PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

POLICY BRIEF

25-7 Does a Weak Social Safety Net Hold Back Private Consumption in China?

Nicholas R. Lardy

December 2025

Note: The author thanks Olivier Blanchard, Joseph Gagnon, Cullen Hendrix, Patrick Honohan, Tianlei Huang, and Zhuowen Li for comments.

Nicholas R. Lardy is nonresident senior fellow at the Peterson Institute for International Economics. He was the Institute's Anthony M. Solomon Senior Fellow during 2010–21.

A widespread view of the impediments to economic growth in China, an assessment embraced by many economists, holds that China's social safety net, especially its retirement system, is chronically weak, resulting in stagnating domestic spending on consumption.[1] This consensus is out of date. Recent data indicate that China has greatly expanded many parts of its social safety net. As a consequence, consumption spending has accelerated. However, safety net spending and domestic consumption spending should expand further to put China's economy on a more sustainable path. This Policy Brief examines and analyzes the data to clear the cobwebs of misunderstanding that have led to both complacency and unnecessary alarm about China's economic prospects among observers in the United States and other countries.

Many of the indices coming out of China are impressive. Social expenditures have more than doubled as a share of GDP since 2010 and are now roughly on par with other large upper-middle-income countries such as Mexico and Turkey. This increase has contributed to a decline in the household saving rate that in turn has fueled a gradual but significant increase in household consumption as a share of GDP since its nadir in 2010. By 2024 this share rose 5 percentage points, reaching 40 percent of GDP. But that level still lagged behind the 48 percent average

1 See, for example, Sherry Ahn and Haidi Lun, hosts, "Nobel Laureate Paul Krugman Talks China's Economy," *Bloomberg Talks* (podcast), June 3, 2025; Rana Foroohar, "Reasons to Be Bearish about China's Rise," *Financial Times*, November 10, 2025; and Michael Pettis, "Why Is It So Hard for China to Boost Domestic Demand?," Carnegie Endowment for International Peace, July 31, 2024.

share of other upper-middle-income countries. The increase in the household consumption share of GDP since 2010 is remarkable given the housing bust starting in 2021, which reduced household wealth, as well as Chinese government surveys that have indicated weak consumer confidence since the COVID-19 pandemic of 2020–21.

China's government is hardly unaware of the importance of stronger household consumption. Most recently, in October the Central Committee of the Chinese Communist Party called for a "notable increase in consumer spending as a share of GDP" during the 15th Five-Year Plan (2026–30). It called for increased pension benefits for farmers and rural migrant workers and expanded coverage of unemployment and workers' compensation insurance, among other measures (Central Committee of the Communist Party of China 2025). If implemented these measures would improve upon recent proconsumption measures, including rebates on the purchase of electric vehicles and financial incentives to replace and upgrade consumer electronics and appliances. These measures may increase consumption expenditure but only on a transitory basis.

China, however, faces challenges in sustaining the trends of increasing social expenditure and rising household consumption. Financing existing pension benefits is already precarious. Given its aging population, that problem will only become more challenging. It will also be costly to expand coverage of the unemployment and workers' compensation components of the social insurance system beyond their current very narrow scope. Moreover, while China has successfully scaled up its medical insurance programs to include farmers and workers in a large informal urban labor market, the benefits for this group remain modest.

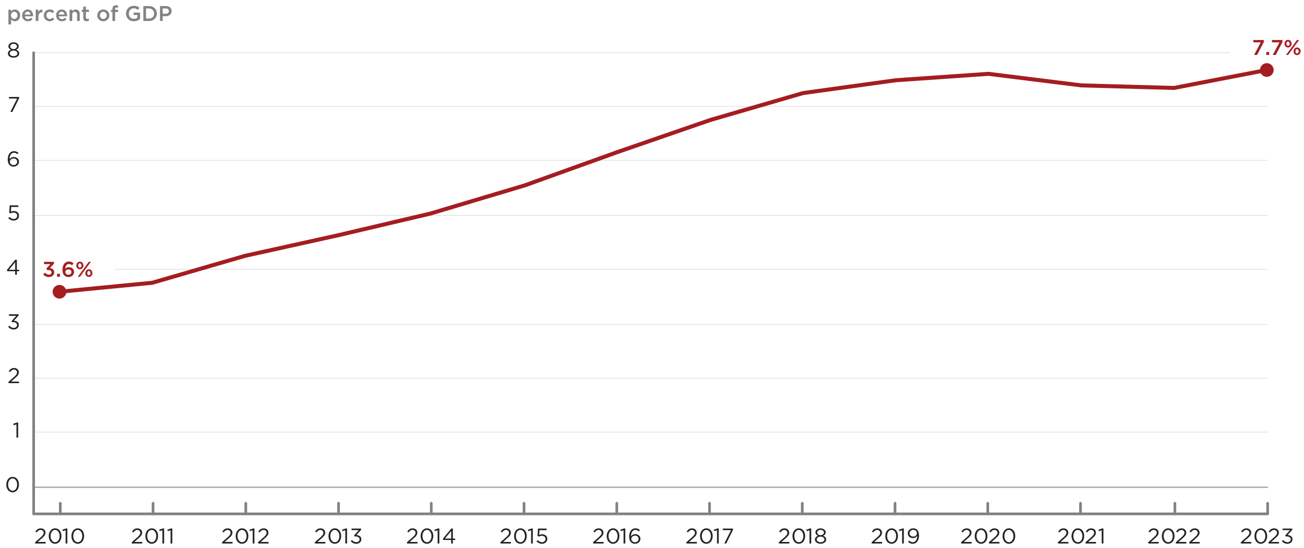
Critics of China's social safety net are legion but offer different perspectives. For years some have argued that a weak social safety net contributes to high household savings and low household consumption. These studies recommend that the Chinese government increase outlays for pensions, health care, and unemployment benefits, expecting that this increase will reduce household precautionary saving and thus lead to a rebalancing of the sources of economic growth away from investment and exports toward private consumption expenditures (Lardy 2006; IMF 2022, 17). A second, more recent critical perspective focuses on equity, arguing that the highly unequal distribution of social insurance benefits undermines President Xi Jinping's goal of achieving "common prosperity" (Guo 2025; Li 2025). The goal of this paper is to analyze the strength and distributive consequences of China's social safety net and to update the analysis of its influence on private consumption.

