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Ownership, trickle-down effect and shared development: a political economy analysis

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Abstract

Purpose – As an essential part of mainstream Western development economics, the trickle-down theory originates from the behavioral choices and iterations of thought on conflicts of interest in the evolution of remuneration structure in Western countries. The fundamental flaw of the logic of this theory is that it conceals the inherent implication of social systems and the essential characteristics of social structures.

Design/methodology/approach – This paper examines the relationships among economic growth, income distribution and poverty from the perspective of social relations of production – the nature of production relations determines the nature of distribution relations and further determines the essence of trickle-down development, and ownership is the core mechanism for realizing the trickle-down effect.

Findings – The stagnation or smoothness of the trickle-down effect in different economies is essentially subject to the logic of “development for whom”, which is determined by ownership relationship.

Originality/value – To be more specific, “development for capitalists” and “development for the people” indicate two distinctly different economic growth paths. The former starts with private ownership and follows a bottom-up negative trickle-down path that inevitably leads to polarization, while the latter starts with public ownership and follows a top-down positive trickle-down path that will lead to common prosperity in the end.

Keywords Ownership, Trickle-down effect, Poverty reduction, Income distribution, Shared development

Paper type Research paper

In the deductive process of economic thoughts, growth vs. poverty and development vs. equity have remained the essential propositions of concern in economics. According to the traditional trickle-down theory, growth is harmonious and not destructive, whereas development is gradual, continuous and cumulative. The economic order is created through the automatic market equilibrium mechanism, driven by conflicts of interest and egoistic behaviors, and will benefit all income groups, further realize the automatic poverty alleviation of economic growth and the automatic convergence of the income gap, and ultimately achieve the goal that all members of society share the fruits of economic development. However, the logic of this theory has an essential flaw as it strips away the core factor that constitutes the essential feature of a social and economic system – the ownership of the means of production, which weakens the logical coherence and realistic explanatory power of the trickle-down effect. On this basis, from the perspective of Marx’s theory of



ownership and distribution, we delve into the social relations of production and interest structure to explore the realization mechanism of the trickle-down effect, expand the institutional implication and analytical framework of the trickle-down theory, and use it as a problem-solving tool to explain the essence and characteristics of trickle-down development in different social relations of production and social systems.

1. Evidence from the literature in the perspective of development economics

With the rise of development economics, the concept of “trickle-down” has been included in the analytical framework of development economics and gradually evolved into a set of independent development theories featuring policy practicability. As a concept “describing the vertical flow of wealth from the rich to the poor”, “trickle-down” was first introduced by Nehru in his paper on Hobson-Lenin’s theory of imperialism. [Jawaharlal \(\[1933\]1962, p. 24\)](#) indicates that the exploitation of India and other countries brought so much wealth to England that some of the wealth trickled down to the working class and their standard of living rose. After second World War, the “trickle-down” theory was used to describe the relationship between economic growth and income inequality in developing countries and influence the formulation of economic development policies in various countries, focusing on the needs of colonies and dependencies seeking rapid economic development after independence. In this theoretical framework, gross national product (GNP) growth is assumed to be a neutral goal that “trickles down and spreads almost automatically” “once it is put on the highway” after development has been initiated ([Nugent and Yotopoulos, 1979](#)). The poor will “benefit from overall economic growth or from policies that benefit the rich” ([Grant, 1972](#)) or “make rapid gains from overall growth in GNP and per capita income” ([Todaro, 1977, p. 439](#)). The trickle-down development theory then emphasized more on the role of capital accumulation and industrialization in the economic “take-off” of latecomer countries and regarded poverty reduction and equitable distribution as “accessories to growth” ([Nugent and Yotopoulos, 1979](#)). Thus, “enhancing the healthy and strong sectors of the national economy” rather than “stimulating growth in poverty-stricken areas” became a policy priority ([Viner, 1958](#)); however, it did not exclude the government’s intervention manifested as “carefully crafted economic policies” ([Hirschman, 1991, p. 172](#)) to achieve balanced economic development and social equity and justice. Subsequently, with the emergence of neoliberalism, equality and redistribution were no longer deemed essential factors in driving stable economic growth but severe obstacles, and inequality became a necessary feature of an economic miracle ([Korpi, 1996](#)). The core concept of neoclassical “balanced growth” was embedded in the trickle-down theory ([Ray, 2010](#)) and endowed with more general economic theories, according to [Kangas \(2002\)](#), [Rawls \(1972, pp. 203–216\)](#), [Schmidt \(1998\)](#) and [Friedman \(2005, pp. 32–35\)](#): (1) The relationship between income inequality and economic growth. Economic development is initiated by incentives generated by inequality and is driven by market mechanisms linking the rich and the poor, while the unequal distribution of income stimulates people to invest more human and material resources in promoting economic growth. (2) The relationship between income inequality and the poor’s income. Societies with income differences and poverty threats have a stronger incentive structure and a faster-growing economy, which is bound to improve the situation of the poor at the bottom according to this economic logic. (3) Economic growth and economic status of the poor. Economic prosperity improves everything; even the poorest segments of society will benefit from the rising economic tides. The derived policy implication is as follows: It is crucial to maintain economic growth and trickle-down automaticity, and market “trickle-down” is preferable to government “transfer” – that is, the government should cut taxes for the rich to increase private sector employment rather than increasing the transfer payment scale or expanding social welfare programs to improve the economic conditions of

the poor at the bottom; in other words, economic policies that favor the rich over the poor are more conducive to social welfare improvement.

The “equilibrium mechanism” on which the trickle-down effect is achieved is attributed to the structural changes in factor endowments and their market forces. In the Lewis model, economic development is inevitably unequal because it does not tend to coincide in all sectors of an economy. However, with the transfer of surplus labor from the traditional agricultural sector to the modern urban sector, the marginal labor productivity of the agricultural population increases and that of the urban sector decreases, and labor migration converges to the equilibrium income level under the market mechanism in the end, along with the disappearance of economic duality itself (Lewis, 1954). In Aghion and Bolton’s model of growth and inequality, the trickle-down mechanism of wealth from the rich to the poor occurs through loans in the capital market: With sufficiently high capital accumulation, any increase in wealth accumulation by the rich will lead to lower interest rates, which allows low-income families to borrow loans at a lower cost for investing physical/human capital and thereby shake off poverty (Aghion and Bolton, 1997). Hodge (1973) believed that increased job opportunities triggered the trickle-down mechanism for the poor without capital accumulation, as favorable economic conditions will make employers inclined to hire more workers, and poor households will benefit more from expanded employment opportunities than middle-income earners due to the fact that the latter can give up more work in the market in exchange for more leisure time while the poor, who are chronically unemployed or underemployed, have an economic incentive to seize job opportunities to improve their employment prospects and wages. Schultz (1969) argued from the perspective of returns on capital and labor that rapid economic growth can narrow the economic gap between workers and capitalists since profits are depressed due to the increase of labor and capital costs, i.e. prosperity can equalize income. Developing a new perspective, Hirschman (1991) extended the “trickle-down” pattern in regional development, arguing that the prosperity of advanced regions would trickle down to backward or poor regions by optimizing factor mobility and through investment and consumption flows for the following reasons: (1) Regions that get rich first draw labor from poorer regions, which can relieve the employment pressure of the latter. (2) In a complementary situation, richer regions purchase more goods from and increase investment in the poorer regions, which brings development opportunities to the latter. (3) The trickle-down of advanced economic and social factors, such as advanced technologies, management methods, thoughts and values, and behavior patterns, from the richer regions to the poorer regions will promote the economic and social progress of the latter in multiple aspects.

