

Income Inequality and Intergenerational Social Mobility in China

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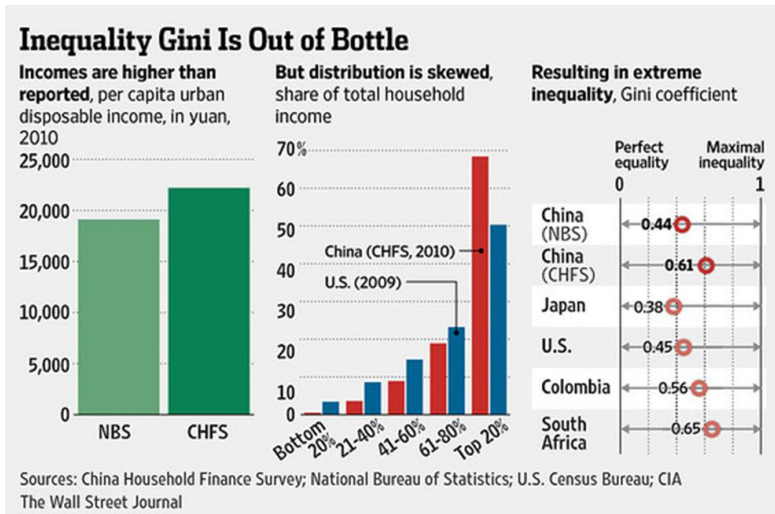
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2. What are the main determinants of inequality in China?
3. Why has inequality increased in recent years?
4. Will high inequality lead to political instability?

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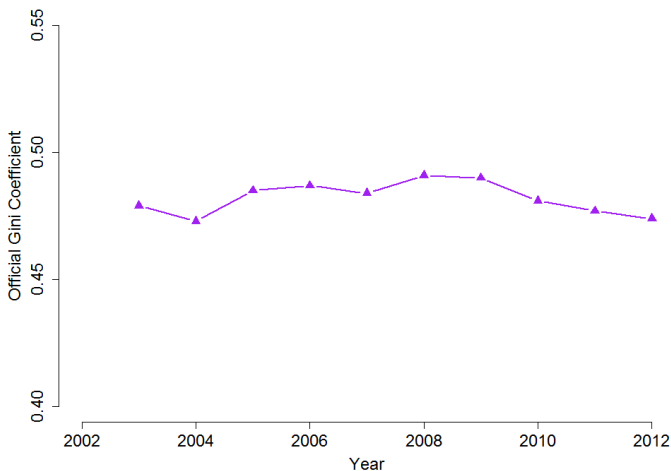
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The Gini controversy (WSJ, Dec 10, 2012)



Response from National Bureau of Statistics



Source: National Bureau of Statistics, Jan 18, 2013

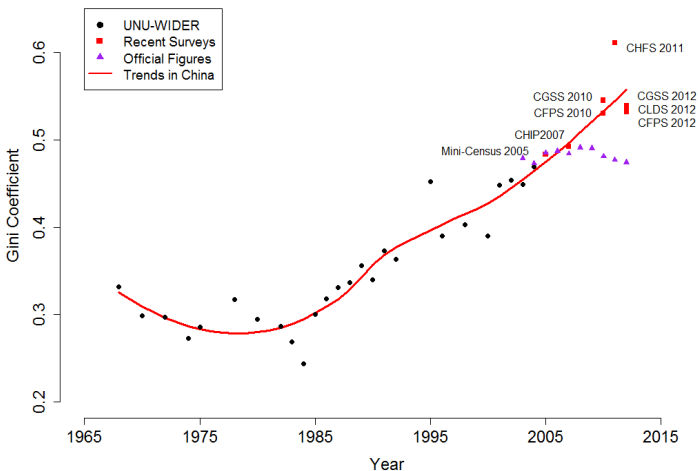
New data sources

Table 1: Seven Recently Collected, Nationally Representative Survey Datasets in China

