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From "Negative Welfare" to Growth Driver: The Path of Welfare Policy Transformation in Enhancing Economic Efficiency

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Abstract. Against the backdrop of Sino-U.S. economic game, social inequality has become increasingly prominent, and the impact of welfare policies on economic efficiency in the two countries shows significant differences. Employing data like the Gini coefficient and Kuznets curve, this paper analyzes the transformation of welfare policies from "negative welfare" to "growth driver" in China and the United States. It is found that welfare policies affect economic efficiency through channels such as human capital investment, income distribution adjustment, and consumption stimulation; China and the United States show different characteristics in the transformation of welfare policies. China's "moderate universal benefit" model and the United States' "market- oriented" / "work-oriented" model provide two-way references for policy optimization. The theoretical significance of this study lies in that by introducing a dynamic comparative perspective of welfare policy transformation, it enriches the academic framework of the interactive relationship between economic growth and social equity. In practice, it provides actionable insights for developing countries represented by China to balance the efficiency and fairness of welfare reforms and helps to coordinate global welfare policies under the economic dynamics of China and the United States.

Keywords: Negative welfare, Welfare policy transformation, Economic efficiency, Social inequality, Sino-US comparison

1. Introduction

Since the 20th century, the connection between welfare policies and economic growth has been a hot topic in academic circles. Excessive welfare has brought fiscal burdens to some countries, like the Greek debt crisis, while insufficient welfare has intensified social conflicts in others, such as the widening wealth gap in the United States [1, 2]. In China, during its rapid economic growth, the social security system has shown a "negative welfare" phenomenon in the redistribution link, mainly reflected in the uneven distribution of social security expenditures between urban and rural areas and different regions, which has further widened the existing development gaps [3]. The United States, with its financialization-led welfare system, has welfare resources tilted towards financial capital, making it difficult for low-and medium-skilled workers to obtain fair protection, damaging their

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rights and interests, and also showing "negative welfare" characteristics, which hinder sustainable economic growth [4]. Existing studies mostly focus on single countries or static effects, lacking an analysis of the dynamic mechanism of the transformation from "negative welfare" to "growth driver," especially the comparative perspective between China and the United States. This paper takes these two countries as cases to explore how welfare policies can achieve the transformation from "reverse adjustment" to "positive driver" through institutional adjustments and their path to improving economic efficiency. It adopts comparative research, empirical analysis, and literature research methods. The study is of practical significance for providing reference paths for welfare policy reform in developing countries represented by China and of theoretical significance for enriching related academic research and providing theoretical thinking for international policy exchanges.

2. Theoretical framework and core concepts

2.1. Definition and characteristics of "negative welfare"

The "negative welfare" refers to the situation where the government, in the process of redistribution, not only fails to narrow but also widens the gap between groups, presenting a situation of "robbing the poor to help the rich" - the strong groups receive far more welfare than the weak groups. The core of this phenomenon lies in the fact that welfare distribution violates the principle of fairness and runs counter to the original intention of the welfare system to narrow the gap between the rich and the poor [5].

Specifically, different countries have different manifestations. In China, social security resources are significantly tilted towards cities and the eastern regions, while the welfare available to rural and central and western groups is seriously insufficient. For instance, in 2022, rural medical expenditure was only one third of that in cities. In terms of education funds, the eastern region accounted for 60%, while the western region was merely 20% [3]. This further exacerbated the imbalance in development between urban and rural areas as well as among regions. In the United States, under the financialized welfare system, high-income groups can obtain high-quality welfare through private insurance, while middle and low-skilled workers find it difficult to receive fair protection due to high insurance thresholds and limited coverage of public welfare. About 20% of the lower-class people even lack public welfare support [4].

2.2. Mechanism of "positive driver" of welfare policies

Welfare policies mainly influence economic trends in three ways. Firstly, as part of the welfare system, investing in education and healthcare helps to enhance labor productivity by establishing human capital [6]. Take rural compulsory education in China as an example.From 2010 to 2022, the increase in fiscal input raised the average educational attainment of rural laborers from 8.3 years to 9.8 years, and agricultural productivity increased by 35%. The reason behind this lies in the improvement of education, which has enabled farmers to master advanced agricultural technologies and management methods, thereby enhancing production efficiency. Secondly, welfare measures such as transfer payments and tax policies will have an impact on economic behavior by changing the income distribution pattern. They can reduce the Gini coefficient and thereby effectively boost consumption [2]. A good example is China's new rural cooperative medical care: its participation rate has soared from 10% in 2009 to 98% in 2023, while the rural Gini coefficient has dropped from 0.49 to 0.43. This has directly driven the rural consumer market to expand at an average annual rate

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of 12%, making the income distribution pattern more balanced. This change not only enhanced the purchasing power of rural residents but also drove the vigorous development of related industries.

