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# Who is Behind China's Widening Income Distribution Gap?

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**Abstract:** Over the past 40 years of reform and opening up, China has undergone drastic changes and social classes have been sharply divided. It is also an indisputable fact that China's income distribution gap is getting wider and wider. Who is behind China's widening income distribution gap? After our logical reasoning and analysis of statistical data, we find that it is difficult for the Chinese government and its related institutions to have nothing to do with the widening income distribution gap in China!

**Keywords:** income distribution, Gini coefficient, monetary neutrality

## 1. Introduction

Over the past 40 years of reform and opening up, China has undergone drastic changes and social classes have been sharply divided. It is also an indisputable fact that China's income distribution gap is getting wider and wider.

The Gini coefficient, or Gini index, is the most commonly used measure of income inequality. It was developed in 1912 by Italian statistician Corrado Gini (1884 - 1965) and is named after him.

The Gini coefficient measures inequality on a scale from 0 to 1. Higher values indicate higher inequality. When the Gini coefficient is 0.4-0.5, the income gap is too large. Therefore, the warning level of the Gini index is 0.4.

From 2003 to 2022, China's Gini coefficient was not lower than 0.47 except for 0.46 in 2015.

China's Gini coefficient from 2003 to 2022



Source: BRICS Joint Statistical Publication

The report of the research group on promoting the formation of a reasonable income distribution mechanism for residents also shows that since 2000, China's Gini coefficient has crossed the warning line of 0.4 and has increased year by year. In 1978, the Gini coefficient in China was 0.31. This shows that over the past 40 years of reform and opening up, China's income distribution gap has become wider and wider, and the income distribution gap is relatively serious.

Who is behind China's widening income distribution gap?

**2. It is difficult for the Chinese government and its related institutions to have nothing to do with the widening income distribution gap in China!**

Resources include matter, energy and information. Economic systems and resource allocation are related to exchange. Without exchange, there would be no currency and price. A market system is a way to realize the exchange and allocation of resources. The exchange and allocation of resources are of course inseparable from information.

In my article "Communism, Value Neutrality, and Monetary Neutrality" (Luo, 2017) there is a logical relationship:

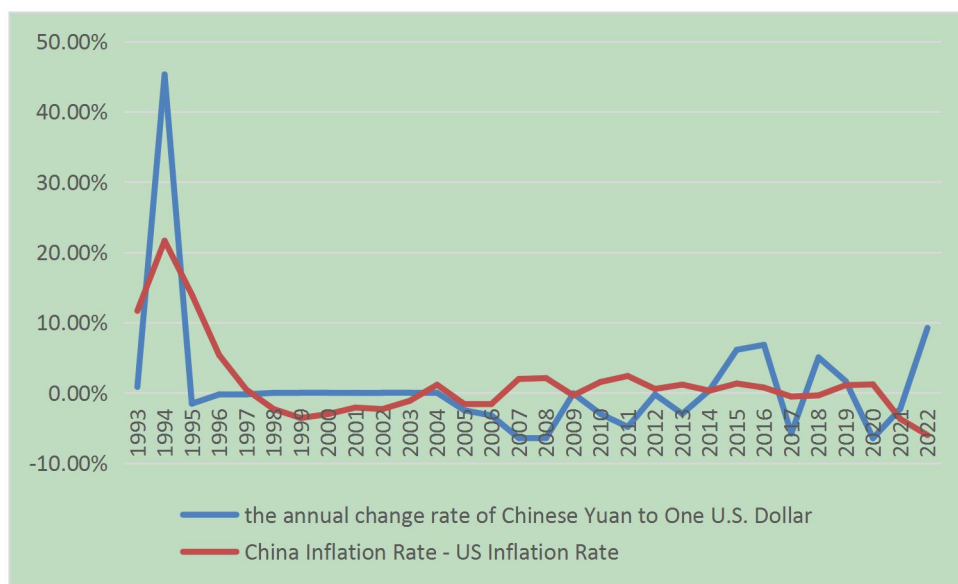
Symmetry of resource allocation => value neutrality => monetary neutrality => purchasing power parity equilibrium.

There is also a logical relationship in my article "Symmetry, Efficient Markets and Monetary Neutrality" (Luo, 2020) :

Information symmetry => efficient markets => monetary neutrality => purchasing power parity equilibrium

After the collapse of the Bretton Woods system, the excessive volatility of nominal exchange rates and the relatively smooth macroeconomic variables in the short run rejects PPP as a hypothesis about the short run relationship between nominal exchange rates and relative price indices. The evidence on long-run PPP is still a matter of debate [see survey in Froot and Rogoff(1995), Rogoff(1996)].

The chart below shows the difference of consumer price inflation rate (CPI growth rate) between China and the United States over the years from 1993 to 2022, as well as the annual change rate of the US dollar against the Chinese yuan.



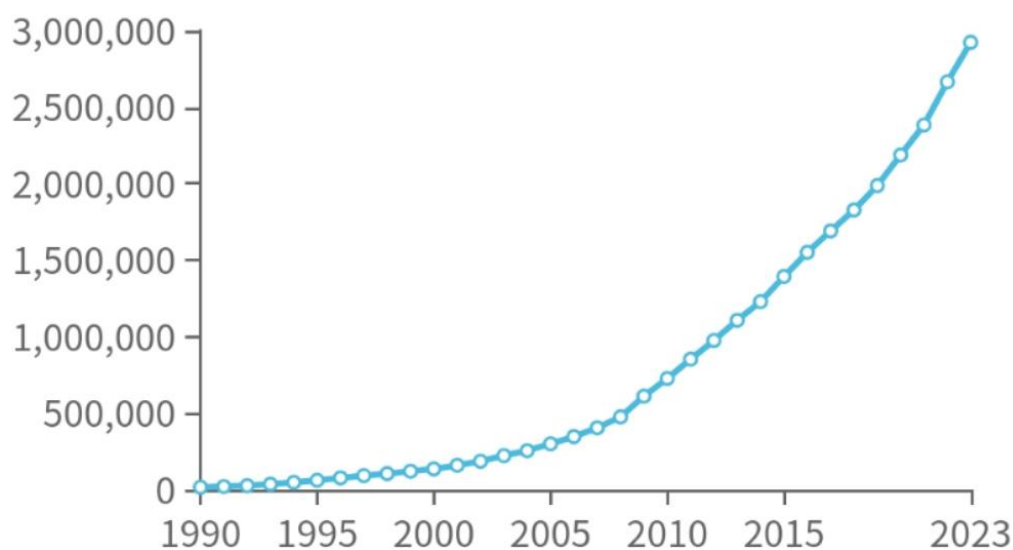
Source: Chinese Yuan to One U.S. Dollar comes from Tongdaxin stock software, and the inflation rate comes from Kuaiyi Wealth Management Network  
[https://www.kylc.com/stats/global/yearly\\_per\\_country/g\\_inflation\\_consumer\\_prices/chn-usa.html](https://www.kylc.com/stats/global/yearly_per_country/g_inflation_consumer_prices/chn-usa.html)

From this chart, we can also see that the purchasing power parity between China and the United States does not hold.

Therefore, from this perspective, China's currency is not neutral in the short term, and of course, the distribution of resources is not equal.

At the end of 2023, the M2 broad money supply in China amounted to over 292 trillion yuan. Broad money supply had been growing consistently over the years.

Value of M2 broad money supply in China 1990–2023 (in hundred million yuan)



Source:China Statistical Yearbook

Therefore, it is difficult for the Chinese government and its related institutions to have nothing to do with the widening income distribution gap in China!

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