

*Inequality in China:
Recent Trends*

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In the past decade

- Policy goal: *harmonious, sustainable* development, with benefits of growth shared widely
- Reflected in a range of policies

Examples of policies...

- Minimum Living Standard Guarantee (*dibao*)
- Farm policies to aid poorer rural population, e.g., elimination of agricultural taxes and fees, farm subsidies
- Public investments in health, e.g., cooperative rural health care
- Public investments in education, e.g., free 9-year compulsory education nationwide

Outcomes...

- Rapid growth has continued
 - GDP growth 8-10% a year
 - GDP “pie” has more than doubled
- What has happened to distribution of the “pie”?

Today's Talk

- Discuss overall trends in income inequality in 2000s
- New evidence based on nationwide household survey data
- Joint research with Li Shi, Luo Chuliang, Yue Ximing, Hiroshi Sato, + int'l team of researchers

Some Preliminaries

The Data

- China Household Income Project (CHIP)
- Nationwide surveys, 1988, 1995, 2002, 2007
- Large, nationally representative
 - 15,000 to 20,000 urban and rural households
 - 60,000 to 80,000 individuals
 - 16 to 20+ provinces covering China's major regions
- Detailed household info on household members, economic activities, income, etc.

Measurement of Income

Disposable net income, per capita

Includes:

- wages and other employment compensation
- pension income
- net income from farming and self-employment
- in-kind income
- asset income
- transfers & subsidies, minus taxes

- Note: Asset income includes *imputed rent* on owner-occupied housing
 - “earnings” on housing assets, like interest from savings deposits
 - Based on estimates of market rent, or rate of return on housing asset
 - Consistent with international practice
- Overall inequality trends similar with and without imputed rent

Measurement of Inequality

“Gini” Coefficient

- Complete equality: $Gini = 0$
- Complete inequality: $Gini = 1$
- Usual range: from 0.2-0.3 (low) to 0.5-0.6 (high)

Some footnotes

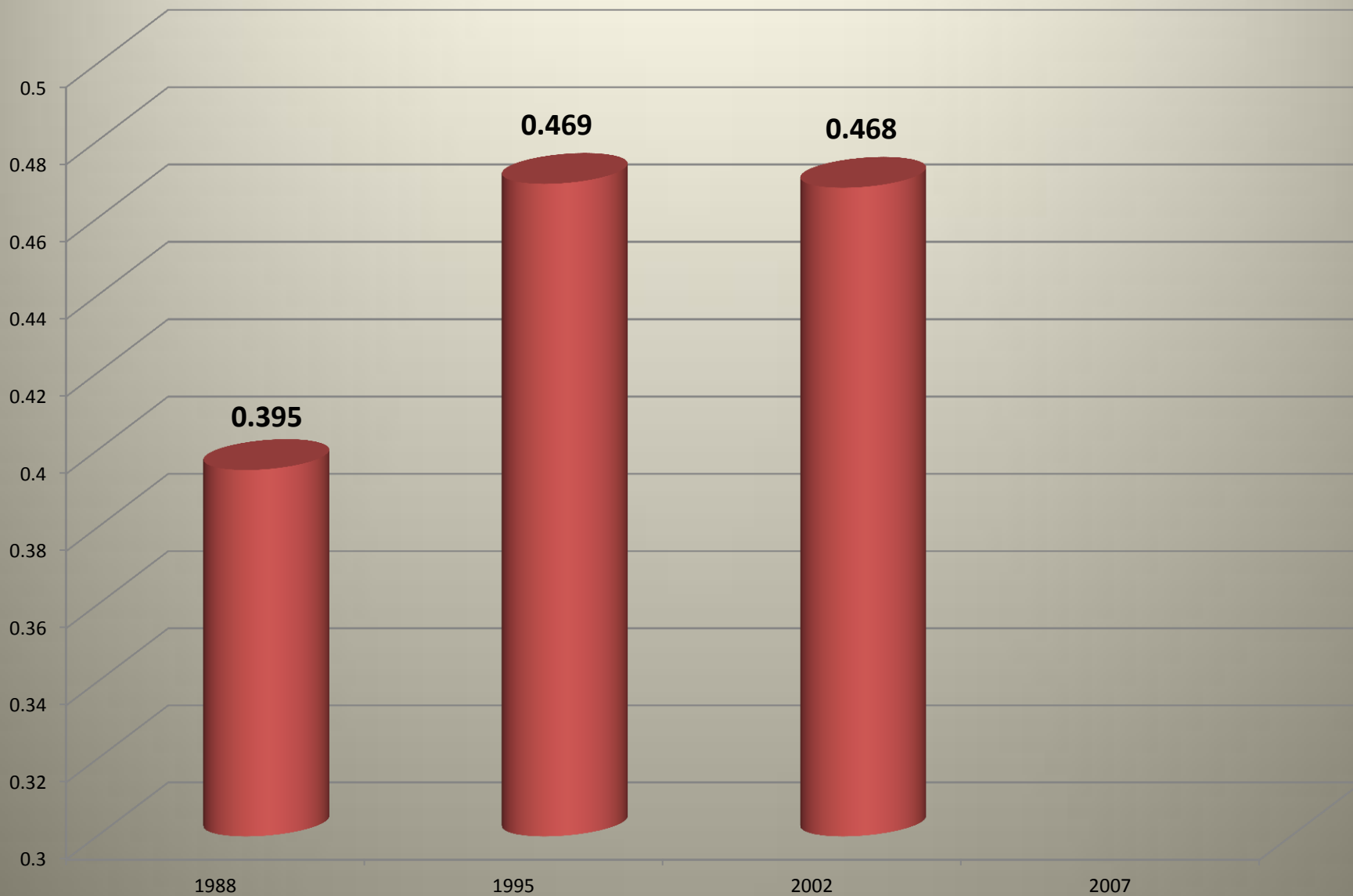
- Our estimates differ in *level* from some other studies, but the *trends* are similar
- Alternate estimates, e.g.,
 - Including long-term migrants in urban
 - Adjusted for regional & urban-rural cost of living differences
 - Without imputed rents
- All tell the same basic story