However, the trickle-down effect has always been constantly questioned in terms of theory and practice during conceptualization, theory transmutation and policy practice.

For theory, Nugent and Yotopoulos (1979) pointed out that the heterogeneity of human capital, the self-selectivity of capital accumulation, the spread of technological change and the monopolistic nature of international trade can all lead to polarization rather than a vertical trickle-down or horizontal diffusion of development. Ray (2010), based on the nonhomogeneity of human needs and the high cost of resource transfer, argued that trickle-down did not work in a dual economy. Matsuyama (2000) considered from the imperfect credit market that there is endogenous inequality in the market economy; in other words, rich households acquire great wealth partly because poor households exist, and the rich-poor divide would never disappear. In addition, the trickle-down effect is also subject to external constraints, including technological benefits, the economic system and natural endowments. If these factors negatively affect the poor people’s economic behaviors, it leads to the “mud lump effect”, which hinders the trickling down of economic growth benefits to the poor.

At the empirical level, Greenwood and Holt (2010) indicated by analyzing United States’ (US’s) long-term historical distribution data that the trickle-down effect worked between the 1950s and the mid-1970s; however, starting from the 1980s, income inequality in the US

rose sharply and produced a “negative trickle-down effect”. The time series analysis of [Treas \(1983\)](#) also suggests that public transfer payment in the US is more effective for reducing inequality than the trickle-down of macroeconomic expansion. [Kangas \(2002\)](#) carried out a comprehensive empirical study on the trickle-down effect with data on economic development and income distribution in 21 OECD (The Organisation for Economic Co-operation and Development) countries from 1985 to 1995 and concluded that there is no robust and significant positive correlation between income inequality and economic growth; rising income inequality will not improve the absolute economic welfare of the poor, and overall economic prosperity is a necessary but not sufficient condition for the high income of the poor, proved in both static cross-sectional and dynamic diachronic analyses.

Upon the review of the existing studies, we find that both proponents and skeptics of the trickle-down effect regarded capital and labor as “purely technological factors of production” in the endowment characteristics of economic agents and attributed the poverty changes during economic growth to the dynamic accumulation of the trickle-down market effect or policy effect, under the assumption that market and government are neutral. Their controversies over this theory lie in the disturbances from exogenous factors, including market failures and weak institutions, the constraints of unbalanced development and whether legal or policy interventions are required to facilitate balanced growth. Moreover, they did not explain why the market mechanism has diverse trickle-down effects at various historical stages in different countries and regions. If it is attributed to positive or negative government interventions, why is heterogeneity obvious in government behaviors like welfare policies and tax structures? If the heterogeneity of government behaviors is the product of political games among different interest groups, is the relationship between political inequality and economic inequality a one-way causal relationship or a cyclic, cumulative causal interactive one? This requires us to delve into the nature determination feature of social relations of production to explore the institutional implications, theoretical characteristics and empirical logic of trickle-down development based on the principles and methods of political economy.

2. Implementation mechanism of the trickle-down effect: ownership

The traditional trickle-down development theory examines the poverty change effect and income distribution issue during economic development in a two-dimensional “individual growth–inclusive growth” framework, which is based on the expansion and application of the “invisible hand in the free markets” into the macroeconomic growth theory with the core principle that the free market mechanism not only stimulates economic growth but also trickles down the development benefits to the general public. Following this thought, a country’s wealth gap is mainly subject to stagnant economic growth and low-level economic development, and income inequality and poverty may decrease automatically with the take-off of the economy and the improvement of the market system. However, many countries have found that eliminating poverty and decreasing inequality fail to be realized just through macroeconomic expansion driven by market forces. Then, they resort to intervention policies with the purpose of improving the distribution of wealth possession and the structure of wealth accumulation across the society, correcting the unequal income distribution and regulating the income gap, and pin their hopes on government power to unblock the trickle-down channel of economic growth, but fail to change the systematic features, including unequal distribution of wealth across social classes and the fractured social structure resulting from it, which in turn inhibits their capacity to sustain economic growth and reduce poverty.

Dialectically, economic growth is a prerequisite and necessary condition for achieving poverty reduction and income equalization. However, it does not mean that economic growth will naturally lead to the desired outcome state of the poverty reduction effect and income equalization. From the market perspective, in imperfect market systems, such as those in Latin America, dysfunctional market mechanisms and disorderly markets often leave low

earners with no way to equitably participate in reaping the benefits of growth. Whereas for developed market systems such as those in Europe and the US, the natural attribute of the market mechanism – “survival of the fittest”, as well as the scale effect of capital accumulation and wealth aggregation effect, makes the growth “not necessary to bring out fair income distribution” (Samuelson and Nordhaus, 2008, p. 33). From the government aspect, whether economic policies favor the rich or the poor plays a clear role in directing the flow of benefits from economic growth (Li *et al.*, 2008), since different policy orientations can have a negative or positive trickle-down effect on poverty reduction and inequality improvement. Unveiling the mask of neutrality in terms of market and government and exploring the specific inherent meaning of social relations of production and structural features of social interests behind it will help us identify the inner logic and mechanism of trickle-down effect blocked or unblocked in different economies through the heterogeneous characteristics of the effect.

Marx conducted historical research on the position of workers in capitalism during economic decline, growth and prosperity, respectively, and argued that a growing economy is “the only favorable state for workers” (Marx, 2009a, p. 119). He also analyzed the channels of trickling the fruits of economic development down to the working class in this situation: in a social state of growing wealth, the “desire to get rich” (Marx, 2002, p. 229) led to “competitions among capitalists”, resulting in “the demand for workers exceeding the supply of workers” (Marx, 2009a, p. 119), which is conducive to the increase of workers’ wages. With the rapid progress of social productivity, workers’ welfare increases accordingly, and so do their “entitlements”, moderating the absolute impoverishment of the proletariat thereby. However, this trickle-down channel from top to down is narrow and short-lived. Marx (2009a, p. 121) pointed out that the increase of wages came at the expense of the worker’s mental and physical work and did not change their economic status essentially, “even in the condition of society most favorable to the worker, the inevitable result for the worker is overwork and premature death, decline to a mere machine, a bondservant of capital, which piles up dangerously over and against him, more competition, and starvation or beggary for a section of the workers.”

