain problems, which will still have an adverse impact on the employment rate. When the social security system was first established, the country did not have enough economic capacity to protect everyone under the social security system and include them in the scope of protection. If those who lost their jobs could not get timely social security and their lives were not safe due to some personal or economic reasons, it would cause various problems and become one of the factors that make society unstable, thus affecting the development of society. Similarly, if a country's social security level is too high, there are too many types of security, and the difference between the compensation obtained by the security and the compensation obtained when employed is too small, many unemployed people will not take the initiative to participate in work, but are more willing to enjoy the social security benefits provided by the government. This not only increases the burden on the country, but also makes it impossible for companies to absorb enough labor during economic booms, thus affecting employment.

Sweden is a good example. As a welfare state, Sweden has a very complete social security system and implements a high welfare system from cradle to grave. Citizens can enjoy social security benefits from birth. For example, the state will provide education, free medical assistance and health care to everyone, covering the lives of residents. At the same time, the state unemployment subsidy can reach more than half of the salary when working, and the maximum time of receipt can be 10 months to 4 years. Its citizens are increasingly unwilling to work because the social insurance benefits provided by the government to the unemployed are almost the same as the wages of employed workers. Relying on the protection of social insurance can not only maintain basic living, but also do not have to pay taxes. Therefore, more and more lazy people who are unwilling to work have emerged. The dividends brought by poverty alleviation policies to the poor are huge, and these dividends are easy for them to become dependent, and these dividends can be obtained without their own efforts. For example, social security policies such as a higher proportion of medical expenses reimbursement and children's education fee reduction will end with the disappearance of the "poor household" status. If they can no longer be protected, the poor population is likely to subconsciously tend to return to poverty at any time and hope to get more stable help from the government. This will put poverty alleviation into a vicious cycle.

### **3.3 Issues on the Formulation of the Income Distribution System**

The social security system is imperfect and inefficient. At present, my country's social security system has not been perfected. For example, the rights and interests of the new business employment group have not been fully protected. The current social security entry threshold for new business practitioners is relatively high. In a formal labor relationship, the employer needs to pay five insurances for the workers, namely pension insurance, unemployment insurance, work-related injury insurance, medical insurance and maternity insurance. These five insurances cover all aspects and can provide employees with relatively strong labor

protection. However, precisely because there are so many guarantees, the flexibility and maneuverability of the access mechanism are very low. If the two parties sign a labor contract, the rights and interests of the workers are protected by law. The employer must pay the five insurances for the workers and cannot choose to pay only one or several of them for them. This results in higher labor costs and greater pressure on employers. Therefore, employers often choose not to establish a formal labor relationship with workers to avoid falling into a passive situation. This one-step access mechanism has played a counter-productive role in the complex labor market. It not only fails to protect the legitimate rights and interests of workers, but also gives companies the opportunity to "find another way". From this point of view, social security has not brought sufficient security to workers to a certain extent. Due to the characteristics of the work of flexible employment groups, their work injury insurance is particularly important, but the current system is still lacking. The policies implemented in the pilot projects also have problems such as narrow coverage, limited protection scope, and different insurance and payment policies and benefit levels. They are in urgent need of unification to protect them when they get into difficulties due to work reasons.

At present, some systems are still based on household registration, which makes it difficult for residents to participate in insurance. If they do not sign a labor contract, they must participate in insurance according to the household registration system, which will affect their enthusiasm for participating in insurance. For example, pension insurance is still managed locally. There are differences in pension insurance participation conditions, payment bases, transfer and continuation processes, and procedural materials between different regions. Therefore, it is still relatively cumbersome for insured persons to handle the transfer and continuation of pension insurance across regions. In some cases, they need to run between two places to handle it. Many insured persons have no idea when handling it. Some insured persons do not transfer directly because the previous pension insurance payment period was very short, the amount of personal account balance was not much, and they find it troublesome. They give up the rights and interests of pension insurance, resulting in the undesirable phenomenon of loss of social insurance rights and interests.

### **3.4 Issues in the Implementation of the Income Distribution System**

If income distribution is to be fully implemented in the social security system, the corresponding supporting rules and regulations must be improved. For example, in the minimum living security policy, it is necessary to determine the minimum living security recipients through review so as to provide corresponding policy assistance. However, there is no sound national income accounting system and there is a lack of unified standards for income calculation. When conducting household surveys, it is easy to have survey problems, such as whether there is hidden income, whether there is income from relatives, and whether there is income other than wages, which further increases the cost of review and will find legal loopholes for "non-poor people", giving them opportunities to take advantage of them and induce them to take advantage of

the situation. In addition, effective supervision and restraint mechanisms can avoid problems in the implementation of policies. Judging from the current implementation of the minimum living security policy, supervision has always been a weak link. For relevant government staff, once their sense of responsibility declines or they use their power to help others defraud insurance, objectively, loopholes in the minimum living security will be formed. In real life, relevant departments often cannot understand the true situation of the minimum living security households, and the cost of supervision is also very high. At the same time, if the neighbors who can best understand the real situation do not take the initiative to supervise and report them because they want to maintain neighborhood relations, fake minimum living security households will run rampant. It is not uncommon to find fake poor households on the Internet. Families that really need help are not protected.

Problems in the management of social security-related institutions still exist. my country has long implemented a regional coordinated social security mechanism. Vertically, social security organizations have problems such as local protectionism and organizational governance due to various reasons, resulting in inadequate implementation of institutional measures and low overall efficiency. Horizontally, cooperation between social security organizations is not smooth, and there are problems such as unclear mutual responsibilities and interest games, which cannot guarantee organizational ethical norms such as efficiency first and close cooperation. Social insurance funds are specifically used to pay social insurance benefits and provide protection and security for workers. The fund is large in scale, and its safety and stability are directly related to the vital interests of the people. Therefore, the management of social insurance funds requires the focus of institutions. However, at present, some social insurance agencies in my country still have problems such as inadequate risk management and imperfect internal control systems, as well as misappropriation and abuse. Some institutions even do not have professional industry knowledge and experience, and do things based on their own feelings, which leads to inconsistency with the actual situation, resulting in losses to social security funds. For example, when entrusting social insurance funds for investment, managers hold high-risk bonds and ignore risk warnings, causing large losses in investments that cannot be compensated.

#### 4. Conclusion

Generally speaking, the role of my country's social security system in income security is reflected in the three distributions of residents' income, among which the role in income redistribution is more obvious. International experience shows that, in a sense, the social security system has a better regulatory effect on income distribution than other systems. Relevant studies have shown that in developed countries, the role of social security in regulating income distribution gaps is greater than that of taxation. As a welfare state, Sweden's measures to regulate income distribution are mainly social security, which plays a role of more than 80%, while the role of taxation accounts for only about 10%. But this also means that the level of income security in China's social security system cannot be too low or too high. If it is too

low, it cannot guarantee the minimum living security of the people, cannot ensure their stable life, and cannot play the role of a social security safety net; if it is too high, it is easy to breed a negative dependence mentality that has a serious impact on society. To this end, it is necessary to further improve the social security system, give full play to its positive role, protect the legitimate rights and interests of workers, improve social fairness, and maintain social stability.

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