Inequality to 2002

(Gustafsson, Li, Sicular 2008; CHIP data)

Income Inequality in China, 1988-2002

(Gini Coefficient, CHIP data)



Contributing Factors

- Disequalizing factors, 1988-1995
 - Increased role of markets, abandonment of egalitarian distribution policies
 - Regional income gaps widened
 - Urban-rural income gap widened
 - In rural areas: unequal access to off-farm jobs
 - In urban areas: widened wage differentials
 - Increasing returns to education

Contributing Factors, cont.

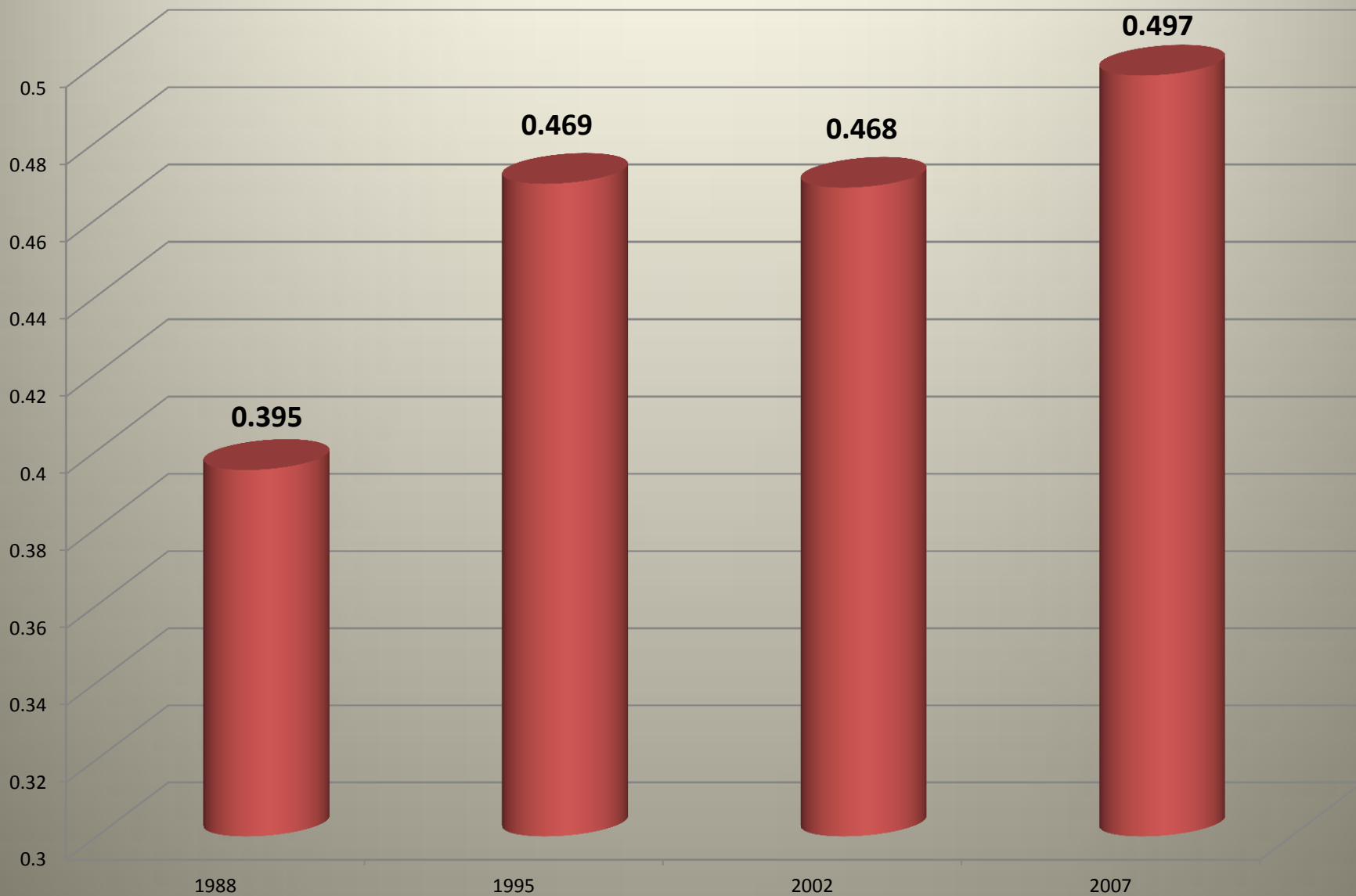
- Moderating factors emerged in 1995-2002
 - Some “one-time” effects of the transition had played out
 - Signs of regional/provincial catch up
 - Rural off-farm jobs became more widespread
- Had inequality in China turned the corner?