During capitalist production, “all methods for the production of surplus-value are at the same time methods of accumulation; and every extension of accumulation becomes a means for the development of those methods again”, noted Marx (2009c, p. 743). With the increase of capital accumulation and the organic composition of capital, the fruits of economic growth trickle down from bottom to up, and social wealth becomes increasingly concentrated in the hands of the bourgeoisie as capital, while the share of the proletariat in the distribution of social wealth constantly decreases. “The relative impoverishment of the workers, i.e. the diminution of their share in the national income, is still more striking. The workers’ comparative share in a capitalist society, which is fast growing rich, is dwindling because the millionaires are becoming ever richer,” indicated Lenin (1959, p. 430). Under the “absolute and general law of capitalist accumulation”, the wealth accumulation of the rich and the (relative or absolute) poverty accumulation of the poor co-exist, and the sharing of economic development means opposite things to workers and capitalists – “Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, the agony of toil slavery, ignorance, brutality, mental degradation, at the opposite pole, i.e. on the side of the class that produces its own product in the form of capital” (Marx, 2009c, p. 291). The “greater the social wealth as capital to perform functions” and the “greater scale and capacity of economic growth” (Marx, 2009c, p. 742), the more solid typical negative trickle-down effect and Matthew effect, with the result that “in proportion as capital accumulates, the lot of the laborer, be his payment high or low, must grow worse” (Marx, 2006, p. 993). The wealth gap and the impoverishment of the proletariat are the direct consequences of unequal property ownership and uneven income distribution.

Proletarian impoverishment is a direct consequence of unequal ownership of property and unequal distribution of income. The relation of income distribution is determined by the ownership basis under certain socio-historical conditions and social institutions and the status of people in the production process and their relations with each other as determined by ownership, and "... the distribution relations essentially coincident with these production relations are their opposite side" (Marx, 2009d, p. 20). The distribution of products, i.e. the distribution of the means of consumption, depends on the distribution of the conditions of production since Marx noted (2009b, p. 436), "... any distribution whatever of the means of consumption is only a consequence of the distribution of the conditions of production themselves. The latter distribution, however, is a feature of the mode of production itself." The term "distribution of the conditions of production" herein refers to the distribution of the highest power over the means of production among social classes – i.e. the ownership of the means of production. It is the ownership of the means of production that determines the nature of the mode of production and the position of people in the organization of production and thereby determines the structure and form of distribution of products. Marx (2009d, p. 19) pointed out, "The relations and modes of distribution are thus merely the reverse aspect of the factors of production ... The structure of distribution is entirely determined by the structure of production. The distribution itself is a product of production, not only with regard to the content, for only the results of production can be distributed, but also with regard to the form, since the particular mode of men's participation in production determines the specific form of distribution and the form in which they share in distribution."

The decisive influence of production on income distribution and poverty is based on the ownership of the means of production. The ownership of the means of production reflects the essential characteristics of a socio-economic system and defines the supreme right to control the means of production with clear attribution, which prevents (or condones) the use of this right by some people to dominate the labor process and occupy the labor fruits of others, reconciles (or intensifies) the contradictions and conflicts of various stakeholders, guides the behavior order of various economic agents in economic activities, shapes the overall distribution relations and rules of distribution in society, and further determines the heterogeneous characteristics of the trickle-down effect blocked or unblocked in different economies. Since the ownership relationship defines not only the nature and purpose of production but also the rules and forms of distribution and further reflects the value orientation of different modes of production; ownership is the core mechanism that matters whether economic development can achieve a positive trickle-down effect and shared development. With ownership as the core mechanism for realizing the trickle-down effect reveals the inherent relationship between economic growth, income distribution and poverty eradication scientifically: synchronizing economic growth and inequality improvement will produce a sustained poverty reduction effect. If economic growth is accompanied by worsening inequality, the poverty reduction effect will be impaired or even reversed. In the logical chain of "ownership–production–distribution–trickle-down", the nature of production relations determines that of distribution relations, which in turn determine the essence of trickle-down; the mode of production determines the mode of distribution, which in turn regulates the flow (quantity) of trickle-down. This is the core principle of Marxist trickle-down development theory.

3. Western practice of the trickle-down effect: disprovement and demystification

Under the Marxist paradigm of trickle-down development, the capitalist nature of the trickle-down effect derives from the principle of "capitalist power" over distribution, determined by the private ownership of the means of production. From past to present, based on both theory

and practice, it is not hard to prove that “the expected trickle-down does not take place” in most capitalist countries (Adelman *et al.*, 1976). No matter in developed Western countries or developing countries in Latin America, the achievements of industrialization and modernization have not automatically trickled down but constantly triggered “negative trickle-down” and “Matthew effect” during economic development, leading to an imbalance in income and wealth distribution and further resulting in “poverty in wealth” or “wealth in poverty” issues (Nugent and Yotopoulos, 1979).

For developed Western countries, represented by the US, the core of their basic economic systems is the free-market economic system, which is based on private ownership and embraces trickle-down economics that assumes “inequality is beneficial economic growth”. The logic of economic growth, distribution of social wealth and situation of income distribution in these countries all evolve based on it. Figure 1 shows that the US economy maintained relatively stable growth from 1929 to 2019, with the economic aggregate increasing 16.19 times (constant United States dollar (USD) prices in 2012) and an average annual growth rate of up to 3.3%.

However, a rising tide does not lift all boats. With excessive faith in market efficiency, which encourages free competition to force out weak businesses, the distorted market incentives do not lead to the creation of new wealth but the seizure of others’ wealth. The economy grows in a “fragmented” rather than “aggregated” fashion, thus blocking the channel for trickling down economic development to the poor. As Nugent and Yotopoulos (1979) pointed out, “While the engine of growth has been running strong, the accessories of growth either have failed to function or have been systematically offset by disequilibrating forces leaving development to trickle up, rather than down.” For more than half a century, the impoverished population in the US has remained above 30 million for a long time, with an average annual poverty incidence of 13.67%. In particular, since the outbreak of the financial crisis in 2008, the shrinking and downwardly mobile middle class has led to a sharp rise in poverty incidence, with the impoverished population averaging over 40 million annually, of which the population in “extreme poverty” [1] reaches over 20 million. In 2010, the poverty incidence hit 15.1%, and the number of people living in poverty was 46 million, the highest since second World War (as shown in Figure 2).

