

# Analysis of the Present Situation of China's Third Distribution and Suggestions for Its Development

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## ABSTRACT

Although China's primary distribution and redistribution can narrow the income gap to a certain extent, they are not enough to reduce China's persistently high Gini coefficient. The third distribution emphasized by the Chinese government may serve as an important auxiliary means of income distribution. This paper clarified the definition of the third distribution, sorted out the relevant theoretical research and the basic situation of the third distribution in China, and summarized the main problems existing in the third distribution in China. Some suggestions are put forward. The first suggestion is to establish specialized voluntary organizations. The second point is to suggest that voluntary organizations and charities use multiple media to promote their activities in order to enhance the trust of donors. Third, the government should take the lead in establishing a unified voluntary service management system.

**Keywords:** *Third distribution, income distribution, Philanthropy*

## 1. INTRODUCTION

### 1.1. Background

According to China's National Bureau of Statistics, China's Gini coefficient has been well above the international warning line of 0.4 but has been on a downward trend since 2008. China's income gap is mainly reflected in three aspects. The first aspect is that the income gap between urban and rural areas is gradually widening. The second aspect is that restricted by historical conditions and geographical factors, the income gap between different regions in China is large. The third aspect is the wide variation in income between different sectors in China.

Through primary distribution and redistribution, China has reduced the income gap to some extent. In the short term, however, neither means of distribution will be enough for Chinese society to achieve the goal of common prosperity. In recent years, China's resident income gap has not significantly expanded, nor has there been a sustained and significant narrowing trend. In general, China's income distribution gap is large, and the income gap exists for a long time. This shows that the effect of primary distribution and redistribution on promoting common prosperity is not very obvious. But at

the same time, China has a considerable part of the rich class. This means that our country has the conditions to achieve the third distribution.

The third distribution is based on moral power, through charity, social assistance, volunteer service, welfare lottery, and other forms of voluntary transfer of wealth from the rich to the poor. The third distribution is complementary to the primary distribution and redistribution, and it is important to narrow the overall income gap in China.

At present, the main ways to achieve the third distribution in China are through charitable donations, providing social assistance, setting up social enterprises, and carrying out voluntary services. Among them, there are three widespread problems. The first is that donations are used inefficiently. Charity managers have outdated ideas about fund management. The second point is that the public's philanthropic enthusiasm has not been stimulated to the maximum due to the imperfect mechanisms. Third, China is short of professional volunteers. The service level of existing volunteers is low.

## 1.2 Related research

Yuan reviews that the market mechanism leads to a large income gap and the government's redistribution is also constrained by objective conditions. Therefore, the third distribution is particularly important for narrowing the income gap in China. At the same time, case analysis is used to explain that the third distribution is under the influence of morality, culture, and habits. The specific ways of the third distribution include private donation, charity, and voluntary action. Meanwhile, he suggested that according to the current situation of China's economic and social development, the government should improve the relevant laws and regulations for promoting the development of China's charity. In practice, the government should find new ways to play the role of the third distribution and pay attention to the cultivation of charity culture which is suitable for China's reality [1].

Hu and Jiang pointed out that the third distribution is not highly developed in China. The main problems of this income distribution mode are the low efficiency of charity funds use; Private donation enthusiasm is not high; Shortage of volunteers and poor service level. At the same time, he proposed that in order to solve these problems, the government should improve the charity mechanism, enhance citizens' enthusiasm for donation, and innovate the mode of voluntary activities [2].

Jiang and Yu argued that the third distribution is a beneficial supplement to the primary distribution and redistribution, which is beneficial to common prosperity, helps to alleviate the anxiety of individual society, and promotes the development of social spiritual civilization. At the same time, he proposed four practical suggestions: increase the number of people involved in charity activities; Actively guide citizens to participate in providing basic public services; Explore how the third distribution promotes common prosperity; Establish and improve the incentive mechanism for the third distribution [3].

Yi et al. studied the effect of the third allocator on the urban-rural income gap and examined the effect of the third allocator on the income gap by using the third allocator data represented by China's philanthropy and welfare lottery from 2002 to 2019. The study found that philanthropy and welfare lottery has developed rapidly in China from 2002 to 2019, and have a significant restraining effect on the urban-rural income gap. Among them, the effect of the regular social donation workstation in philanthropy was significantly stronger than the other projects in the third allocation, which was about twice as strong as the other projects [4].