Inequality after 2000

(Li, Luo, Sicular 2011; CHIP data)

Income Inequality in China, 1988-2007

(Gini coefficient; CHIP data)

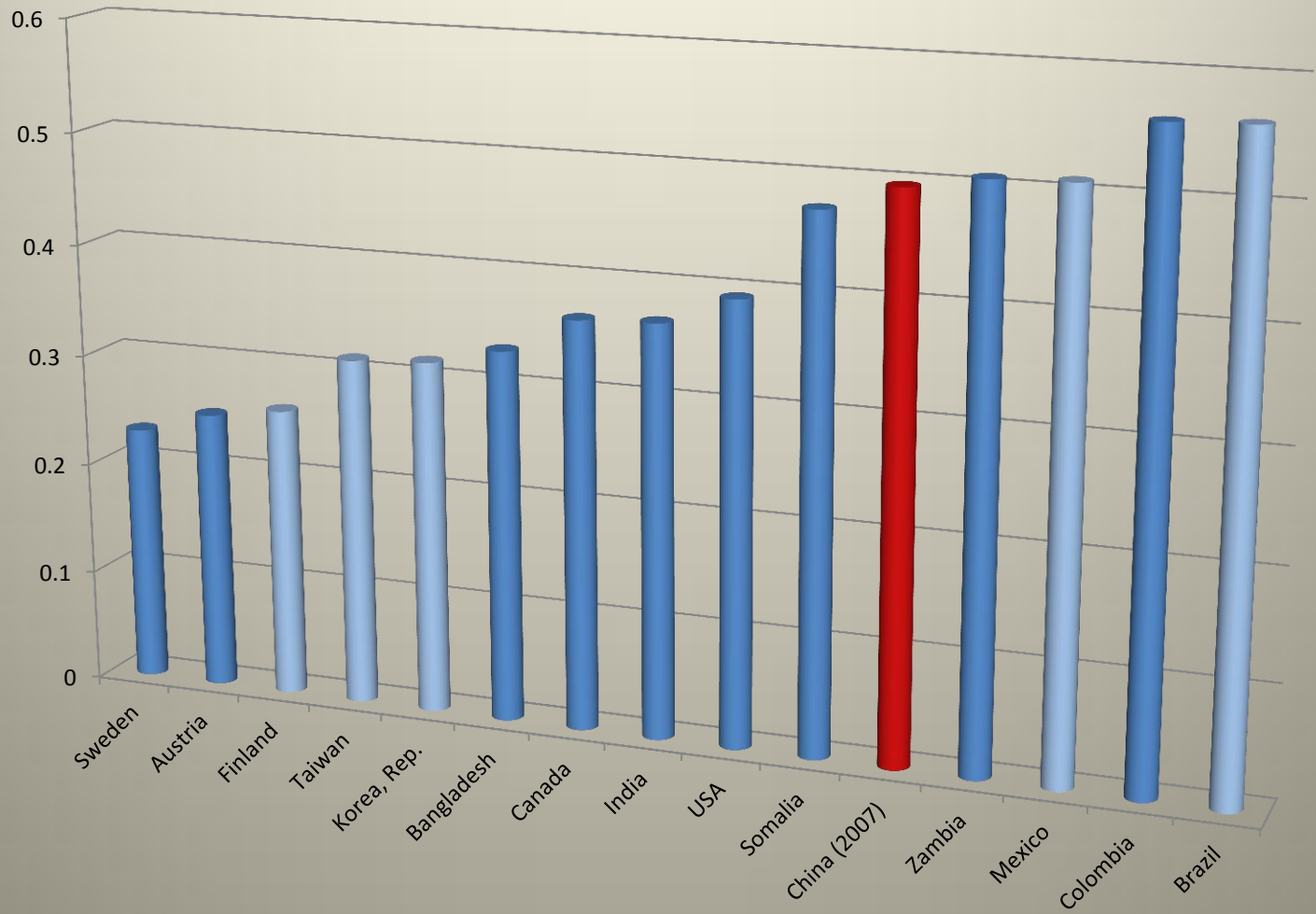


- Upward trend resumed despite “harmonious society” agenda
- China’s inequality increasingly high by international standards

Inequality--Country Comparisons

(Gini coefficients, hh income per capita; mid-2000s)

