

Inequality in the Developing Giants: China

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Five papers:

- **1. The Long-Term Evolution of Income Inequality and Poverty in China,**
 - Chuliang Luo, Shi Li and Terry Sicular
- **2. Wage Growth and Wage Inequality in Urban China: 1988-2013,**
 - Bjorn Gustaffson and Haiyuan Wan
- **3. The Redistributive Role of Government Transfers on Inequality in China,**
 - Meng Cai and Ximing Yue
- **4. Top Incomes in China: Data Collection and the Impact on Income Inequality,**
 - Qinghai Li, Shi Li and Haiyuan Wan
- **5. Inequality in China: Summary Paper**
 - Shi Li and Terry Sicular

Key Findings (1)

- 1. The income inequality was rising before 2007 and then falling slightly.

	1988	1995	2002	2007	2013
Income inequality					
Gini coefficient	0.381	0.462	0.471	0.490	0.433
Theil index	0.235	0.398	0.383	0.409	0.317
MLD index	0.241	0.369	0.391	0.438	0.333

Key Findings (2)

- 2. The rising income inequality was due to higher income percentiles have faster income growth than lower percentiles, and the falling income inequality was due to faster income growth of the lower income percentiles. This can explain why China had a significant poverty reduction with rising income inequality.



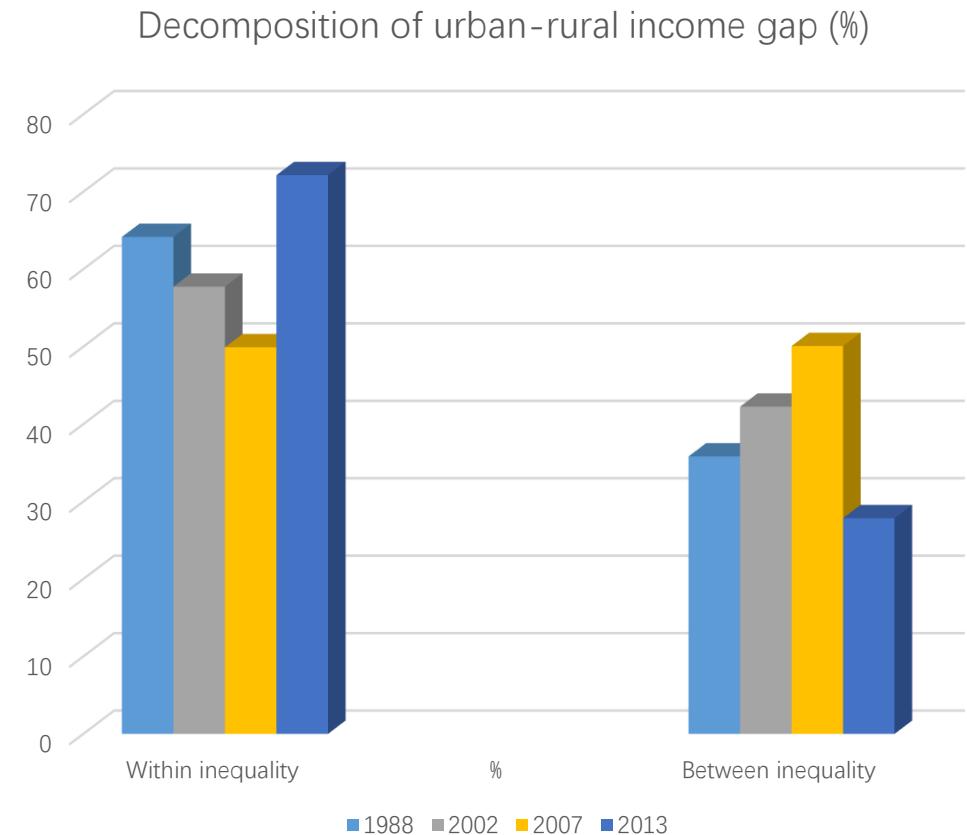
Key Findings (3)

- 3. One of the major driving forces for rising income inequality before 2007 is changes in household income structure in China.
- The share of **farming income**, having equalizing effect, has declined constantly.
- **Wage income**, more unequally distributed, has increased over time in rural areas.
- **Property income** was ignored part in 1980s and even 1990s, but has increasingly and unequally grown since 2000.
- **Transfer income** and **wage income** have become more equally distributed, contributing to the declining income inequality recently

Key Findings (4)