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

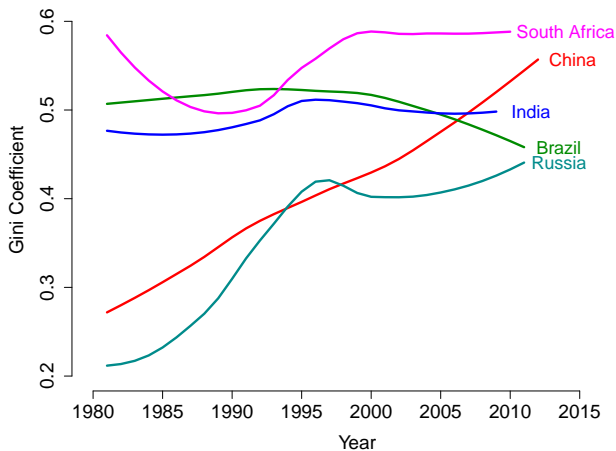
Source: Xie and Zhou (2014)

Trends in income inequality



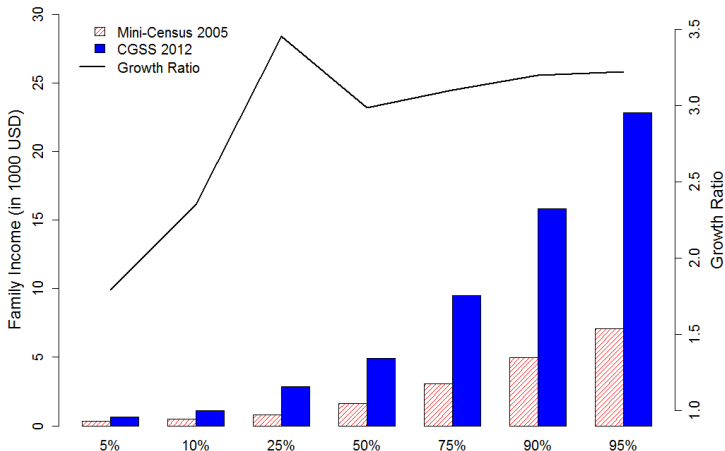
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Trends in inequality in emerging economies



Source: Xie and Zhou (2014); SWIID v4.0

Quantile-specific trends, 2005-2012

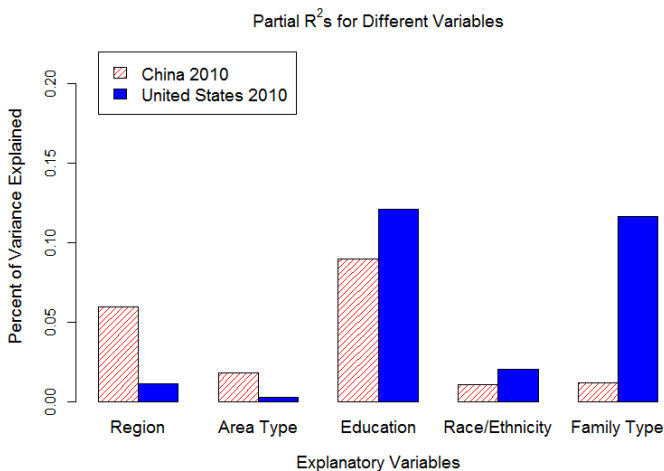


Source: Author's Compilation

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



Source: Xie and Zhou (2014)

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- 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

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

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.

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 - actual: intergenerational social mobility

Attitudes toward inequality, I

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

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

Source: Whyte (2010)

Attitudes toward inequality, II

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

	Not at all	Small influence	Some influence	Large influence	Very large influence	N	Rank order
Ability and talent	1.8	3.8	25	46.3	23.2	3,265	1
Good luck	7	13.4	40.5	29.8	9.3	3,264	6
Dis-honesty	13.3	26.7	42.6	12.8	4.6	3259	8
Hard work	1.5	5.7	31.1	49.5	12.3	3,261	2
Connections	1.4	6.3	32.3	41	19	3,261	4
Better opportunities	1.9	8.5	44.4	34.9	10.4	3,262	5
Unfair economic system	3.6	14.4	56	19.5	6.5	3,258	7
High education	2.3	6.2	30.9	39.5	21.1	3,240	3

Source: Whyte (2010)