Sources: UNU-WIDER; CHIP



Two Key Factors

- Something old: Urban-rural income gap
- Something new: Asset income

Urban-Rural Gap, 2002-07

- Rural incomes grew substantially
 - +44% from 2002-07 (7.5% per year)
 - Main sources of growth: 30% from each of farm income and migrant wages
- BUT: Urban incomes grew even faster
 - +83% from 2002-07 (12.8% per year)
 - Main sources: 47% from wages; 38% from asset income; 17% from pensions

The Urban-Rural Income Gap

year	urban/rural income ratio
1988	2.7
1995	3.1
2002	3.3
2007	4.1

Urban-rural income ratios in other countries:

- Bangladesh, India, Indonesia, Malaysia < 2.0
- Thailand, Philippines 2.2-2.3
- South Africa, Zimbabwe >3.0

Urban-Rural Income Gap & Inequality

year	urban/rural income ratio	contribution to national inequality
1995	3.1	41%
2002	3.3	47%
2007	4.1	52-54%

New: Asset Income

- Expansion of household wealth in the 2000s
 - Urban housing privatization in late 1990s
 - Development of urban real estate markets; housing price appreciation
 - Expansion of financial markets, shareholding reforms
 - Expansion of private business, ownership of productive assets
- Wealth is unequally distributed (Gini > .65)

Asset Income & Inequality

	Share of income	Contribution to inequality
2002	10%	9%
2007	15%	20%

Note: Asset income includes income from financial assets and imputed rental income from owner-occupied housing.

Conclusions

- Despite official rhetoric and new policies...
- Income inequality has continued to rise
- Of particular concern since 2000:
 - Urban-rural gap
 - Assets and property

- Will **urban-rural** gap continue to widen?
- Possible that urban-rural gap can be narrowed
 - further urbanization
 - further measures to improve opportunities for and rights of migrants
 - appropriate rural/agricultural policies, favorable commodity prices
- New challenges: Increasingly entrenched divisions in endowments
 - education: opportunities, quality
 - endowments of housing & assets

- Role of **asset inequality** will likely grow
 - Ownership of assets will expand
 - In most countries assets unequally distributed
 - Mechanisms in China yield unequal outcomes
 - China has few policies that effectively redistribute assets or asset income
 - No property tax or inheritance or gift taxes
 - Personal income tax is only weakly redistributive
 - Subsidized “social” housing, but only for urban residents

- Rising inequality of assets is creating “discordant” notes:
 - Mechanisms by which households obtain assets neither equitable nor transparent
 - Real estate & financial markets remain imperfect
 - Property rights and legal system weak
 - Susceptible to rent seeking & corruption
- Will the government have the political will and power to address this source of inequality?

- Challenges to a “harmonious” society continue
- Question: Will rising inequality derail future growth?

- Extends, builds on other studies, e.g.,
 - Benjamin, Brandt, Giles and Wang, 2008
 - Ravallion and Chen, 2004, 2006, 2008
 - World Bank, *...An assessment of poverty and inequality in China, 2009*
 - Wan, *Understanding Inequality and Poverty in China, 2008*
 - Gustafsson, Li and Sicular, *Inequality and Public Policy in China, 2008*

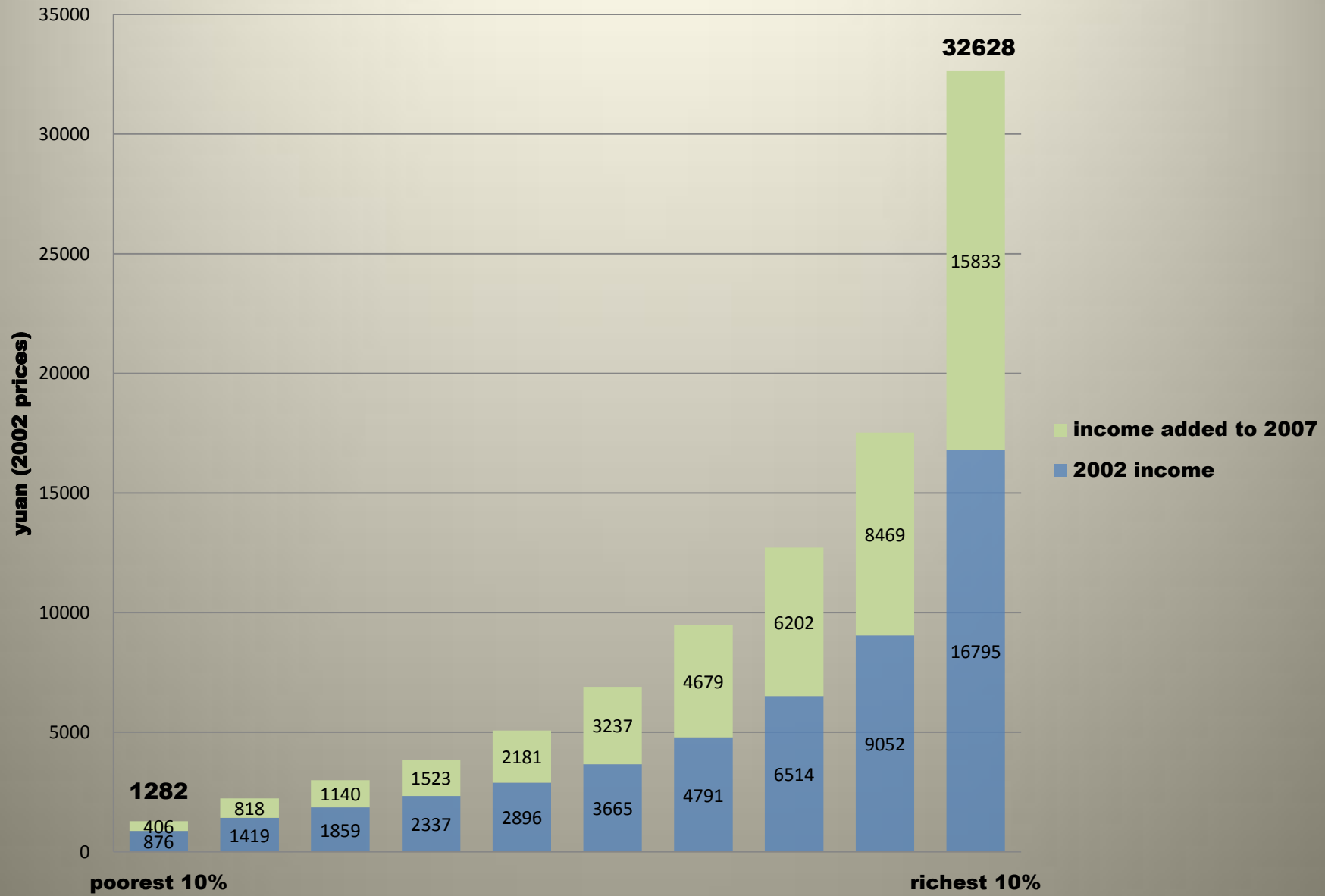
A Closer Look...