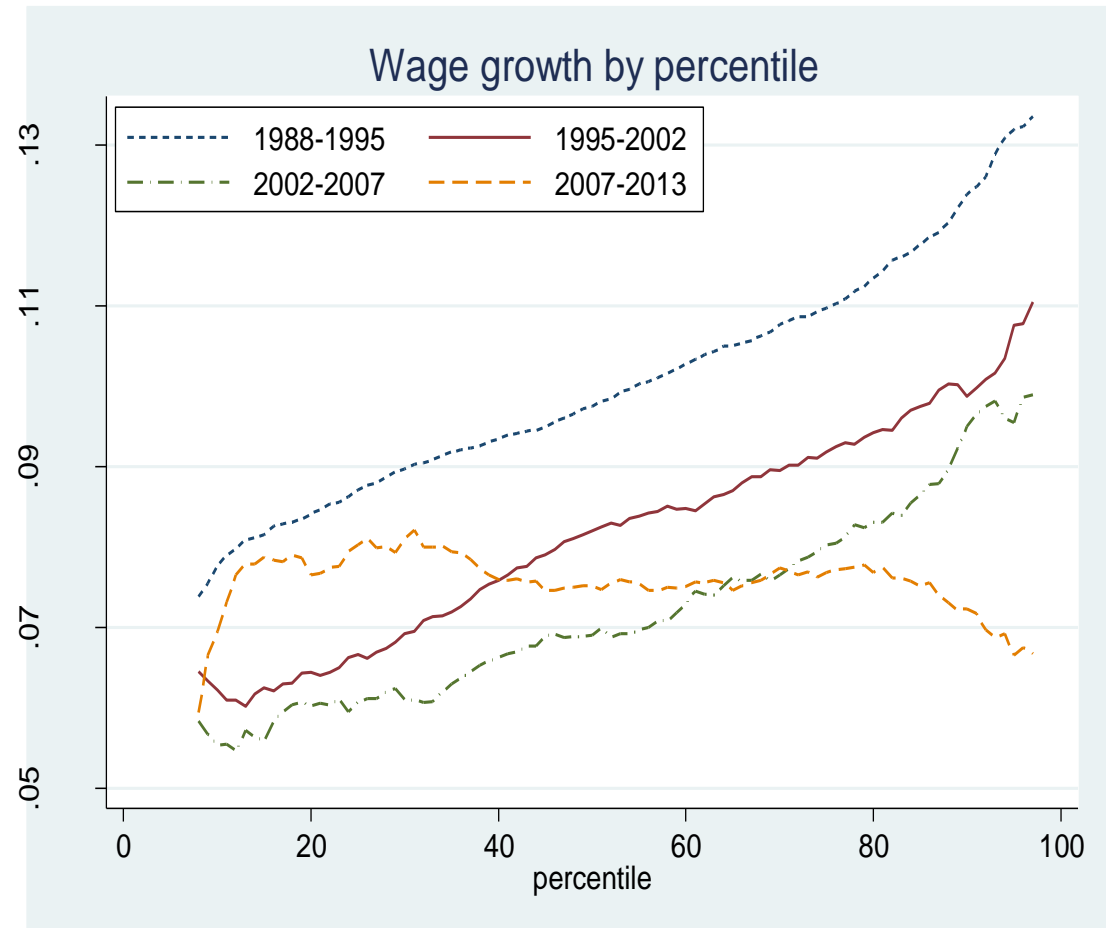
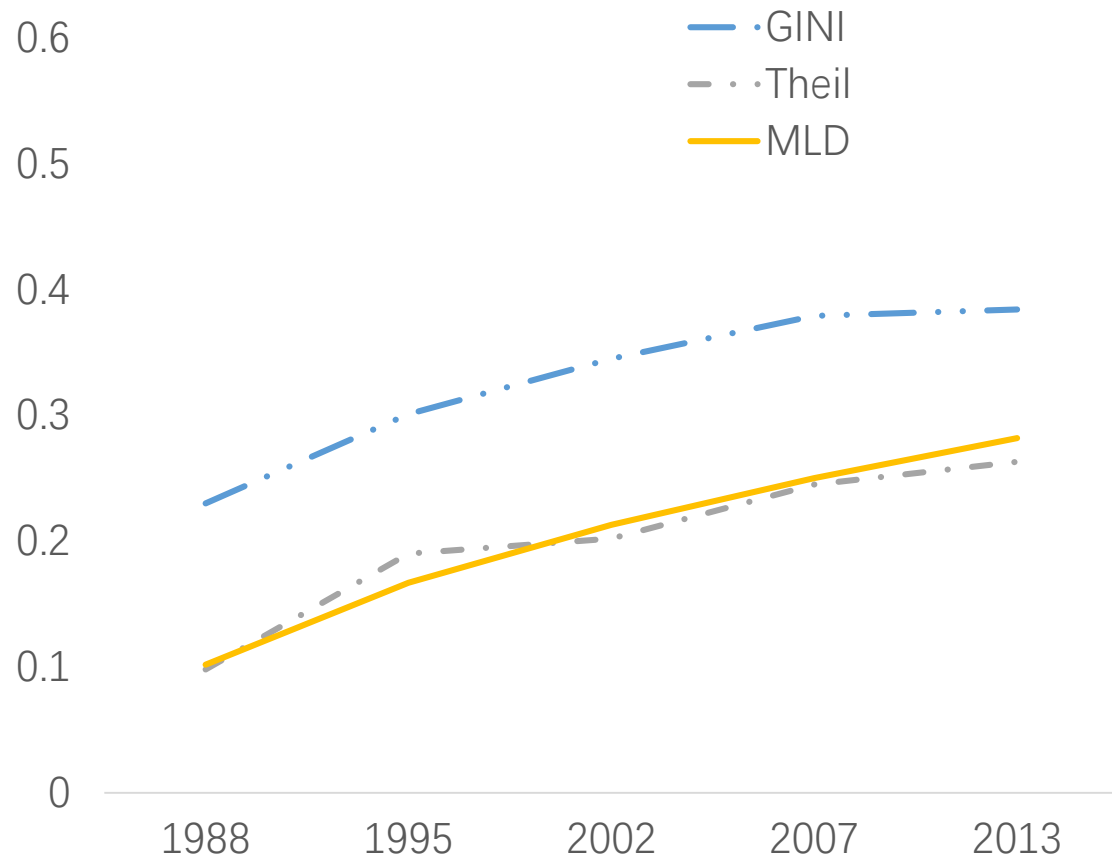
- 4. Urban-rural income gap was rising till 2007 and then falling significantly, resulting in declining income inequality nationally.