DRILLING DOWN ON SOCIAL SAFETY NET SPENDING

The growth of total social insurance expenditures, shown in figure 1, has far outpaced the expansion of China's economy, more than doubling from 3.6 percent of GDP in 2010 to 7.7 percent in 2023.[2] Given China's rapid growth over this period, that translates into an average annual rate of expansion of

2 Social insurance expenditures are for five separate programs: pensions, unemployment, health care, work injuries, and maternity leave.

Figure 1
Social insurance expenditures in China, 2010–23



Source: National Bureau of Statistics (2024, 777).

social insurance expenditures of 16 percent. Nonetheless, China's social insurance expenditures in 2023 are still far below the OECD average social expenditures of 21 percent of GDP (OECD n.d.). This lag is not surprising. Average per capita income in OECD countries in 2024 was $48,500, about 3.5 times China's. High-income countries typically provide child allowances, childcare support, single parent payments, housing allowances, and cash benefits to low-income households, all of which the OECD includes in its measure of social expenditures. China does provide cash benefits to low-income households, as well as other forms of social assistance (discussed below). But these benefits are modest compared to OECD countries.[3] Social expenditures in 2023 as calculated and reported by the OECD in countries that the World Bank classifies as upper-middle-income, the same development status as China, are shown in table 1. To make China's data comparable to those of OECD countries, one must add Chinese social welfare outlays to social insurance expenditures already analyzed. The combined data show that China's outlays of 9.1 percent of GDP lag behind all but one upper-middle-income country included in the OECD data set but are approaching the level of social outlays as a share of GDP in Mexico and Turkey.[4]

3 Some provincial and local governments in China have started providing subsidies to nursery care institutions to make their services more affordable. Since there is no national program for nursery care, these expenditures are probably not reflected in the data in figure 1.

4 This 9.1 percent of GDP is the sum of social insurance expenditures of 7.7 percent of GDP, noted above, and government social assistance expenditures of 1.4 percent of GDP (National Bureau of Statistics 2025, 38).

Table 1
Social expenditures in upper-middle-income countries, 2023

Country	Share (percent of GDP)
Colombia	14.1
Chile	12.9
Mexico	10.0
Turkey	10.0
China	**9.1**
Peru	7.5

Sources: Organization for Economic Cooperation and Development (OECD); National Bureau of Statistics (2025a, 777; 2025b, 37–39).

COMPONENTS OF CHINA'S SOCIAL EXPENDITURES

Pensions account for about two-thirds of social insurance expenditures in China. These expenditures are analyzed first.

China's pension system covers over 90 percent of the adult population, comparable to most high-income countries. But evaluating China's pension system on more meaningful criteria is complex. Three programs exist, each differing in coverage, contribution rates, benefits, and degree of reliance on fiscal subsidies, as summarized in table 2. The Basic Old Age Insurance for Urban Employees (hereinafter referred to as the employee pension program) and the Old Age Insurance for Government Agency and Public Institution Employees (hereinafter referred to as the public employee pension program) and their predecessor programs have existed for decades and are relatively generous. The estimated average monthly basic benefit for retirees in the employee pension program, for example, is RMB3,000. This benefit is approximately two-fifths of the average wage of workers covered in the employee pension program.[5] The benefit is financed mostly by contributions of workers and employers of 8 percent and 16 percent of wages, respectively.[6]

The public employee program, which covers civil servants and employees of public institutions, including schools and hospitals, has always been more generous. First, the estimated average monthly benefit of retirees is RMB8,500, more than two and one-half times the benefits in the employee pension program. Wage data for this group of employees is not available, but it seems likely that the monthly pension benefit is equal to the average monthly wage of public

5 Evaluation of the adequacy of a pension is ideally based on the replacement rate (i.e., what the pension provides relative to the earnings of the worker at the time of retirement). In the absence of data on preretirement incomes this paper looks at benefits relative to average income of workers in each pension program.

6 These contribution rates were set in 2019. Once higher, the government adjusted them downward several times between 2015 and 2019.

Table 2
Summary of China's pension programs, 2024

	Public employee	Employee	Resident
Coverage (millions of people)	61.94	472.58	538.30
Of which: Working	44.86	342.27	357.91
Retired	17.08	130.31	180.39
Contribution (percent of wages)			
Employer	16	16	0
Worker	8	8	0
Basic monthly per capita benefit (renminbi)	8,500	3,000	200
Relative to average wages (percent)	100	40	10
Benefits financed by fiscal subsidy (percent)	38	14	100

Notes: The coverage numbers for the employee and resident pension programs are given in the cited sources. Coverage for the public employee program is the difference between a reported 534.52 million covered in the combined public employee and employee plans and the reported 472.58 million in the employee plan. The number of retirees in the resident program is stated in the cited sources. The number of retirees in the other two plans is estimated based on the information that of the 534.52 million covered in the combined public employee and employee plans, 147.39 million or 27.6 percent were retired. The number of retirees in the public employee and employee plans was calculated on the assumption that the retiree share in both the public employee and employee plans was 27.6 percent. The number of working employees in the resident program is given in the cited sources. The number of working employees in the other two programs is calculated by subtracting the estimated number of retired employees in each plan from the estimated total number covered in each plan. The basic monthly per capita benefit is calculated by dividing expenditure numbers for each program provided in the cited sources by the estimated number of retirees. Benefits financed by fiscal subsidies are calculated by dividing fiscal subsidies for each program that are given in the cited sources into total revenue for each program also given in the cited sources.

Sources: MOHRSS (2025); Ministry of Finance (2025a, 2025b).

employees. In addition, until 2015 the public employee program did not require any employee contributions. The government financed the entire program.

The largest pension program is the Basic Old Age Insurance for Urban and Rural Residents (hereinafter identified as the resident pension program). It was created in 2012 through the merger of the New Old Age Insurance for Rural Residents formed in 2009 and the Old Age Insurance for Urban Residents created in 2011. The government created these programs to provide pensions for rural residents, as well as urban residents who remained outside formal employment.