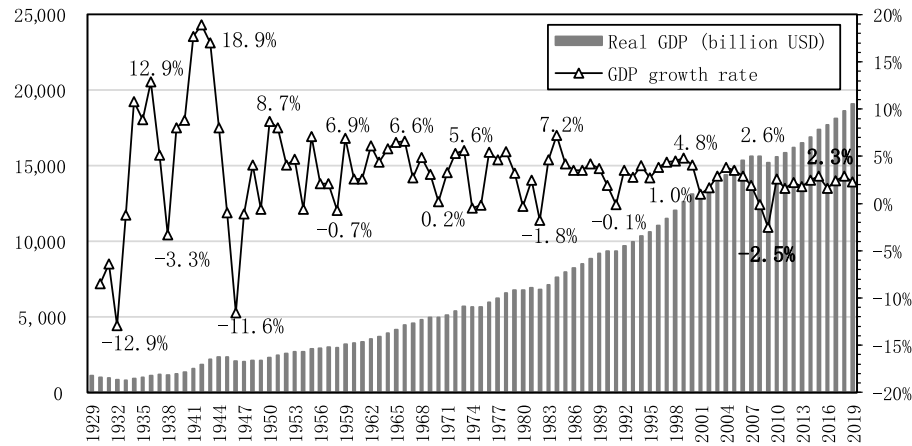
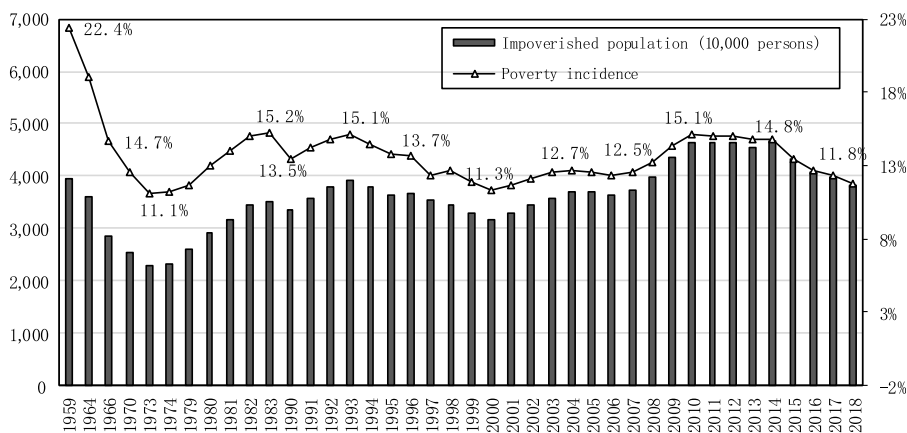


Figure 1.
Real Gross Domestic
Product (GDP) (left
axis) and its annual
growth rate (right axis)
in the US

Source(s): Federal Reserve Economic Data (constant USD price in 2012) at
<https://fred.stlouisfed.org>



Source(s): The US Census Bureau at <https://www.census.gov/> and US Bureau of Labor Statistics at <https://www.bls.gov/>

Figure 2.
Impoverished
population (left axis)
and poverty incidence
(right axis) in the US

As a negative example of trickle-down economics, the mechanism of the national wealth distribution unique to capitalist private ownership of property that aims at safeguarding the interests of capitalists has led to an imbalance in the proportion of national income distribution between workers and capitalists. The long-term accumulated imbalance in the distribution structure has resulted in deep income inequality, which in turn has impacted the economic cycle and constrained the realization of the trickle-down effect. It has been shown that the vast majority of Americans have not benefited from the nation's economic growth at all [2]. During the evolution of property relations and distribution structure in the US, the gross and per capita national wealth, as well as subjects and objects of property rights, all presented an upward trend contemporaneously, and the ease of the conflict between the rich and the poor, the rise of the middle class and an inverted U trend in the direction of the Gini coefficient appeared in the interim, creating the illusion of an olive-shaped society. However, from the perspective of the whole process, it can be found that the unequal possession of wealth, the distortion of the income distribution, and the derived fracture of social classes have always constituted the longitudinal axis of the US social development.

In terms of income shares, the wealthiest 1% and 1‰ of the population in the US before the Great Depression in 1929 had income shares of up to 24% and 12%, respectively. In the post-World War II period, due to government interventions, the shares of income gained by the wealthiest 1% and 0.1% had once remained relatively stable at about 10% and 4%, respectively. The wave of privatization in the 1980s led to a sharp rise in the share of income gained by the wealthiest 1% and 0.1%, again to about 24% and 13% in around 2007 (Figure 3).

In terms of wealth ownership shares, the wealthiest 1% of households in the US owned nearly half of gross national wealth in 1929.

From the mid-1970s to 2018, the share of wealth held by the bottom 99% of US households has gone down, while that of wealth held by the top 1% has increased (Figure 4). Around the outbreak of the financial crisis in 2008, the top 1% controlled 40% of the gross national wealth, indicated by Stiglitz (2011). Especially during the recovery from 2009 to 2010, 93% of the new wealth created in the US was owned by the wealthiest 1% (Atkinson *et al.*, 2011).

These wealth and income distribution inequalities present a typical steady-state effect and are irreversible and “wealth inequality is far more salient than the discrepancy reflected in

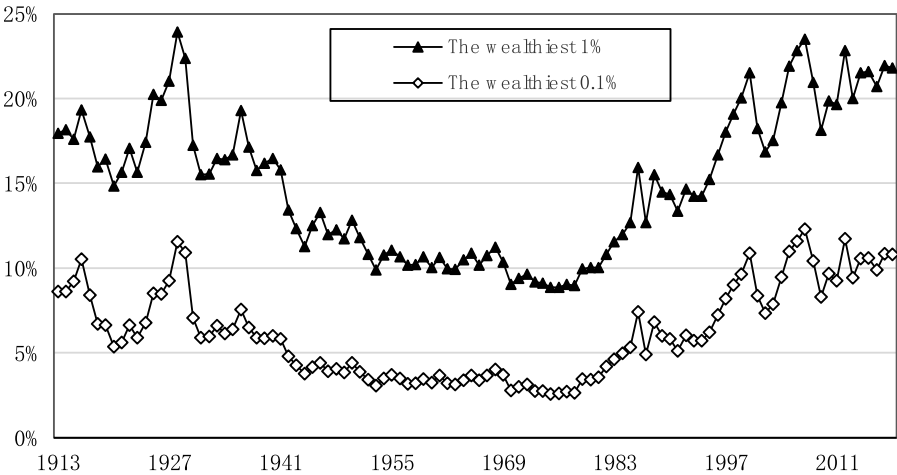


Figure 3.
Income shares of the
wealthiest 1% and
0.1% of the population
in the US

Source(s): Thomas Piketty and Emmanuel Saez (2003) “Income Inequality in the U.S., 1913-1998”, *Quarterly Journal of Economics*, vol.118, no.1, pp.1-39. (Longer updated version published in A.B. Atkinson and T. Piketty eds., Oxford University Press, 2007) (Tables and Figures Updated to 2018 in Excel format, October 2019)

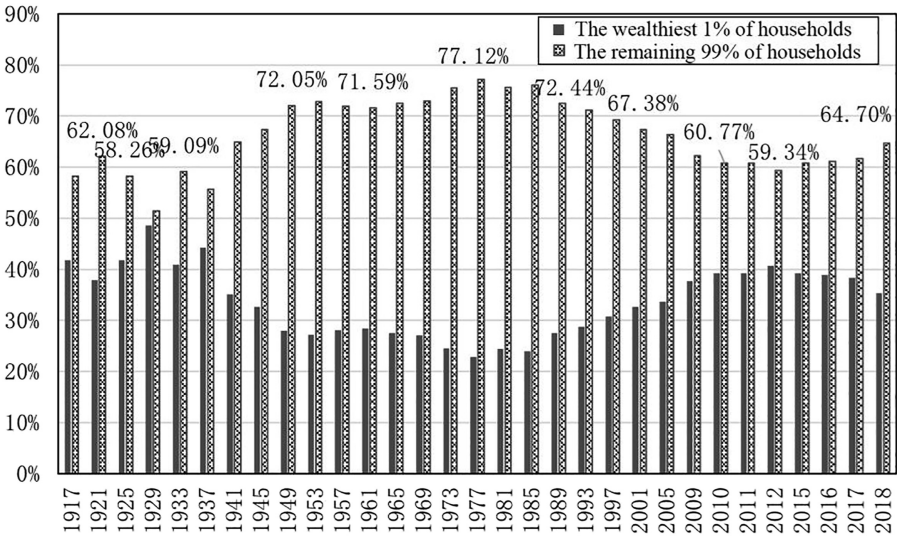


Figure 4.
Share of wealth owned
by the wealthiest 1%
and the remaining 99%
of households in the US