Thirdly, welfare policies promote social stability and thereby reduce economic transaction costs [7]. By maintaining fairness, these policies have alleviated social conflicts. For instance, Nordic countries with sound welfare systems have a crime rate 40% lower than the global average, and at the same time, they score highly in the business environment of enterprises. Such a steady social climate facilitates the seamless running of businesses and cuts down on the economic expenses linked to social disturbances.

2.3. Dynamic relationship between kuznets curve and welfare policies

The Kuznets curve shows an inverted U-shaped correlation between economic growth and income disparity [8]. The United States is a typical example: in the early stage of industrialization at the end of the 19th century, the Gini coefficient rose from 0.35 to 0.45, but after welfare policies were strengthened in the mid-20th century, the Gini coefficient dropped to around 0.4. This phenomenon demonstrates that in the initial phase of economic development, income inequality tends to grow, and once a certain stage is reached, it tends to diminish due to factors like improved welfare policies.

It is important to highlight that welfare initiatives have the potential to speed up the emergence of the curve’s inflection point by means of redistributive actions [9]. In China, after the per capita GDP surpassed $10,000 (specifically in 2019), endeavors like poverty relief and the expansion of social security coverage brought about a drop in the Gini coefficient.This is 5 to 8 years earlier than countries with similar income levels, highlighting that well-designed welfare policies can effectively promote the early reduction of income inequality.

3. "Negative welfare" manifestations and causes in Sino-U.S. welfare policies

3.1. Typical manifestations of China's "negative welfare"

There are significant differences in China's social security system, which are manifested not only in the urban-rural gap but also in regional imbalance. In 2022, this duality was particularly evident in terms of pension and medical benefits: urban employees received an average monthly pension of 3,000 yuan, in sharp contrast to the 150 yuan provided by the new rural social endowment insurance. Likewise, the reimbursement ratio for urban medical insurance stands at 70% to 90%, whereas that for the new rural cooperative medical scheme is merely 50% to 70% [3]. This gap has curbed the growth of rural consumption and the quality of the labor force, as the decline in pension income and the reduction in medical reimbursement have weakened the living standards and work enthusiasm of rural residents.

Regional inequities in welfare provisions further exacerbate developmental inconsistencies. That same year, educational funding per student in Beijing and Shanghai surpassed 30,000 yuan, whereas in Guizhou and Gansu, it remained below 15,000 yuan. In healthcare, the eastern region had 6.5 hospital beds per thousand people, a figure that dropped below 5 in some western provinces [10]. This unbalanced allocation of resources hinders the coordinated development of regions.The lopsided allocation of educational and medical resources has given rise to disparities, thereby impeding the comprehensive effectiveness of the national economy.

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3.2. Institutional roots of US "negative welfare"

The welfare system in the United States formed by financialization has exposed deep-rooted vulnerabilities. As of 2020, per person spending on healthcare stood at $11,000, with 60% of this amount covered by private insurance plans—yet 27 million individuals remained without any insurance coverage. At the same time, 401(k) retirement savings accounts, tightly linked to the fluctuations of financial markets, saw a 30% drop in value during the 2008 economic crisis [4]. This shift toward financialization leaves social welfare programs exposed to market chaos, and the lack of adequate insurance coverage keeps posing ongoing risks to people's daily lives.

What makes these problems even more complicated is that the rights of medium and low-skilled workers are increasingly being violated. Between 2010 and 2020, the manufacturing industry reduced two million jobs for this group. The real wages of low-skilled workers have only increased by 1%, failing to keep pace with 3% inflation. Unemployment insurance covers less than 40% of those in need [11]. The reduction in income and the insufficiency of the social security system prevent them from maintaining normal consumption, thereby suppressing consumption activities and, in turn, the labor force participation rate and broader economic growth.

3.3. Comparison of causes of "negative welfare" between China and the United States

In China, fiscal decentralization has resulted in disparities in local fiscal capabilities, with the self-sufficiency rate of county-level finance in central and western regions remaining below 50%.In addition, the dual urban-rural household registration system hinders the flow of resources. These unreasonable fiscal and household registration systems have created obstacles to the balanced distribution of welfare resources [12]. In the United States, the market-oriented model has led to insufficient investment in public welfare.Meanwhile, financial capital exerts influence on policies through lobbying activities, and the healthcare industry spends over one billion US dollars on lobbying each year [13]. The excessive dominance of market forces and interest groups has hindered public welfare from playing its expected role.

4. International practices and cases of welfare policy transformation

4.1. China's "moderate universal benefit" transformation

In terms of policy adjustments, the per capita subsidy for the new rural cooperative medical system has risen from 80 yuan in 2009 to 670 yuan in 2023, and the rural minimum living security standard has seen an average annual growth of 10%; meanwhile, the coverage rate of balanced development in compulsory education has reached 96.8% [14]. These changes have steadily expanded the scope and level of welfare in rural and other regions.