The resident pension program is voluntary, but participation requires an annual minimum contribution of RMB100, about $15, which goes into an individual account. Voluntary contributions above this amount, in annual increments of RMB100, lead to increased benefits at retirement. In addition, local governments contribute small amounts to individual accounts. In 2024 the program covered 538 million participants, of which 180 million were drawing pensions (MOHRSS 2025). This program is substantially larger than the public employee pension program and slightly larger than the employee pension program.

Benefits in the resident program are composed of two parts: a basic benefit provided entirely by the government and an additional component drawn from the individual accounts. The average basic benefit in 2024 was just RMB200 per month, one-fifteenth of the average benefit of the employee pension program. The average total monthly benefit was RMB250 per month, the sum of the basic benefits and benefits financed from individual accounts (Ministry of Finance 2025a, 2025b; MOHRSS 2025).[7]

Resident pensions, by any criterion, are far from generous. A large share of the participants in the program are rural residents (Guo 2025). In 2024 the average annual per capita rural income was RMB23,119 or RMB1,927 monthly (National Bureau of Statistics 2025, 53). Thus, the average basic pension benefit in the resident pension program is only 10 percent of average rural per capita income.

Comparative evaluation of the generosity of China's three separate pension programs, however, must consider two factors. First, as shown in table 2, government subsidies finance the entire basic benefit in the resident program. It is sometimes noted that this benefit is the equivalent of only $1 per day.[8] Rarely noted is that qualifying for this benefit requires a contribution the equivalent of only $0.04 per day for 15 years, an amount that goes into an individual account and generates additional income upon retirement. In short, the basic benefit component of the resident pension program is noncontributory. As already noted, contributions by workers and their employers are the predominant source of finance for China's two other more generous pension programs.

Second, the coverage of the Chinese resident pension program is extremely broad. Indeed, the government designed the program to cover the large share of the labor force not included in existing pension programs. In contrast, benefits in some countries that have established noncontributory pension programs are means tested, which often makes the benefits available to just a small share of the population. The main goal of these noncontributory programs is to provide economic security to those 65 or older and living in poverty. China has a separate dibao (minimum guarantee) program designed to alleviate poverty at all ages, discussed below.

Overall, the strength of the pension component of China's social safety net has increased significantly since around 2010. Pension payments between 2010 and 2023 rose at an annual pace of over 15 percent, more rapidly than the growth of nominal GDP, household disposable income, and the number of retirees (National Bureau of Statistics 2014, 788; 2024, 777). Second, all adults who previously had remained outside China's pension programs were brought into the precursors of the resident pension program—in 2009 for rural residents and 2011 for urban residents. The resident pension program now covers more than half a billion people. Including their dependents, this group accounts for an

7 These amounts vary across provinces. In 2024 the central government set a minimum benefit in the resident pension program of RMB123 per month. The central government directly finances 100 percent of this benefit in less developed western provinces and 50 percent in more developed central and eastern provinces. In addition, provinces usually increase the basic benefit based on their individual financial capacity. These additional commitments boosted the average basic benefit to RMB200 in 2024.

8 Alexandra Stevenson, "Chinese in China Wary to Shop," *New York Times*, October 25, 2025, p. B1.

exceptionally large share of China's total population. Thus, China has overcome a frequent problem of how to scale up a pension plan in an economy with a large informal labor market (Galiani, Gertler, and Bando 2014).

By 2024 payments across all three pension programs reached RMB7.3 trillion or 5.4 percent of GDP, of which the government provided RMB1.9 trillion in fiscal subsidies (Ministry of Finance 2025b).

On the other hand, the contribution of China's pension system to household income inequality, while still high, has fallen for several reasons. A huge share of the adult population, which historically has lacked access to pension benefits, now participate in the resident pension program. The retiree benefits in the resident pension program are still modest, but since 2018 they have been increasing at about twice the pace as the retiree benefits in the employee pension program. Moreover, these benefits are universal rather than means tested.

In addition, the employee pension program also appears to have become less generous. In 2018–23 the basic pension in the employee system rose less than 25 percent, below the nominal growth of wages over the same period (Huang, forthcoming).

Finally, the benefits of the gold-plated pension system for civil servants and public institution employees have eroded. This system was started in the early 1950s shortly after the founding of the People's Republic of China. For more than five decades it required no individual contributions, and the replacement rate (pension income relative to base and seniority salary) initially was 100 percent (Soto and Gupta 2017, 144). This arrangement was financially feasible for a few decades because the number of retired civil service and public employees was small. The generosity of this program has since fallen primarily because in 2015 the government began requiring participants in the public pension program to make individual contributions that were the same share of wages as in the employee program. As a result, as shown in table 2, fiscal subsidies now cover only 38 percent of total benefits in the public pension program compared to 100 percent before this reform.

The government has also gradually included migrant workers in the employee pension program, who traditionally have mostly been excluded from most government social safety net programs. Between 2008 and 2017 the number of migrant workers covered by the program rose from 24 million to 62 million. By the end of 2017, one in five rural migrants working in urban areas were covered (Huang, forthcoming).

While the contribution of China's pension system to household income inequality appears to have fallen in recent years, the data in table 2 suggest that it remains quite high. For example, the highly elevated benefits in the public pension program compared to the employee program are possible primarily because fiscal subsidies are almost three times as high as a share of pension revenues as in the employee pension program. Leading Chinese economists such as David Li and Guo Shuqing have called for more reforms. Li, for example, has urged the government to increase pension payments to farmers to RMB800 per month, several times the current level (Li 2025). In an important speech at the Boao Forum for Asia in March 2025, Guo made an even more far-reaching proposal: to gradually reduce the gap between employee pensions and resident pensions, which he calculates is currently 14:1 (Guo 2025).

Health insurance

China's health care insurance system, like its pension system, has expanded greatly and now covers more than 90 percent of the population through multiple programs: resident health insurance, employee health insurance, and government health insurance. The first grew out of the consolidation of the Rural Cooperative Health Insurance Program, established in 2002, and the Urban Resident Health Insurance Program, established in 2007. The government merged the two programs in 2016 to form the resident health insurance program. It requires individuals to pay a flat annual fee into an insurance pool. The government designed the program to cover farmers and urban self-employed individuals. As a result, there are no employers making contributions. In addition to the annual fee paid by participants, the government provides per capita fiscal subsidies to the resident health insurance pool that have typically been twice the per capita annual fee.[9] The resident insurance pool reimburses about 60 percent of inpatient service fees while individuals cover remaining costs, so-called out-of-pocket medical expenses.[10] There is also insurance for catastrophic diseases covering 50 percent of health care expenditures exceeding the regular limits on reimbursement. This program requires no additional fees from urban and rural residents (Lin 2022, 279).