Xiu and Zhou studied the altruistic motives of corporate public welfare donations. Using multiple regression analysis methods such as Tobit, OLS, and Logit, Xiu and Zhou empirically tested the relationship

between regional happiness and corporate public welfare donation by taking China's A-share state-owned listed companies and private listed companies from 2007 to 2013 as research objects and further investigated the impact of property rights and institutional environment on the relationship. The results show that regional happiness has a positive impact on the public welfare donation behavior of listed companies, but this positive impact only exists in private enterprises. It is shown that a good institutional environment can promote the positive impact of regional well-being on corporate public welfare donation, and there is no significant difference between state-owned and private listed companies in this positive incentive effect [5].

Taking Chinese private listed companies from 2005 to 2017 as samples, Wang and Li explored how enterprises respond to the isomorphic pressure from collaborators and competitors to make charitable donations. Wang and Li also studied the moderating effects of a firm's market competitive position and geographical distance on a firm's perceived isomorphic stress intensity. It is found that in order to gain and maintain social legitimacy, companies will follow the charitable giving behavior of collaborators and competitors. Market competitive position negatively moderates the above-mentioned relationship. Geographical distance promotes the firm's charitable donation behavior to follow collaborators but weakens the firm's charitable donation behavior to follow competitors. The above conclusions enrich the connotation of institutional theory and the understanding of the motivation of corporate charitable donation and provide beneficial enlightenment for the practice of corporate charitable donation [6].

Based on the theory of organizational identity and social exchange, Lu conducted theoretical discussion and empirical analysis on the employee reaction mechanism of corporate philanthropy affecting income growth by taking Chinese A-share listed companies from 2008 to 2013 as samples and verified the moderating effect of service industry and employee responsibility level. The study found that corporate charitable giving had a significant positive impact on income growth, especially in the service sector and in companies that performed better than their employees. The results show that the distinct moral attributes of corporate charitable donation can stimulate employees' job satisfaction and job engagement, effectively improve employees' job performance, and then promote income growth, but the mechanism must be effective on the premise of protecting employees' rights and interests [7].

Wang combed through many debates about the charity economy in contemporary China. The doubters mainly believe that the charity economy is prone to "charity alienation" which means that taking part in charity activities had become a tool for some

organizations or individuals to make profits. The charity economy may also form unfair competition with the commercial sector, hindering the fair order of the market. Defenders, using utilitarianism as a theoretical tool, argue that the tendency of the charitable economy continues to promote the "greatest happiness" of disadvantaged groups, and therefore should be approved rather than condemned. Wang believes that both sides have reasonable points, but it is necessary to face up to the objective needs of the practice and development of philanthropy in contemporary China. Participants in charity activities should neither pursue their own selfish interests nor be too conservative. Instead, they should make rational choices about how to run charity. The government should set up a reasonable system to avoid moral hazards and ensure the realization of a virtuous charity economy [8].

Ke et al. systematically analyzed previous studies on corporate philanthropy and found that previous studies mainly focused on the charitable contributions and obligations of enterprises to society. However, with the rise of the concept of strategic philanthropy, the perspective of charity research has changed significantly, and more scholars begin to think about the way, motivation, and effect of charity behavior from the perspective of the organization. In this context, this paper reviews the research progress in this field from the perspectives of the meaning and measurement of corporate philanthropy, the factors influencing philanthropy and its impact on organizations, and discusses the possible future research directions [9].

Zhao analyzed the status quo of China's individual income distribution level and the classification of the individual income level gap. Based on the human capital model and life cycle theory, Zhao considered the current situation of unequal personal development opportunities and rapid scientific and technological development in China and analyzed the reasons for the gap in personal income level. Finally, it is suggested that China should vigorously develop the economy, further improve and reform the existing economic system, and ensure the popularization of basic income and basic education for farmers, so as to alleviate the problem of excessive personal income distribution gap at present in China [10].

### **1.3 Objective**

China's Gini coefficient continues to be high, which shows that China cannot achieve its goal of common prosperity through primary distribution and redistribution. The third distribution is an important supplementary means to adjust China's income distribution and helps maintain the vitality and innovation of society. At present, China's philanthropy is facing challenges from multiple dimensions. In this regard, this paper reviews the academic research on the third distribution in China and sorts out the basic situation

of the third distribution in China. This paper summarizes the main problems existing in China's third allocation and tries to give corresponding suggestions. This provides a reference for playing the role of the third allocation. The third distribution is helpful to solve the problem of poverty in China, to overcome the malpractice of market mechanism and make up for government regulation mechanism.

