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**Rising Wealth Inequality and
Changing Social Structure
in Rural China, 1988-95**

Terry McKinley and
Mark D. Brenner

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ABSTRACT

The paper finds that a new system of social stratification is emerging in rural China in the wake of economic reforms, one that is far less equal than what preceded it. As part of this trend, wealth inequality has increased markedly in a short period of time. A relatively equal distribution of land has prevented further inequality and blocked the rise of a landed elite. However, what has emerged is a 'worker elite', mainly concentrated in cooperative enterprises in the coastal provinces and in richer provinces. Also, both cadres and officials, on the one hand, and owners and managers of enterprises, on the other hand, have measurably improved their position in the social structure. Membership in the communist party *per se* and level of education are less influential than before in determining one's social position.

1. INTRODUCTION

The People's Republic of China is still in the process of transition from a centrally planned economy to a more market-based economy. The principles governing social stratification are thus also in transition – from those based more on access to political power to those based more on access to economic resources. In this paper, we focus on the changing determinants of social status in rural China. What we find is that in many Chinese villages, a new dual structure of social stratification has taken shape since 1978.

We anchor our analysis of social stratification on ranking households according to their access to economic resources. Although the distribution of wealth and income are powerful determinants of a household's position in society, they are not the sole determinants. However, given their measurement by a money metric, both wealth and income provide a convenient means by which to construct a hierarchy. In this paper, we choose wealth as the primary ranking variable.

With such a ranking, we can then identify the distribution of household members grouped according to various other characteristics. Among the ones most readily identifiable from our data are common occupational, political and educational characteristics. Our ranking is based on giving greatest weight, in effect, to the newly emerging system of social stratification in which access to economic resources is most important.

Pre-reform China was a highly stratified society, although the distribution of material benefits was relatively egalitarian by international standards. The stratification was founded on the strict distinction between urban residents and rural residents – reinforced by the household registration system and restrictions on mobility. Rural residents thought of themselves as peasants and regarded urban residents as workers (Potter and Potter 1990). Peasant households were defined as those able to supply their own rice while worker households were defined as those who ate rice supplied by the state.

Peasants inherited their social status, and there were few channels by which they could hope to change it. Three options for possible advancement were to join the communist party, serve in the armed forces, or achieve a high level of education.

Within villages, the main determinant of social status was access to political power. Incumbent cadres stood highest in the social hierarchy. Former cadres did not possess as much influence, but generally were still accorded high status (Yan 1992). The next highest status was often accorded to the spouses and children of cadres, and to state employees such as workers, teachers and military officers. Often these positions or occupations were distinguished by not having to do manual farm labour.

Social status was also highly dependent on one's class origins. Peasants were distinguished by whether they had come from families that were poor or lower-middle peasants, were middle-level peasants, or were landlords or rich peasants. Because the latter had such a bad class origin, they had virtually no possibility of improving their status.

Despite social stratification, income and wealth distributions within rural areas were remarkably equal. Differentiation according to monetary criteria within villages was minimal (Lu 1996). There was no capitalist class formed on the basis of the private ownership of productive assets. In addition, labour incomes within the collective units, i.e., the teams, were allocated on the basis of work points, which converged to a fairly narrow range.

As economic reforms unfolded, the social hierarchy in rural China, as well as the egalitarian distributions of wealth and income associated with it, began to break down. Incumbent cadres were in a position, of course, to do well; but, according to some studies, other formerly privileged groups that based their status solely on political or ideological grounds, such as former cadres or peasants of good class origin, began to lose ground (Yan 1992). Former cadres apparently had a difficult time – no longer able to exert much influence nor accustomed to the manual labour in which they had to engage. A significant proportion of peasants who had middle-peasant, rich-peasant or landlord backgrounds began to rise in economic status. Certain skills and business acumen acquired in the past apparently became advantages under the conditions of the transition.

New measuring rods were coming into play to gauge the social status of households. Authority and power based on membership in the communist party were on the wane. The influence of ideological designations such as class origin was quickly eroded. Educational attainment was no longer accorded the same prestige. In their place, a new system of ranking began

to emerge based more on the ability to generate income and amass wealth. It is at this historical point that we initiate our own very aggregated analysis of how the previous social structure in rural China has changed and to what extent it is continuing to change.

2. DATA

The data for this study come from two large household surveys, conducted in 1988 and 1995. By 1988, the economic reforms in the Chinese countryside were roughly ten years old, with most of the dramatic changes in living standards having taken place by 1984-85. Enough time had passed for the system of social stratification to have undergone substantial change.

The survey samples in both 1988 and 1995 were derived from the significantly larger yearly samples drawn by the Chinese State Statistical Bureau (SSB). Our rural sample of 10,259 households in 1988 was drawn, for example, from the 1988 SSB national rural sample of 67,186 households. The method for drawing our smaller sample was the 'symmetrical equidistant selection method' (Eichen and Zhang 1993).

The survey questionnaires were developed by an international group of economists in order to generate internationally comparable estimates of household income and its distribution. The results for income distribution for the two surveys are reported in Khan *et al.* 1993 and Khan and Riskin 1998. Additional papers related to the first survey are published in Griffin and Zhao 1993.

The volume by Griffin and Zhao contains an article, McKinley 1993, which is relevant to our present analysis because of its focus on the distribution of wealth in rural China. More extensive results on wealth distribution in rural areas in 1988 are reported in the book, *The Distribution of Wealth in Rural China* (McKinley 1996). A similar study of rural wealth distribution, Brenner 1998, extends the analysis to data from the 1995 survey.

For this current study, we draw extensively on the findings in the above papers and monographs as background to our own work.

As reported in Khan and Riskin 1998, the rural sample for the 1988 survey is 10,258 households (51,352 individuals) and for the 1995 survey 7,998

households (34,739 individuals). The corresponding urban samples are 9,009 households (31,827 individuals) and 6,931 households (21,694 individuals).

For the rural sample, the 1995 survey excludes nine provinces that are included in the 1988 sample: Heilongjiang, Inner Mongolia, Qinghai, Ningxia, Guangxi, Fujian, Hainan, Tianjin and Shanghai. Having examined the results of their analysis, Khan and Riskin do not believe that this difference in samples biases their findings. For both years, Tibet and Xinjiang are excluded.

3. METHODOLOGY

The analysis in this study relies extensively on the use of Gini coefficients and concentration ratios, and extends this methodology to examine the distribution of the economic position of the employed and other dimensions determining social strata.

A Gini coefficient is not decomposable into within-group and between-group inequality, as is the case with inequality measures such as the log variance or the population-weighted Theil index. It can however be decomposed into concentration ratios for components of an aggregate (such as income or wealth) that are weighted by the shares of the components in the aggregate (Kakwani 1980; Khan *et al.* 1993 and McKinley 1996).

A concentration ratio is a Gini coefficient derived for a component (such as wages) from ranking that component not according to its own value, but according to the value of the aggregate (such as total income) of which it is part. When each of the concentration ratios is weighted by the share of its respective component in the aggregate, and all of them are added together, the sum is the Gini coefficient for the aggregate. Following is the mathematical presentation, with income as the illustration:

$$G = \sum_i u_i C_i$$

where G = the Gini coefficient of total income;

u_i = the ratio of the i^{th} source of income to total income; and

C_i = the concentration ratio for the i^{th} source of income.

If the concentration ratio of a component (such as financial assets) is higher than the Gini coefficient of the aggregate of which it is a part (such as total net worth), this signifies that if the value of the component were increased at the margin, with all other components held constant, then the distribution of the aggregate would become more unequal. In this instance, we designate the component as being disequalizing in its impact on the overall distribution. If the opposite were the case, namely, that the concentration ratio of the component were lower than the Gini coefficient of the aggregate, then the component would be equalizing in its impact.

It is possible for a concentration ratio – unlike a Gini coefficient – to be negative since it is being ranked by another variable. If true, this would imply that the component in question would likely have a very equalizing impact on the overall distribution of the aggregate since the component is concentrated among the poorer half of the population.

