

What is the best policy mix to target the income gap? Based on the portfolio analysis of China's income redistribution policies

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Received:01/09/2025

Revised: 03/10/2025

Accepted:19/11/2025

Published:21/11/2025

ABSTRACT

The income redistribution system plays a critical role in addressing income inequality. Its success in achieving policy objectives depends on the selection of effective policy instruments. However, can these instruments consistently align with their intended goals?To explore this question, this study examines the alignment between income redistribution policy tools and the objective of reducing income disparity using NCA and fsQCA methods.The analysis, which includes data from 31 provincial administrative units, reveals that relying on a single policy tool is insufficient to effectively mitigate income inequality. Instead, a comprehensive configuration of diverse policy tools is necessary. Specifically, the study identifies multiple viable configurations of policy tools that match the objective of reducing the urban-rural income gap and the rural income gap. The findings highlight the synergistic effects of income redistribution policy tools and their conditional correlations. These insights provide a novel and effective pathway for addressing income inequality in the new era. Additionally, they offer a scientific basis for formulating high-quality public policies aimed at reducing income disparities.

Keywords: Income Gap; Redistribution Policies; Policy Instruments; Policy Mix

INTRODUCTION:

China has entered a new stage of historical development, where achieving common prosperity has become a key strategic goal. The report of the Twentieth National Congress of the Communist Party of China (CPC) emphasizes that Chinese-style modernization aims to realize common prosperity for all. To achieve this, it is essential to continuously increase per capita income, reduce income disparities, and promote the coordinated development of different regions.^[1]However, In recent years, China's Gini coefficient has consistently remained above the international warning threshold of 0.4,reflecting a relatively high level of income disparity by global standards.^[2]This indicates that while economic growth has significantly increased social wealth, its distribution has been uneven, contradicting the core objective of achieving common prosperity. Consequently, addressing excessive income disparity has become a top priority for the Party and the government. To this end, several key documents and strategic plans have been introduced to confront this pressing challenge. As a fundamental institutional framework, the income distribution system plays a pivotal role in reducing income inequality and serves as a critical mechanism for advancing the goal of common prosperity.

China's income distribution system consists of three stages: primary distribution, redistribution, and tertiary distribution. Primary distribution, primarily driven by market mechanisms and labor remuneration, emphasizes efficiency in income allocation. While this stage has achieved some degree of rational income distribution, substantial disparities persist, particularly across industries and regions. Tertiary distribution, often regarded as a "flexible means" of fostering social justice, complements the distribution process through social efforts such as charitable donations, voluntary services, and welfare

initiatives. However, despite its expansion, tertiary distribution remains limited, accounting for only about 0.14% of income adjustments.^[3] Given these limitations, achieving fairness in income distribution and alleviating inequality relies heavily on the role of redistribution policies. These government-led policies seek to narrow income disparities through mechanisms such as taxation, social security systems, and fiscal transfers. However, critical questions remain: Can redistribution policy tools effectively align with their intended goals? How well do these instruments perform in practice? Moreover, could a comprehensive configuration of multiple policy tools more effectively address income inequality? This essay is based on a range of representative redistribution policy instruments to address these questions. It seeks to identify effective policy combinations for reducing the income gap and to provide a scientific basis for the formulation of high-quality public policies.

2. LITERATURE REVIEW

2.1 Research on the Effectiveness of Income Redistribution Policies

Current academic research on income redistribution policies primarily focuses on two key areas. The first explores the effects of different types of redistribution policies, emphasizing significant variations across periods, regions, and policy types. For example, Bradley et al (2003) divide the welfare states into three categories (Social Democratic, Christian Democratic, and Liberal Democratic) to study government redistribution and distributive profiles of taxes and transfers. Their results indicate that welfare generosity does have a positive impact on the total redistribution of incomes.^[4] Goñi et al. (2011) found that the effectiveness of redistribution policies varies considerably by region. In EU countries, these policies reduced the Gini coefficient by an average of 0.12, whereas in Latin American countries, the reduction was only 0.014.^[5] Similarly, Guillaud et al. (2020) analyzed data from 22 OECD countries and concluded that, in most developed nations, tax policies play a more substantial role in income redistribution compared to public transfers.^[6]

The second area of research focuses on the influence of specific redistribution policies on income inequality. De Agostini et al (2014) analyze the tax-benefit policy reforms that have been implemented after the Great Recession. They find that the changes in direct taxes, pensions, and cash benefits had broadly inequality-reducing effects, except in Germany.^[7] Caminada et al. (2017) conducted a comprehensive study across 47 countries using data from the Luxembourg Income Study (LIS). Their findings revealed that social transfers play a significant role in reducing income inequality, accounting for 81% of the total reduction, while taxes, including income taxes and mandatory payroll taxes, contribute 19% to the overall redistribution.^[8] Joumard et al. (2012) analyzed tax and transfer policies' impact on income inequality across OECD countries, revealing that transfers play a substantially larger role in reducing income inequality compared to taxes. Nordic countries are distinguished by their universal and large-scale transfer systems, which achieve significant redistributive effects, whereas other countries tend to rely more heavily on targeted benefits aimed at low-income populations.^[9] However, Xu Jing and Cai Meng et al. (2018) argued that while social security expenditures have reduced the income gap, inefficiencies persist. In some cases, social security spending has exceeded the Gini coefficient's inflection point, leading to "over-distribution" for certain groups.^[10]

Existing studies predominantly focus on specific redistribution tools and their effects on poverty rates and the Gini coefficient. Although the literature generally agrees that redistribution policies reduce inequality and poverty to some extent, there are differences in the measurements of different studies.

