

Strategic Choices in Growth and Distribution: Shared Development

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Abstract: Economic growth and fair distribution are two major goals pursued in economic development. Through a comparative analysis of economies such as those in Europe and the United States, it is found that: Economic growth does not have to be conditional on the expansion of income gap; growth will not automatically lead to fair distribution; efficiency and fairness can occur simultaneously; the transformation of the economic development mode can be achieved through income distribution. A shared development model that takes into account both growth and fairness is the choice to achieve sustained and stable economic growth. It is necessary to deepen the reform of the income distribution system, improve social security and other measures to promote the development achievements to benefit the majority of workers more, and achieve both efficiency and fairness at the same time.

Keywords: Economic growth; Income distribution; Shared development; Development model

Online publication: July 15, 2025

1. Introduction

Growth and distribution have always been two core issues in economic research. From classical economists, Marxist political economy, and neoclassical economics all studying the distribution and growth of wealth, to the New Cambridge School represented by Kaldor, which greatly promoted the research on the relationship between income distribution and economic growth^[1]. The choices of growth and distribution made by the majority of developing countries or latecomer countries have also formed different viewpoints, such as growth first and distribution later, emphasizing distribution over growth, and distributing while growing. According to a 2006 World Bank report, among more than 200 developing economies worldwide between 1950 and 2008, only the Taiwan region of China and South Korea transitioned from low-income to high-income status, 13 economies moved from lower-middle income to high-income status, and most middle-income economies fell into long-term economic stagnation, with per capita national income struggling to exceed \$10,000. Those countries that fell into the “middle-income trap” share some commonalities, with a slowdown in economic growth and an expansion of

income disparity being among the more prominent features. For developing countries or latecomer countries, it is of great significance to handle the relationship between distribution and growth properly in the process of pursuing economic growth. China has long experienced rapid economic growth oriented towards GDP, but it has also been accompanied by the deterioration of the income distribution situation. For China, handling the relationship between distribution and growth properly in the process of transitioning from the middle-income stage to the high-income stage is of great significance for successfully crossing the “middle-income trap” stage and achieving the sharing of economic development achievements by all.

2. Typical facts of income distribution and strategic choices for economic growth

2.1. The practice of developed countries such as Europe, America, etc.

In the process of industrialization in European and American countries, for a long time, they focused on growth but neglected distribution. In the early stage of development, it was a typical model of emphasizing growth over distribution. With the coexistence of high growth rates, deteriorating employment situations and poverty in the later stage of industrialization, and social polarization between the rich and the poor, they began to realize the importance of income distribution in the 1970s. Facing the deterioration of the income distribution situation, they have all carried out income distribution reforms to narrow the income gap. The United States implemented joint stock ownership, allowing more resources and wealth to be jointly held by the people, encouraging employees to hold property rights. The income gap gradually narrowed, the share of labor income tended to rise, and the Gini coefficient tended to decline. After World War II, Japan developed its production rapidly, but the low income level of the people led to various contradictions. In 1960, the Japanese government formulated the “Income Doubling Plan”, and through the strong and continuous promotion of the government, people’s income grew rapidly.

The United Kingdom was the first country to complete industrialization. In order to narrow the income distribution gap and realize the sharing of labor achievements, the British government adopted active employment and perfect social security policies ^[2]. According to the estimation of the World Bank, the Gini coefficient of developed countries such as the United States, the United Kingdom, Japan, and Germany was higher than 0.4 during the process of industrialization due to emphasizing growth over distribution. In the later stage of industrialization, when distribution and growth were equally emphasized, the Gini coefficient was basically maintained below 0.4. The current high-welfare countries represented by Europe and the United States were typically “emphasizing growth over distribution” in the early stage, resulting in the polarization of the gap between the rich and the poor. Later, they gradually realized the importance of distribution, gave consideration to both distribution and growth, and the income distribution gap was effectively alleviated, and the economy continued to grow steadily.