In our analysis for this study, we extend the methodology of concentration ratios to categories of social structure – such as economic position, party membership and educational attainment – based on a ranking according to wealth. The social-structure categories are obviously not components of the economic aggregate – as would be the case if we examined the distribution of fixed productive assets, for example, relative to that of total net worth. But by using such a common ranking of social groups, we can compare their relative position. Some groups will be situated higher in the ranking, others lower; and over the course of the seven years we are examining, some groups will move up in ranking and others down.

The analysis is complex since we are investigating the association between, on the one hand, several overlapping and inter-related factors – political power, education and occupation – and, on the other hand, the ranking of households by some common economic 'success' criteria. In our case, we focus on the household's possession of wealth.

Moreover, we are not assuming that the social position of a household can be associated with the status of one member alone, such as the household head. This would make the analysis more straightforward – but less realistic. The social position of a household is determined by the contribution of the various individuals within it (household head, spouse, children, parents of household head and spouse, and so on) and according to various dimensions (e.g., members' education, political influence and occupation).

Social status is the result of the joint determination of a number of factors – economic, political, cultural as well as social. We have chosen to utilize a conventional economic means to place households in a hierarchy, namely, their wealth. This is done mainly to derive one ranking – which happens to be easily constructed by virtue of the monetary values of the variable – so that we can then use this to compare how other factors normally determinant of social status are associated with it.

In our extension of the methodology of concentration ratios, individual employed households members are assigned a value of 1 if they belong to a particular occupational category, such as regular worker, and a value of 0 if they do not. For each occupational category, all the members are then summed together for each household (e.g., household A has 2 regular workers while household B has 1; household A has no owners or managers while household B has 1). The occupational members summed over each household are then distributed according to the ranking of their respective households, which is based on the total household wealth per person. A concentration ratio is thus generated for the distribution of each occupational category, as determined by the household wealth ranking.

Our results should be regarded as no more than suggestive. Our approach represents a new extension of the concentration ratio methodology. We are examining the employed members of households based on the ranking of their respective households according to the total wealth per person of the household. Moreover, we have chosen to examine the position of individuals, based on the overall household wealth ranking, and not on the income that the individuals might generate for the household. Thus, our approach can give us no more than a very rough picture of the social structure, and it is a picture that is dependent on the ranking variable we choose to employ. In our case, we choose wealth, which we believe to be more reflective than current income of the long-run economic position of the household.

4. THE DISTRIBUTION OF TOTAL INCOME

Income inequality rose markedly in China from 1988 to 1995. As indicated in table 1, the Gini coefficient of per capita household income increased from 0.382 to 0.452 – an 18 per cent rise (Khan and Riskin 1998; Zhang

TABLE 1
TOTAL INCOME INEQUALITY IN CHINA

Category of Income	Share of Total Income (per cent)		Concentration Ratio		Contribution to Overall Inequality (per cent)	
	1988	1995	1988	1995	1988	1995
Total Income	100.0	100.0	0.382	0.452	100.0	100.0
<u>Total Rural Income</u>	57.1	49.1	0.116	0.192	17.4	20.9
Wages	5.0	10.7	0.528	0.567	6.9	13.4
Income from Enterprises	1.4	2.9	0.279	0.301	1.0	2.0
Income from Production Activities	42.4	27.8	0.053	0.045	5.9	2.8
Farm Income	--	23.0	--	-0.001	--	-0.1
Nonfarm Income	--	4.8	--	0.266	--	2.7
Rental Value of Owned Housing	5.5	5.7	0.067	0.090	1.0	1.1
<u>Total Urban Income</u>	42.9	50.1	0.735	0.703	82.5	79.1
Cash Income of Working Members	19.1	31.2	0.715	0.664	35.7	45.8
Housing Subsidy	7.8	5.0	0.761	0.789	15.5	8.7
Other Net Subsidies	9.0	0.6	0.719	0.687	16.9	1.0
Rental Value of Owned Housing	1.7	5.8	0.767	0.840	3.4	10.8

Source: Khan and Riskin 1998.

1997 for a similar estimate). The startling conclusion is that China now ranks with the more unequal societies of Asia, such as Malaysia, the Philippines and Thailand.

The only other country in East and South-east Asia with a similarly sharp documented increase in inequality during roughly the same period is

Thailand (Ahuja *et al.* 1997). Thailand's Gini coefficient for income per person increased from 0.426 in 1975 to 0.546 in 1992. During approximately the same period, the Gini coefficient for income per person (or expenditures per person) changed little or declined in Indonesia, the Republic of Korea, Malaysia and Singapore.

More conservative estimates of the increase in inequality in China are offered by the World Bank (World Bank 1997). For 1981, it estimates a Gini coefficient of 0.288 and for 1995, 0.388. These results rely on income data from the regular household surveys carried out by China's State Statistical Bureau. Still, the World Bank's analysis is similar in noting a dramatic increase in inequality during the transition period – an increase which it considers unusually large. As it remarks, such large changes in income distribution customarily denote profound changes in the underlying distribution of assets and their rates of return.

According to the World Bank, the Gini coefficient rose only marginally during the high-growth period of the early 1980s, but it increased markedly during the period 1984-1989 – i.e., from 0.297 to 0.349. This latter period was characterized by slower growth along with rising inequality. The incidence of rural poverty was in fact estimated to be slightly higher in 1990 than it was in 1984 (World Bank 1992).

Between 1990 and 1995, more rapid growth resumed but inequality also continued to rise. In the early 1980s, rural incomes had risen rapidly and closed the gap with urban incomes, but by the late 1980s, rural incomes were stagnating and rural-urban inequality was widening. It was only by 1994-1995 that significant gains were again being achieved in reducing rural poverty (World Bank 1997)¹.

While the contribution of rural income to total inequality has remained relatively small – still only 21 per cent in 1995, as shown in table 1 – this contribution has been on the rise, i.e., up from 17.4 per cent in 1988. The driving force of this rise has been the labour income paid to the employees

1 Ravallion and Chen 1997 question the extent of the rise in income inequality in the late 1980s in a background paper to World Bank 1997. They base their conclusions on analysis of data for the rural population in four southern provinces. Once they impute market prices to self-consumed grain, impute a stream of income from housing and consumer durables, and allow for differences in inter-provincial cost of living, they find that two-thirds of the increase in rural inequality vanishes (Chen and Ravallion 1996 for additional background).

of rural enterprises. The majority of these employees are in township and village enterprises. These employees' share of total income in China has almost doubled, to over 13 per cent in 1995, and their distribution has become more disequalizing. In fact, with a concentration ratio of 0.567, rural wages are, surprisingly, the only rural income source with a disequalizing effect on the distribution of total income in China as a whole.

By contrast, farm income has virtually no effect on raising total income inequality, although its 1995 share in total income is 23 per cent. Its concentration ratio is close to zero, signifying that it is very evenly spread over the total distribution of income. Of course, such a concentration ratio also implies that a substantial share of farm income is concentrated in the richer deciles of the population. About 48 per cent of farm income is received, for example, by the richest half of the total population. If farm income were largely concentrated among the poorest strata of the population, its concentration ratio would be negative.

Entrepreneurial income from nonfarm rural activities does make a contribution to total inequality, but mainly because of its share of total income. This category of income includes both income accruing to individuals from private, individual or joint venture enterprises and net income from household nonfarm and subsidiary activities (two separate line items in table 1). In 1995, both constituted about 7.7 per cent of total income but accounted for only about 4.7 per cent of total inequality.

These summary findings suggest that if we are searching in rural areas for the primary sources of rising income inequality in China, we should examine the nature of 'labour income' paid in rural collectively-owned enterprises.

5. THE DISTRIBUTION OF RURAL INCOME

Before turning to the distribution of wealth in the rural areas of China – which will become the focus of our analysis – we examine the distribution of rural income, but considered separately from the distribution of total income for the whole country. We do so in order later to compare this with the distribution of rural wealth.