2.2 The Relationship Between Policy Instruments and Policy Goals

Current academic research on the relationship between policy instruments and objectives is primarily divided into two perspectives. The first perspective posits that there is an inherent alignment between policy instruments and objectives, suggesting an intrinsic causal relationship. In this view, the design and application of policy tools are inherently aimed at achieving specific policy goals.^[11] Capano et al.(2016) define policy tools as mechanisms, methods, and techniques that serve as a bridge between policy goals and outcomes.^[12] Similarly, Howlett(2005) describes policy instruments as diverse methods and means available to policymakers or implementers for achieving objectives.^[13] Michael(2018) emphasizes that policymakers must thoroughly understand the operational link between instruments and objectives to avoid unintended mismatches and ensure alignment. This understanding helps to prevent policy deviations resulting from the inappropriate selection of tools.^[14] Capano and Howlett (2020) also argue that policy objectives play a central role in shaping policy instruments, establishing a "spontaneous connection" that intricately links the two.^[15] However, this perspective often overlooks the theoretical and practical possibility of mismatches between instruments and objectives.

In contrast, the second perspective acknowledges the potential for misalignment between policy instruments and objectives. Markus Hinterleitner et al.(2016) emphasize the importance of ensuring a strong alignment between policy instrument configurations and objectives during the implementation process.^[16] MacIntosh et al. (2015) identify policymaker preferences as a key factor influencing tool design, noting that a preference for supply- or environment-based instruments often reduces the adoption of demand-based tools. Such imbalances can result in mismatches or inconsistencies between instruments and objectives.^[17] Christensen et al. Lægreid (2007) attributes these mismatches to internal government fragmentation and the diversity of authority structures, both of which can disrupt the coherence between tool design and policy targets.^[18] Additionally, Hill et al(2021) highlight that external factors, such as economic pressures, emergencies, resource constraints, political systems, and administrative cultures, also shape policy implementation. These influences can lead to tool failures or deviations from intended objectives.^[19]

Existing studies on the implementation effects of income redistribution policies and the relationship between policy instruments and objectives offer valuable insights for this research. However, the alignment between policy instruments and objectives should be understood as a matter of degree rather than a binary choice.^[20] In practice, the achievement of policy objectives often results from the combined effects of multiple policy instruments. Therefore, a coordinated and integrated use of policy tools is crucial for achieving policy goals. For income redistribution policies, narrowing the income gap requires the synergy of various instruments, such as tax systems, social security mechanisms, and fiscal transfer payments, rather than relying on a single approach. Building on this understanding, the present study examines income redistribution policies by analyzing data from 31 provincial administrative units in China. It evaluates the application of policy instruments and assesses their effectiveness in achieving policy objectives.

3. Research Design

3.1 Research Methodology and Sample Selection

Income redistribution policies aim to promote fairness in income distribution, serving as a crucial tool for narrowing the income gap and achieving common prosperity. Unlike other policy areas, the effectiveness of income redistribution can be quantitatively assessed using indicators such as the Gini coefficient, which offers standardized metrics and strong data support for related research.

In this paper, we first employ the Necessary Condition Analysis (NCA) method to identify necessary conditions using two estimation approaches: Cap Regression (CR) and Cap Envelopment Analysis (CE). The bottleneck-level analysis is then applied to determine the threshold values of antecedent conditions required to achieve specific outcomes^[21]. Following this, we use the fuzzy-set Qualitative Comparative Analysis (fsQCA) methodology to explore potential multi-causal relationships between policy instruments and income disparity. Unlike single-factor analyses, fsQCA examines the impact of various combinations of policy instruments, making it particularly suitable for research with small sample sizes and fuzzy set data. This method enables the investigation of gradual changes in income disparity driven by policy instruments, moving beyond binary causality to offer a multi-path analysis perspective. FsQCA identifies commonalities and differences in the diverse pathways that lead to similar income distribution outcomes. It also integrates both qualitative and quantitative data, enabling researchers to conduct comprehensive analyses that capture the complexity of policy impacts^[22]. The results offer policymakers interpretable and actionable insights, highlighting which combinations of policy instruments are most effective in reducing income disparity. This helps policymakers design more targeted and impactful strategies for achieving equitable income distribution. In summary, this study investigates the configuration of policy portfolios that effectively reduce the income gap by employing Necessary Condition Analysis (NCA) and fuzzy-set Qualitative Comparative Analysis (fsQCA) methods. Provincial administrative units play a pivotal role in China's administrative system, serving as a critical link in the top-down implementation of central government policies. These units are tasked not only with executing central directives but also with coordinating and guiding local governments within their jurisdictions. This study constructs a quantitative index system to evaluate income redistribution policy instruments and their objectives, using data from 31 provincial administrative units in China as the research sample. By analyzing cross-sectional data from 2022, the study seeks to empirically identify effective alignment pathways between policy instruments and their objectives.

3.2 Variable Selection and Data Calibration

Outcome Variable. This study employs the Gini coefficient as the outcome variable to evaluate the effectiveness of income redistribution policies. Data on urban and rural residents' per capita disposable income are sourced from the China Statistical Yearbook, China Urban Statistical Yearbook, and China Rural Statistical Yearbook. Using the formula proposed by Tian Weimin (2012),^[23] the Gini coefficients for rural residents and the overall urban-rural population are calculated. These calculations serve as an objective basis for assessing the implementation effects of income redistribution policies.