Year	Urban-rural income ratio
1988	2.7
1995	3.1
2002	3.2
2007	3.8
2013	2.6



Key Findings (5)

- 5. Wage inequality in urban China was rising before 2007 and then became stable.



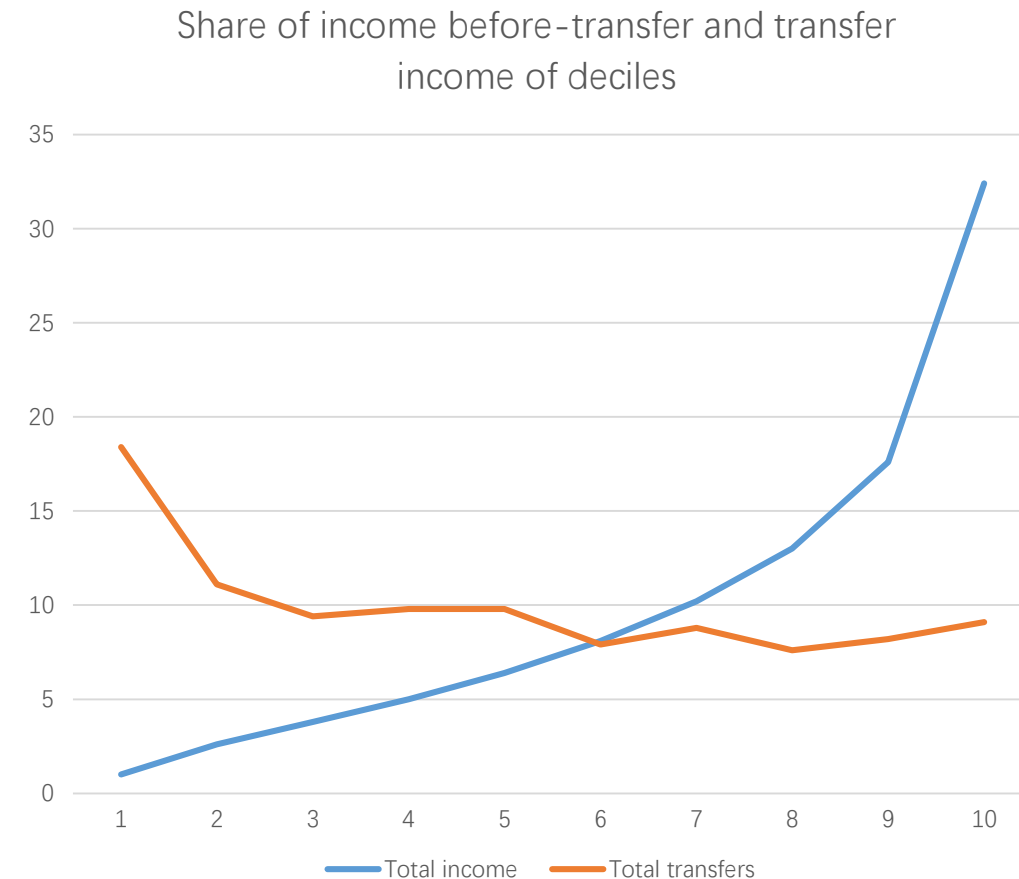
Key Findings (6)

- 6. Changes in wage setting mechanism such as:
- **Gender** wage gap was small in 1980s and then was widening till 2007. But In 2013 not less than 36 percent of female workers were classified as low-wage earners, to be compared to 22 percent of male worker.
- Role of **seniority** declined before 2007 and then has increased significantly recently.
- Returns to **education** was very low in the 1980s, and increased in the 1990s and early 2000s and have slightly decreased after 2007.
- Workers in **SOEs and FOE**s have received a wage premium compared to other workers through the period we studied.

Key Findings (7)

- 7. Public transfers have a positive role on reducing income distribution in China.

	Gini of income per capita		
	Without transfers	With transfers	difference in Gini
	(a)	(b)	(c)(=(a)-(b))
Nation	0.4604	0.4364	0.0239
Rural	0.4099	0.3963	0.0136
Urban	0.4274	0.3516	0.0758
Migrant	0.3545	0.3508	0.0037



Key Findings (8)

- 8. However, the public transfers have a disequalizing effects on the inequality of after-transfer income. The income inequality would rise if the total public transfers to all recipients would increase by the same percentage.

Share of after-transfer income and transfer income by decile



Key Findings (9)

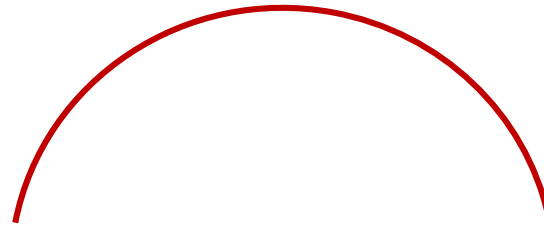
- 9. Fast growing number of the Chinese billionaires in the last decade. The data of the top incomes indicate that the top incomes have extremely high income/wealth, and their exclusion from or under-represented in household surveys leads to considerable under-estimated income inequality in China.
- If the top incomes data and household survey data combined together, the estimated Gini of income inequality is around 0.6 in the year of 2016, which is much higher than that estimated using only the household survey data.