In the employee program employers and individuals are required to pay 9 and 2 percent of the wage bill, respectively, but individual contributions go to individual accounts instead of a general insurance pool. In addition, 30 percent of employer contributions are deposited in individual accounts.

Individuals participating in employee health insurance must use their individual accounts to pay outpatient and inpatient fees that are less than 10 percent of the local annual wage. Insurance reimburses 75 percent of fees above this threshold.[11]

Finally, as in the case of pensions, government civil servants have historically benefited from gold-plated government health insurance. Funded entirely from government fiscal funds, "some high-level government officials have enjoyed unlimited health care services without paying anything" (Lin 2022, 275).

Although benefits in the employee program exceed those in the resident program, many individuals who are eligible for the former opt for the resident program. These individuals are presumably those who do not expect to be seriously sick so do not want to have 2 percent of their annual wages accumulating in an individual account that they do not think they will need. The result is that resident medical insurance covers many urban employees, in addition to the rural population and urban residents who are not formally employed.

Like China's pension programs, resident health insurance provides benefits below those provided by employee health insurance. But the benefits in the latter

9 In 2019 the annual government fiscal contribution to the resident health insurance pool was RMB520 or more per person and the individual fee was RMB250 (Lin 2022, 307).

10 Annual payments from the resident health insurance pool to cover the medical costs of a single individual are typically capped at four times the average rural income (Lin 2022, 307).

11 To avoid depletion of insurance pool funds by a small number of seriously ill individuals, the annual upper limit for an individual use of funds from the employee health insurance pool is four times the average wage in the region (Lin 2022, 277, 306).

program are provided by insurances fees while in the resident health insurance program, government fiscal subsidies provided two-fifths of program revenues in 2024 (Ministry of Finance 2025b).

The benefits of the resident program are weak compared to the employee program, but overall disparities in access to health care have diminished. The Urban Resident Health Insurance Program established in 2007 provided health insurance to many urban individuals not covered by the employee health insurance program, notably workers in informal sectors and those who had never been employed. This expansion of coverage was like the inclusion of these individuals in the precursor of the resident pension program in 2011. Similarly, the Rural Cooperative Health Insurance Program established in 2002 improved health coverage for farmers. Second, the government has increased its annual per capita fiscal contributions to the insurance pool in the resident program, from RMB420 in 2016 when the Rural Cooperative and Urban Resident programs were merged to RMB700 in 2025 (Xinhua 2016; State Council Information Office 2025).

In addition, both the quality and cost of health care have increased, but the share of total medical expenses defrayed by individuals, so-called out-of-pocket costs, has fallen by half, from 59 percent in 2000 on the eve of the establishment of the Rural Cooperative Health Insurance Program to 27 percent in 2023 (National Bureau of Statistics 2024, 711). This lifting of the burden of out-of-pocket costs was possible because the share of health care costs defrayed from various insurance pools over the same period rose from 26 to 46 percent. Finally, starting in 2013 the government curtailed the share of civil servants and public employees eligible for government health insurance (Lin 2022, 279).

Unemployment insurance

China's unemployment insurance program at the end of 2024 covered only 246 million workers, about half of the formal urban work force. At the end of 2024 only 4.6 million unemployed workers were drawing benefits compared to 11 million urban workers officially registered as unemployed. A higher number, 9.1 million, had drawn benefits at some point during the year. Average monthly benefits were RMB1,898, although an additional monthly benefit to cover basic medical insurance fees was also provided (MOHRSS 2025). This is compared with an average monthly wage of workers in non-private units of RMB10,000 (National Bureau of Statistics 2025, 43).

Worker insurance

Insurance coverage for workers who are injured on the job is broader than unemployment insurance, but in 2024 was limited to 304 million workers, of which 2.2 million received benefits. Based on reported total expenditures on the program, this works out to RMB4,684 per month.[12] However, China has more than 40 million residents who are classified as disabled (Guo 2025). But the vast majority of these did not incur disabling injuries on the job so they are covered under other programs.

12 Assuming all those receiving benefits received them for a full year.

Dibao and other social assistance programs

In addition to the social insurance programs already discussed, China has several social assistance programs, the most important of which is a means-tested welfare system that provides a minimum living allowance to very low-income residents. It is commonly known as dibao (minimum guarantee), short for zuidi shenghuo baozhang (minimum living allowance). The Ministry of Human Resources and Social Security administers the social insurance programs already discussed, while the dibao program is under the Ministry of Civil Affairs. Eligibility for dibao payments is determined by local offices of the Ministry and are supposed to consider income and assets as well as demographic factors and employment status. Dibao began on a trial basis in cities in the early 1990s and in rural areas about a decade later. When the number of beneficiaries peaked (2009 in urban areas; 2013 in rural areas) almost 80 million individuals received these welfare payments. By 2024 the success of China's antipoverty program meant the numbers had declined by about half, with 6 million urban residents and 34 million rural residents receiving benefits (Ministry of Civil Affairs 2009, 2013, 2024). In the same year, urban per capita benefits averaged RMB800 per month while rural payments averaged RMB600 per month.[13] These rates are several times higher than monthly benefits in the resident pension program, and are available at any age, depending on eligibility. In 2024 total payments in the dibao program were RMB200 billion or 0.1 percent of GDP (Ministry of Civil Affairs 2024).