Source(s): The data from 1917 to 2016 were extracted from Gabriel Zucman (2019), “Global Wealth Inequality”, *Annual Review of Economics*, vol. 11, pp.109-138; the data in 2017 and 2018 were extracted from Credit Suisse, *Global Wealth Databook* at <https://www.credit-suisse.com>

year-to-year income changes” (Stiglitz, 2013, p. 4). Unlike income inequality, which reflects only the economic situation at a specific period, wealth inequality reflects the difference and steadiness regarding the access to resources in different classes of American society more

clearly. Although nonmarket forces such as law and social policy began to intervene when it was realized that inequality in income distribution and the wealth gap would undermine the long-term growth capacity of the economy and erode the foundations of a stable socio-political structure, their marginal adjustments in regard to regulating capital and adjusting the wealth gap were always confined to the boundaries of constraints stipulated by the private ownership of capitalism. As capitalists always demand to maintain their core dominance, the reverse adjustment effect of income redistribution will eventually dissolve. Just as [Stiglitz \(2013, p. 269\)](#) indicated, “redistribution has always been there, but it has almost always shifted from the middle and bottom classes to the top, i.e. the 1% group.”

Emerging market countries also fell into the “middle-income trap” of poverty, unemployment and income inequality in economic transformation due to their excessive faith in the private economy and free-market model. During the wave of privatization reform, the rapid changes in the ownership structure and income distribution system, as well as the failure of the regulation mechanisms, have caused serious distortions in the income distribution structure. The absence of normal social wealth distribution mechanisms has torn apart social groups and intensified the antagonism between the rich and the poor. The excessive concentration of means of production and capital among a few people has been internalized as the main contributor to the intensified structural division of overall social interests, leading to the sustained high poverty incidence and unemployment in Latin American societies [\[3\]](#).

In summary, the problems, including poverty, unemployment and inequality, in capitalist societies are rooted in capitalism, which lacks the institutional basis for the automatic realization of social production being shared by all. [Marx \(2009b, p. 436\)](#) pointed out that the material conditions of production “are in the hands of nonlaborers in the form of capital and land, while the masses own only the personal conditions of production, i.e. labor power.” The separation of workers from the means of production makes the contractual relationship between capitalists and workers seemingly equal, which in fact is a relationship between possessing and being possessed. “To clamor for equal or even equitable retribution on the basis of the wages system is the same as to clamor for freedom on the basis of the slavery system ([Marx, 2009b, p. 436](#)).” In the socioeconomic relationship and governance structure of “owned, governed, and enjoyed by the 1% of the population”, the distribution principle of “capital first”, governed by the law of capital possession, and the development logic of “capitalist hiring labor” cause the breakdown of the mechanism of sharing the fruits of social development. The return on capital has been chronically higher than the economic growth rate, and the growth elasticity of poverty is weaker than the distribution elasticity of poverty. Thus, the poverty effect of income inequality, in turn, restricts and dissolves the poverty reduction effect of economic growth and the sharing tendency of social development. The capitalist possession and the rule of distribution determined by it have become an inherent resistance mechanism that hinders the positive trickle-down of economic growth.

4. China’s practice of the trickle-down effect: three dimensions

At the beginning of China’s reform and opening-up, based on the characteristics of national conditions at the primary stage of socialism, development in a sequential, gradual and progressive manner with the methodology of “letting some people and regions get rich first in order to drive and help the backward regions” and the value orientation of “common prosperity” became an appropriate institutional design. While “letting some people and regions get rich first” motivates various factors to create wealth, giving a powerful impetus to rapid economic growth, it also causes the uneven distribution of development fruits and insufficient sharing of benefits among classes, regions and groups. During the practices toward common prosperity, the shared development concept, “the fruits of development are shared by all”, is intended to further multidirectional, multilevel and diversified channels of

trickle-down growth and coordinate the differences in resource endowments among different classes, regions and groups to enable the owners of all factors to share the fruits during the codevelopment through free combination and equal collaboration and facilitate a more inclusive, propoor and sustainable development model, thereby making China “enter into a new stage” in the journey toward common prosperity (Fan, 2017).

4.1 Class dimension

In the practice of “let some people get rich first”, China has broken the traditional homogeneous social structure of the division between workers and farmers and gradually formed diversified property owners, various properties and a differentiated stratification system. Due to the differences in the positions of and relationships between owners of production factors in economic activities, as well as the inner logic of capital’s movement in the market economy, plus the factors such as the endowment effect and differences in abilities, stakeholders of different classes are bound to have different or even competing interest demands when they are binding interests. Incentives provided by the market alone cannot ensure that the early-prosperous classes will voluntarily help others get rich to achieve common prosperity.

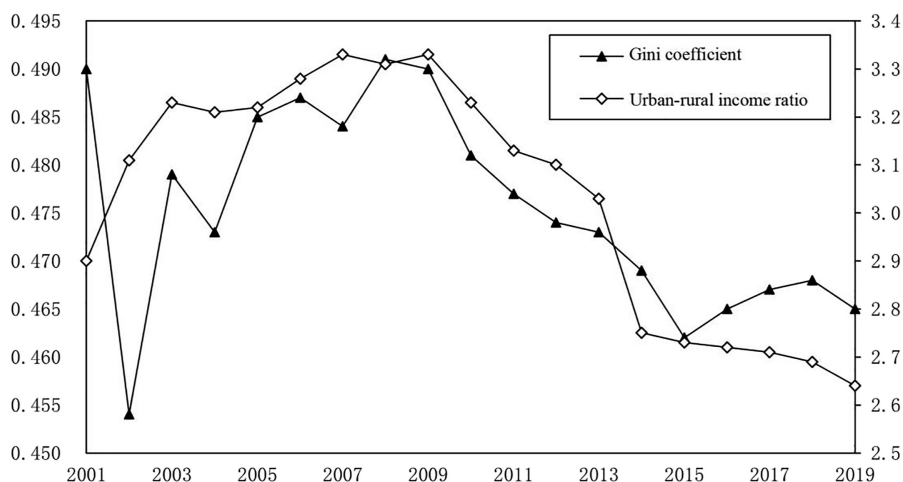
Unlike the irreconcilable endogenous conflicts between workers and capitalists in private ownership, the ownership structure arrangement in which public ownership is the mainstay has the fundamental binding force to “maximize equity and minimize inequality” (Hou, 2012). The economic system under which “public ownership is the mainstay and diverse forms of ownership develop together” has shaped the benefit-sharing pattern in which diverse ownership economies use production factors equally according to law, participate in market competition fairly and are equally protected by law; diverse stakeholders, including enterprise owners and wage earners, citizens and migrant workers, professional technicians and ordinary workers, maintain a relatively consistent benefit function; and all ownership economies, production factor owners and stakeholders of all classes are symbiotic and support each other within the highly inclusive socialist market economy system, seeking the biggest common dominator for interest integration and commensurability. The institutional principle of “two unswervingly”, namely, work unswervingly both to consolidate and develop the public sector and to encourage, support and guide the development of the nonpublic sector, fundamentally corrects and guides the development of distribution relations and adjustment of distribution patterns while constantly stabilizing the main structure of ownership system, which has become a solid shield for the growth of national wealth and economic benefits to be reasonably shared among and equally benefit all social classes.