Separately considered, the distribution of rural income has appreciably worsened. As shown in table 2, the Gini coefficient for rural per capita income has risen from 0.338 in 1988 to 0.416 in 1995 (Khan and Riskin 1998). For Asia, this is a relatively high degree of rural inequality.

As suggested earlier from the results for the distribution of income in the country as a whole, the main source of rural income inequality is labour income paid to employees. Alone, it accounts for 40 per cent of all rural inequality while constituting only 22 per cent of all rural income in 1995. It has the highest concentration ratio of any rural income component, i.e., 0.738: 65 per cent of all such labour income accrues to the richest ten per cent of the rural population.

TABLE 2
RURAL INCOME INEQUALITY IN CHINA

Category of Income	Share of Total Income (per cent)		Concentration Ratio		Contribution to Overall Inequality (per cent)	
	1988	1995	1988	1995	1988	1995
Total Income	100.0	100.0	0.338	0.416	100.0	100.0
Wages	8.7	22.4	0.710	0.738	18.3	39.7
Income from Private and Other Enterprises	2.4	6.1	0.487	0.543	3.6	7.9
Income from Household Production Activities	74.2	56.2	0.282	0.281	61.8	37.9
<i>Farm Income</i>	--	46.4	--	0.238	--	26.6
<i>Nonfarm Income</i>	--	9.8	--	0.484	--	11.3
Property Income	0.2	0.4	0.484	0.543	0.3	0.6
Rental Value of Owned Housing	9.7	11.6	0.281	0.321	8.0	9.0
Net transfers from State and Collectives	-1.9	-0.5	0.052	-1.76	-0.3	2.0
Miscellaneous Income	6.7	3.9	0.418	0.337	8.3	3.1

Source: Khan and Riskin 1998.

Income accruing to individuals from private small-scale enterprises accounts for about 8 per cent of all rural income inequality, while income from household nonfarm activities accounts for another 11 per cent. Both have a disequalizing impact on rural income distribution.

These results are consistent with the findings of a number of other studies (Burgess 1998, Hare 1994, Hussain *et al.* 1994 and World Bank 1997). However, some of the studies (such as Burgess 1998) maintain that while diversification into off-farm economic activities has contributed to rising inequality, it has also had a broad welfare-enhancing impact. Such diversification has helped absorb a large pool of excess rural labour, and most households – even the poorer ones – have benefited to some extent from off-farm employment. Burgess 1998 infers from a negative correlation between off-farm income and farm income that the former tends to provide additional risk-reducing benefits for many rural households as does Wang 1995.

The observations of one of the authors of this article during a tour through Southwest China in late 1998, as part of an evaluation of the anti-poverty programme of the Government, is that many poor households have been forced to send members into off-farm employment in order to compensate for low farm income. But most of this employment is low-paying and of short duration.

Hare's results also differ somewhat from the ones we report in this paper. While she agrees that nonagricultural income contributes to rising inequality, she maintains, based on a small sample of households in southern China, that wage income (from construction or light industry, for example) is more equally distributed than income from self-employment (which is concentrated in commercial activities, handicrafts, small-scale industry or transportation). The latter, it is claimed, is strongly correlated with a household's connections and class background. Wage income is more concentrated than self-employed income among low-income households and is often earned by young adult household members.

Cheng 1996 also generates results somewhat different from the ones we report, for a sample of one thousand households in grain-producing areas of five provinces. In these areas, the rate of commercialization (i.e., the ratio of total grain sales to total output) is relatively high. Among these households, more than 80 per cent of total inequality is accounted for by cropping income. However, wage income still continues to have a

disequalizing impact on the distribution of total income, although more muted than in the findings we report. Wu *et al.* 1996 have similar findings with regard to agricultural income for a small 1992 sample of households: better-off households are predominantly so because of higher agricultural income rather than higher nonagricultural income.

Ravallion and Chen 1997 lend support to these findings: they find that once their data are adjusted, grain income accounts for a much larger share of inequality, a share that is now larger than that for wage income from collective enterprises. Part of the explanation for richer rural households having both relatively high farm and nonfarm income is no doubt that agriculture is often flourishing in the regions where nonfarm activities are successful, with the growth of the former being a basis for the expansion of the latter (Zhu 1991). However, this whole topic needs to be much more closely examined.

Although the general validity of some of the above results is limited by localized samples, they do point out the importance of analyzing the distribution of farm income itself as a possible source of inequality. Depending on the characteristics of certain areas, increasing agricultural income might well intensify income inequality. The results reported in this paper suggest, for instance, that gross agricultural income has indeed become more unequally distributed from 1988 to 1995.

In comparison to nonfarm income, however, farm income is still quite equally distributed – although it is more unequally distributed within the context of rural areas, separately considered, than it is within the context of the whole country. Still, because it has one of the lowest concentration ratios, its share of total rural income (46 per cent) far exceeds its percentage contribution to inequality (27 per cent).

The rental value of owned housing also has an equalizing effect on rural income distribution – accounting for 11.6 per cent of rural income but contributing only 9 per cent to inequality. But it has become more unequally distributed relative to total rural income since 1988: its concentration ratio has risen from 0.281 to 0.321².

2 The results from Khan and Riskin 1998 on the contribution of the rental value of housing to income inequality differ somewhat from our calculations of the contribution of housing to wealth inequality. The reason is that we have used original housing value instead of the current estimated housing value for our wealth calculations because the former provides a more reliable trend. However, using original housing value tends to

These highlights suggest how various components of rural wealth might be distributed. This assumes that returns to assets, in the form of income flows, are proportionate to asset values – an assumption that does not necessarily hold. One would expect, for example, land value to have an equalizing impact on the distribution of rural wealth. By contrast, privately-owned nonfarm assets might well have a disequalizing effect.

The largest discrepancy between the distribution of rural income and the distribution of rural wealth is likely to be due to the distribution of labour income paid in rural industry. This could be due to a number of factors. One source of discrepancy could result from not taking account of human capital as an asset. Another could arise if flows of labour income do not correspond to the magnitudes of human capital (a condition for which there is some evidence).

A further complication is that much of rural industry is collectively-owned, at least nominally. This implies that income flows are being generated for certain groups of nonfarm employees on the basis of access to collectively-owned assets. The income flows would show up in the distribution of income, but the assets would not show up in the distribution of assets. Under a system of mixed ownership patterns, which is what prevails in China now, such discrepancies are likely to arise. This is one reason why in the appendix we supplement our findings on wealth distribution with information on income distribution.

Estimates of the distribution of rural income in China are not able to take accurate account, of course, of migrants to urban areas. Rural households are questioned by the 1988 and 1995 surveys about remittances from working members, but the answers cannot capture the full effect of the now-substantial 'floating population' in China's cities. In the early 1990s, this group was estimated to have reached 80 million (Lu 1996).

According to Lu 1996, migrants have a high likelihood of securing urban employment and of staying in their jobs for extended periods of time. While most of their employment is in construction or petty services, their average incomes exceed what they could earn in rural areas. Were these incomes taken fully into account, no doubt the estimate of rural income

under-estimate the disequalizing impact of housing on wealth inequality and lower the overall Gini coefficient for per capita net worth.

inequality would be altered. However, whether the effect would raise or lower inequality in rural areas – and in China as a whole – is not clear *a priori*.

6. THE DISTRIBUTION OF RURAL WEALTH

The social position of households is greatly influenced by economic factors. Income is often considered decisive, and is used extensively to rank households. However, wealth is a more reliable determinant of a household's long-term economic and social position. The chief reason that it is not often used in household rankings is lack of data. We are fortunate in this regard in being able to generate some estimates of wealth holdings for rural households in China.

Usually, the distribution of wealth is significantly more unequal than income. In the countries with state socialist regimes, the distribution of wealth was remarkably equal, since a high proportion of productive assets was state-owned or collectively owned. These ownership forms also often extended to such large 'consumer' assets as housing.