Main Explanations: framework

- 1. Can long-term trend of income inequality in China be explained by Kuznets Hypothesis?

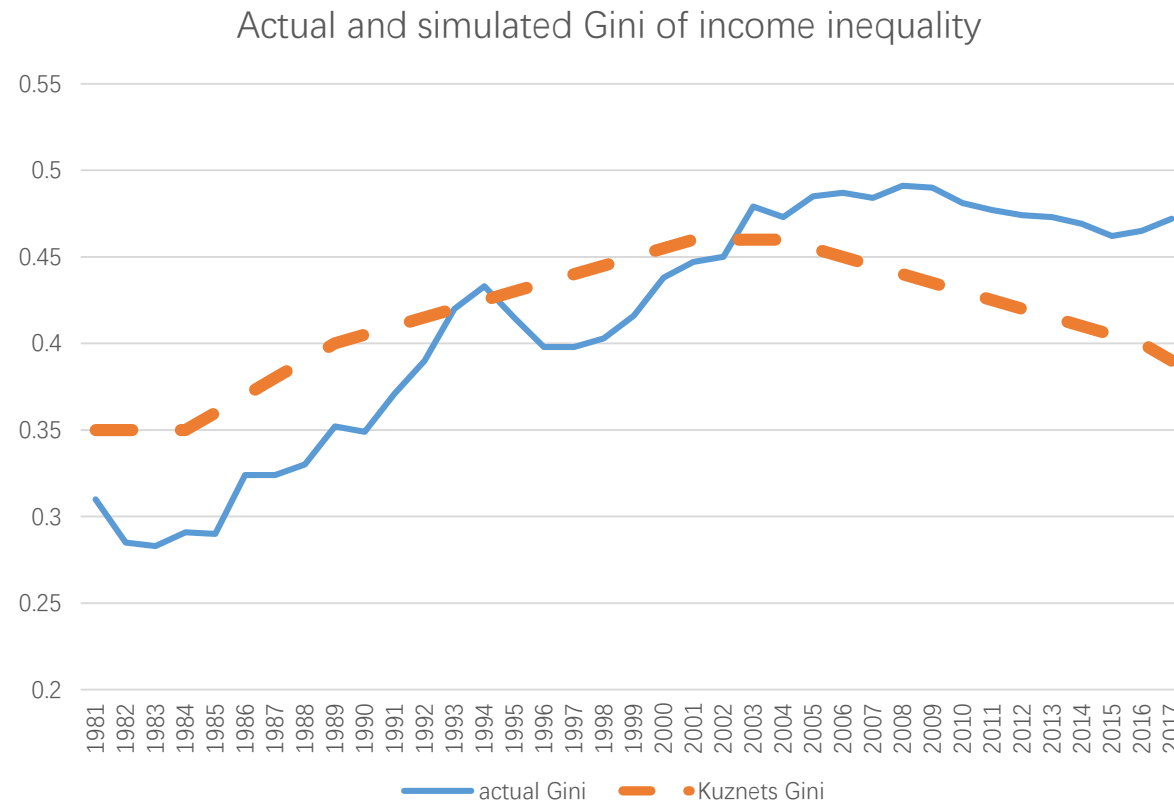
Kuznets' Inverted "U" Hypothesis:

During economic development, inequality first rises then falls.