Condition Variable. The issue of income redistribution is deeply intertwined with social equity, as income disparities and the resulting polarization between the rich and the poor adversely impact social stability. In this context, redistributive policies designed to enhance social welfare not only reduce income inequality but also strengthen social cohesion and trust, providing a strong theoretical basis for government intervention. Consequently, the scope and approach of government intervention are critical in determining the selection of appropriate policy tools. China is currently developing a multi-level income redistribution policy system centered on tax regulation, social security, and fiscal transfers. This system aims to achieve comprehensive outcomes by leveraging diverse policy instruments to meet the needs of various social groups. Each tool exhibits unique characteristics in terms of implementation methods and target groups. A diversified combination of these tools enhances policy flexibility,

enabling more precise implementation and tailored adjustments to address the specific conditions of different regions and populations. This differentiated approach effectively tackles evolving economic and social challenges, promotes a more equitable distribution of resources, and fosters sustainable social development.

Firstly, taxation plays a key role in regulating income disparity by allowing governments to adjust the tax burden across different income groups through mechanisms such as progressive tax rates, tax breaks, and surtaxes. These measures aim to achieve a more equitable distribution of income and can be classified into two categories: direct tax adjustments and indirect tax adjustments. Direct taxes reduce the disposable income of high-income groups by increasing their tax burden, while indirect taxes influence consumption behavior by imposing higher tax rates on luxury or non-essential goods, thereby indirectly shaping the overall income distribution. To evaluate the effectiveness of direct taxes, this study uses the ratio of personal income tax to total tax revenue as a quantitative indicator, specifically analyzing the proportion of provincial personal income tax within total fiscal tax revenue.^[24] For indirect taxes, the ratio of consumption tax to total tax revenue is employed, focusing on the proportion of provincial consumption tax within total fiscal tax revenue.^[25] These indicators offer a comprehensive basis for assessing the government's effectiveness in using both direct and indirect taxation to address income inequality and influence consumption behavior.

Secondly, the social security system plays a crucial role in providing individuals and families with economic support, ensuring that members of society can maintain basic living standards. This system promotes a fairer economic environment and contributes to a more equitable redistribution of income.^[26] Social security instruments can be categorized into two types: universal security and targeted assistance. Universal security encompasses broad programs such as old-age insurance and healthcare, aiming to provide basic social welfare to all eligible members of society. Key instruments include basic old-age insurance for urban and rural residents and medical insurance. The effectiveness of old-age insurance is typically measured by per capita benefits, calculated as "fund expenditure/number of recipients."^[27] Similarly, medical insurance effectiveness is assessed through financial inputs, measured by the expenditure of the Medical Insurance Fund.^[28] Targeted assistance focuses on reducing poverty and social inequality by offering financial support to specific low-income groups and families in need, improving their living conditions. The primary instrument in this category is the minimum subsistence guarantee, whose implementation effectiveness is assessed through the financial expenditure allocated to it.^[29]

Finally, fiscal transfers serve as a key mechanism for reallocating funds between the central and local governments and across regions, aiming to promote balanced regional development, reduce income disparities, and achieve social equity. Fiscal transfers are typically classified into three categories: tax rebates, general transfers, and special transfers. Since tax rebates were introduced as part of the tax-sharing reform and have gradually diminished in significance, they are no longer listed separately in the national fiscal accounts after 2019.^[30] Therefore, this study focuses on general transfers and special transfers. General transfers are financial subsidies provided by the central government to local governments without specific usage restrictions. Local governments can allocate these funds independently based on their needs and circumstances. The primary objectives of general transfers include promoting the equalization of basic public services, improving public infrastructure, supporting disadvantaged groups, and enhancing local capacities for self-sustained development. These transfers play a significant role in reducing income disparities between regions and social groups and are typically measured by the amount transferred from the central government to local governments.^[31] In contrast,

special transfers are financial subsidies designated for specific purposes, such as education, healthcare, and environmental protection. These funds are strictly earmarked to ensure their use aligns with the designated objectives, thus promoting improvements in targeted public services and fostering social equity and harmonious development. The implementation of special transfers is often evaluated based on the amount allocated from the central government to local governments for these specific purposes.^[31]

The descriptive statistics for each variable are presented in Table 1. Four variables—the expenditure of the medical insurance fund, the financial expenditure of the minimum subsistence guarantee, the number of general transfers, and the number of special transfers—were log-transformed to ensure data normalization. Following the requirements of qualitative comparative analysis (QCA), the samples were calibrated for their degree of affiliation after constructing the indicator system. This calibration process converts variable values into fuzzy set scores within the interval of 0 to 1. Referring to the calibration scheme proposed by Fiss,^[32] the thresholds for calibration were set at 75%, 50%, and 25%, sure of the points of complete affiliation, the crossover point, and complete non-affiliation. The specific calibration results are detailed in Table 2.

Table 1: Descriptive Statistics of Variables

Variable Type	Measurement Indicator	Obs.	Mean	Std.	Min	Max
Outcome Variable	Gini Coefficient of Rural Residents (RGI)	31	0.443	0.054	0.347	0.523
	Overall Gini Coefficient of Urban and Rural Areas (URGI)	31	0.436	0.057	0.345	0.522
	Proportion of Personal Income Tax (PITR)	31	0.064	0.034	0.024	0.161
	Proportion of Consumption Tax (CTR)	31	0.285	0.189	0.042	0.861
Condition Variable	Per Capita Pension Benefits of Urban and Rural Residents (URPPB)	31	0.348	0.365	0.138	1.868
	Healthcare Insurance Fund Expenditures (HIFE)	31	6.366	0.914	3.782	7.747
	Fiscal Expenditures for Minimum Living Security (MLS)	31	3.937	0.754	1.721	4.861
	Amount of General Transfer Payments (GTP)	31	7.709	0.601	6.222	8.608
	Amount of Special Transfer Payments (STP)	31	5.385	0.488	3.842	6.246