EXPLAINING CHINA'S LAGGING SOCIAL EXPENDITURES

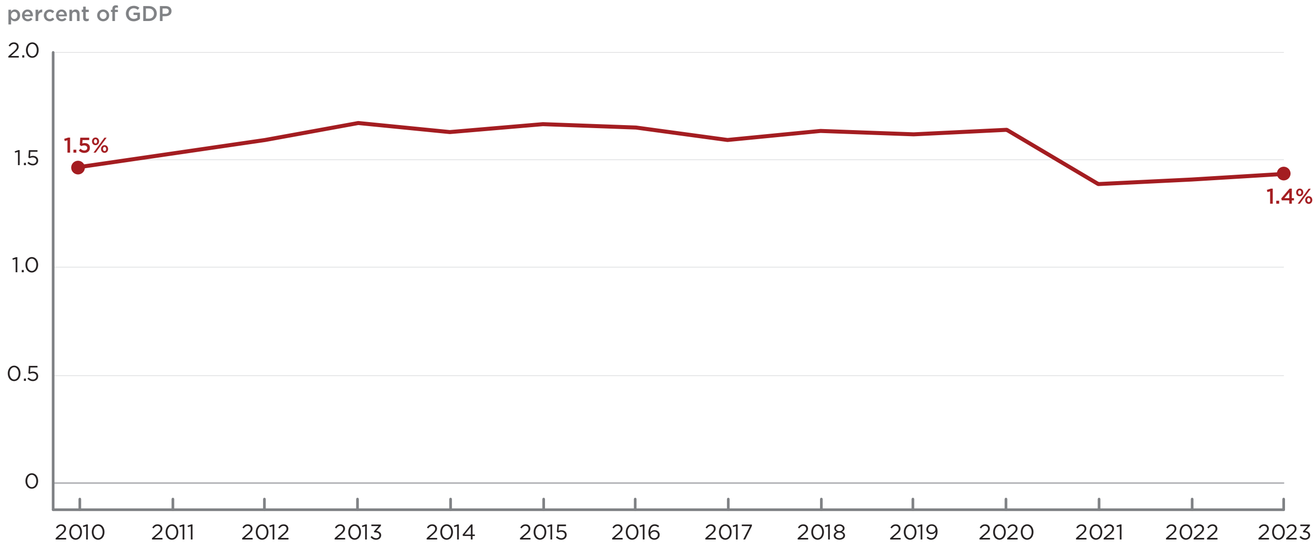
Although the gains in social expenditures are important to note, so are the two explanations for the lag in China's social expenditures compared to some other upper-middle-income countries. The first is President Xi Jinping's (2021) view that the Chinese government should "guarantee basic needs," but that even as China becomes more developed "we should not provide excessive guarantees in order not to fall into the trap of 'welfarism' that encourages laziness." This admonition appears to have constrained the growth of social assistance expenditures which, as shown in figure 2, have fallen slightly as a share of GDP since Xi became China's leader in 2012, and were only 1.4 percent of GDP in 2023.

But Xi's bias against welfare has not precluded gradual increases in social insurance expenditures reflected in figure 1. And in 2025 the government announced three new social benefits, none of which are means tested. The first is a cash benefit of RMB3,600 per year for each child under the age of three. The second is a plan to waive tuition fees for children in their final year of preschool. The third is a subsidy for the care of elderly disabled individuals. Annual fiscal expenditure on these innovative programs when fully phased in, however, will amount to only RMB200 billion to RMB250 billion (Cui 2025a).

China's lagging social expenditures also result from financial constraints aggravated by demographic challenges of an aging population. Despite individual and employer contribution rates that are high compared to other countries, social insurance expenditures far exceed insurance contributions from

13 Substantial regional differences in these payments reflect both differences in living costs and local financial capacity.

Figure 2
Social assistance expenditures in China, 2010–23



Sources: National Bureau of Statistics (2013, 80–81; 2014, 75–76; 2015, 97–98; 2016, 85–86; 2017, 81–82; 2018, 82–83; 2019; 2020; 2021; 2022; 2023; 2024, 74–75).

potential beneficiaries and their employers and come close to exhausting all revenues (which include significant fiscal contributions) every year. Accordingly, the system as currently structured falls short of a sustainable pay-as-you-go system. As a result, the cumulative surplus of social insurance funds at the end of 2023 was RMB13 trillion, the equivalent of only 1.3 times social insurance expenditure that year (National Bureau of Statistics 2024, 777).

The demographic fundamentals are particularly challenging. The working age population has been declining since 2013, while the elderly population has been increasing so the number of workers potentially supporting each retiree is declining. This old age dependency ratio will continue to rise from 31 percent in 2021 to 48 percent by 2030 (Cui 2025b). Moreover, it appears that the share of workers enrolled in various insurance schemes is declining. Simply maintaining the current pension levels in the face of the growing share of retirees in the population will require larger and larger fiscal subsidies.

Recognizing that the pension portion of the social insurance program as currently structured is unsustainable, the state has taken several measures. First, the government has slowed the growth of total pension benefits from an annual average of 21 percent in 2010–17 to 7 percent in 2018–23 (National Bureau of Statistics 2024, 777).[14] The growth of employee pension benefits appears to have slowed the most while benefits in the resident program slowed much less. The

14 This does not necessarily imply that individual pensions grew more slowly. The decline in the growth of total payments was due largely to a slowdown in the annual increase in the number of retirees. For example, in the employee pension program, which accounts for two-thirds of aggregate pension expenditures, the growth in the number of retirees fell by half in 2018–23 compared to 2010–17, probably the result of a crackdown on early retirements. Individuals retiring after the official retirement age but with fewer working years and other factors could also have contributed to the slowing growth of aggregate pension expenditures.

government also announced that starting in 2030, eligibility for pensions in all programs will rise gradually to require at least 20 years of contributions—up from the current 15 years. Second, it has raised retirement ages for men and women. It has also taken measures to increase the share of the working population participating in various insurance schemes. In 2025 the Chinese Supreme Court underscored these efforts when it invalidated employment contracts that allow employers to evade social insurance payments and employees to simultaneously opt out of the social insurance system (Cao Yin 2025). Finally, as early as 2000 the central government established the National Social Security Fund (NSSF) "as a fund of last resort to meet future pension deficits" (Huang, forthcoming). Since then, the government has required the transfer to the fund of one-tenth of the equity in both listed and unlisted state enterprises and a share of the profits of the national lottery. However, including investment returns on the fund's assets, total public pension reserves are only RMB6 trillion, less than the RMB6.8 trillion in pension expenditures in 2023 (Huang, forthcoming).

