Inequality in the Developing Giants: China

Meng Cai
Bjorn Gustafsson
Qinghai Li
Li Shi
Chulang Luo
Terry Sicular
Haiyuan Wan
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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)

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

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Gini coefficient</td>
<td>0.381</td>
<td>0.462</td>
<td>0.471</td>
<td>0.490</td>
<td>0.433</td>
</tr>
<tr>
<td>Theil index</td>
<td>0.235</td>
<td>0.398</td>
<td>0.383</td>
<td>0.409</td>
<td>0.317</td>
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<tr>
<td>MLD index</td>
<td>0.241</td>
<td>0.369</td>
<td>0.391</td>
<td>0.438</td>
<td>0.333</td>
</tr>
</tbody>
</table>
Key Findings (2)

- 2. The rising income inequality was due to higher income percentiles having 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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban-rural income ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>2.7</td>
</tr>
<tr>
<td>1995</td>
<td>3.1</td>
</tr>
<tr>
<td>2002</td>
<td>3.2</td>
</tr>
<tr>
<td>2007</td>
<td>3.8</td>
</tr>
<tr>
<td>2013</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Decomposition of urban-rural income gap (%)

- Within inequality
- Between inequality
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 FOEs** 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.

<table>
<thead>
<tr>
<th>Type</th>
<th>Without transfers</th>
<th>With transfers</th>
<th>difference in Gini</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nation</td>
<td>0.4604</td>
<td>0.4364</td>
<td>0.0239</td>
</tr>
<tr>
<td>Rural</td>
<td>0.4099</td>
<td>0.3963</td>
<td>0.0136</td>
</tr>
<tr>
<td>Urban</td>
<td>0.4274</td>
<td>0.3516</td>
<td>0.0758</td>
</tr>
<tr>
<td>Migrant</td>
<td>0.3545</td>
<td>0.3508</td>
<td>0.0037</td>
</tr>
</tbody>
</table>

Share of income before-transfer and transfer income of deciles:

- Total income
- Total transfers
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.

![Graph showing the share of after-transfer income and transfer income by decile.](image-url)
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 the same way predicted by Kuznets Hypothesis. A longer trend of rising income inequality and more slowly falling.
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.
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.

![Graph showing exports and imports over time](image)
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)

wage growth rate of rural-urban migrants (%)
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.