With extensive privatization and a rising private sector, countries in transition are likely to exhibit rising inequality in the distribution of wealth (Honkkila 1997). However, since many ownership forms remain mixed during the transition, the extent of wealth inequality might well remain constrained. Thus, it is possible for inequality in the distribution of income to rise more rapidly than that of wealth, as findings from our surveys demonstrate.

As indicated in table 3, the distribution of rural wealth in China has become significantly more unequal from 1988 to 1995. Starting with a value of 0.300, the Gini coefficient of the distribution of per capita household net worth has risen to 0.371 in 1995 (Brenner 1998)³. This distribution is still

3 In order to maintain consistency between the estimates for the two years for this paper, we use original housing value and exclude cash balances from financial assets in 1995 because information on them is not available for 1988. Were cash balances included in the analysis for 1995, net worth would be more equally distributed. Cash balances constitute about 46 per cent of all financial assets and have a concentration ratio of 0.341.

TABLE 3
RURAL WEALTH INEQUALITY IN CHINA

Category of Wealth	Share of Total Wealth (per cent)		Concentration Ratio		Contribution to Wealth Inequality (per cent)	
	1988	1995	1988	1995	1988	1995
<u>Total Wealth</u>	100.0	100.0	0.300	0.371	100.0	100.0
Land Value	66.0	60.4	0.284	0.331	62.6	53.8
Housing	23.8	26.6	0.319	0.422	25.3	30.3
Fixed Productive Assets	8.4	7.5	0.257	0.327	7.2	6.6
Gross Financial Assets	3.3	7.1	0.503	0.528	5.6	10.1
Minus Debt	-1.6	-1.7	0.131	0.186	-0.7	-0.8

Source: authors' own calculations.

more equal, however, than the distribution of rural per capita household income, whose Gini coefficient for 1995 is 0.416.

We are able to analyze four major sub-components of rural wealth: land value, housing equity, fixed productive assets and financial assets (McKinley 1993 and Brenner 1998)⁴.

4 The most problematic issue is attributing value to land based on capitalizing its gross agricultural output. This approach assumes that farmers' use-rights to land constitute a dimension of private ownership. Some surveys suggest that Chinese farmers do not regard the land that they have contracted from the collective as their own (Kung 1995 and Kung and Liu 1997). Ownership is more likely to be associated with 'subsistence plots' (which are allocated on a per capita basis to households to satisfy basic grain needs) than with 'responsibility plots' (which are allocated to households, sometimes on a per labourer basis, to fulfill the collective's state quota requirements).

Ownership is of course a bundle of rights, including the right to utilize an asset, the right to capture its benefits and the right to change its form or exchange it with others (Sun 1997). Farmers' rights to land in China encompass some limited rights to utilize the asset and to capture the benefits it produces, and the right to lease it but not to sell it to

One of the components of wealth that has contributed the most to the increase in rural asset inequality is financial assets. Whereas in 1988 this component contributed only 5.6 per cent of total wealth inequality, in 1995 it contributed about 10 per cent. As noncash financial assets have become more widespread, their distribution has become more unequal: their concentration ratio has risen from 0.503 to 0.528. In both 1988 and 1995, these assets are the most disequalizing of the major components of wealth.

Housing has also increased its contribution to rural asset inequality – by about 5 percentage points. It has marginally increased its share of total wealth, i.e., from 24 per cent to about 27 per cent. But the greatest change has been in its sharply increasing inequality. Its concentration ratio has risen from 0.319 to 0.422 – a 32 per cent increase (for similar results, Wang 1995).

The contribution to inequality of fixed productive assets has decreased somewhat – to below 7 per cent. Its share of total wealth has dropped slightly. However, its inequality has risen dramatically, with its concentration ratio increasing from 0.257 to 0.327 – a 27 per cent increase. Since these assets still have a low concentration ratio in 1995, if their value were increased, they would, at the margin, lower total inequality. This is true of such traditional fixed productive assets as livestock, tools and buildings, all of which have concentration ratios below that of total net worth, but it is not true of more modern assets such as transport equipment, agricultural machinery and industrial machinery.

Land value's contribution to total wealth inequality has dropped the most of any component. The reason has been its declining share in total wealth – i.e., from 66 per cent to 60 per cent. With a smaller share of total wealth, its distribution has become, however, more disequalizing, with its concentration ratio rising to 0.331 in 1995. Since this ratio is still lower than the Gini coefficient for total wealth (0.371), an increase in its share of total wealth should continue at the margin to decrease total inequality.

others. Along with such limited rights come some obligations, such as delivering output quotas to the state, and paying an agricultural tax and community charges (Zhu and Jiang 1993). The formal ownership right over the land resides with the village collective, not with the state, although the village's right to alienate the land is restricted by the state.

6.1 Land distribution and poverty

The distribution of land has remained relatively equal in rural China. In fact, available evidence suggests that land size has become more equally distributed from 1988 to 1995 (Brenner 1998). This has not been due to an active rental market for land. Rather, village cooperatives have maintained the practice of periodically re-allocating land in order to respond to the changing sizes of individual households (Dong 1996 and Zhu and Jiang 1993). This practice has implied that land holdings on a per capita basis have remained relatively evenly distributed⁵.

Landlessness, which is so prevalent in many other developing countries, is virtually non-existent in rural China. Formal collective ownership of the land rules out distress sales by individual households, and thus helps avoid the concentration of land in the hands of richer households. Those households that do relinquish some portion of their land have invariably secured more lucrative off-farm employment (Zhang and Makeham 1992).

Many analysts, both in China and abroad, have argued that the small size of Chinese landholdings and the mismatch between household land and labour endowments lead to efficiency losses. If land is allocated on a per capita basis, it is argued, then those households with a higher proportion of labourers who could work the land do not receive an adequate amount. Landholdings are indeed quite small (i.e., about 0.5-0.6 hectares per household) and fragmented (with about 8-10 separate plots) (Dong 1996). Yet such a distribution serves as a basis for promoting the security of peasants' livelihoods.

Every household is allocated a minimum amount of land, a 'subsistence plot', to meet its basic grain needs. Thus, this is a system of income security – 'a decentralized form of social insurance' (Burgess 1997) – which does not have to rely on a continuous stream of transfers (which, some argue, would tend to distort incentives). Equitable land distribution helps explain how China has been able to achieve relatively low levels of poverty and undernutrition with low levels of average per capita income.

Moreover, some have claimed that such an egalitarian distribution of land, in the presence of other multiple market failures (such as in the capital and

5 There is some evidence that less land is allocated to households that have secured off-farm employment (Burgess 1997). If this practice were widespread, it would tend to equalize incomes across both farm and nonfarm households.

labour markets), is not incompatible with efficiency (Burgess 1997 and Dong 1996). In fact, with restrictions on other factor markets, moving from the present system to a more inegalitarian distribution of land is likely to lead to a loss of productive efficiency since small farms tend to be more productive than large ones (Burgess 1997).

It has been important to highlight the above points because the distribution of land has such a decisive influence on the nature of social stratification in rural China. With an egalitarian distribution of land, there is, in effect, a 'security floor' to stratification, namely, a minimum level of livelihood and status below which a peasant household is not likely to fall. Some analysts have argued, however, that the small size of household plots, along with insecurity of tenure, dampens peasant incentives to make land improvements and to accumulate agricultural capital (Feder *et al.* 1992). But constraints other than land size or fragmentation also appear to be retarding agricultural investment: these include the rationing of such current inputs as fertilizers, herbicides and diesel fuel, and the lack of formal credit for farm production (Feder *et al.* 1992 and Travers and Ma 1994). Some surveys suggest that farmers are not, in fact, insecure about their land tenure (Kung 1995). Moreover, the slowdown in farmer investment in agriculture in the late 1980s and early 1990s might be linked as much to the shift of relative prices against farmers as to any other factors (Sicular 1993).