The basic economic system integrates the ownership system that maintains the dominant role of public ownership while developing other forms of ownership, the diversified income distribution system with distribution according to work as the main form, and the socialist market economy, organically combining the production relations, the distribution system and the operating system. Further, it clarifies the logical relationships of significant theories and practices, including “property rights–distribution–exchange” and “state–labor–capital”, which supports the economic system more stably, influences the social production mode more lastingly, and is more bindingly in conformity with the principle of shared development. Based on the “potential of the basic economic system in terms of the plasticity and initiative of the system design” (Jia, 2020), the Chinese government adheres to the unity of production and distribution, efficiency and equality, and development and sharing. It lays a solid foundation for national wealth shared by all classes based on consolidating the public ownership economy, regulating capital while stimulating various factor owners to co-create wealth and exerting the government’s regulatory role in market resource distribution. The government also continuously establishes and improves the coordination and win-win mechanism between workers and capitalists, channels the positive trickle-down of development fruits among all classes and reduces class solidification and interest differentiation.

From the perspective of overall income disparity, China's Gini coefficient for income declined with fluctuations after reaching a peak of 0.491 in 2008, presenting an inverted U-shaped curve. From the perspective of urban-rural income disparity, the ratio of per capita disposable income of urban households to per capita disposable income of rural households in China consistently dropped from 3.33 in 2009 and fell to 2.64 in 2019, down more than 20% in a decade (see Figure 5). In terms of labor remuneration, the share of labor remuneration showed a V-shaped trend, which rose and fell and rose again from before the financial crisis to after the crisis. Regarding intergenerational mobility, the intergenerational income elasticity (IGE) coefficient in China declined from 0.404 in 2004 to 0.266 in 2015 (see Figure 6), according to Yang and Wang (2020), much lower than the corresponding figures (0.47 and 0.52) over the same period in the US (Pew Research Center, 2015). The number of middle earners in China climbed rapidly from 10% at the beginning of the 21st century to nearly 30%, forming the largest middle-class group in the world with over 400 million middle earners. Unlike capital-dominated nations where mobility drying up and class solidification are irreversible, China has always maintained smooth channels for moving among social classes under the guidance of the basic economic system, where the wealth trickles down from the high-income class, and the low-income class can leap upward, moving toward the goal of common prosperity during the practices of shared development.

4.2 Regional dimension

China's unbalanced regional priority development strategy of "letting some regions get rich first" has broken a long-standing low level of regional economic equilibrium. By first creating a growth pole in the eastern coastal regions, the Chinese government guides the phased development of regional economies and the overall shift of the economic gradient under the methodology of "letting regions that get rich first help others to get rich together" to promote coordinated regional development. In terms of practices, the eastern region of China, based on its policy, location and industrial advantages, has fully leveraged both domestic and foreign



Source(s): Data of the Gini coefficients in China from 2001 to 2017 were extracted from the National Bureau of Statistics (NBS) of China, and the Gini coefficients in China in 2018 and 2019 were extracted from the *Household Surveys of China and SDGs* by the Department of Household Survey, NBS; the urban-rural per capita disposable income ratio from 2001 to 2019 were extracted from the NBS

Figure 5.
Gini coefficient (left axis) and urban-rural per capita disposable income ratio (right axis) in China over the years

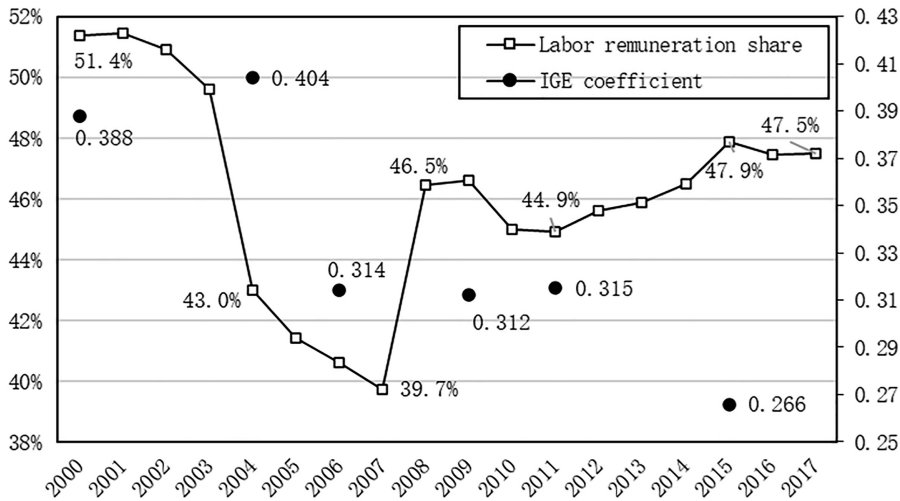


Figure 6. Labor remuneration share (left axis) and intergenerational income elasticity (right axis) in China from 2000 to 2017

Source(s): The labor remuneration share is equal to the ratio of labor remuneration to GDP by the income approach, in which GDP and labor remuneration were obtained by adding up those of all provinces, municipalities, and autonomous regions in China with data extracted from the NBS of China; the IGE coefficients were calculated by Yang and Wang (2020) with data extracted from China Health and Nutrition Survey (CHNS)

markets, siphoned off the nationwide labor, land and resource advantages, and deeply blended into the labor division system of the global value chain, which has become a regional growth pole driving the rapid development of China’s overall economy. Though benefiting from the radiation effect of economic growth in eastern China, the economic development of the central and western regions in China relatively lags as it is subject to the market-oriented gradient shift and the marginal decay of spatial spillover effects (Qin and Yang, 2017). The inter-regional convergence of spatial heterogeneity in China’s economic development depends on whether a trickle-down mechanism for coordinated regional development can be formed in an unbalanced regional development pattern.