In terms of economic effects, for every 1% increase in social security expenditure, the household consumption rate will rise by 0.3%.Between 2013 and 2023, the share of rural consumption in driving GDP growth went up from 18 percent to 25 percent.With the continuous improvement of the living standards and the increasing consumption capacity of rural residents, they have become a key factor driving economic growth.

4.2. U.S.' "work-oriented" reform

In terms of policy adjustment measures, the number of households benefiting from the Earned Income Tax Credit (EITC) rose from 15 million in 2000 to 27 million in 2021, while the average

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subsidy grew from $1,500 to $2,400. Additionally, investment in vocational training saw an average annual growth of 5% [15]. These policy initiatives serve to motivate individuals to enter the workforce and enhance their employability.

From the perspective of economic effects, such policies have led to a 3-percentage-point increase in the labor participation rate and an 8% rise in consumption among low-income groups [16]. Both the higher labor participation rate and the increased consumption of low-income populations play a positive role in boosting economic development.

4.3. Comparison and enlightenment of transformation experience

By comparing the transformation trajectories of China and the United States, two completely different approaches can be found: China adopts a government-driven model aimed at achieving universal coverage, while the United States tends to favor market-based incentive mechanisms. This difference has led to different outcomes: Although China's path has the characteristic of taking a relatively long time to show results, it has done a good job in ensuring fairness. On the other hand, the United States has witnessed significant efficiency improvements in the short term, but the long-standing gaps remain unresolved.

From these completely different experiences, we can draw some key insights. Policies need to find a middle ground between equity and effectiveness, integrate flexible adjustment measures—like raising the proportion of welfare expenditures relative to GDP growth—and strengthen focused assistance for disadvantaged groups.

5. Analysis of the path of welfare policy transformation to improve economic efficiency

5.1. Human capital accumulation path

In terms of social welfare advancement, notable progress has been made in both education and medical sectors across different regions. In China, the share of investment allocated to vocational education rose from 30% in 2012 to 42% in 2023. This growth was accompanied by a 15-percentage-point increase in the proportion of skilled talents, which in turn boosted manufacturing productivity by 28% [6]. Such developments in vocational education have resulted in a large pool of skilled workers, enhancing the manufacturing industry's competitive edge.

Meanwhile, in the United States, the community medical program brought about a 12% reduction in the incidence rate among insured individuals and an 8% drop in per capita medical expenses for enterprises [17]. Improved medical security not only mitigates workers' health risks but also eases the medical burden on enterprises, thereby facilitating their stable development.

5.2. Income distribution optimization path

In terms of adjusting redistribution policies, China has seen its Gini coefficient decline from 0.491 in 2008 to 0.466 in 2023. This shift has pushed up the contribution rate of consumption to GDP by 10 percentage points, with the optimized income distribution playing a role in boosting consumption and thus exerting a positive influence on economic growth [9]. Meanwhile, regarding the coordination of primary distribution and welfare measures, the United States has raised the minimum wage standard and tied it to the Earned Income Tax Credit (EITC). This move has led to a 15% increase in the income of low-income groups and a 3-percentage-point rise in the proportion of labor remuneration. Such coordination between primary distribution and welfare policies has not only improved workers' income levels but also advanced social equity [2].

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5.3. Social coordinated development path

In terms of social equity guarantee, through poverty alleviation efforts, the GDP of 832 poverty-stricken counties grew at an average annual rate of 9.5%, which was 1.2 percentage points higher than the national average [7]. This not only promoted the economic development of poverty-stricken areas but also narrowed the regional development gap.

In terms of optimizing the market environment, the United States has climbed to 6th place globally in the business environment ranking thanks to its stable welfare policies. Foreign investment attraction increased by 12%, indicating that a stable policy environment is conducive to attracting foreign investment and promoting economic growth [18].

6. Conclusion

The research results show that although "negative welfare" exhibits different characteristics in China and the United States, it constitutes a common obstacle to economic efficiency. In China, the root causes of these problems lie in the gap between urban and rural areas and among regions, while in the United States, the root causes of these problems lie in financialization and the imbalance of group rights. The transformation paths of the two countries each have their own characteristics: China's "moderately inclusive" model and the United States' "market-oriented" model both enhance economic efficiency through channels such as human capital development and income distribution adjustment. It is worth noting that welfare policies must strike a balance between fairness and efficiency and dynamically adapt to different stages of economic development.

The policy recommendations are as follows: For China, it is of vital importance to deepen the coordination of the social security system, narrow regional disparities, increase welfare input in rural areas and the central and western regions, and enhance the popularization of education and healthcare. For the United States: Balance the proportion of financial capital and public welfare, expand the protection coverage for low- and medium-skilled workers; and optimize the fairness of "work-oriented" policies. At the international level, it is advisable to establish a welfare policy exchange mechanism and learn from each other's transformation experiences.

However, this study has limitations, especially in terms of data timeliness, as it fails to cover the impact of the latest policies in recent years. Future research should explore the new relationship between welfare policies and economic efficiency in emerging contexts such as digital transformation.

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