Moreover, some have argued that the supposed security of tenure and consolidation of plots that would result from the privatization of the land – which is recommended by many western analysts – would have high human-development costs in terms of landlessness, poverty and malnutrition (Dong 1996 and Burgess 1997). A better alternative, according to this line of thinking, would be to have the village collective sponsor plot consolidation and take responsibility for promoting public investment in agriculture.

The fact that village collectives own about 40 per cent of productive capital (Dong 1996) helps explain why much of the potentially disequalizing impact of the concentration of fixed productive assets has, so far, been held in check. Some households have been encouraged by the collective to specialize in capital services, but these households are not likely to also have large holdings of land.

The mixed forms of ownership of both land and fixed productive assets imply that while there might well be considerable 'horizontal differentiation', due to economic diversification and specialization, there is likely to be less 'vertical differentiation', or social stratification, in which some households are able to amass and maintain wealth at the expense of others. Our evidence suggests that the factors driving stratification are found outside agriculture.

7. THE DISTRIBUTION OF OCCUPATIONS AND OTHER SOCIAL GROUPINGS

We now turn to the question of how occupations and other social groupings are distributed throughout the population when households are ranked by their per capita wealth holdings. The two surveys enable us to classify rural occupations into several useful broad categories. We are mainly interested in the occupations as indicators of basic economic position, and group them accordingly.

7.1 Occupational categories of stratification

We group cadres and officials, for example, into one category. This includes five small components: officials of Party or government offices or institutions, leading officials of state or collective enterprises, ordinary cadres of Party or government offices or institutions, township or village cadres, and principal officials of town or township-operated enterprises. If the principles of social stratification from the pre-reform period still held sway, then these cadres and officials should be doing well in terms of generating income and accumulating wealth.

We are therefore interested to gauge the extent to which this group has been able to translate political power into economic advantage under the new conditions of the transition. Some scholars have maintained that in the 1970s, when rural industrialization first began to flourish, local government and party institutions were training grounds for economic management: cadres and officials advanced on the basis of their economic abilities as well as their political and administrative abilities (Putterman 1997)

There is also a relatively new stratum of entrepreneurs that has emerged during the transition period. The surveys classify them as owners and

managers of private or individual enterprises. How well this group has done is a barometer of the growth of the private sector in rural areas.

Various strata of workers engaged in nonfarm activities have also emerged during the reform period. Under the general category of 'worker', we combine subgroups such as professional or technical workers, skilled workers, ordinary workers and workers in town or township enterprises. However, we keep temporary workers as a separate category for our analysis. As nonfarm activities grow in importance, these two broad categories should register substantial increases.

By far, the largest occupational category is farmer, and this remains true for both years. However, as economic diversification proceeds, one would expect the share of this group in total employment to decline.

There are slight variations in how subgroups of these categories are defined in the two surveys, but the general categories remain the same. We limit our sample to those household members who indicate that they are employed. However, the above categories do not sum to 100 per cent in our tables because of not including the non-specified employed.

We first examine the changing frequencies of the above five occupational categories. As table 4 shows, the cadres/officials category has increased only marginally – from 2.5 per cent in 1988 to 2.8 per cent in 1995. However, the category of owners/managers, although small, has increased significantly – from 1.2 per cent to 3.1 per cent – and is now larger than the cadres/officials group.

Both worker groups have also risen appreciably. The general category of worker has increased from 5.4 per cent to 8.1 per cent, and remains the largest of the non-farmer categories. The category of temporary workers has risen from 2.5 per cent to 4.2 per cent.

As a corollary of the above increases, the share of farmers in all the employed has noticeably declined over this short period – from 87.5 per cent to 76.8 per cent⁶.

6 These percentages for farmers are higher than those reported in other more localized samples (for example, Parish *et al.* 1995). It could be that farmers constitute a larger percentage of the employed when averaged across the whole country, especially when poorer regions are included. Off-farm employment might be concentrated, and thus unevenly distributed geographically.

TABLE 4
DISTRIBUTION OF OCCUPATIONS RANKED BY WEALTH

Category	Share of Total Employed (per cent)		Concentration Ratio	
	1988	1995	1988	1995
Cadres/Officials	2.5	2.8	0.137	0.172
Regular Workers	5.4	8.1	0.239	0.216
Temporary Workers	2.5	4.2	0.035	-0.072
Owners/Managers	1.2	3.1	0.102	0.158
Farmers	87.5	76.8	0.016	0.013
Noncadre Party Members	4.4	4.3	0.149	0.115
Educated Elite	9.1	10.2	0.042	0.091
Net Worth per capita	--	--	0.300	0.371

Source: authors' own calculations.

In order to examine changes in the social structure in China from 1988 to 1995, we rank households by per capita household wealth and derive concentration ratios for our five categories of economic position: cadre/official, worker, temporary worker, owner/manager and farmer. This will help give us a picture of the relative position of these various

Part of the explanation could also be that we are not taking account of secondary employment. The 1988 survey asks about the nature of such employment, but the 1995 survey does not. Nevertheless, even if the percentage for farm employment is an over-estimate—and the corresponding percentage for nonfarm employment an under-estimate—our present analysis is focused less on the magnitude of the percentages and more on the relative positions of different groups and the changes in these positions. In any case, 30.5 per cent of the employed in 1988 responded that they had secondary jobs. The greatest difference between the composition of primary jobs and secondary jobs is found with respect to temporary workers. While 2.5 per cent of the employed reported being temporary workers as their primary employment, 10.7 per cent reported such employment as their secondary job. Also, compared to the results for primary employment, the percentage for secondary employment was lower for the farmer and regular worker categories, but was higher for the owner/manager category.

categories in the social structure and how these positions have changed over the period in question. By using per capita household wealth, we assume that this metric is a reasonable means to begin constructing a hierarchy of social stratification.

An alternative would be per capita household income, which we use as a ranking variable in appendix A.1.

The higher a concentration ratio for a particular category, the more concentrated that group is among the wealthier deciles of the distribution⁷. The lower the concentration ratio, the more concentrated the group is among the poorer deciles. If a concentration ratio were close to zero, this would mean that the members of the group are fairly evenly distributed across households ranked by per capita wealth. A negative ratio would signify that a majority of the members of a group are found among the poorest 50 per cent of the population.

From 1988 to 1995, cadres/officials and owners/managers have become more concentrated among the richer deciles of the population, while temporary workers and regular workers have become more concentrated among the poorer deciles. The position of farmers has remained virtually unchanged. These trends suggest that overall the social structure has become more differentiated during the transition.

The complication in the picture is that the distribution of regular workers is the most skewed towards the richer deciles in both years. This means that regular workers have a larger share of their members in the richest households than any other group of the employed – even though this share has been declining. As shown in table 4, the concentration ratio in 1988 for this group is 0.239, the highest for any of the five groups; similarly in 1995, this group's concentration ratio of 0.216 is still the highest. The real differentiation of regular workers from other groups occurs in the richest fifth of the population, among whom in 1988, 34 per cent of all regular workers were concentrated and in 1995, 33 per cent. However, this group's relative position has been moderately worsening, as indicated by its falling concentration ratio, while the positions of cadres/officials and owners/managers have been improving. In a later section, we decompose

⁷ The magnitude of the concentration ratio for an occupational group is not directly comparable to the Gini coefficient of per capita household wealth since the former represents the distribution of binary numbers (1 or 0) and the latter the distribution of monetary values.

the worker category into subgroups in order to determine which particular types of workers are doing better than others.

The relative position of cadres/officials has improved significantly. The group's concentration ratio has risen from 0.137 in 1988 to 0.172 in 1995 – a rise of about 25 per cent. But the ratio is still substantially below that of regular workers.

A sharper improvement has been experienced by owners/managers. Their concentration ratio has risen by about 55 per cent – from 0.102 in 1988 to 0.158 in 1995. This is an indication of the growing importance of the private sector in determining the nature of the rural social structure.