Unlike the point-axis, single-way “enclave economy [4]” development model based on private ownership or the partition and interest division system under the federal governance system, the ownership system with public ownership as the mainstay regulates and guides the social production and the distribution of benefits in a dialectical way at the level of the nature of production relations in terms of individual and collective, local and overall, short-term and long-term relations. The Chinese government formulates national policies with the overall interests of the people in mind rather than the local interests of one place and one region. From the perspective of coordination of the whole nation, and with eastern, central, western and northeastern China as the four major sectors, the Chinese government constantly elevates regional development strategies such as “coastal opening”, “western development”, “the rise of the central region” and “the revitalization of the northeast region” to national strategic awareness, advances the rational spatial layout of productivity development and coordinates the economic growth of different regions to reach a dynamic balance from the level of overall national interests and overall strategies through breaking down market barriers and policy barriers between regions, so as to enable the national economic policies appropriate and subordinate to the goal of common prosperity for all people.

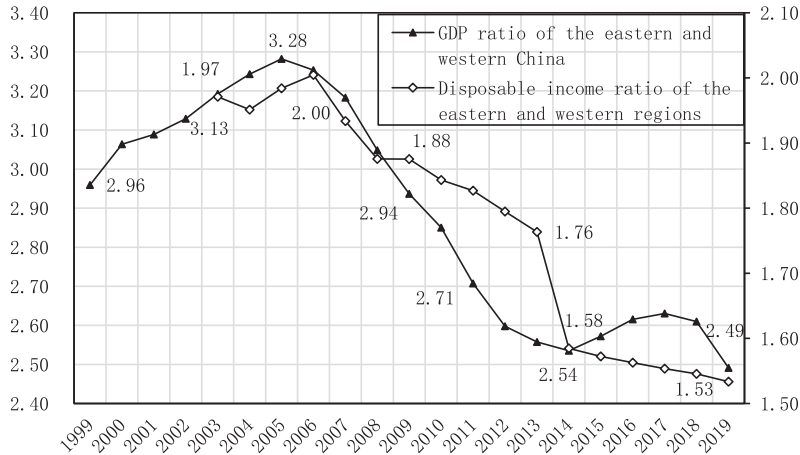
In order to guide the transformation of the relationship between regional economies from “polarization” to “trickle-down”, the Chinese government has established a policy coordination mechanism for coordinating the economic development of large regions through vertical integration, horizontal coordination and mutual win-win sharing, guided by national major regional development strategies, so as to enhance the linkage, synergy and integrity of regional economies in east, middle and west China, developed and less-developed, inland and coastal regions, and break the tendency of fragmentation, “lowland effect” and marginalization of regional development. In addition, measures for institutional environment optimization such as regional market integration have been implemented so as to promote the free flow of economic factors between regions, enhance the ability of late-developing regions to receive economic transfers, solve the situation of “circulating accumulation, gathering but not trickling down” of resource factors in developed regions, and guide the industrial layout to move along the gradient of different economic spaces according to comparative advantages. Moreover, regional mutual assistance and cooperation mechanism, inter-regional benefit compensation mechanism, and public service equalization mechanism have been established and improved for curbing regional differentiation, regulating regional development and breaking down the regional barriers of interests ([Central Committee of the Communist Party of China and the State Council, 2018](#)), and gradually promoting the benign competition between and the integrated, mutually promoted and shared development of developed and less-developed, coastal and inland, and eastern and western regions in China.

With the “regional policy coordination, market space spillover, and inter-regional benefit sharing” framework, the “anti-gradient, leapfrogging” trickle-down mechanism has effectively curbed the problem of unbalanced and insufficient regional development. In terms of regional GDP, the economic growth rate in western China has been ahead of that in eastern China for twelve consecutive years since the first surpassing in 2006, and the gap between eastern and western GDP has also continued to narrow after peaking in 2005, with the ratio between the two declining by 24% over the past fourteen years (2006–2019). In terms of regional residents’ income, the per capita disposable income ratio of rural residents in eastern and western China has been declining for thirteen years since 2006, also down by nearly 24%. In particular, the ratio of urban and rural residents’ disposable income in the eastern and western regions dropped from 1.70 in 2013 to 1.64 in 2019 [5] (see [Figure 7](#)). The collective support from nineteen provinces and municipalities, including the support for the counties and cities hit by the Wenchuan earthquake in 2008 and for Hubei to combat COVID-19 in 2020, also proved the high compatibility of the inter-regional trickle-down effect with socialist shared development, no matter in the political system, mobilization mechanism, moral ethics or value goals [6].

4.3 Group dimension

Unlike capitalist societies, whose difficulties of poverty governance lie in institutional distortions and constraints, China’s poverty problem is mainly subject to the development level of productivity. During the economic reform, the Chinese government always takes the vertical trickle-down and horizontal diffusion of economic growth as the core dynamic mechanism of poverty reduction and is committed to eliminating poverty in economic development through improving income distribution relations and blazing a trail for poverty reduction with its institutional characteristics. However, the unique features of the remaining poor population, including discrete spatial distribution, complex poverty-causing factors and diversified poverty types, coupled with the declining marginal poverty-relief effect of traditional universal poverty alleviation and the continuous decay of the poverty-reducing effect due to the decreased economic growth rate, make it the greatest deficiency in the practice of moderate prosperity in all respects and coprosperity. Hence, a more accurate and smooth trickle-down development mechanism need be established to raise the income of this marginal economic group.

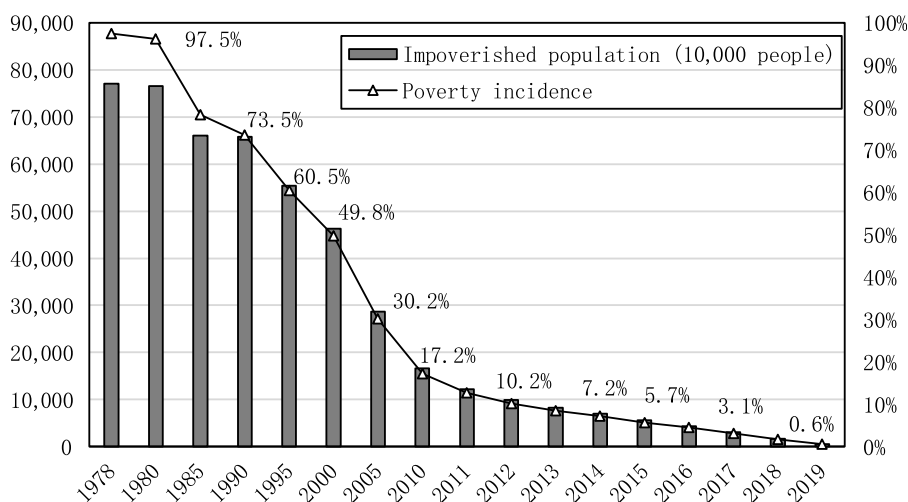
Figure 7.
GDP ratio (left axis)
and per capita
disposable income
ratio (right axis) of the
eastern and
western China