- Income grew for poorer and richer groups
- But: Income of poorer groups grew **more slowly** than income of richer groups

– Income of the poorest 10%: +46%

– Income of the richest 10%: +94%

Per Capita Household Income by Decile, 2002 & 2007



Asset Income and China's Urban-Rural Income Ratio

	without asset income	with asset income
2002	3.24	3.35
2007	3.76	4.10
% change	+16%	+22%

Note: Asset income includes income from financial assets and imputed rental income from owner-occupied housing.

Poverty: What has happened to
the most vulnerable?

Preliminaries

- Measurement of poverty
 - *Poverty headcount* = number of people with income below a poverty line
 - *Poverty rate* = % of population below the poverty line
- Poverty lines:
 - Absolute: \$1.25 per day (World Bank, PPP)
 - Relative: 50% of median income

Absolute Poverty, to 2002

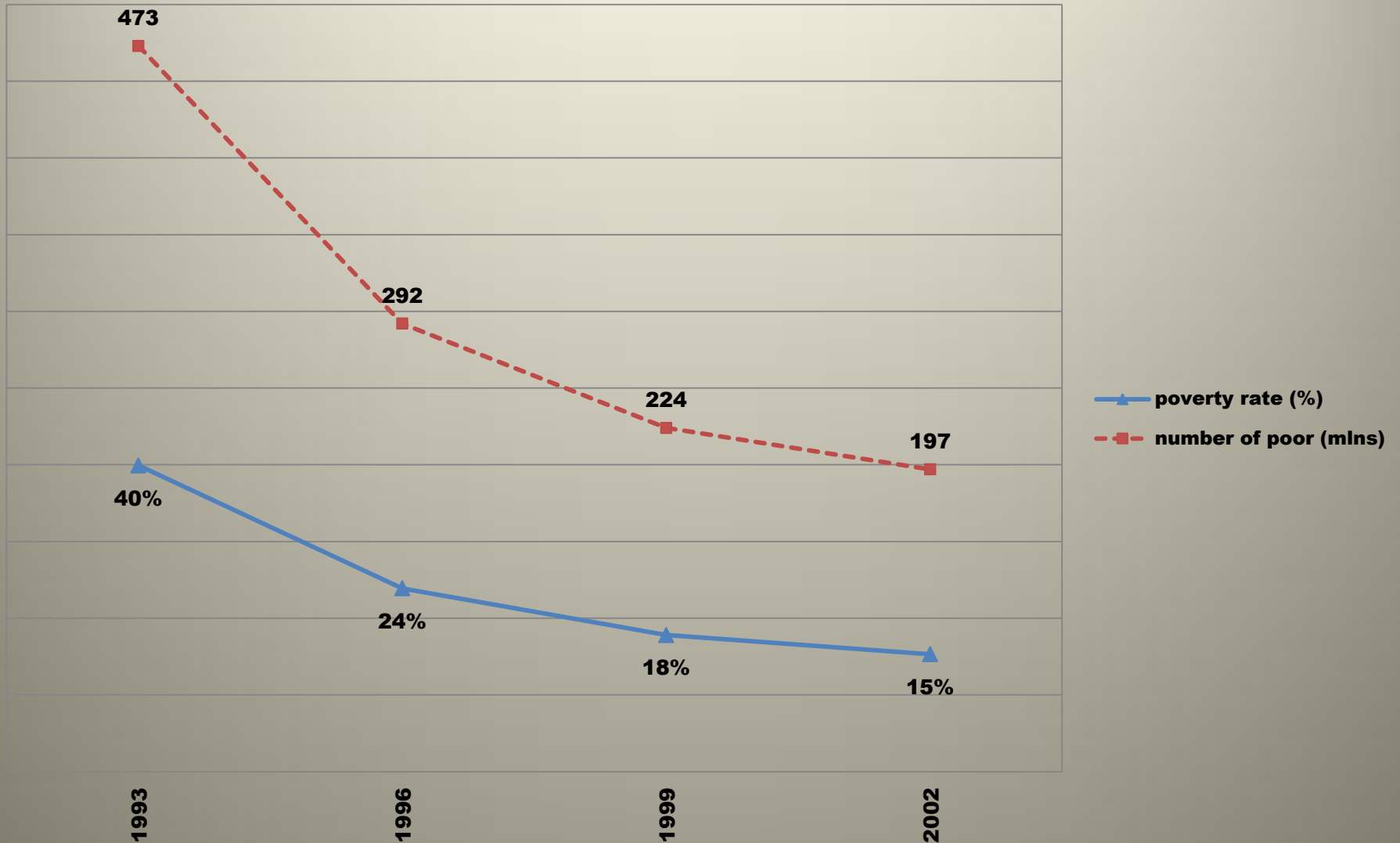
Chen & Ravallion 2008; NBS data

Poverty in China, \$1.25/day

- Poverty rate
 - Early 1990s: 40%
 - Mid-1990s: 25%
 - 2000: < 20%
- Poverty headcount
 - Early 1990s: 450+ million
 - Mid-1990s: 300 million
 - 2000: 200 million

Poverty in China 1993-2002, at \$1.25/day

(Chen & Ravallion, 2008)



- Substantial poverty reduction prior to 2000s
- By 2000s, remaining poverty tended to be chronic, persistent
- Poverty alleviation increasingly challenging