2.2. The successful strategies of East Asian countries or regions

As the “Four Asian Tigers”, South Korea, Singapore, Taiwan, China and Hong Kong, China, took the opportunity of industrial transfer from Western developed countries in the 1970s and 1980s, absorbed a large amount of foreign capital and technology, rapidly promoted industrialization, and achieved rapid economic development of their own countries. These emerging economies distributed while growing. During the economic development process, South Korea focused on fair distribution and promoted the growth of people’s employment and income through a series of policies, including human capital investment and giving priority to the development of labor-intensive

industries. Taiwan regarded “common prosperity” as the primary goal of economic and social development during the development process and is a typical economy that achieves fair distribution and economic growth. Through measures such as early land reform, education investment, the prosperous development of small and medium-sized enterprises, and a sound social security system, it ensured fair income distribution during the process of rapid economic growth.

During the economic development process, Singapore established a collective bargaining mechanism led by the government for a stable increase in labor wage income, ensuring the distribution of labor income during the development process. For these late-developing countries (regions) in East Asia, such as South Korea and Taiwan of China, their economies continued to grow at a high speed, while the income gap remained basically stable or even decreased. Their development is a typical “distribute while growing” model of the interaction between rapid growth and fair distribution, which also enabled them to smoothly transform from traditional agricultural societies to modern industrial societies and become typical examples of successfully entering high-income countries ^[3-5].

2.3. The negative lessons of Latin American countries

Latin American countries are typically the regions with the most severe polarization, the typical cases of “growth without development”, represented by Brazil, Mexico, and other Latin American countries as well as some small Southeast Asian countries. Due to the concentration of political power and monopolistic control in Brazil, the exclusion of the social security system for low-income groups, educational injustice, giving priority to economic growth, emphasizing the decisive role of capital accumulation, and ensuring the continuous increase of profit volume and amount by controlling the income level of workers, the economy experienced a stage of rapid growth. However, the income distribution gap was very large. They hoped to achieve equalization of income distribution after economic success, but the income gap continued to expand. Later, some improvements were made in the development process, but the overall income distribution has not been effectively improved.

In the development process of Mexico, excessive liberalism was advocated and wealth distribution was concentrated in the hands of a few. For example, some Southeast Asian countries, such as Malaysia, entered the lower-middle income level in the 1960s and 1970s, and some even reached the upper-middle income level. However, in the subsequent development, the economy has been unable to grow continuously and stably, and has long lingered in the low-middle income stage. There are many reasons for the inability of these economies to grow continuously and stably, but the large income distribution gap is their common and obvious feature. Whether it is Latin America or some countries in Southeast Asia that have fallen into the “middle-income trap”, economic growth is disconnected from the all-round development of society, ignoring the relationship between economic growth and structural changes, and between economic development and the development of people and society ^[6].

3. Insights and policy recommendations

The enlightenment we get from the development experience of countries or regions such as Europe, America, and others is: First, economic growth does not have to be based on the expansion of income gap. The development strategy of growth first and distribution later is not only unfavorable to the fairness of income distribution for late-developing countries, but also not conducive to the sustained and stable economic growth. The “East Asian Miracle” shows the organic combination of economic growth and income distribution, and the realization of economic development and people’s sharing of economic benefits. In the process of economic development,

people's sharing of growth benefits. For late-developing countries, they do not have to follow the model of "growth first and distribution later" of developed countries, avoiding the painful and long development process of achieving economic growth at the expense of people's interests. On the contrary, the lesson from Latin America shows that blindly focusing only on growth and ignoring distribution will lead to serious polarization and hinder the sustained and stable economic growth. The development strategy oriented by "efficiency first" in China for a long time has also led to the widening of the gap between the rich and the poor in our society.

