

# Income Inequality 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 necessarily lead to social instability?

# Outline

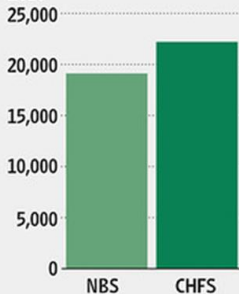
## Four questions

1. How high is income inequality in today's China?

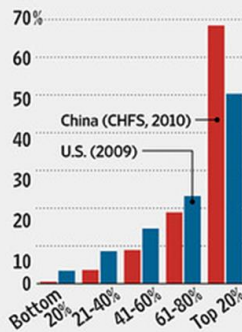
# The Gini Controversy (WSJ, Dec 10, 2012)

## Inequality Gini Is Out of Bottle

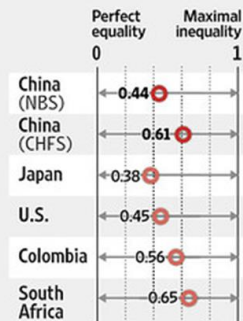
Incomes are higher than reported, per capita urban disposable income, in yuan, 2010



But distribution is skewed, share of total household income

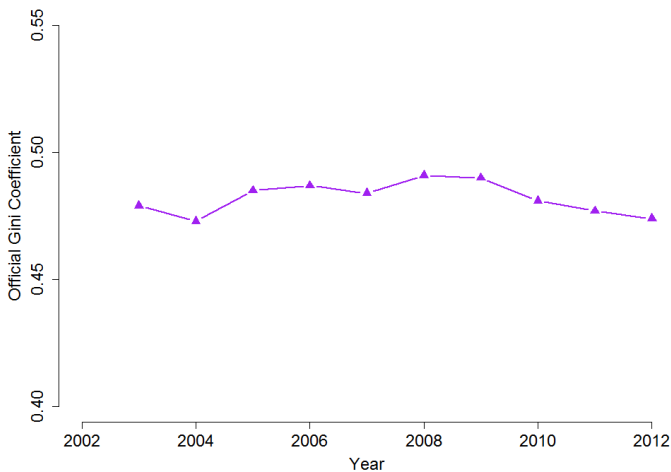


Resulting in extreme inequality, Gini coefficient



Sources: China Household Finance Survey; National Bureau of Statistics; U.S. Census Bureau; CIA  
The Wall Street Journal

## Response from NBS



Source: National Bureau of Statistics, Jan 18, 2013

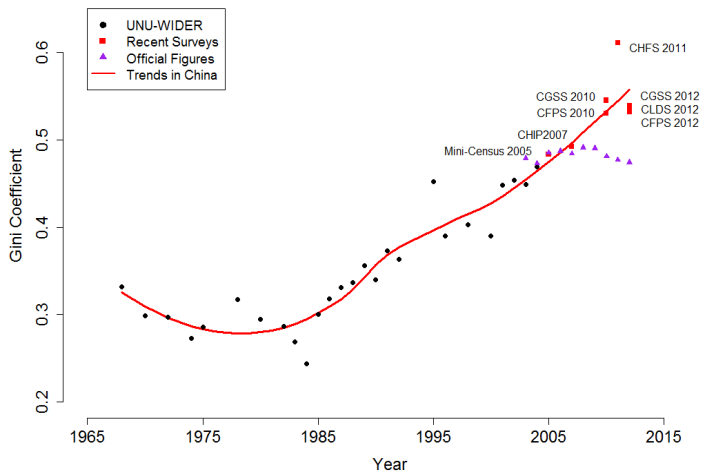
# New Data Sources

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
<b>Mini-Census 2005</b>	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
<b>CGSS 2010</b>	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
<b>CGSS 2012</b>	Same as above	29 Provinces of Mainland China (excluding Tibet and Hainan)	11765	10326	Self-reported total family income in 2011
<b>CFPS 2010</b>	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
<b>CFPS 2012</b>	Same as above	Same as above	13316	12713	Total family income in 2011 from all sources
<b>CHFS 2011</b>	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
<b>CLDS 2012</b>	Sun Yat-sen University	29 Provinces of Mainland China (excluding Tibet and Hainan)	10612	9735	Self-reported total family income in 2011