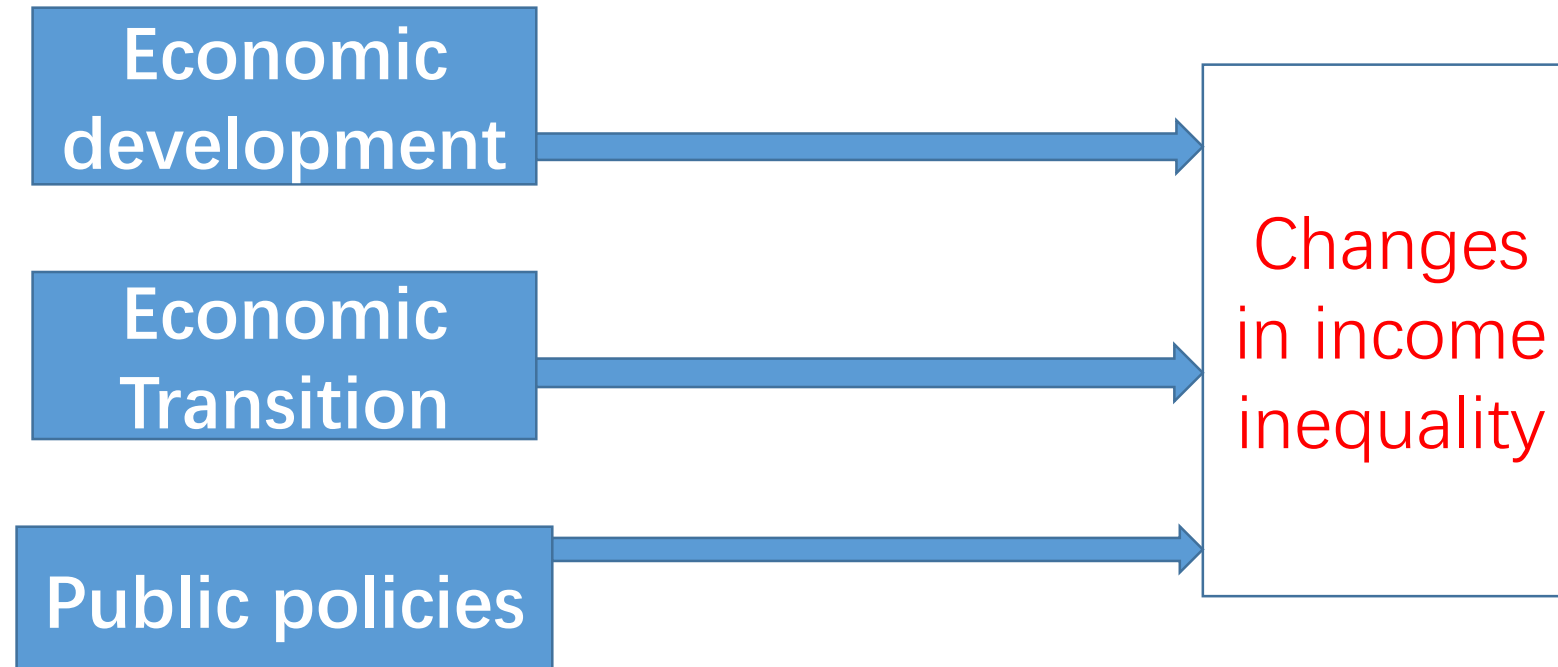
Main Explanations: framework

- 2. As China is a developing country, and economy on transition, the income inequality has not evolved in same way predicted by Kuznets Hypothesis. A longer trend of rising income inequality and more slowly falling.



Main Explanations: framework

- 3. Changes in income inequality in the last four decades should be explained by economic development, economic transition (incomplete), and public policies.



Main Explanations: Rising inequality

- 4. Rising income inequality in the first three decades of economic reform was partly due to changes in economic structure, reallocation of labor from agriculture to industry and service sectors, urbanization and migration.

Figure 1: Primary Sector Employment in China as a Share of Total Employment (%), 1980-2015