## **2. THE STATUS OF THE THIRD ALLOCATION**

### ***2.1 The definition of the third distribution and related research***

The third distribution is a Concept of Chinese localization. It was first proposed by Mr. Li Yining, a famous Chinese economist, in his book "Shareholding system and Modern Market Economy" published in 1994. He pointed out that "the third time, under the action of moral force, distribution was again carried out by non-compulsory means such as individual income transfer and voluntary contributions and contributions" (Li,1994). Nowadays, Chinese scholars generally agree that in addition to initial allocation and redistribution, all resource allocation activities featuring mutual assistance and sharing among non-specific subjects belong to the third allocation. The third distribution is a social mechanism [3].

The discussion about the third allocation in Chinese academic circles is mainly carried out from three aspects. The first is to discuss the supplementary effect of the third distribution on China's income distribution from the perspective of market failure and government failure. The second is to regard the third distribution as a new form of social distribution to meet people's higher spiritual needs. Such spiritual demand is derived after the high development of the social economy. Its concrete form is an emotional need, a moral need. The third discussion focuses on the mechanism of the third allocation and puts forward corresponding solutions and policy suggestions by analyzing the current situation and dilemma of the third allocation.

### ***2.2 The basic situation of the third distribution in China***

Under the influence of morality, culture, and habits, the third distribution is a voluntary act of social forces to help disadvantaged groups in the community through private donation, charity, and voluntary action, which is a beneficial supplement to redistribution. The main ways to achieve the third distribution in China are through charitable donations, social assistance, the establishment of social enterprises, and voluntary services.

From the perspective of cognition, Chinese people generally regard charity and relief as meritocratic. In the

traditional Chinese moral concept, scholars, officials, rich, businessmen, and other elites are given more responsibility for doing good. In addition, Chinese people have strict moral requirements for those who engage in charitable acts, requiring that they should not be involved in any utilitarianism, nor should they receive any reward, and it is better to be unsung heroes. However, in recent years, the charity has gradually gone from the humble to the public, and Chinese people's concept of charity is also gradually changing. Philanthropy is being transformed from an elitist obligation into a civic duty. In the past, charity was taken for granted by the elite, represented by the rich, gentry, and officials. However, in modern society, charity is no longer the monopoly of these people. Charity is a civic responsibility for enterprises, the rich, and ordinary people.

In China, civilian philanthropy is gaining momentum. By the end of 2019, there were 867,000 social organizations nationwide, up 6.2 percent from 2018. Among them, 372,000 were social organizations, 487,000 were private non-enterprise units (social service organizations), and 7,580 were foundations, up 1.64 percent, 9.68 percent, and 7.76 percent respectively from 2018. From September 1, 2016, to August 31, 2019, a total of 5,511 charitable organizations were recognized and registered by civil affairs departments across the country, among which 1,260 were qualified for public fundraising. On the government-approved fundraising plan filing platform, 12,641 projects of 673 charitable organizations have been publicly recorded and disclosed. A total of 273 charitable trusts were recorded, with a total trust property of 2.935 billion yuan. A total of 524 representative offices of overseas NGOs registered their activities in China, and 2,441 temporary activities were put on record. Philanthropy is no longer just for the rich but has permeated the lives of ordinary people. Extensive public participation is the foundation for the development and growth of Philanthropy in China.

### **3. THE MAIN PROBLEMS EXISTING IN THE CURRENT THIRD ALLOCATION**

#### ***3.1 Charity money is used inefficiently***

The ideal donor funding process involves three people: the recipient, the middleman, and the donor. The three parties through which donor funds go have an important impact on the efficiency of the use of funds.

Right now, the problem with recipients is that people who really need help can't connect with donors. In other words, a large number of recipients cannot easily find someone willing to provide the money to help them. In addition, there is still a phenomenon of posing as vulnerable groups to defraud relief funds, which seriously affects the credibility of charities and the enthusiasm of donors.

Secondly, charity organizations have a weak sense of responsibility and unreasonable operation mechanisms. The money raised is not used effectively for charity. The first problem is that the way charities find recipients is too simple, the vetting mechanism is not perfect, and even create recipients. In November 2019, *shuidicou.com*, a well-known private enterprise charity, was exposed by the media. *Shuidicou.com* dispatched its personnel to hospitals in more than 40 cities to visit each hospital ward and guide patients to initiate fundraising. The second problem is that some charities are unable to use their special funds and provide aid to the recipients as promised. At the end of December 2019, it was revealed that children's Charity's "Spring Bud, One Gang, one Student" project was not used for special purposes, and the donated materials should have been used to support drop-out girls in poor mountainous areas were diverted to boys. The third problem is that money managers, acting as middlemen, embezzle donations. In addition, there are also some charities for the fund management concept is too old-fashioned and rigid. Poor fund management, insufficient human input, and being too cautious to take investment risks have led to inefficient use of donations. The optimal management of donations cannot be realized, and donations cannot grow in the hands of fund managers.