Table 2: Variable Measurement and Assignment

Variable Type	Measurement Indicator	Calibration Anchors		
		Full Membership	Crossover Point	Full Non-Membership
Policy Objectives	Gini Coefficient of Rural Residents (RGI)	0.488	0.451	0.402
	Overall Gini Coefficient of Urban and Rural Areas (URGI)	0.491	0.445	0.389
Tax Regulation	Proportion of Personal Income Tax (PITR)	0.071	0.053	0.044
	Proportion of Consumption Tax (CTR)	0.378	0.227	0.166
	Per Capita Pension Benefits of Urban and Rural Residents (URPPB)	0.315	0.223	0.189
Social Security Regulation	Healthcare Insurance Fund Expenditures (HIFE)	6.988	6.481	6.038
	Fiscal Expenditures for Minimum Living Security (MLS)	4.453	4.162	3.688
Fiscal Transfer Payment Regulation	Amount of General Transfer Payments (GTP)	8.163	7.913	7.332
	Amount of Special Transfer Payments (STP)	5.668	5.499	5.249

4. Empirical Analysis

4.1 Analysis of Single Policy Instruments

Univariate necessity analysis provides a quantitative approach to evaluating the extent to which specific policy instruments contribute to achieving policy objectives, using a necessity test based on the NCA (Necessary Condition Analysis) method. According to the criteria established by Dul et al.,^[33] a condition is deemed necessary if its effect size(d) exceeds 0.10 and reaches statistical significance($P < 0.01$). However, as shown in Tables 3 and 4, none of the individual policy instruments meet these thresholds, indicating that no single instrument is a necessary condition for reducing the income gap.

Table 3: NCA Necessity Analysis for Individual Conditions (Rural Income Disparity)

Outcome Variable	Condition Variable	Method	Accuracy (100%)	Upper Bound Region	Range	Effect Size	P-value
Gini Coefficient of Rural Residents	Proportion of Personal Income Tax	CR	100%	0.002	1	0.002	0.445
		CE	100%	0.004	1	0.004	0.415
	Proportion of Consumption Tax	CR	100%	0.003	1	0.003	0.412
		CE	100%	0.005	1	0.005	0.386
	Per Capita Pension Benefits of Urban and Rural Residents	CR	83.9%	0.043	1	0.043	0.201
		CE	100%	0.012	1	0.012	0.308
	Healthcare Insurance Fund Expenditures	CR	93.5%	0.005	1	0.005	0.279
		CE	100%	0.003	1	0.003	0.425
	Fiscal Expenditures for Minimum Living Security	CR	93.5%	0.023	1	0.023	0.100
		CE	100%	0.024	1	0.024	0.035
	Amount of General Transfer Payments	CR	80.6%	0.087	1	0.087	0.139
		CE	100%	0.023	1	0.023	0.056
	Amount of Special Transfer Payments	CR	96.8%	0.015	1	0.015	0.071
		CE	100%	0.012	1	0.012	0.073

Table 4: NCA Necessity Analysis for Individual Conditions (Urban-Rural Income Disparity)

Outcome Variable	Condition Variable	Method	Accuracy (100%)	Upper Bound Region	Range	Effect Size	P-value
Overall Gini Coefficient of Urban and Rural Areas	Proportion of Personal Income Tax	CR	83.9%	0.029	0.99	0.029	0.083
		CE	100%	0.009	0.99	0.009	0.410
	Proportion of Consumption Tax	CR	96.8%	0.011	0.99	0.011	0.175
		CE	100%	0.013	0.99	0.014	0.186
	Per Capita Pension Benefits of Urban and Rural Residents	CR	100%	0.004	0.99	0.004	0.758
		CE	100%	0.009	0.99	0.009	0.684
	Healthcare Insurance Fund Expenditures	CR	87.1%	0.018	0.99	0.018	0.123
		CE	100%	0.011	0.99	0.011	0.258
	Fiscal Expenditures for Minimum Living Security	CR	80.6%	0.090	0.99	0.091	0.032
		CE	100%	0.028	0.99	0.028	0.018
	Amount of General Transfer Payments	CR	83.9%	0.057	0.99	0.058	0.321
		CE	100%	0.019	0.99	0.019	0.216
	Amount of Special Transfer Payments	CR	93.5%	0.014	0.99	0.014	0.099
		CE	100%	0.013	0.99	0.013	0.137

Subsequently, bottleneck-level analysis was employed to determine the specific thresholds that individual policy instruments need to meet to achieve the desired policy objectives. The CR-FDH (Conditional Restricted Free Disposal Hull) technique was used to evaluate the degree of necessity, as detailed in Tables 5 and 6. For instance, to achieve 60% of the policy objective of reducing the rural income gap, per capita pension insurance benefits must reach 4.1%, while general transfer expenditures should reach 2.5%. Similarly, to achieve 90% of the policy objective of narrowing the urban-rural income gap, the proportion of personal income tax should reach 3.9%, minimum subsistence guarantee expenditures should increase to 45.6%, and general transfer expenditures should rise to 28.8%.

Table 5: NCA Analysis of the Bottleneck Level (%) for Individual Conditions (Rural Income Disparity)

Condition Variable	PITR	CTR	URPPB	HIFE	MLS	GTP	STP
0	NN	NN	NN	NN	NN	NN	NN
10	NN	NN	NN	NN	NN	NN	NN
20	NN	NN	NN	NN	NN	NN	NN
30	NN	NN	NN	NN	NN	NN	NN
40	NN	NN	NN	NN	NN	NN	NN
50	NN	NN	1.1	NN	NN	NN	NN
60	NN	NN	4.1	NN	NN	2.5	NN
70	NN	NN	7.1	NN	NN	12.1	NN
80	NN	NN	10.1	NN	NN	21.7	NN
90	NN	NN	13.1	NN	NN	31.3	NN
100	41.0	50.1	16.1	17.0	63.6	40.9	81.7