In contrast to the experience of regular workers, temporary workers were not concentrated among the richer deciles in 1988. And instead of improving, their relative position has deteriorated markedly. Their concentration ratio has dropped from 0.035 to a negative value, i.e., -0.072 . By 1995, 57.5 per cent of this group's members are found among the poorest half of the population. Temporary employment is a frequent option pursued by members of poor households to compensate for their lack of farm income.

Farmers remain, by far, the largest category of the employed, although their share of the total has dropped. In 1988, they were fairly evenly distributed over the distribution of households ranked by per capita wealth: their concentration ratio was fairly close to zero, i.e., 0.016. Their relative position has changed little by 1995, their concentration ratio having edged down only to 0.013.

7.2 Non-occupational categories of stratification

In addition to occupation, we examine the changing frequency of other categories that are reflective of social structure, namely, party membership and level of education. These other categories cut across occupational classifications.

We define a category of communist party members, which excludes cadres and officials (because they are already part of our analysis), but which can overlap with the other occupational categories. We want to be able to track the fortunes of this group, which is not likely to have the same level of privileges as cadres or officials, but nonetheless may do well because of their political influence. As indicated at the bottom of table 4, the share of

this group in all the employed has remained virtually the same from 1988 to 1995.

We also attempt to independently identify the level of educational attainment of the employed. This is a determinant of social position that is likely to cut across categories of occupation or economic position. We are most interested in the fortunes of the educational elite, and so define a category that includes those with an educational level associated with either 1) a college level or above, 2) a professional school, middle-level professional, technical or vocational school, or 3) an upper middle school. This group enlarges somewhat its share in the employed from 1988 to 1995 – from 9.1 per cent to 10.2 per cent.

We now examine the changes in relative social position of these two groups. Communist party members who do not directly hold positions of influence were somewhat more concentrated than cadres and officials among the richer deciles in 1988. As table 4 shows, this group's concentration ratio (0.149) was moderately higher than that of cadres/officials (0.137). But while cadres and officials have improved their relative position, communist party members have suffered a decline: by 1995, their concentration ratio had fallen to 0.115. Apparently, cadres and officials have been better able to translate their positions of influence into economic gain. Those party members who do not occupy an influential political or economic position appear, however, to be losing ground relative to others – particularly to both cadres/officials and owners/managers.

The educational elite in rural areas does little better than farmers in terms of their social position. According to our definition, which includes all those who have an upper-middle-level education or higher, this group constitutes about one-tenth of the rural employed in 1995. In 1988, this group was fairly evenly spread over the distribution: its concentration ratio was a low 0.042. In the early years of economic transition, education has apparently been a weak determinant of economic advantage. By 1995, the educational elite had improved its position somewhat: its concentration ratio had risen to 0.091. But education still appears to have a relatively weak connection to amassing economic wealth in rural China.

These findings on education are borne out by other studies using the same data sets (Brenner 1997 and Knight and Song 1993). For example, Brenner finds that in running regressions on various Mincerian earnings functions for 1995, education has little or no significance as a determinant of

nonfarm earnings in rural areas. In contrast, experience is significant. Similar results are produced by Knight and Song with the 1988 data. In explaining these results, Brenner cites Gregory and Meng 1995 to point out, for example, that a substantial proportion of workers in township and village enterprises is assigned by local authorities, and not hired through a labour market; and that, moreover, much of the work in such enterprises is unskilled, piece-rate labour, not requiring significant levels of education. Parish *et al.* 1995 confirm that labour incomes in rural enterprises tend to rise monotonically with years of experience, and are not closely connected to job-related skills or education – although they claim that education enhances one's chances of securing nonfarm employment.

Restrictions on migration and uneven regional development do appear, however, to play an important role in explaining differences in earnings levels. For the 1995 sample, Brenner finds, for example, that 60 per cent of all wage earners are found in just four rich coastal provinces – Jiangsu, Zhejiang, Shandong and Guangdong – and that location in a coastal province or in a province close to the coast boosts worker earnings independently of education or experience (Parish *et al.* 1995). This is a topic to which we will return in a later section of the paper.

8. RELATIVE POSITION OF VARIOUS SETS OF WORKERS

Since the category of regular workers stands out as being the most unequally distributed in both 1988 and 1995, we use the classifications available from the two surveys to determine how particular subgroups of workers are faring – and, in particular, which subgroups are contributing the most to the unequal distribution of the whole category.

One classification scheme which is consistent across the two surveys is provided by the type of ownership of the workplace, e.g., whether the enterprise is state-owned, cooperatively-owned or privately-owned. We group together the various categories of workers into four classifications: 1. state-owned enterprises (including a small number of foreign-owned firms or sino-foreign joint ventures), 2. cooperative enterprises (mostly township and village enterprises), 3. privately or individually owned enterprises, and 4. the remainder (a residual including farm-based household enterprises).

Table 5 shows the changing shares of these four subgroups and their changing distribution. Workers in state-owned enterprises have increased somewhat their share of all workers, reaching 14 per cent by 1995, and their distribution has become more unequal. But they remain fairly equally distributed compared to other groups.

Workers in cooperative enterprises account for the largest share of total regular workers in both years – namely, well over half – but what is most striking is that they are by far the most unequally distributed. Moreover, their distribution has become markedly more unequal from 1988 to 1995. In 1995, for instance, their concentration ratio has reached 0.353, which is much higher than the concentration ratio, 0.216, for the whole category of regular workers (table 4). Given their large share of all workers and the high degree of their inequality, this group accounts for close to 90 per cent of the inequality in the distribution of all workers.

Part of the explanation is no doubt locational – with many township and village enterprises located in increasingly urbanized areas close to municipalities, or concentrated in the richer, more industrialized coastal region (Putterman 1997) – but this cannot be the sole explanation. Putterman 1997 has also suggested that rural cooperative enterprises tend to

TABLE 5
DISTRIBUTION OF WORKERS RANKED BY WEALTH
(ACCORDING TO OWNERSHIP OF WORKPLACE)

Worker Category	Share of Total Employed (per cent)		Concentration Ratio	
	1988	1995	1988	1995
State-Owned	10	14	0.001	0.108
Cooperatives	58	55	0.262	0.353
Private/Individual Enterprises	7	23	-0.024	-0.013
The Rest	24	8	0.360	0.135
Net Worth per capita	--	--	0.300	0.371

Source: authors' own calculations.

pay high wages, relative to other local opportunities, and restrict employment, but these claims have yet to be adequately investigated. Many instances can be cited, such as by Lyons 1994 for Anxi county in Fujian, where cooperative enterprises are relatively small and their employees tend to be unskilled and illiterate farmers who work only part-time in nonfarm employment.

Workers in privately-owned or individually-owned enterprises have been growing rapidly, reaching 23 per cent of the total in 1995. However, they have not contributed to inequality: their concentration ratios in both years are in fact negative. This signifies that they are disproportionately represented among the poorer deciles of the population. Available evidence suggests that people turn to private nonfarm employment – much of it in small-scale or individual enterprises – when opportunities in collective enterprises are not available. A high proportion of the secondary jobs taken by farmers also appears to be in the private sector rather than the collective sector, and to be more informal than formal in nature (Parish *et al.* 1995).

In order to investigate further the unequal distribution of regular workers in cooperative enterprises, we decompose them into three categories: ordinary workers, skilled workers, and professional or technical workers. We are able to make this classification for the 1995 survey, but not for the 1988 survey because of differing categories. In 1995, 84.3 per cent of these workers are ordinary workers, 11.1 per cent are skilled workers, and the remaining 4.6 per cent are professional or technical workers.

Predictably, the small category of professional or technical workers is the most unequally distributed, with a concentration ratio of 0.419. By contrast, and counter-intuitively, the category of skilled workers is the most equally distributed, with a concentration ratio of 0.159. Accounting for the bulk of inequality is the category of ordinary workers, whose concentration ratio is 0.375. These results tend to reinforce the finding that education is not a major determinant of nonfarm earnings. Other factors must be at work in explaining the concentration among the richer deciles of the population of ordinary workers employed by cooperative enterprises.