Second, growth will not automatically lead to fair distribution. If policy adjustment is not emphasized, the income distribution gap will instead become increasingly wider. Economic growth automatically spreads the benefits of economic growth through the "trickle-down" effect and the "diffusion" effect, improving income distribution. However, the prerequisite for this effect is a perfect market mechanism. Judging from the development experience of countries like those in Latin America, under the model of "emphasizing growth while neglecting distribution", economic growth has not produced the "trickle-down" effect and the "diffusion" effect on income distribution. The main reasons are the imperfect markets in these countries, incorrect government intervention, and the disruption of the market by trade unions and political power, etc. In addition, it is possible to achieve relatively fairer income distribution and the continuous progress of economic growth simultaneously, with efficiency and fairness occurring concurrently. The development model of East Asian countries tells us that through government-led economic development and attaching importance to fair distribution during economic growth, the simultaneous realization of growth efficiency and fairness can be achieved ^[7]. The contradiction between efficiency and fairness can be resolved through the sharing of economic growth benefits.

Furthermore, during the transitional period in our country, income distribution, through its influence on investment, consumption, etc., can achieve the transformation of the economic development mode from investment-driven to domestic demand-driven, and from the extensive growth type relying on the quantity of factor input to the endogenous growth type driven by the quality of factor input, realizing high-quality economic development.

For late-developing countries with imperfect market mechanisms, the guiding function of government policies should be emphasized in the strategic choice between growth and distribution. First, in the primary distribution, attention should be paid to the problem of the low share of labor income to prevent the national income from tilting towards capital and the government. Attention should also be paid to the improvement of the income of low-income groups, and the income of high-income groups should be further regulated through personal income tax, inheritance tax, property tax, etc. Second, the employment opportunities of low-income groups should be improved. The human capital level of low-income groups, such as those in rural areas should be enhanced through the inclination of expenditures on education, medical care, vocational skills training, etc. During the process of "targeted poverty alleviation and poverty reduction", infrastructure investment should be appropriately inclined towards rural areas to give full play to the resource endowment advantages of rural areas, thereby promoting the increase of farmers' income.

Additionally, the wage gap among industries should be narrowed. The wage gap among industries is significantly differentiated. Studies have found that the financial industry has always been an industry with relatively high average income, while the average income of those engaged in agriculture has always been the lowest. In the process of transformation and upgrading, particular attention should be paid to the wage gap among industries, especially the high wages in monopolistic industries, which leads to the expansion of social income distribution. Finally, deepen the reform of factor income distribution. The irrationality of income distribution

is not only due to the inequality of human capital but also the inequality based on physical capital. Physical capital is mainly based on production factors such as land and capital. The decisive role of the market in resource allocation should be given full play. Through various measures, promote the increase of income for low-income groups, narrow the overall social income gap, and achieve the sharing of economic development achievements by everyone^[8].

4. Conclusion

Growth does not automatically lead to fair distribution; policy regulation is the key. The early practices of developed economies such as Europe and the United States have shown that neglecting distribution, especially primary distribution, can lead to serious social problems and hinder the healthy development of the economy. The development facts of some Latin American countries, such as Brazil and Mexico tell us that for latecomer countries, adopting the early growth-first-and-then-distribution or growth-oriented and distribution-neglecting concepts of developed countries to guide economic development will result in prominent social problems, continuous deterioration of income disparity and economic growth, and even economic regression. The development experiences of emerging economies such as South Korea, Taiwan of China and Japan indicate that during the development process, the government can formulate various policies, such as increasing the income of low-income earners, raising workers' wages, and extending workers' education years, to achieve fairness in distribution and sustainability in economic growth.

Funding

2024 Annual Project of Philosophy and Social Sciences Planning of Shenzhen (Project No.: SZ2024B011); 2025 Special Research Project of Shenzhen Academy of Social Sciences: Institutional Mechanisms for Promoting Deep Integration Between Manufacturing and Digital Economy in Shenzhen, School-level Quality Engineering Project of Shenzhen Polytechnic (Project No.: 10018021310011Z); School-level Scientific Research Project of Shenzhen Polytechnic (Project No.: 6025310012S)

Disclosure statement

The authors declare no conflict of interest.

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