Income Inequality and Intergenerational Social Mobility in China

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Outline

Four questions

1. How high is income inequality in today’s China?
2. What are the main determinants of inequality in China?
3. Why has inequality increased in recent years?
4. Will high inequality lead to political instability?
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The Gini controversy (WSJ, Dec 10, 2012)
Response from National Bureau of Statistics

Source: National Bureau of Statistics, Jan 18, 2013
## New data sources

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Name of Organization</th>
<th>Coverage of Provinces</th>
<th>Sample Size (# Families)</th>
<th># Families with Positive Income</th>
<th>Measure of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mini-Census 2005</td>
<td>National Bureau of Statistics of China</td>
<td>All 31 Provinces of Mainland China</td>
<td>973,159</td>
<td>779,849</td>
<td>Sum of each family member’s self-reported monthly income multiplied by 12</td>
</tr>
<tr>
<td>CGSS 2010</td>
<td>Renmin University of China and the Hong Kong University of Science and Technology</td>
<td>All 31 Provinces of Mainland China</td>
<td>11,785</td>
<td>10,260</td>
<td>Self-reported total family income in 2009</td>
</tr>
<tr>
<td>CGSS 2012</td>
<td>Same as above</td>
<td>29 Provinces of Mainland China (excluding Tibet and Hainan)</td>
<td>11765</td>
<td>10326</td>
<td>Self-reported total family income in 2011</td>
</tr>
<tr>
<td>CFPS 2010</td>
<td>Peking University</td>
<td>25 Provinces of Mainland China (excluding Inner Mongolia, Xinjiang, Tibet, Hainan, Ningxia, Qinghai)</td>
<td>14798</td>
<td>13851</td>
<td>Total family income in 2009 from all sources</td>
</tr>
<tr>
<td>CFPS 2012</td>
<td>Same as above</td>
<td>Same as above</td>
<td>13316</td>
<td>12713</td>
<td>Total family income in 2011 from all sources</td>
</tr>
<tr>
<td>CHFS 2011</td>
<td>Southwestern University of Finance and Economics</td>
<td>25 Provinces of Mainland China (excluding Inner Mongolia, Xinjiang, Tibet, Hainan, Ningxia, Fujian)</td>
<td>8,438</td>
<td>8092</td>
<td>Total family income in 2010 from all sources</td>
</tr>
<tr>
<td>CLDS 2012</td>
<td>Sun Yat-sen University</td>
<td>29 Provinces of Mainland China (excluding Tibet and Hainan)</td>
<td>10612</td>
<td>9735</td>
<td>Self-reported total family income in 2011</td>
</tr>
</tbody>
</table>

**Source:** Xie and Zhou (2014)
Trends in income inequality

Source: Xie and Zhou (2014)
Trends in inequality in emerging economies

Source: Xie and Zhou (2014); SWIID v4.0
Quantile-specific trends, 2005-2012

Source: Author’s Compilation
Conclusions

1. China’s income inequality since 2005 has reached very high levels, with the Gini coefficient in the range of 0.53–0.55.
Determinants of inequality, compared with US

Partial $R^2$s for Different Variables

- China 2010
- United States 2010

Source: Xie and Zhou (2014)
Conclusions

1. China’s income inequality since 2005 has reached very high levels, with the Gini coefficient in the range of 0.53–0.55.

2. A substantial part of China’s high income inequality is still due to regional disparities and the rural-urban gap.
Why has inequality increased in China?