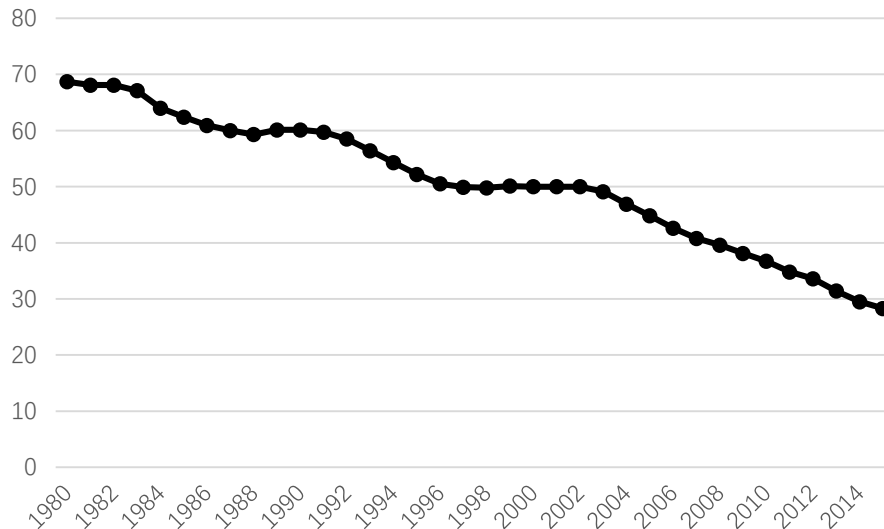
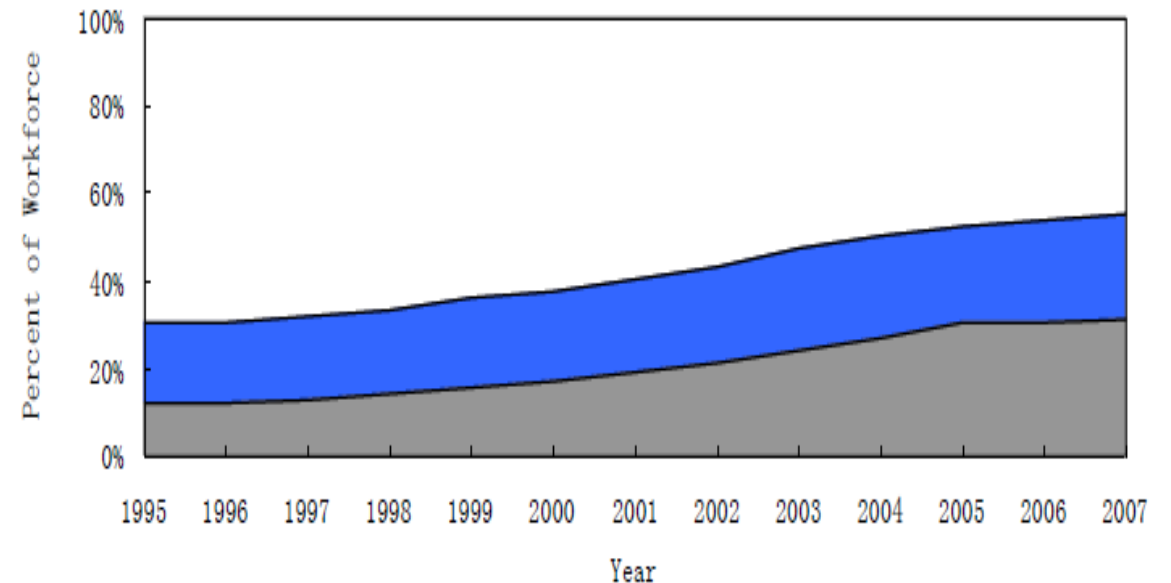
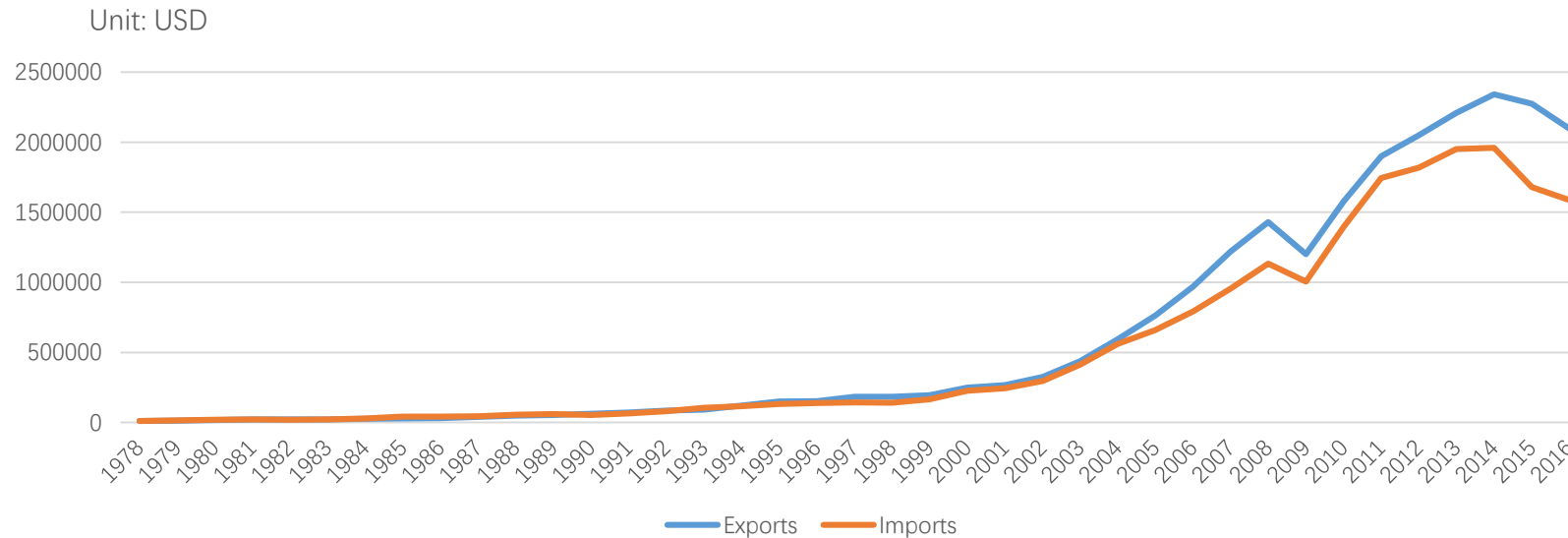


Figure 2: Percent of Rural Workforce Employed in On-Farm Only, On- and Off-Farm, and Off-Farm Only, 1995-2007