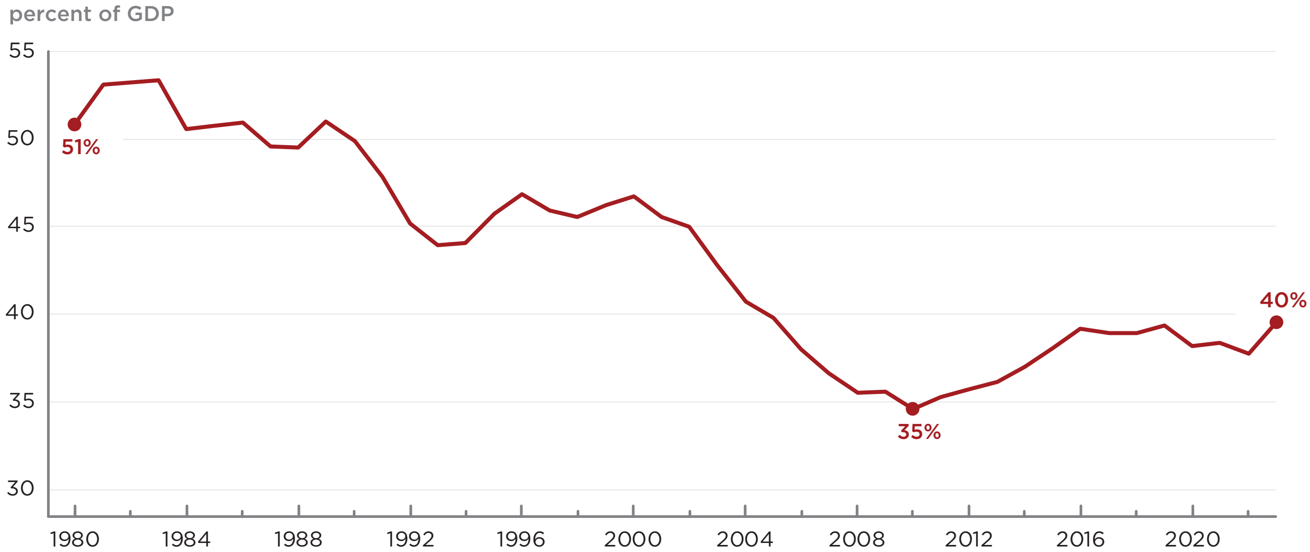
DO WEAK SOCIAL EXPENDITURES CONTRIBUTE TO WEAK HOUSEHOLD CONSUMPTION?

Examining this issue requires an analysis of the time path of household consumption as a share of GDP, shown in figure 3. In the first decade of this century, critics frequently noted the relatively low share of household consumption in China's GDP. But they also overlooked the relatively high 50 percent share in the early years of the reform era, before declining to a low of 35 percent in 2010. This long-term decline appears to result partly from government policy liberalizing the labor market. That market easing allowed growing importance of migrant labor going from rural areas to cities. In 1982 only 7 million rural residents were employed outside of their native counties, a number that grew to 163 million by 2012. Including rural migrants employed outside of their registered domiciles but within their native counties puts the number of migrants in 2012 at 263 million, two-fifths of the urban workforce (Lardy 2014, 17; National Bureau of Statistics 2016, 102). The rapid growth of migrant labor enlarged the urban work force, retarding the growth of wages, even in an environment of rapid economic growth. As a result, as shown in figure 4, employee compensation as a share of GDP declined, pulling down the growth of disposable income.[15] If household savings as a share of disposable income had remained constant, the slowing growth of disposable income alone would have reduced household consumption as a share of GDP.

But two additional factors led households to increase their savings as a share of disposable income from 31 percent in 1992 to 42 percent in 2010, which also contributed to the marked decline in household consumption relative to GDP (National Bureau of Statistics 1999, 85; 2013, 81). First, the 1990s was a period of industrial restructuring in which tens of millions of workers in state-owned firms lost their jobs and the pensions they had anticipated (Lardy 2014, 18). Many others who managed to hold on to their jobs presumably felt increased

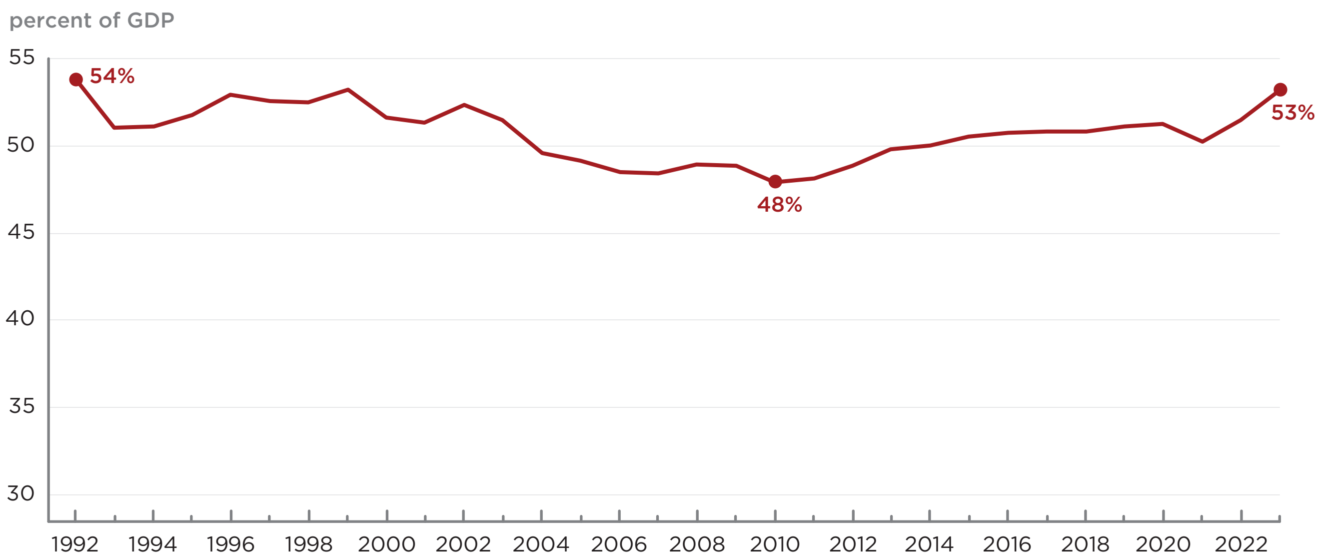
15 Data on employee compensation comes from the flow of funds published by the National Bureau of Statistics. This data series starts in 1992. But judging from the high share of household consumption in GDP in the early 1980s (see figure 3) labor compensation as a share of GDP in the early years of reform must have been well above the level in 1992.