9. SOCIAL STRUCTURE DISAGGREGATED BY REGION

Geographical differences are likely to explain a great deal about the characteristics of social structure in rural China. There are marked differences, for example, in income per person and human development across major regions of the country.

In order to determine how geography can alter social structure, we divide our sample of provinces into two regions: the coastal and inland areas. The coastal area includes Fujian, Guangdong, Guangxi, Hainan, Hebei, Jiangsu, Liaoning, Shandong, Zhejiang and the three municipalities of Beijing, Shanghai and Tianjin. The rest of the provinces in our sample are included in the inland areas. Given the changing composition of our sample of provinces between 1988 and 1995, our results should be interpreted as suggestive of general trends, but not definitive⁸. Nonetheless, they illustrate how geographical location can make a great deal of difference to how particular economic or social groups fare.

As shown in table 6, all of our occupations and social groups are ranked much higher in the coastal region than in the inland region. Also, with the exception of temporary workers, all of the groups in the coastal region became more concentrated among the richer deciles from 1988 to 1995.

The picture is more mixed for the groups in the inland areas. Cadres and officials remained fairly equally distributed, while the condition of all workers (whether regular or temporary) and farmers worsened, and the condition of owners and managers improved somewhat. While noncadre party members became more concentrated among the poorer deciles, the educated elite improved their status slightly.

It is important to underline the worsening status in the inland provinces of regular workers, and of workers in cooperative enterprises in particular. In 1995, for example, regular workers across rural China as a whole are the

⁸ Chinese geographers do not consider Guangxi a coastal province. We would have divided our sample into three regions, i.e., coastal, inland and border areas, but the shifting composition of the samples for 1988 and 1995 did not make this a sensible option.

TABLE 6
DISTRIBUTION OF OCCUPATIONS RANKED BY WEALTH
(DISAGGREGATED BY COASTAL AND INLAND REGIONS)

Category	Share of Region in Total Employed in Category (per cent)		Concentration Ratio	
	1988	1995	1988	1995
Inland				
Cadres/Officials	44	41	-0.002	-0.006
Regular Workers	26	32	-0.082	-0.175
Workers in Cooperatives	24	21	-0.038	-0.180
Temporary Workers	44	66	-0.197	-0.211
Owners/Managers	38	44	-0.103	-0.029
Farmers	64	69	-0.081	-0.094
Noncadre Party Members	55	49	0.060	-0.093
Educated Elite	53	52	-0.083	-0.073
Coast				
Cadres/Officials	56	59	0.247	0.296
Regular Workers	74	68	0.354	0.404
Workers in Cooperatives	76	79	0.354	0.488
Temporary Workers	56	34	0.213	0.192
Owners/Managers	62	56	0.222	0.307
Farmers	36	31	0.188	0.244
Noncadre Party Members	45	51	0.264	0.315
Educated Elite	47	48	0.184	0.273

Source: authors' own calculations.

most concentrated among the richer deciles of the whole population (i.e., with a concentration ratio of 0.216), but this is due to the status of regular workers in the coastal provinces (i.e., with a concentration ratio of 0.404). By contrast, regular workers in inland provinces are concentrated among the poorer deciles of the whole population (i.e., with a negative concentration ratio of -0.175).

The situation is much the same for regular workers in cooperative enterprises. In coastal areas, such workers are highly concentrated among the richer deciles of the whole population; but in inland areas, they are concentrated among the poorer deciles. Thus, if there is a privileged stratum of rural workers in cooperative enterprises, it is located in the richer coastal areas, not elsewhere in China. In inland areas, all groups of workers – regular workers in general, regular workers in cooperative enterprises and temporary workers – are more concentrated among the poorer deciles than even farmers are.

The particular situation of temporary workers is worth noting. Across rural China, the status of this group worsened from 1988 to 1995 – as indicated earlier in table 4. The concentration ratio for this group's distribution changed from slightly positive, i.e., 0.035, to negative, i.e., -0.072. Temporary workers in both coastal and inland areas contributed to this deterioration. For example, while temporary workers in inland areas became a larger share of this occupation throughout rural China, they became slightly more concentrated among the poorer deciles. Their negative concentration ratio of -0.211 in 1995 is the lowest of any group. For many poor rural households, temporary employment of members in off-farm activities, such as construction, mining, simple manufactures or services, has been one of the few options open to them to generate cash income.

In appendix A.2 we carry our disaggregation further by using a smaller sample of provinces to examine whether our results for 1988 and 1995 differ significantly across high-income, medium-income and low-income provinces.

10. CONCLUSION

Wealth inequality has increased markedly in a short period of time in rural China. The main constraint on greater wealth inequality is the relatively equal distribution of landed wealth. This has also restricted the differentiation of social structure in the countryside.

Land distribution has prevented, so far, the emergence of a landed elite – which has been common in many other developing countries and has been a principal source of very unequal wealth holdings. The fact that land has remained relatively equally distributed has also prevented mass impoverishment.

We have concentrated on drawing the contours of social structure in rural China on the basis of ranking households by their per capita wealth. When we examine rural households throughout China, the most surprising finding is that regular workers employed in nonfarm enterprises are the most concentrated among the richer deciles of the population. Based on very aggregated evidence, a 'worker elite' appears to be emerging in rural areas – instead of a landed elite.

When the broad worker category is further analyzed, the subgroup of rural workers in cooperative enterprises – which constitutes the majority of rural workers – is the most concentrated among the richer deciles.

By contrast, temporary workers have lost considerable ground. An important differentiation appears to be occurring between regular workers and temporary workers. Temporary employment has become an option mainly benefiting the poorer segments of the population.

Temporary workers are faring worse than farmers – the latter by far the broadest employment category among the rural workforce. The status of farmers as a whole has remained roughly the same since the late 1980s.

Both the group of cadres and officials and the group of owners and managers have measurably improved their condition during the transition, but they are still not as concentrated among the richer deciles as regular workers. However, noncadre communist party members have declined in economic status. Party membership per se has not proven to be a guarantee of economic success.

Those with relatively high levels of education in rural China have improved their position, but still lag considerably behind such groups as cadres and officials, regular workers, and owners and managers. Education has not yet come into play as a major determinant of economic status throughout the whole of rural China.

When we do a simple division of our sample of provinces into two broad regions – i.e., the coastal areas and the inland areas – we find some striking differences. All of our occupational and social groupings in the coastal areas are concentrated among the richer deciles of the population, whereas those in the inland areas are concentrated among the poorer deciles.

Moreover, with the exception of temporary workers, all of the groups in the coastal regions have improved their economic status since the late 1980s. In the inland areas, regular workers, temporary workers, farmers and noncadre communist party members have all seen their economic status deteriorate.

In inland areas, the biggest losers have been regular workers, and regular workers in cooperative enterprises in particular. Whereas there is strong aggregate evidence for a 'worker elite' in coastal areas, no such evidence exists for inland areas. In fact, regular workers are doing worse than farmers.

Also, if education is having any effect on improving one's economic status in rural areas, it is occurring in the coastal areas, not in the inland areas.

The social structure is still evolving in rural China. The sources of social stratification are undergoing change. A new system has not yet consolidated itself. Our findings suggest, however, that the new system will be far less equal than the one preceding economic reforms – perhaps as much along geographical lines as along socio-economic lines.

The pre-reform system was both highly stratified and relatively egalitarian. The principal danger of the transition is that some of the sources of stratification underlying the old system – such as having political power or influence – will be carried over to the new system and exacerbate the inequalities already inherent in the workings of a more market-based system of resource allocation.

APPENDIX

A.1 The distribution of occupations ranked by per capita income

During the transition, when many collectively-owned assets are still in the process of being privatized and new privately-owned assets are also still emerging, income flows might well diverge from asset holdings. This is likely to be the case in China, where many collective or mixed forms of ownership have been retained. Therefore, as a supplement to ranking social groups by per capita wealth, we also rank them by per capita income.