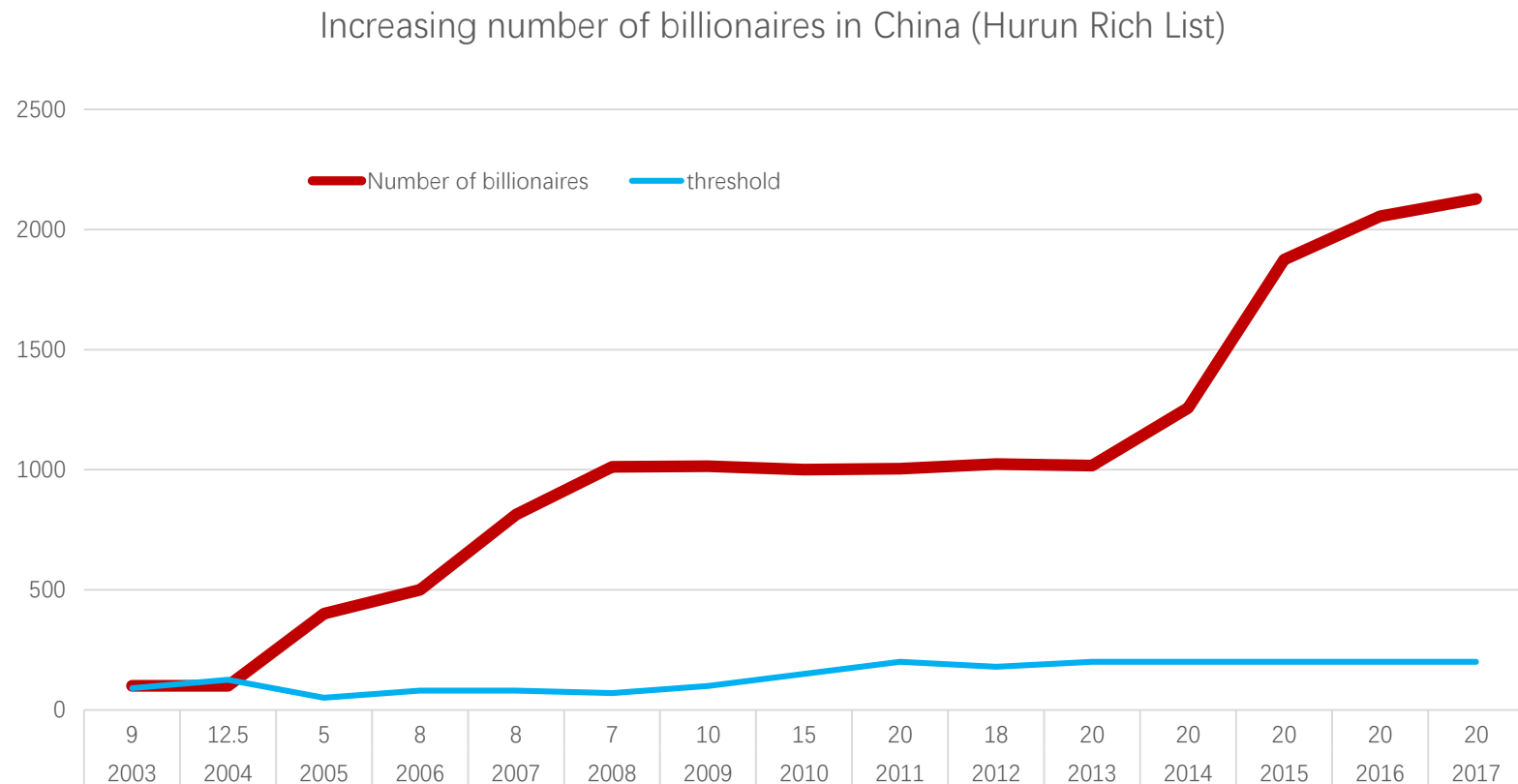
Main Explanations: Rising inequality

- 5. Rising income inequality was also due to transition from planning economy to market economy, economic decentralization, development of private sector, privatization of SOEs, integration into world economy.
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Main Explanations Rising inequality

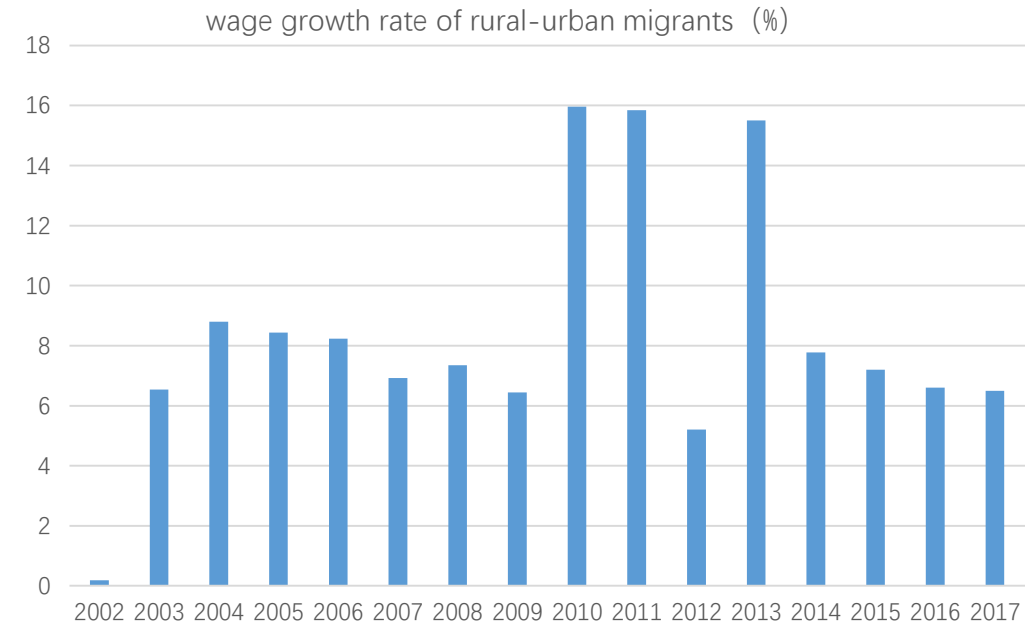
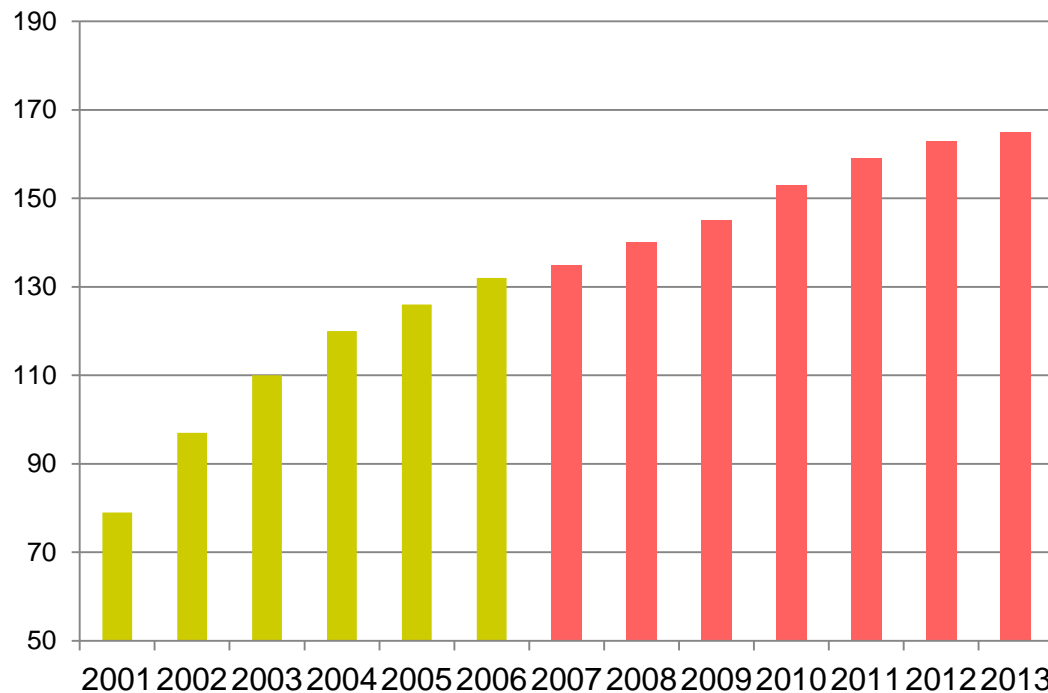
- 6. Rising income inequality has also resulted from incomplete economic and political reforms, leading to corruption, rent-seeking, monopoly of SOEs, and rapid rise of top incomes.