Note: NN = Not Necessary

Table 6: NCA Analysis of the Bottleneck Level (%) for Individual Conditions (Urban-Rural Income Disparity)

Condition Variable	PITR	CTR	URPPB	HIFE	MLS	GTP	STP
0	NN	NN	NN	NN	NN	NN	NN
10	NN	NN	NN	NN	NN	NN	NN
20	NN	NN	NN	NN	NN	NN	NN
30	NN	NN	NN	NN	NN	NN	NN
40	NN	NN	NN	NN	NN	NN	NN
50	NN	NN	NN	NN	NN	NN	NN
60	NN	NN	NN	NN	NN	NN	NN
70	NN	NN	NN	NN	NN	NN	NN
80	NN	NN	NN	NN	2.7	NN	NN
90	3.9	NN	NN	NN	45.6	28.8	NN
100	54.8	63.2	85.0	95.7	88.4	58.4	82.8

Note: NN = Not Necessary

Finally, the fuzzy-set Qualitative Comparative Analysis (fsQCA) method was used to test the necessity of the conditioning variables. According to the evaluation criteria, a policy instrument is considered necessary for achieving the policy objective if its consistency score exceeds 0.9. This implies that the use of such a policy instrument is indispensable for attaining the desired outcome.^[34] The test results, presented in Table 7, indicate that none of the policy instruments achieved a consistency score above the 0.9 threshold. This finding suggests that no single policy instrument constitutes a necessary condition for reducing the income gap, aligning with the conclusion drawn from the NCA method.

Overall, while individual policy instruments contribute to achieving policy objectives, their standalone effects are limited and insufficient to serve as necessary conditions for reaching these objectives. The successful attainment of policy goals depends on the systematic integration and comprehensive configuration of multiple policy instruments, along with their interactions and synergies. Coordinated implementation of various instruments enables policies to address complex socio-economic challenges more effectively, thereby improving their overall efficiency and impact. This underscores the critical importance of adopting a diversified mix of instruments during policy planning and design. Furthermore, it highlights that the interaction effects among policy instruments play a pivotal role in enhancing the effectiveness of policy implementation.

Table 7: Necessity Test of Single Policy Tools

Policy Goal	Policy Tool	Consistency	Coverage
Gini Coefficient of Rural Residents	Tax Regulation	PITR 0.502188	0.523844
		~PITR 0.599899	0.595743

Overall Gini Coefficient of Urban and Rural Areas	Social Security Regulation	CTR	0.618794	0.620880
		~CTR	0.443345	0.457532
		URPPB	0.540866	0.571754
		~URPPB	0.542198	0.531746
		HIFE	0.509796	0.528982
		~HIFE	0.594192	0.593064
		MLS	0.488872	0.481604
		~MLS	0.589753	0.620439
		GTP	0.580179	0.589980
		~GTP	0.532687	0.542315
	Fiscal Transfer Payment Regulation	STP	0.501554	0.542189
		~STP	0.588485	0.565535
		PITR	0.578507	0.599246
		~PITR	0.525573	0.518292
	Tax Regulation	CTR	0.472448	0.470734
		~CTR	0.592044	0.606727
		URPPB	0.501948	0.526912
		~URPPB	0.570845	0.555936
Overall Gini Coefficient of Urban and Rural Areas	Social Security Regulation	HIFE	0.552264	0.569051
		~HIFE	0.546070	0.541232
		MLS	0.476917	0.466550
		~MLS	0.606091	0.633180
	Fiscal Transfer Payment Regulation	GTP	0.518485	0.523567
		~GTP	0.573463	0.579756
		STP	0.473214	0.507985
		~STP	0.611711	0.583755

4.2 Analysis of Combined Policy Tools

The adequacy of each conditional group state was assessed by constructing a truth table, which revealed the multifactorial composition of various driving paths leading to the outcome. Following the interpretation by Du Yunzhou et al. (2017)^[32], the consistency threshold for group state analysis was set at 0.8, the case frequency threshold at 1, and the proportional reduction in inconsistency (PRI) threshold at 0.7 to minimize contradictions among group states. Because none of the representative income redistribution policy instruments selected in this study constituted a necessary condition for narrowing the income gap. Furthermore, there is insufficient evidence and theoretical support that one specific condition is universally present associated with income gap reduction. Consequently, the counterfactual analysis applied the "presence or absence" approach to all antecedent conditions, generating three types of solutions: complex, simple, and intermediate. Since there is no consensus within the academic community regarding the selection of solution types, and this study aims to identify a universal pathway for aligning income redistribution policies with their objectives while focusing on key causal relationships, the parsimonious solution was chosen for reporting. The results are presented in Table 8.

Table 8: Analysis of Combined Policy Tool Pathways

Condition Variable	Low Rural Gini Coefficient			Low Urban-Rural Gini Coefficient		
	Configuration N1	Configuration N2	Configuration N3	Configuration H1	Configuration H2	Configuration H3
PITR	⊗	⊗	⊗	●	●	
CTR			●			⊗
URPPB	●	●		⊗	⊗	●
HIFE			⊗			⊗
MLS		⊗			⊗	
GTP	⊗			⊗		⊗

STP			⊗			⊗
Raw Coverage	0.178	0.187	0.200	0.174	0.178	0.202
Unique Coverage	0.016	0.030	0.113	0.013	0.020	0.146
Consistency	0.770	0.881	0.905	0.817	0.886	0.898
Overall Coverage	0.325			0.340		
Overall Consistency	0.831			0.858		

Note: ● indicates the presence of a core condition; U indicates the absence of a core condition; A blank space indicates that the presence or absence of the condition variable is irrelevant.

1. Policy Tool Combination Pathways for Reducing the Income Gap Among Rural Residents

Table 8 identifies three policy tool combinations (N1, N2, N3) that effectively narrow the income gap among rural residents, with an overall consistency of 0.831 and a coverage rate of 0.325.