Figure 3
Household consumption in China, 1980–2023



Source: National Bureau of Statistics (2025, 34).

Figure 4
Employee compensation in China, 1992–2023



Sources: National Bureau of Statistics (1999, 84–93; 2000, 82–83; 2001, 78–79; 2002, 80–81; 2012, 80–89; 2013, 80–81; 2014, 75–76; 2015, 97–98; 2016, 85–86; 2017, 81–82; 2018, 82–83; 2019; 2020; 2021; 2022; 2023; 2024, 74–75).

uncertainty, leading them to step up their savings. In addition, very low or even negative real interest rates on bank deposits beginning in 2002 appear to have encouraged households to save more (Lardy 2008, 2013). For example, households saving to cover a down payment on a residential property or to cover anticipated medical costs from a future serious illness may have a target stock of savings they wish to attain. When financial repression reduced their interest income on their savings, households responded by saving more.

The decline in consumption as a share of GDP from 1980 through 2010 occurred despite rising pension payments, which rose from 1.1 percent of GDP in 1980 to 2.7 percent of GDP in 2001 (National Bureau of Statistics 2002, 809).[16] Rising pension payments did not therefore by themselves lead to a decline in precautionary savings. So at least through 2010 the dynamics of the liberalized labor market, industrial restructuring, and financial repression appear to have been the key factors influencing the declining household consumption as a share of GDP. Pension payments, while rising, were too small to offset these three factors.

Starting roughly after 2010 this dynamic changed. The growth in the migrant workforce slowed,[17] and the working age population began to shrink after 2013 (National Bureau of Statistics 2024, 29). Economic growth continued, however, so the demand for labor increased and wages and disposable income as share of GDP began to rise. Moreover, pension payments increased steadily and financial repression eased as real interest rates on bank deposits rose, leading household savings as a share of disposable income to fall from 42 percent in 2010 to 35 percent in 2023 (Huang, forthcoming; National Bureau of Statistics 2013, 81; 2025, 37–39). As shown in figure 3, these factors led to a 5 percentage point rise in household consumption as a share of GDP, reaching 40 percent by 2024.

It is also important to examine the share of household consumption in GDP in a comparative perspective. Comparisons should be with other countries at China's level of economic development. Using World Bank metrics, this means comparisons with upper-middle-income countries. Comparisons with the United States are misleading because the 68 percent share of household consumption in GDP in the United States is above the 60 percent average of all OECD countries (World Bank n.d.). Average household consumption as a share of GDP in upper-middle-income countries in 2023 was 48 percent, above China's 40 percent (World Bank n.d.).

Moreover, following the standard set forth in the System of National Accounts,[18] measurement of household consumption should include social transfers in kind, i.e., goods and services the government provides directly to households (European Commission et al. 2025). China began to provide this information in 2020, first for 2018 and subsequently going back to 1978 (National Bureau of Statistics 2020). These transfers were small in the early years of reform, but they more than doubled to 7 percent of GDP by 2023 (Lardy 2024; National Bureau of Statistics 2025, 37–39). Taking these transfers into account boosts Chinese household consumption as a share of GDP in 2023 from the conventionally measured 40 percent to 47 percent. Average social transfers in kind for three upper-middle-income OECD member countries—Colombia, Chile, and Mexico—in 2023 was 6.7 percent of GDP, only slightly below the share in China. So household consumption as a share of GDP in China lags behind that

16 These early data on pensions are not comparable with more recent pension data cited elsewhere in this Policy Brief.

17 From 1980 to 2012 the annual increase in the flow of migrant laborers to urban areas was 8 million. From 2012 through 2024 the annual increase slowed to 3 million.

18 Issued jointly by the European Commission, the International Monetary Fund, the OECD, the United Nations, and the World Bank, available at https://unstats.un.org/unsd/nationalaccount/docs/2025_SNA_Pre-edit.pdf (accessed September 29, 2025).

of the upper-middle-income country average whether consumption is measured conventionally or includes social transfers in kind.

Given the inevitable ongoing shrinkage of China's labor force, the wage share of national income will continue to rise. So unless new sources of uncertainty emerge that increase the household saving rate, private consumption as a share of GDP is quite likely to rise further from its current level. If the government follows through on the promised accelerated increase in pension benefits and other social expenditures during the 15th Five-Year Plan, household consumption as a share of GDP would likely converge toward the average of upper-middle-income households.

Chinese economic policy has long recognized the need to rebalance sources of growth to rely more on household consumption and less on investment and exports to sustain economic growth. But policy has not always strongly supported this objective. In the last decade or so, however, underlying economic forces such as the shrinkage of the working age population, which have pushed up the wage share of national income, and a belated more rapid government build out of the social safety net have turned the tide, reflected in a decline in the household saving rate and a corresponding increase in consumption.

REFERENCES

Cao Yin. 2025. Top Court Clarifies Mandatory Social Insurance Payment Obligation. *China Daily*, August 1. Accessed August 11, 2025.

Central Committee of the Communist Party of China. 2025. Full Text: Recommendations of the Central Committee of the Communist Party of China for Formulating the 15th Five-Year Plan for National Economic and Social Development (Adopted at the Fourth Plenary Session of the 20th Central Committee of the Communist Party of China on October 23, 2025). Xinhua via *China Daily*, October 28.

Cui, Ernan. 2025a. Consumer Support Changes Focus. Gavekal Dragonomics, August 18.

Cui, Ernan. 2025b. Pensions under Pressure. Gavekal Dragonomics, September 17.

European Commission, IMF (International Monetary Fund), OECD (Organization for Economic Cooperation and Development), United Nations, and World Bank. 2025. *System of National Accounts 2025*. Brussels: European Commission; Washington: IMF, World Bank; Paris: OECD; New York: United Nations.

Galiani, Sebastián, Paul Gertler, and Rosangela Bando. 2014. *Non-contributory Pensions*. IDB Working Paper IDB-WP-517. Manila: Inter-American Development Bank. Accessed August 14, 2025.