As shown in appendix table 1, there is a broadly similar pattern of change between the ranking of social groups by per capita wealth and that by per capita income. (The concentration ratios for groups ranked by per capita wealth are in parentheses.) But in some cases the trend is accentuated, and in other cases the pattern is somewhat different.

The distribution of cadres and officials, based on their ranking by per capita household income, becomes much more unequal from 1988 to 1995: their concentration ratio rises dramatically from 0.292 to 0.448. And the rise in the inequality of their distribution is much more pronounced relative to the change in income inequality than it is relative to the change in wealth inequality. The elasticity of the percentage change in the group's inequality relative to the percentage change in income inequality is 2.3 whereas relative to the percentage change in wealth inequality, it is 1.1. Thus, when measured by household income instead of household wealth, cadres and officials have prospered much more during the period under review.

The same is true of regular workers. Whereas in relationship to a wealth ranking, the inequality of their distribution has *decreased* by about 10 per cent; in relationship to an income ranking, their inequality has risen by about 4 per cent. The likeliest explanations are: 1) worker-households often have smaller-than-average land holdings and do not own many fixed productive assets, and 2) if they are employed in rural industry, they are likely to earn above-average rural income.

Temporary workers are doing better relative to income than relative to wealth. In terms of income, the inequality of the distribution of temporary workers rivaled that of cadres and officials in 1988 – with a concentration

APPENDIX TABLE 1
DISTRIBUTION OF OCCUPATIONS RANKED BY INCOME

Category	Concentration ratio	
	1988	1995
Cadres/Officials	0.292 (0.137)	0.448 (0.172)
Regular Workers	0.477 (0.239)	0.495 (0.216)
Temporary Workers	0.297 (0.035)	0.094 (-0.072)
Owners/Managers	0.380 (0.102)	0.411 (0.158)
Farmers	-0.013 (0.016)	-0.060 (0.013)
Noncadre Party Members	0.163 (0.149)	0.139 (0.115)
Educated Elite	0.110 (0.042)	0.150 (0.091)
Per Capita Income	0.338	0.416

Note: Numbers in parentheses are the concentration ratios when the groups are ranked by per capita wealth instead of per capita income.

Source: authors' own calculations.

ratio of 0.297. But whether measured in relation to income or wealth, their economic position has worsened since then: in both cases, their concentration ratios have declined. The difference in 1995 is that while the concentration ratio generated by an income ranking is positive, i.e., 0.094, that generated by a wealth ranking is negative, i.e., -0.072.

The situation of owners and managers of enterprises is interesting. In the case of both wealth and income, their relative position has improved. But the degree of improvement has been greater with regard to household wealth than with regard to household income. In the case of a wealth ranking, the elasticity of the percentage change in the inequality of their distribution relative to the percentage change in wealth inequality is 2.3,

but in the case of an income ranking, such an elasticity is only 0.3. Part of the explanation is that owners and managers are likely to have amassed more fixed productive assets than income. Relative to other well-established groups, such as officials and workers, many of the members of this more entrepreneurial group also might not yet be generating significant income flows (particularly those in small or micro enterprises), or their income flows might not be well reported.

When comparing income effects to wealth effects, the situation of farmers has worsened more appreciably from 1988 to 1995. When ranked by per capita income, the concentration ratio for farmers is a negative 0.013 in 1988 and an even larger negative 0.060 in 1995. The chief explanation is that farmers account for relatively more wealth holdings – because of such assets as land and livestock – than they do of income. And much of the disequalizing income flows in rural China have been generated off-farm.

We also examine the changing distribution of social groupings defined by membership in the communist party and level of education. In relationship to income, the position of noncadre communist party members has worsened – along very similar lines to their worsening in relationship to wealth.

The educated elite has improved its situation in relationship to both income and wealth. The pattern of improvement is similar for both rankings. For income, this group's concentration ratio has risen from 0.110 in 1988 to 0.150 in 1995. Still, this group is not as concentrated among the richer deciles as such economic groups as cadres/officials, workers or owners/managers. Education does not yet appear to be a major determinant of economic position, either in terms of income or wealth.

A.2 Disaggregating the distribution of occupations ranked by wealth

In order to partially correct for aggregation bias in our results for all of rural China, we divide provinces according to their average income per person in our 1988 sample into high-income, medium-income and low-income provinces.

Because a number of provinces included in the sample for 1988 are not included for 1995, we restrict our analysis to only those provinces surveyed for both years. Included in the high-income group are Beijing, Guangdong, Hunan, Liaoning and Zhejiang; in the medium-income group are Hebei, Hubei, Jiangxi, Jilin, Shandong and Sichuan; and in the low-income group are Anhui, Gansu, Guizhou, Henan, Shaanxi, Shanxi and Yunnan. Appendix table 2 reports the results.

Cadres and officials have improved their position from 1988 to 1995 in both high-income and low-income provinces. The qualification is that cadres and officials in high-income provinces have dropped as a share of all cadres and officials while those in low-income provinces have risen. While the relative position of noncadre communist party members has declined in rural China as a whole, their biggest decline has been in low-income areas. In contrast, the position of the educated elite has improved overall, but has declined slightly in high-income areas.

Owners and managers have improved their position in rural China as a whole, but their most marked improvement has been in medium-income provinces whereas their most notable decline has been in high-income provinces. Farmers have also lost ground in high-income areas although overall their relative position has remained roughly the same.

Regular workers are an elite group in high-income provinces, but definitely not in medium-income and low-income provinces. Yet it is in the low-income group of provinces that they have shown the most improvement in position. However, the regular workers in high-income provinces have grown as a share of all regular workers while improving their relative position as an elite group.

APPENDIX TABLE 2
DISTRIBUTION OF OCCUPATIONS
RANKED BY WEALTH
(DISAGGREGATED BY PROVINCIAL INCOME GROUP)

Category	Share of Group in all Three Income Groups (per cent)		Concentration Ratio	
	1988	1995	1988	1995
High-income				
Cadres/Officials	40.3	33.4	0.333	0.380
Regular Workers	52.6	57.3	0.394	0.438
Workers in Cooperatives	61.4	61.6	0.422	0.551
Temporary Workers	30.8	40.6	0.341	0.102
Owners/Managers	42.9	43.4	0.438	0.320
Farmers	23.3	23.7	0.268	0.180
Noncadre Party Members	29.6	26.6	0.371	0.323
Educated Elite	31.7	27.3	0.269	0.262
Medium-income				
Cadres/Officials	38.1	37.9	0.119	0.098
Regular Workers	29.5	25.3	0.064	0.060
Workers in Cooperatives	24.8	21.8	0.079	0.183
Temporary Workers	37.6	32.0	-0.054	-0.032
Owners/Managers	35.6	31.3	-0.084	0.128
Farmers	40.2	39.4	0.073	0.091
Noncadre Party Members	43.8	43.0	0.163	0.168
Educated Elite	39.9	41.5	0.095	0.141
Low-income				
Cadres/Officials	21.6	28.7	-0.107	-0.081
Regular Workers	17.9	17.4	-0.275	-0.176
Workers in Cooperatives	13.8	16.6	-0.217	-0.220
Temporary Workers	31.6	27.4	-0.309	-0.289
Owners/Managers	21.5	25.3	-0.209	-0.114
Farmers	36.5	36.9	-0.207	-0.181
Noncadre Party Members	26.6	30.4	-0.093	-0.203
Educated Elite	28.4	31.2	-0.239	-0.169

Source: authors' own calculations.

The subgroup of workers in cooperative enterprises exhibits a somewhat different pattern. They are definitely an elite group in both high-income and medium-income provinces, but just the opposite in low-income provinces. In both high-income and medium-income areas, they have also improved their position the most.

Temporary workers have seen their position worsen overall, but this deterioration has been concentrated in high-income provinces. In all three income areas, they remain toward the bottom of the rung in economic position. What is noteworthy is that the share of all temporary workers located in high-income provinces has risen sharply.

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