Main Explanations: Equalizing factors

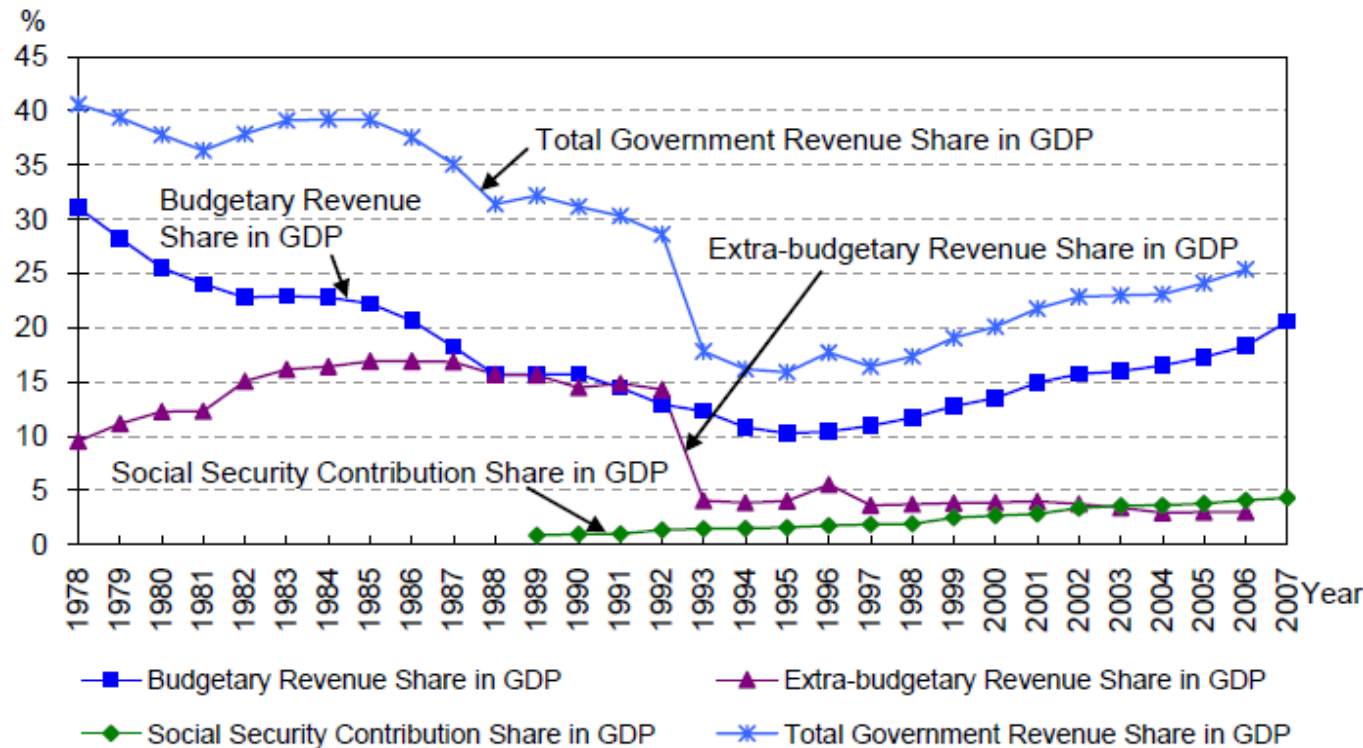
- 7. Reduction and vanishing of surplus labor in rural sector can explain rising wage of rural-urban migrants, resulting in falling income gap between urban and rural households.

Number of rural-urban migrant workers
(NBS's rural migrant worker surveys)



Main Explanations: Equalizing factors

- 4. Although the redistributive policies have had a relative weak impact on reducing income inequality, it became stronger in the last decade which can explain partly why the income inequality had a stable tendency recently.



- Thank you.