Configuration N1 is characterized by "high per capita pension insurance benefits *low personal income tax share*low general transfer payments," suggesting that even when rural income growth is limited, the government can enhance the disposable income of rural residents by optimizing the social security system and reducing individual tax burdens. This approach effectively narrows the income gap and promotes equitable income distribution. For example, the Ningxia Hui Autonomous Region has implemented a comprehensive pension insurance system with extensive coverage. Through financial support and favorable policies, the region has significantly enhanced pension benefits while reducing individual contributions. Additionally, its pension management services are efficient and user-friendly, with rapid advancements in information technology enabling flexible and convenient enrollment and benefit collection. These measures collectively promote social equity and stability, enhancing residents' livelihood security.

Configuration N2 is characterized by "high pension insurance benefits*low personal income tax*low expenditure on minimum living standards." While similar to Group N1, the key distinction lies in the limited expenditure on minimum living standards. Despite this constraint, the government effectively improves the living conditions of low-income groups by enhancing pension insurance benefits and reducing personal income tax burdens, thereby achieving a more equitable distribution of social welfare. A representative example is Qinghai Province, where the Implementation Opinions on Establishing a Unified Basic Pension Insurance System for Urban and Rural Residents proposed measures to raise pension entitlement standards. Simultaneously, the policy strengthened subsidies for vulnerable groups to ensure that low-income rural residents could access basic livelihood security, despite limited government expenditure on minimum subsistence guarantees. Furthermore, the Qinghai Provincial Tax Bureau introduced individual tax relief policies in line with national directives, including increasing the individual income tax threshold and expanding special deductions, which collectively alleviated the tax burden on low- and middle-income rural residents. Through a combination of a comprehensive pension insurance system, tax relief measures, and targeted financial subsidies, Qinghai Province has significantly increased the disposable income of low-income groups. Additionally, the development of a diversified social security system has ensured stable livelihood security for these groups in their later years, contributing to social equity and stability.

Configuration N3 is characterized by a "high proportion of consumption tax* low proportion of personal income tax*low medical insurance expenditure*low special transfer payments."This

configuration suggests that, despite limited investment in medical insurance and special fiscal expenditures, the government can narrow the rural income gap by optimizing the tax structure and adjusting fiscal policies. Specifically, by increasing the burden of individual consumption taxes, the government promotes a more rational allocation of social resources, thereby reducing rural income disparities. A notable example is Guizhou Province, where, in implementing the national consumption tax policy, the government manages consumption taxes on specific commodities, such as tobacco and alcohol, based on local consumption patterns. A portion of the revenue generated is allocated to support local public services and infrastructure development. Despite constraints in medical care and fiscal transfers, Guizhou Province has successfully reduced the rural income gap by adjusting its tax structure. These measures have also facilitated the efficient redistribution of resources within rural areas, contributing to regional economic balance and improving the living standards of rural residents.

2. Policy Tool Combination Pathways for Reducing the Urban-Rural Income Gap

As summarized in Table 8, three policy tool combinations (H1, H2, and H3) are identified for reducing the urban-rural income gap, with an overall consistency of 0.858 and an overall coverage of 0.340.

Configuration H1 is characterized by a "high share of personal income tax * low per capita pension insurance benefits * low general transfers." This configuration illustrates that, even with relatively low levels of social security and limited financial support, the government can still influence income distribution by regulating personal income tax. Specifically, a higher share of personal income tax allows for income redistribution by taxing high-income groups more effectively, thereby narrowing the income gap between urban and rural areas. This tax adjustment mechanism ensures progress in income distribution fairness, even in contexts of insufficient public expenditure and social security, ultimately achieving the goal of reducing urban-rural income disparities and promoting coordinated societal development. A representative example is Chongqing Municipality, where income redistribution and the narrowing of urban-rural income disparities have been achieved through optimized personal income tax policies. These policies include increasing the tax burden on high-income groups and allocating the resulting revenue to public services and infrastructure development. Key reforms, such as those outlined in the Chongqing New Urbanisation Plan (2021-2035), have further supported this mechanism. Despite limited financial resources, these tax-regulation measures have effectively promoted fairness in income distribution and facilitated coordinated and sustainable social development.

Configuration H2, similar to H1, demonstrates that even with low pension insurance benefits and limited expenditure on minimum living standards, the government can address income disparities by increasing the proportion of personal income tax borne by high-income groups. This approach compensates for gaps in social security, enhances the fairness of income distribution, and effectively narrows the urban-rural income gap. Despite constrained financial resources, this tax mechanism supports fair and stable societal development, fostering coordinated growth between urban and rural areas. A notable example is Jilin Province, which has adjusted its income tax policy to place a higher burden on high-income groups, thereby increasing fiscal revenue. This redistribution mechanism has mitigated income imbalances arising from low pension insurance benefits and insufficient minimum living standards. By leveraging tax regulation, Jilin Province has actively advanced an integrated urban-rural development strategy, enabling rural residents to achieve gradual parity with urban residents in access to public services and social welfare. Additionally, the province has promoted rural economic diversification through policy guidance, creating broader income channels for rural residents and further reducing the urban-rural income gap. Through effective tax regulation and complementary policy

measures, Jilin Province has significantly improved income distribution fairness. In the absence of robust social security, taxation has emerged as a critical tool for income redistribution, advancing social equity, and driving coordinated development and stability between urban and rural areas.