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**

Market transition and social mobility

- Compared with liberal capitalist societies, class boundaries are expected to be more fluid in state socialist societies ([Parkin 1971](#)).
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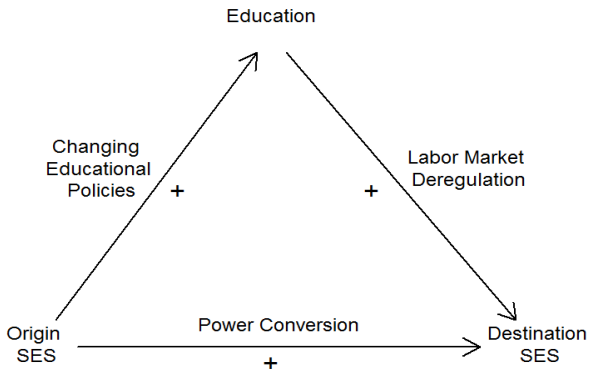
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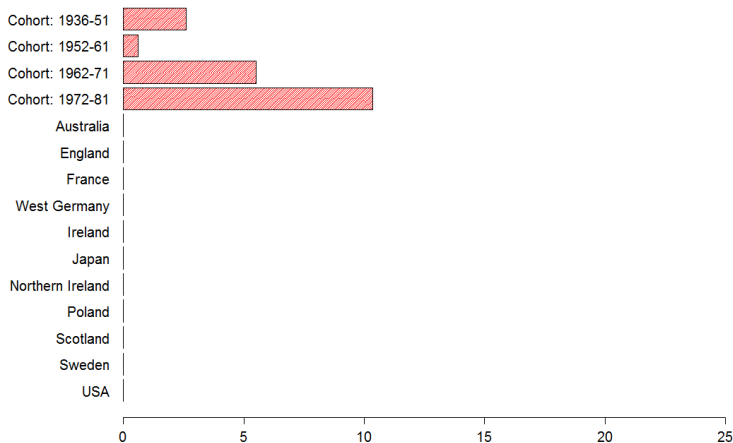
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- In China, the market-oriented reforms since 1978 have led to
 - conversion of political power to economic resources
 - increased returns to education and earnings inequality
 - abolition of progressive educational policies

The Effects of Market Transition

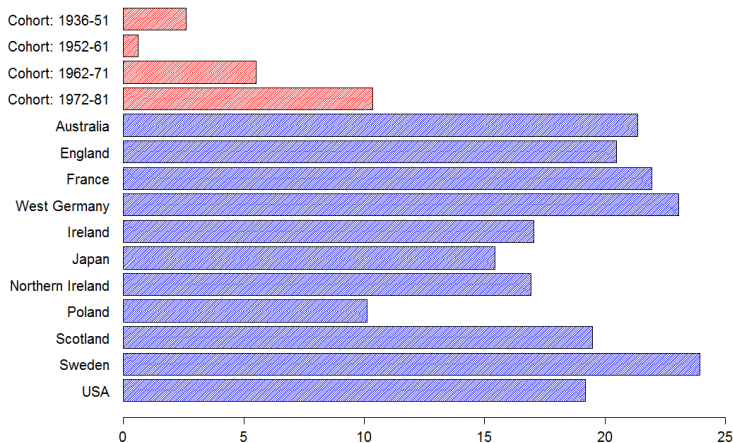


Strength of status hierarchy



Source: Zhou and Xie (2016)

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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

- Xie, Yu, and Xiang Zhou. 2014. "Income Inequality in Today's China." *Proceedings of the National Academy of Sciences* 111(19): 6928-6933.
- Zhou, Xiang. 2014. "Increasing Returns to Education, Changing Labor Force Structure, and the Rise of Earnings Inequality in Urban China, 1996–2010." *Social Forces* 93(2): 429-455.
- Whyte, Martin. 2010. *Myth of the Social Volcano: Perceptions of Inequality and Distributive Injustice in Contemporary China*. Stanford University Press.
- Zhou, Xiang, and Yu Xie. 2016. "Market Transition, Industrialization, and Social Mobility Trends in Post-Revolution China." Available at SSRN: <https://ssrn.com/abstract=2905459>