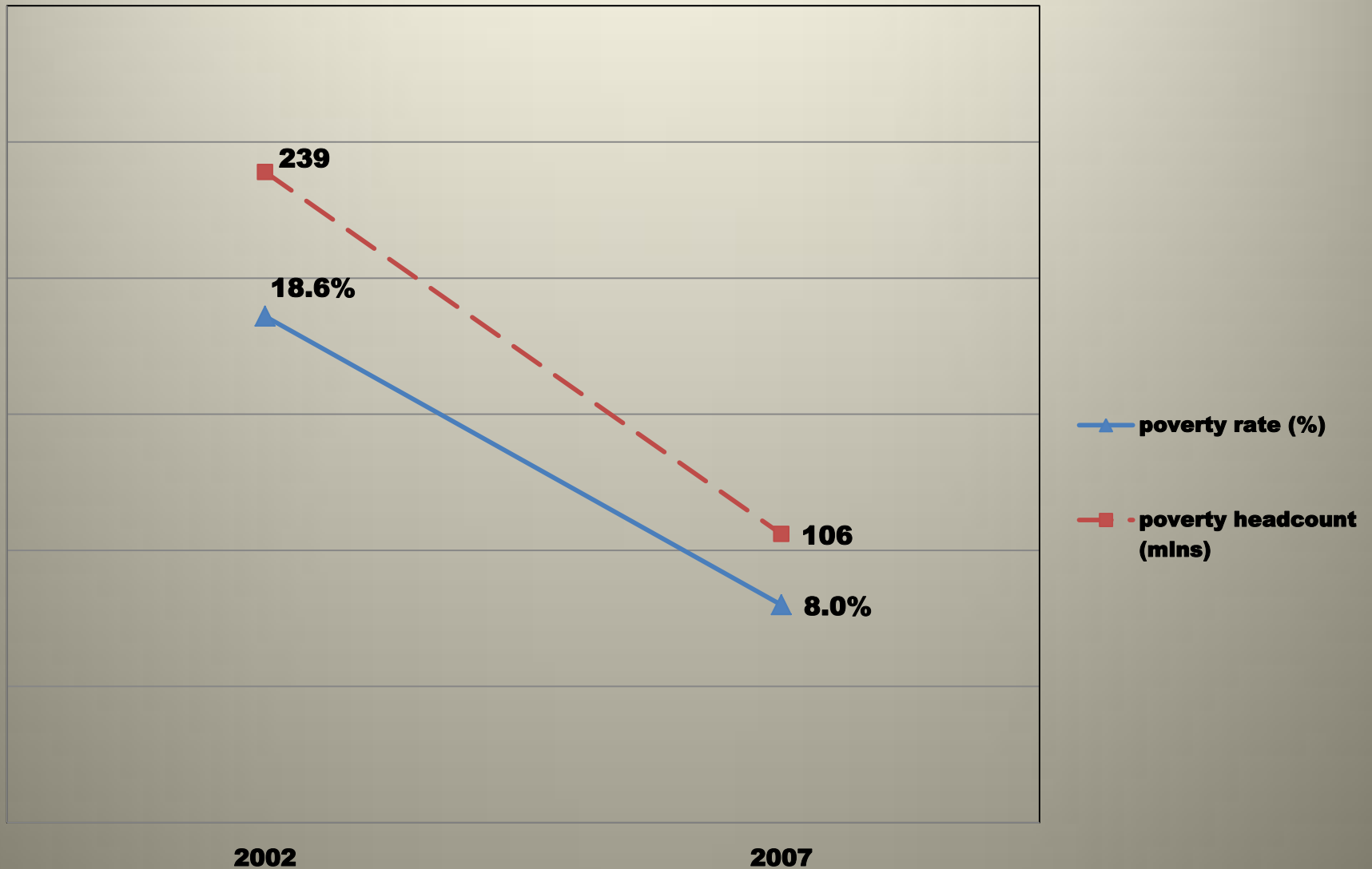
Absolute Poverty, 2002-2007

CHIP data

Poverty in China, 2002-2007

at \$1.25/day

(CHIP estimates)



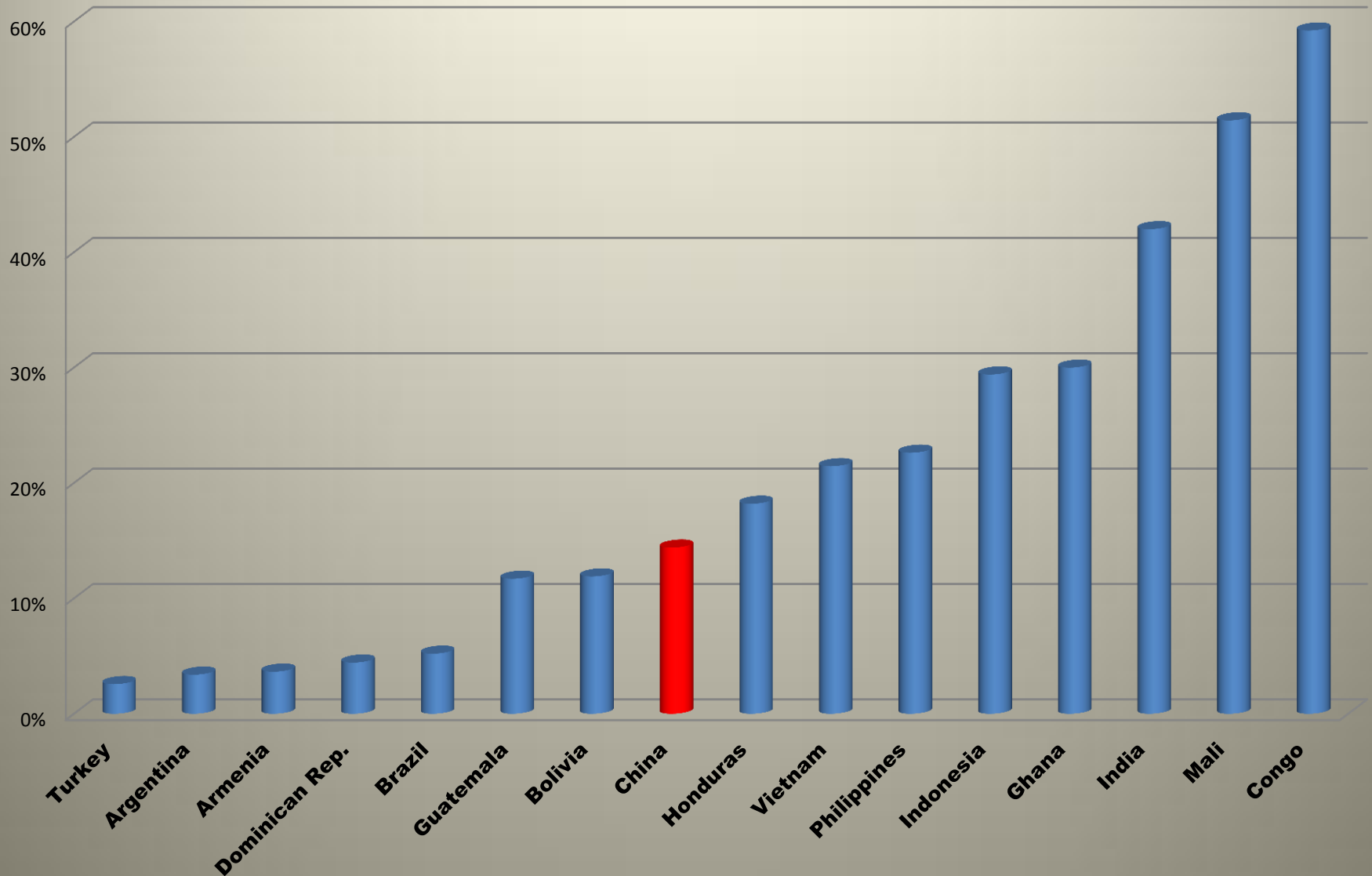
Poverty reduction, 2002-2007

- National poverty rate dropped by 57%
- Number of poor fell by 130 million
- Remaining poor: 106 million
- New distributional policies have likely had an impact here