- Widening urban-rural gaps?
- Growing regional inequality?
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- Widening urban-rural gaps?
- Growing regional inequality?
- Skill biased technological change?
- Changing labor force structure?
  - Educational distribution
  - Sectoral composition
The rise of inequality in urban China

Source: Zhou (2014)
# Explaining the rise of urban inequality

## Table 1: Testing Competing Explanations

<table>
<thead>
<tr>
<th>Competing Explanations</th>
<th>Point Estimates (% Explained)</th>
<th>95% Bootstrap Intervals</th>
<th>Empirical Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widening regional disparities</td>
<td>-0.2</td>
<td>[-15.1, 10.1]</td>
<td></td>
</tr>
<tr>
<td>Increasing returns to education</td>
<td>45.2</td>
<td>[33.2, 64.1]</td>
<td>✓</td>
</tr>
<tr>
<td>Growing residual inequality</td>
<td>-4.7</td>
<td>[-49.3, 22.9]</td>
<td></td>
</tr>
<tr>
<td>Changing educational composition</td>
<td>21.9</td>
<td>[14.9, 31.2]</td>
<td>✓</td>
</tr>
<tr>
<td>Changing sectoral composition</td>
<td>20.8</td>
<td>[12.5, 29.8]</td>
<td>✓</td>
</tr>
<tr>
<td>Changing hukou composition</td>
<td>-1.5</td>
<td>[-4.6, 1.3]</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Zhou (2014)*
Conclusions

1. China’s income inequality since 2005 has reached very high levels, with the Gini coefficient in the range of 0.53–0.55.

2. A substantial part of China’s high income inequality is still due to regional disparities and the rural-urban gap.

3. The rise of urban inequality during the past two decades is mainly due to increasing returns to education and changing labor force structure.
Will high inequality lead to political instability?

- Source of regime legitimacy?
  - before 1978: egalitarianism
Will high inequality lead to political instability?

- Source of regime legitimacy?
  - before 1978: egalitarianism
  - 1978 - now: economic growth
Will high inequality lead to political instability?

- Source of regime legitimacy?
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  - 1978 - now: economic growth
  - what’s next:
Will high inequality lead to political instability?

- Source of regime legitimacy?
  - before 1978: egalitarianism
  - 1978 - now: economic growth
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Will high inequality lead to political instability?

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- How to measure meritocracy?
  - perceived: attitudes toward inequality
Will high inequality lead to political instability?

• Source of regime legitimacy?
  • before 1978: egalitarianism
  • 1978 - now: economic growth
  • what’s next: meritocracy?

• How to measure meritocracy?
  • perceived: attitudes toward inequality
  • actual: intergenerational social mobility
## Attitudes toward inequality, I

Table 11.2a Attribution of Why People in China are Poor (% of respondents)

<table>
<thead>
<tr>
<th>Causes</th>
<th>Not at all</th>
<th>Small influence</th>
<th>Some influence</th>
<th>Large influence</th>
<th>Very large influence</th>
<th>N</th>
<th>Rank order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of ability</td>
<td>2.2</td>
<td>4.5</td>
<td>32</td>
<td>43.5</td>
<td>17.8</td>
<td>3,265</td>
<td>1</td>
</tr>
<tr>
<td>Bad luck</td>
<td>9.1</td>
<td>18.1</td>
<td>45.9</td>
<td>21.7</td>
<td>5.2</td>
<td>3,265</td>
<td>6</td>
</tr>
<tr>
<td>Poor character</td>
<td>8.4</td>
<td>19.6</td>
<td>40.8</td>
<td>22.6</td>
<td>8.6</td>
<td>3,261</td>
<td>4</td>
</tr>
<tr>
<td>Lack of effort</td>
<td>3.2</td>
<td>7.2</td>
<td>35.6</td>
<td>43.9</td>
<td>10.1</td>
<td>3,257</td>
<td>3</td>
</tr>
<tr>
<td>Discrimination</td>
<td>7.2</td>
<td>18.8</td>
<td>52.8</td>
<td>16.9</td>
<td>4.3</td>
<td>3,261</td>
<td>7</td>
</tr>
<tr>
<td>Unequal opportunity</td>
<td>4.3</td>
<td>15.2</td>
<td>53.1</td>
<td>22.3</td>
<td>5.2</td>
<td>3,261</td>
<td>5</td>
</tr>
<tr>
<td>Unfair economic system</td>
<td>5.4</td>
<td>11.8</td>
<td>61.8</td>
<td>16.1</td>
<td>4.9</td>
<td>3,258</td>
<td>8</td>
</tr>
<tr>
<td>Low education</td>
<td>3</td>
<td>8.6</td>
<td>34</td>
<td>37.8</td>
<td>16.6</td>
<td>3,239</td>
<td>2</td>
</tr>
</tbody>
</table>