#### ***3.2 Charities lose credibility***

Charity organizations are faced with a series of problems, including imperfect review mechanisms, failure to fulfill the promised quality of donations, corruption of donations, improper management of donations, and so on. The public's trust in charity organizations is gradually declining, so they are no longer willing to give donations to charity organizations. Charity organizations lack funding sources and their organizational and operational activities are difficult to carry out, thus entering a vicious circle. Charities do not have sufficient financial support, are unable to organize and carry out high-quality charity activities, and are unable to improve their operation mechanism, thus losing the trust of the public and resulting in fewer sources of funding. And so on. If charity organizations want to get out of the predicament, they must find out the problems fundamentally, actively innovate their own operating mechanism, and apply the right medicine to the situation.

#### ***3.3 Voluntary organizations that lack expertise***

This is despite the growing momentum of civilian philanthropy in China. However, there are still many problems. The first is that there is not enough publicity of volunteerism and volunteerism culture. The general public's lack of understanding of the volunteer cause. Such information asymmetry will cause people's prejudice and misunderstanding towards volunteers, thus affecting the development of volunteer activities and

dampening the enthusiasm of volunteers. Secondly, many volunteer organizations lack resource support, which makes voluntary activities less sustainable. Third, the rights and interests of volunteers are not fully protected. Volunteers may damage their own rights and interests in the process of carrying out volunteer activities. Without corresponding protection measures, the enthusiasm of volunteers will be consumed. In addition, the quality of volunteers is uneven due to a lack of funds and training. The volunteer activities they participate in lack professionalism. Finally, there is a lack of an effective incentive mechanism for volunteers to participate in volunteer service in the long term.

#### **4. RELATED SUGGESTIONS**

##### ***4.1 Establish specialized characteristic volunteer organization***

The specialization of voluntary organizations is important to improve the efficiency of the third distribution in China. Specialization is to bring together volunteers who know more about relevant fields and are more familiar with the actual situation of the recipient. Further form a large-scale organization. These distinctive voluntary organizations are more professional in a specific region or specific field and can formulate voluntary activity plans that are more in line with the actual situation and closer to the needs of recipients. These voluntary organizations can also organize necessary volunteer training, so as to cultivate some high-quality volunteer groups with professional skills and close to the requirements of reality. The high-quality volunteer groups and targeted relief programs provided by these professional voluntary organizations can often achieve good results, which are usually better than general voluntary organizations.

##### ***4.2 Multimedia publicity***

Various voluntary organizations and charities publicize themselves through various media, which is of great help to improve the trust and participation of donors. Various charities and voluntary organizations can use social media such as microblog and WeChat as a channel to publicize themselves and attract donors, so as to raise funds for voluntary activities and social assistance activities. Operating social media accounts can visualize various offline rescue activities, so as to improve the trust and participation of donors. Furthermore, donors can get positive hints, and more people may also participate in providing funds for relief activities. Under this benign interaction, more people can participate in the third distribution, which can better help achieve China's goal of "common prosperity".

##### ***4.3 Establish a unified voluntary service system***

The government should take the lead in building a unified voluntary service system and strengthen the management of volunteers and voluntary institutions. Forming a unified voluntary service system can improve the sustainability of voluntary activities, protect the rights and interests of volunteers, facilitate the training and improvement of volunteers, and increase the lack of professionalism of voluntary activities. To provide an effective incentive mechanism for volunteers to participate in voluntary service for a long time.

#### **5. CONCLUSION**

This paper sorts out the way of income distribution in China and finds that although primary distribution and redistribution in China can narrow the income gap to a certain extent, they are not enough to reduce China's continuously high Gini coefficient. The third distribution emphasized by the Chinese government may serve as an important auxiliary means of income distribution. This paper clarified the definition of the concept of the third distribution, sorted out the relevant theoretical research, and found that the current academic circle of the third distribution-related theory accumulation is not deep cognition, an incomplete system. The existing cognition of the third allocation is weak in front of the rapid development of the third practice. This paper summarizes the basic situation of the third distribution and finds that China lacks policies related to the third distribution, and the public does not have a clear understanding of the third distribution. In the case of the third allocation, there were problems such as inefficient use of donations, loss of credibility of charities, and lack of professional voluntary organizations. After that, this paper puts forward some specific suggestions. The first suggestion is to establish specialized and characteristic voluntary organizations to improve the efficiency of the third distribution. The second point is to suggest that voluntary organizations and charities use multiple media to promote their activities in order to increase the trust and participation of donors. Third, the government should take the lead in establishing a unified voluntary service management system.

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