- By 2007 China a moderately low-poverty country
- China's poverty record through 2007 strong by international standards

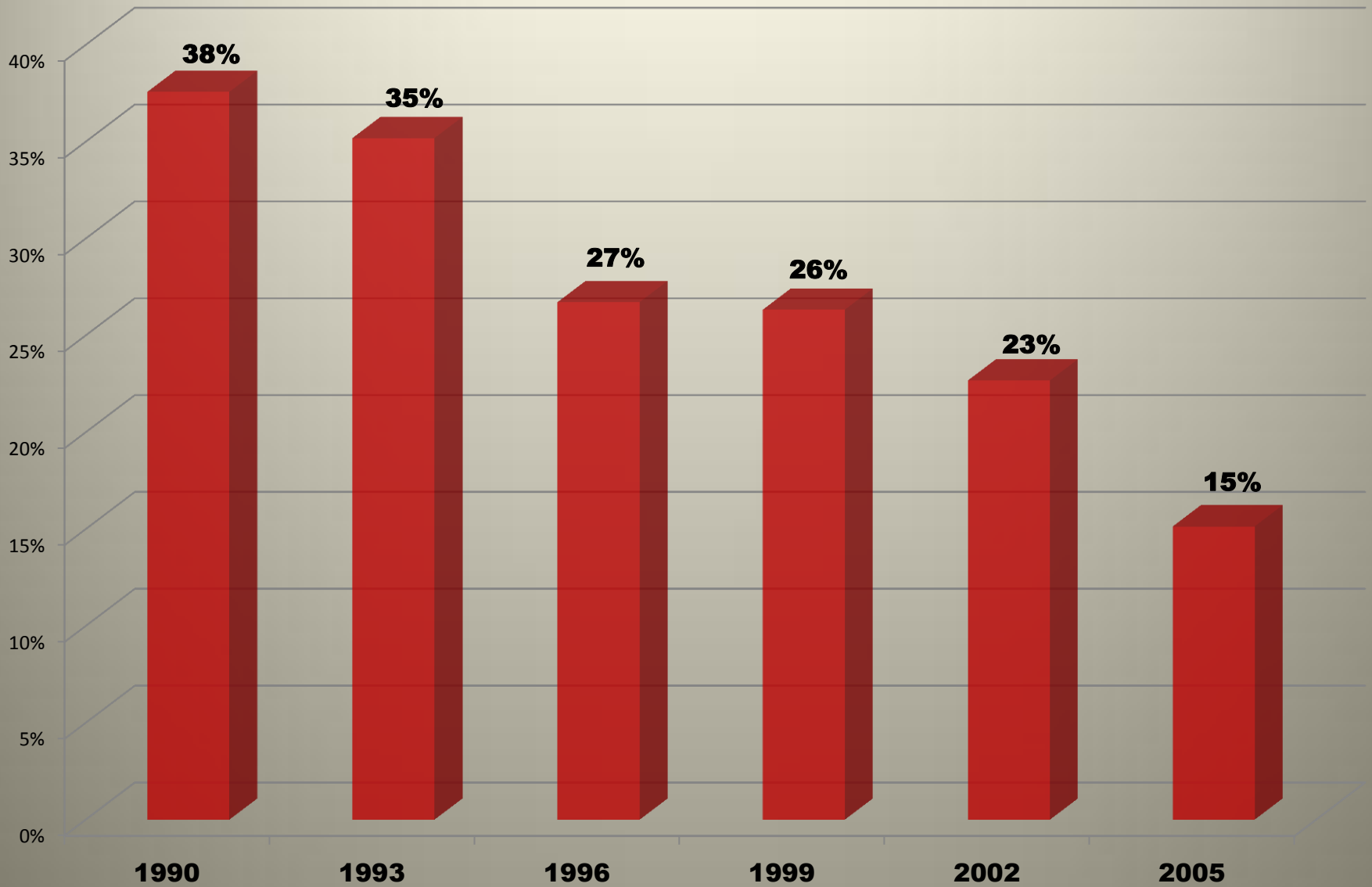
Consumption Poverty Rates by Country, 2006-07

(\$1.25/day, World Bank & CHIP)



China's Share of the World Poor

(World Bank estimates)



What about Relative Poverty?

CHIP data

Relative Poverty: <50% of median income

	Poverty rate (%)	Number of poor (millions)
2002	13.2%	170
2007	13.3%	176
Change	+0.01%	+3.52%

- Reduction in absolute poverty not accompanied by reduction in relative poverty
- Number of “relative” poor actually increased slightly
- Implies that the poor are not catching up with the median, let alone with the rich

- Poverty: major progress
- New distributional policies have helped
- But...
 - Although fewer people are below the poverty line (absolute poverty)
 - The poor are not catching up: Relative poverty has not declined
 - With growth and development, relative poverty becomes more important