Guo Shuqing. 2025. Full Text of Guo Shuqing's Speech at the Boao Forum: Several Issues Requiring Attention in Deepening Pension Insurance Reform. *Caijing* via Sina Finance, March 26. Accessed August 8, 2025.

Huang, Tianlei. Forthcoming. *After the Boom: China's Economy in the Shadow of the Housing Bust*. Washington: Peterson Institute for International Economics.

IMF (International Monetary Fund). 2022. People's Republic of China: 2021 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China. IMF Country Report 22/21. Washington. Accessed February 3, 2022.

Lardy, Nicholas. 2006. China: Toward a Consumption-Driven Growth Path. PIIE Policy Brief 06-6, October. Washington: Peterson Institute for International Economics.

Lardy, Nicholas. 2008. Financial Repression in China. PIIE Policy Brief 08-8, September. Washington: Peterson Institute for International Economics.

Lardy, Nicholas. 2013. Financial Reform: All About Interest Rates. *China Economic Quarterly*, March.

Lardy, Nicholas. 2014. *Markets over Mao: The Rise of Private Business in China*. Washington: Peterson Institute for International Economics.

Lardy, Nicholas. 2024. Household Consumption in China Is Not as Low as Many Think. PIIE Charts, April 9. Peterson Institute for International Economics. Accessed October 8, 2025.

Li, David Daokui. 2025. David Daokui Li Calls for 1.25 Trillion Yuan Pension Increase for Chinese Farmers. WeChat video via Zichen Wang, *The East Is Read*, Substack, January 28.

Lin, Shuanglin. 2022. *China's Public Finance: Reforms, Challenges, and Options*. Cambridge: Cambridge University Press.

Ministry of Civil Affairs. 2009. *2009 Statistical Bulletin on the Development of Civil Affairs*. Beijing. Accessed November 13, 2025.

Ministry of Civil Affairs. 2013. *Statistical Bulletin on the Development of Social Services*. Beijing. Accessed November 13, 2025.

Ministry of Civil Affairs. 2024. *2024 Statistical Bulletin on the Development of Civil Affairs*. Beijing. Accessed November 13, 2025.

MOHRSS (Ministry of Human Resources and Social Security). 2024. *Statistical Bulletin on the Development of Human Resources and Social Security in 2023*, June 17. Beijing. Accessed October 8, 2025.

MOHRSS. 2025. *Statistical Bulletin on the Development of Human Resources and Social Security in 2024*. Beijing. Accessed August 19, 2025.

Ministry of Finance. 2024. *Finance Yearbook of China 2024*. Beijing: China Finance Society.

Ministry of Finance. 2025a. 2024 National Social Insurance Funds Expenditure, September 4. Accessed November 10, 2025.

Ministry of Finance. 2025b. 2024 National Social Insurance Funds Revenue, September 10. Accessed November 10, 2025.

National Bureau of Statistics. 1999. *China Statistical Yearbook 1999*. Beijing: China Statistics Press.

National Bureau of Statistics. 2000. *China Statistical Yearbook 2000*. Beijing: China Statistics Press.

National Bureau of Statistics. 2001. *China Statistical Yearbook 2001*. Beijing: China Statistics Press.

National Bureau of Statistics. 2002. *China Statistical Yearbook 2002*. Beijing: China Statistics Press.

National Bureau of Statistics. 2012. *China Statistical Yearbook 2012*. Beijing: China Statistics. Press.

National Bureau of Statistics. 2013. *China Statistical Yearbook 2013*. Beijing: China Statistics Press.

National Bureau of Statistics. 2014. *China Statistical Yearbook 2014*. Beijing: China Statistics Press.

National Bureau of Statistics. 2015. *China Statistical Yearbook 2015*. Beijing: China Statistics Press.

National Bureau of Statistics. 2016. *China Statistical Yearbook 2016*. Beijing: China Statistics Press.

National Bureau of Statistics. 2017. *China Statistical Yearbook 2017*. Beijing: China Statistics Press.

National Bureau of Statistics. 2018. *China Statistical Yearbook 2018*. Beijing: China Statistics Press.

National Bureau of Statistics. 2019. *China Statistical Yearbook 2019*. Beijing: China Statistics Press.

National Bureau of Statistics. 2020. *China Statistical Yearbook 2020*. Beijing: China Statistics Press.

National Bureau of Statistics. 2021. *China Statistical Yearbook 2021*. Beijing: China Statistics Press.

National Bureau of Statistics. 2022. *China Statistical Yearbook 2022*. Beijing: China Statistics Press.

National Bureau of Statistics. 2023. *China Statistical Yearbook 2023*. Beijing: China Statistics Press.

National Bureau of Statistics. 2024. *China Statistical Yearbook 2024*. Beijing: China Statistics Press.

National Bureau of Statistics. 2025. *China Statistical Abstract 2024*. Beijing: China Statistics Press.

OECD (Organization for Economic Cooperation and Development). n.d. Social Expenditure Database (SOCX). Accessed October 10, 2025.

State Council Information Office. 2025. State Council Information Office Holds Press Conference on Boosting Consumption, March 18.

Soto, Mauricio, and Sanjeev Gupta. 2017. Social Security Reform for Sustainability and Equity. In *Modernizing China: Investing in Soft Infrastructure*, eds. Waikei R. Lam, Markus Rodlauer, and Alfred Schipke. Washington: International Monetary Fund.

World Bank. n.d. Households and NPISHs Final Consumption Expenditure. Accessed October 3, 2025.

Xi Jinping. 2021. Full Text: Xi Jinping's Speech on Boosting Common Prosperity. *Caixin Global*, October 19. Accessed September 10, 2025.

Xinhua. 2016. Resident Medical Insurance Subsidy Standard Reaches 420 Yuan per Person per Year, May 6. Accessed October 17, 2025.

PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

The Peterson Institute for International Economics (PIIE) is an independent nonprofit, nonpartisan research organization dedicated to strengthening prosperity and human welfare in the global economy through expert analysis and practical policy solutions. Its work is funded by a highly diverse group of philanthropic foundations, private corporations, and interested individuals, as well as income on its capital fund. About 12 percent of the Institute's resources in 2024 were provided by contributors from outside the United States.

A list of all financial supporters is posted at https://piie.com/sites/default/files/supporters.pdf.