The path "high per capita pension insurance benefits*low consumption tax share *low health insurance inputs * low general transfers*low specialized transfers" in Configuration H3 highlights that, despite limited health insurance inputs and fiscal transfers, the government can effectively reduce the urban-rural income gap by increasing per capita pension insurance benefits and lowering the consumption tax burden. Enhancing per capita pension insurance benefits strengthens old-age security for both urban and rural residents, directly increasing rural residents' income and easing families' financial responsibilities. This enables rural households to allocate more resources toward improving their quality of life. Similarly, by reducing the consumption tax share, particularly on essential goods consumed by rural residents, the government enhances their purchasing power. This tax policy adjustment allows rural residents to enjoy greater consumption benefits, further narrowing the disparity in living standards between urban and rural areas. Fujian Province serves as a representative example. It has raised the basic pension standard for old-age insurance and increased financial subsidies, ensuring that rural residents receive higher pension incomes after retirement. These enhancements directly boost the economic security of the rural elderly population, alleviate family financial burdens, and safeguard rural residents' overall welfare. Furthermore, Fujian Province has optimized its local tax structure by adjusting the consumption tax rate and scope. Specific measures, such as reducing or exempting taxes on daily necessities, have significantly decreased rural households' expenditures on essential goods, thereby improving their real purchasing power. As a result, rural residents experience increased disposable income and improved living standards. Although challenges such as inadequate medical services and infrastructure persist, Fujian Province has successfully narrowed the urban-rural income gap through a combination of targeted tax relief and enhanced pension benefits. This policy mix reflects the province's institutional strength in promoting income equity by leveraging tax and social security reforms, even in the context of limited resources. These initiatives have effectively ensured rural residents a stable income source and a higher quality of life, advancing social equity and stability.

4.3 Robustness Test

To verify the robustness of the fsQCA analysis results, the threshold for consistency was adjusted from 0.8 to 0.75, and the PRI threshold was adjusted from 0.7 to 0.75, following the approach of previous scholars^[35]. The analysis revealed no significant changes in the overall coverage rate or the total consistency of the results, regardless of whether the outcome was a low rural Gini coefficient or a low urban-rural Gini coefficient. Furthermore, the explanatory paths remained identical to the original, with a 100% overlap rate. These findings indicate that the results are robust and exhibit a high degree of reliability.

5. CONCLUSION AND DISCUSSION

5.1 Main Conclusions and Contributions

The achievement of shared prosperity is deeply reliant on high-quality public policies, with the alignment between policy instruments and policy objectives serving as a critical criterion for assessing their effectiveness. This alignment determines whether a policy can successfully advance the goal of common prosperity, reflecting the scientific rigor and rationality of its design. Through the use of the fsQCA methodology, this study examines the alignment between income redistribution policy

instruments and policy objectives, utilizing provincial cross-sectional data from China in 2022. The findings reveal that no single policy instrument independently constitutes a necessary condition for achieving high-level policy objectives. Instead, a well-designed combination of taxation, social security, and fiscal transfers emerges as a crucial pathway to narrowing the income gap. These combinations leverage synergies between various instruments, addressing the limitations of individual policies, and enhancing the adaptability and responsiveness of policies to complex economic and social conditions. Moreover, different configurations of policy instruments exhibit distinct and context-specific effects in achieving policy objectives. These variations suggest that tailored combinations of policy tools can offer diversified pathways to meet the income redistribution needs of different regions or groups, providing more flexible and targeted approaches to policy goals. The study's findings offer valuable theoretical insights for policymakers, emphasizing the importance of dynamically adjusting and optimizing combinations of policy instruments based on specific economic and social contexts to maximize their effectiveness in achieving common prosperity.

Based on the findings, this paper makes several important contributions. First, it transcends the traditional approach of analyzing only the net effect of a single policy instrument on its objectives by constructing an analytical framework for income redistribution policies tailored to the Chinese context. Employing the fuzzy set qualitative comparative analysis (fsQCA) method, the study delves into the alignment between policy instruments and objectives. Unlike conventional analyses focused on structural or functional aspects, this research uncovers the synergies and interaction patterns of multiple policy instruments in reducing the income gap. It deepens the understanding of the complex causal relationships among policy instruments and provides a comprehensive perspective on their interplay in achieving policy objectives.

Second, the paper broadens the exploration of the relationship between policy instruments and goals, highlighting its nuanced and complex nature. Specifically, it demonstrates that this relationship is not confined to binary outcomes such as perfect alignment or total misalignment. Instead, it reveals a spectrum of intermediate states and possibilities, showcasing the flexibility and adaptability inherent in policy implementation. This finding underscores the need for dynamic combinations and adjustments of policy instruments to achieve intended goals more effectively. By offering a diversified perspective, the study introduces new avenues for theoretical inquiry, encouraging future research to examine the role and optimization of policy instruments across various contexts. This diversity of perspectives offers new avenues for theoretical exploration, encouraging future research to critically examine and discuss the role of policy instruments and their optimization pathways across various contexts, thereby contributing to a more systematic understanding of this significant relationship.

Finally, the paper investigates the equivalent driving mechanisms behind policy achievement, emphasizing that success depends not only on the rational selection and configuration of policy instruments but also on the active participation of multiple stakeholders and the interplay of diverse factors. The study highlights how, in specific contexts, different combinations of policy instruments can achieve the same objectives through multiple pathways, adhering to the principle of "different paths leading to the same destination." At the same time, this flexible and diverse policy mix offers local governments broader operational latitude and a robust reference framework for policy design and implementation. It empowers them to tailor and adapt policy measures to local economic and social

conditions, resource endowments, and development needs. This finding establishes a strong theoretical basis for optimizing the decision-making process and improving the efficiency of policy implementation, while also enhancing the practical applicability of policy research.