**Source:** Whyte (2010)
### Attitudes toward inequality, II

#### Table 11.2b Attribution of Why People in China are Rich (% of respondents)

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Not at all</th>
<th>Small influence</th>
<th>Some influence</th>
<th>Large influence</th>
<th>Very large influence</th>
<th>N</th>
<th>Rank order</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ability and talent</strong></td>
<td>1.8</td>
<td>3.8</td>
<td>25</td>
<td>46.3</td>
<td>23.2</td>
<td>3,265</td>
<td>1</td>
</tr>
<tr>
<td><strong>Good luck</strong></td>
<td>7</td>
<td>13.4</td>
<td>40.5</td>
<td>29.8</td>
<td>9.3</td>
<td>3,264</td>
<td>6</td>
</tr>
<tr>
<td><strong>Dishonesty</strong></td>
<td>13.3</td>
<td>26.7</td>
<td>42.6</td>
<td>12.8</td>
<td>4.6</td>
<td>3,259</td>
<td>8</td>
</tr>
<tr>
<td><strong>Hard work</strong></td>
<td>1.5</td>
<td>5.7</td>
<td>31.1</td>
<td>49.5</td>
<td>12.3</td>
<td>3,261</td>
<td>2</td>
</tr>
<tr>
<td><strong>Connections</strong></td>
<td>1.4</td>
<td>6.3</td>
<td>32.3</td>
<td>41</td>
<td>19</td>
<td>3,261</td>
<td>4</td>
</tr>
<tr>
<td><strong>Better opportunities</strong></td>
<td>1.9</td>
<td>8.5</td>
<td>44.4</td>
<td>34.9</td>
<td>10.4</td>
<td>3,262</td>
<td>5</td>
</tr>
<tr>
<td><strong>Unfair economic system</strong></td>
<td>3.6</td>
<td>14.4</td>
<td>56</td>
<td>19.5</td>
<td>6.5</td>
<td>3,258</td>
<td>7</td>
</tr>
<tr>
<td><strong>High education</strong></td>
<td>2.3</td>
<td>6.2</td>
<td>30.9</td>
<td>39.5</td>
<td>21.1</td>
<td>3,240</td>
<td>3</td>
</tr>
</tbody>
</table>

**Source:** Whyte (2010)
Will high inequality lead to political instability?

- Source of regime legitimacy?
  - before 1978: egalitarianism
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Market transition and social mobility

• Compared with liberal capitalist societies, class boundaries are expected to be more fluid in state socialist societies (Parkin 1971).
  • the absence of private property
  • less differentiated reward systems
  • more progressive educational policies
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  - increased returns to education and earnings inequality
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- In China, the market-oriented reforms since 1978 have led to
  - conversion of political power to economic resources
  - increased returns to education and earnings inequality
  - abolition of progressive educational policies
The Effects of Market Transition

- Education
- Changing Educational Policies
- Labor Market Deregulation
- Power Conversion
- Origin SES
- Destination SES
Strength of status hierarchy

Source: Zhou and Xie (2016)
Strength of status hierarchy

Source: Zhou and Xie (2016)
Conclusions

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2. A substantial part of China’s high income inequality is still due to regional disparities and the rural-urban gap.

3. The rise of urban inequality during the past two decades is mainly due to increasing returns to education and changing labor force structure.

4. Today’s high inequality is unlikely to cause social unrest because (a) ordinary Chinese people highly endorse merit-based inequality and (b) a reasonably high degree of social mobility.
For more details