Source(s): NBS of China

Unlike the poverty reduction means of general social structure that mainly provide public goods, the socialist path of poverty reduction with Chinese characteristics always emphasizes the consistent leading role of the ruling party in poverty governance (Zhang *et al.*, 2020). Based on the solid ruling basis enhanced by public ownership as the mainstay, the ruling party, with its orientation on the fundamental interests of the people, its political cohesion to construct and lead the modern development of the country and its resource allocation power to regulate and rectify the distribution of social interests, has extensively mobilized resources within and outside government agencies, state-owned enterprises and public institutions, pooled public and nonpublic assets, exerted the role of the government and the market, reset the priority issues of equity and efficiency in the agenda of sharing and development of economy, cultivated the economic self-generating capacity of poor regions with the combination of external assistance and internal resources, and transcended the technical limitation of bureaucracy during the interaction between political and economic governance, so as to continuously upgrade poverty eradication into “a national strategy gathering consensus and a social action participated by all people” (Li and Yang, 2020). The strategies of precise poverty alleviation formulated based on the pursuit of common prosperity and the demand for poverty governance, as well as the current situation, have built multiple pillars of poverty eradication in the new era and responded to the question of “whom to assist, assist by who, and how to assist”, further exploring Marxist antipoverty and trickle-down development theory as a pioneer.

China based on the socialist political party, the comprehensive and extensive agents to be mobilized for poverty relief, a dynamic and flexible governance system, and precise and efficient allocation of resources, has established a targeted trickle-down mechanism for specific marginal poor groups, which has enhanced the pro-poor role of economic growth and largely reduced the scale and extent of poverty. China reduced the poverty incidence by 90% from 1978 to 2012, with the impoverished population down by 670 million cumulatively, and became the first to achieve the United Nations millennium development goals (MDGs) for poverty reduction (Xi, 2015). In particular, since the 18th National Congress of the Communist Party of China (CPC) in 2012, the impoverished population has dropped from 98.99 million in 2013 to 55.11 million in 2019, and the poverty incidence declined from 10.2% to 0.6%, with an average annual poverty reduction of over 10 million people (see Figure 8). The per capita disposable income of farmers in 832 poor counties nationwide increased from



Source(s): *China Statistical Yearbook* (based on poverty criteria in 2010)

Figure 8.
Impoverished
population (left axis)
and poverty incidence
(right axis) in China
over the years

the RMB 6,079 in 2013 to RMB 11,567 in 2019, with an average annual growth rate of 9.7%. The per capita net income of poor households on file increased from RMB 3,416 in 2015 to RMB 9,808 in 2019, with an average annual increase of 30.2%, much higher than the growth rate of national per capita disposable income over the same period. By the end of February 2020, 601 out of 832 poverty-stricken counties nationwide had been declared to have been lifted off poverty, 179 were under exit-poverty inspection, the overall regional poverty situation had improved (Xi, 2020), and absolute poverty will end with the establishment of a moderately prosperous society in all aspects.

5. Conclusion

To observe and compare the development and equity issues under different social systems, we must examine them dialectically from a diachronic, space-time perspective. The capitalist private property system and the distribution relations derived from it have become “institutional shackles” for unequal distribution of social wealth, unfair distribution of income and fracture of social classes, and the power of capitalists and the income distribution rules it determines have become the built-in resistance mechanism that stalls the trickle-down of economic growth and the sharing of development. The public-owned economy and its derived system of distribution according to work are the “institutional keys” for realizing the growth of national wealth and the promotion of benefit sharing, ensuring the trickle-down and spread of economic benefits across all classes, regions and groups and the sharing of development fruits by all and further achieving the goal of common prosperity in the positive interaction of growth and distribution and the conjugate cycle of development and equity gradually. The trickle-down effect comprehensively outlines Chinese practices of Marxist trickle-down development theory in three dimensions – class, region and group. The theoretical, practical and historical logic of the trickle-down development with Chinese characteristics will demonstrate more strength over time.

The underlying logic of the trickle-down effect to be stalled or unblocked in different economies is the issue of “development for whom”, which is decided by the nature of ownership. The capitalist mode of social production complies with the core logic of

“development for capitalists”, which determines that the economic status of the working class will never change, no matter how the productivity develops and constantly leads to the negative trickle-down effect featuring “the rich richer and the poor poorer”. Only the development logic of “development for the people” followed by the public ownership system can guarantee the effective positive trickle-down of socialist social production and the sharing of development fruits by all at the root. “Development for the people” and “development for capitalists” are two distinct trickle-down development paths: The former is based on public ownership and has a positive (up-down) trickle-down effect, which will eventually lead to common prosperity, while the latter is based on private ownership and has a negative (bottom-up) trickle-down effect, which will inevitably lead to polarization.

In terms of the institutional function, the property institution with public ownership as the mainstay can self-repair the fissure from the income gap and build the foundation for sharing the national wealth and benefits. The dramatic income gap widening during the economic transformation period does not constitute sufficient evidence to question the “institutional superiority” proposition. However, when the economic transformation has entered the “deep water” zone, due to the institutional deficiencies as the comprehensive reform has not yet been fully in place, the institutional function of public ownership is not always realized automatically. Some sectors of the public-owned economy, rather than exerting the effect of alleviating inequality and positive trickle-down, even have played a negative adjustment role in resolving income disparity and social inequality, including the loss of state-owned assets, monopoly and rent-seeking. Therefore, during the process of deepening the overall reform, the Chinese government should uphold the principle of inviolability of both public and private property, insist on making state-owned enterprises larger, better and more robust, prevent the loss of state-owned assets, regulate public power and its behaviors, discourage the use of power and monopoly to obtain distorted income, and restrain power from rent-seeking or appropriating public property for private use.

Notes

1. Criteria: Income below 50% of the poverty line
2. Economic growth is relatively faster when inequality is lower, and incomes are growing across all classes and vice versa. The ratio of both average annual growth rates in the U.S. 30 years after Second World War (1951–1980) and the subsequent 30 years (1981–2011) is 3.6%:2.8%, according to Federal Reserve Economic Data at <https://fred.stlouisfed.org>
3. Since the 1980s, the proportion of the impoverished population in Latin America has remained above 40% throughout the year, with more than 200 million people living below the poverty line; the poverty incidence peaked at 48.3% in 1990.
4. For example, nations like Argentina, Brazil and India once established their growth poles for economic development. However, these growth poles gradually severed their economic ties with other regions in their nations while blending into the labor division system of the global value chain, becoming isolated enclaves of economic development, which did not drive the economies of other regions but instead solidified and deepened the dual-economy model.
5. According to the *Household Surveys of China and Sustainable Development Goals (SDGs)* by the National Bureau of Statistics of China (NBS), the per capita disposable income ratios of residents in the eastern and western regions of China from 2013 to 2019 were 1.6997, 1.6880, 1.6732, 1.6654, 1.6599, 1.6547 and 1.6443, respectively.
6. China has established a systematic and comprehensive horizontal counterpart support system among regions, including industrial technical assistance, personnel and medical assistance, infrastructure assistance, and public service improvement, exerting a significant role not only in disaster relief but also in common prosperity practices of “letting regions that get rich first help others to get rich together”, including precise poverty alleviation.

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