5.2 Policy Recommendations

The relationship between policy instruments and objectives is inherently complex and nonlinear. Understanding this intricate interplay is essential, particularly when it comes to narrowing the income gap, where the strategic combination of various policy instruments plays a crucial role. Based on the findings from the fsQCA analysis, this paper suggests the following targeted strategies to improve policy effectiveness:

1. Optimizing the Pension Insurance System: Expanding Coverage and Enhancing Benefits

Local governments should prioritize the optimization of the pension insurance system, focusing particularly on expanding coverage and improving benefit levels for rural areas. Specifically, governments must increase financial investments to ensure that basic pension amounts are regularly adjusted to keep pace with inflation and rising living costs. For example, following the approach of Ningxia, policymakers can use financial subsidies and preferential policies to provide higher pension benefits to rural residents, especially low-income elderly populations. In addition, efforts should be made to raise awareness of pension insurance among rural residents through targeted outreach and education campaigns. These initiatives can encourage higher participation rates, ensuring that the system achieves comprehensive coverage. By systematically improving the pension insurance system, the government can secure the basic needs of rural residents in their later years, enhance their sense of economic security, and contribute to narrowing the income gap between urban and rural populations over the long term.

2. Reducing Personal Income Tax Burden to Enhance Rural Financial Stability

Optimizing personal income tax policies can significantly increase the disposable incomes of low- and middle-income rural households, thereby reducing the income gap between urban and rural areas. Local governments can implement targeted measures such as raising the personal income tax threshold, particularly in rural regions, to exempt more low-income groups from taxation, which would directly boost their disposable income. Additionally, increasing special deductions, such as those for essential living expenses like education and healthcare, can further ease the tax burden on rural households. For example, Qinghai Province has successfully implemented individual tax deduction policies, alleviating economic pressures on low- and middle-income rural residents and improving their overall quality of life. Moreover, governments can explore tax incentives tailored to specific rural groups, such as tax breaks for entrepreneurial farmers or individuals returning to rural areas for work. These incentives not only encourage rural residents to diversify their income sources but also contribute to improved living standards and greater financial stability in rural communities.

3. Restructuring Excise Taxes to Support Rural Infrastructure and Public Services

Consumption tax is a vital source of local fiscal revenue, and local governments can optimize resource allocation to support rural infrastructure and public services by adjusting consumption tax policies. Specific measures include implementing differentiated tax rates for certain commodities, such as tobacco and alcohol, drawing on the experience of Guizhou Province to increase consumption tax revenues. These revenues can then be allocated to improve rural infrastructure, including roads, drinking water, and sanitation facilities, thereby enhancing the living environment and quality of life

for rural residents. Furthermore, the government could consider lowering the consumption tax rate on essential goods commonly used in rural areas to reduce the cost of living for rural residents and increase their purchasing power. Optimizing tax policy in this way would not only boost investment in rural public services but also promote a more rational allocation of resources between urban and rural areas, fostering the development of the rural economy and narrowing the income gap between urban and rural regions.

4. Strengthening the Minimum Subsistence Level and Building a More Comprehensive Social Security Network

Given the constraints of limited financial resources, the government should further optimize the minimum subsistence guarantee system to ensure that low-income groups, particularly the rural poor, receive essential livelihood protection. Specific measures include raising the minimum subsistence guarantee standard, streamlining the application and disbursement processes, and ensuring that funds are effectively directed to families in greatest need. As demonstrated by the experience in Qinghai Province, financial subsidies and policy support can still ensure that the basic living needs of rural residents are met, even when expenditures on the minimum subsistence guarantee are constrained. Moreover, the government should make greater efforts to integrate social security policies, combining pension insurance, medical insurance, housing security, and other welfare measures into a more comprehensive social security network. This would provide rural residents with more comprehensive protection, thereby enhancing their economic security and ensuring greater life stability.

5. Implementation of Diversified Social Security Measures to Improve the Quality of Life of Rural Residents

In addition to traditional social security measures such as old-age pensions and minimum subsistence guarantees, local governments should explore the implementation of more diversified social security programs to comprehensively improve the quality of life for rural residents. Specific initiatives include establishing rural medical mutual aid funds and educational assistance programs, which would provide broader support for rural residents through the diversification of social security. For example, in healthcare, the government could promote wider access to rural medical insurance, ensuring that rural residents can afford essential healthcare services. By developing such a diversified social security system, the government can effectively mitigate the risks faced by rural residents, enhance their living standards and social participation, and ultimately help reduce the income gap between urban and rural areas.

6. Promoting Balanced Regional Economic Development and Narrowing the Urban-Rural Development Gap

Local governments should encourage the development of the rural economy by adjusting and optimizing fiscal and taxation policies to promote regional economic balance. Specific strategies include supporting industrial development and infrastructure construction in rural areas through fiscal transfers and tax incentives. For example, governments could promote the growth of rural industries such as agricultural processing and eco-tourism, which would increase employment opportunities and raise income levels for rural residents. Additionally, the government should invest more in public services like education and healthcare in rural areas to attract skilled professionals back to rural regions and provide intellectual support for local development. This approach to balanced regional development not only helps narrow the income gap between urban and rural areas but also promotes the sustainable growth of rural communities, further advancing social equity.

7. Enhancing Policy Coordination and Innovation for Effective Implementation of the Policy Mix

Governments should prioritize the coordination and integration of various policy instruments to ensure the effective implementation of the policy mix. Specifically, while reducing personal income taxes, governments should simultaneously strengthen social security coverage and services to foster positive interactions between these policies, maximizing their overall impact. For example, during tax reforms, efforts to improve the social security system can ensure that rural residents benefit not only from tax relief but also from enhanced social security support. Additionally, the government should encourage localities to innovate policy tools tailored to their specific conditions, as demonstrated by Ningxia and Qinghai. By exploring regionally appropriate policy combinations, local governments can better promote income distribution equity and foster balanced social development.

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