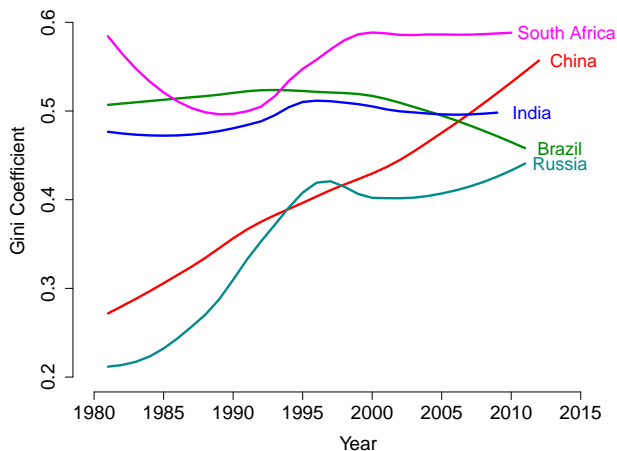
Source: Xie and Zhou (2014)

# Trends in Inequality in China



Source: Xie and Zhou (2014)

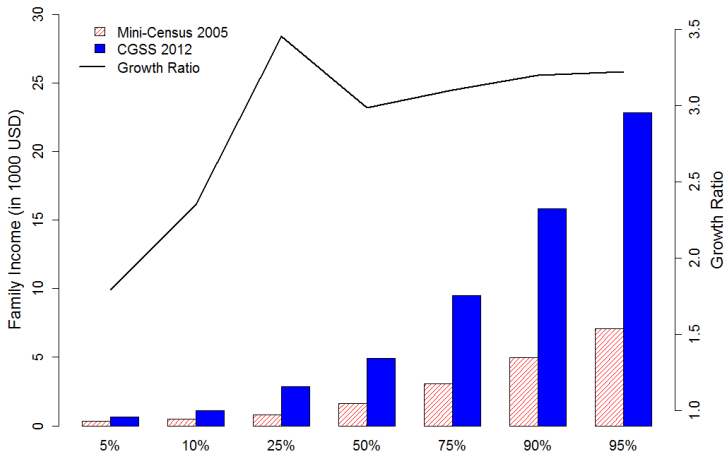
# Trends in Inequality in Emerging Economies



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

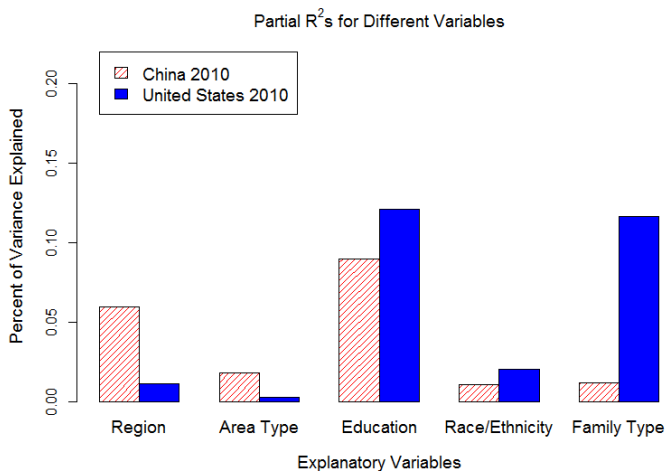


## Quantile-specific Trends, 2005-2012



Source: Author's Compilation

# Determinants of Inequality, Compared with US



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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- 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.

# Will high inequality lead to social instability?

- Source of legitimacy
  - before 1978: egalitarianism

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  - before 1978: egalitarianism
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  - from now on: meritocracy?
- Measuring meritocracy
  - perceived: attitudes toward inequality
  - actual: 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

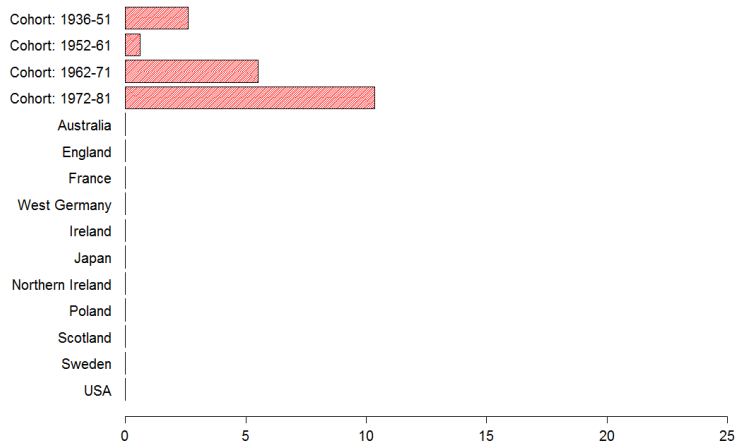
Table 11.2b Attribution of Why People in China are Rich (% of respondents)

	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)

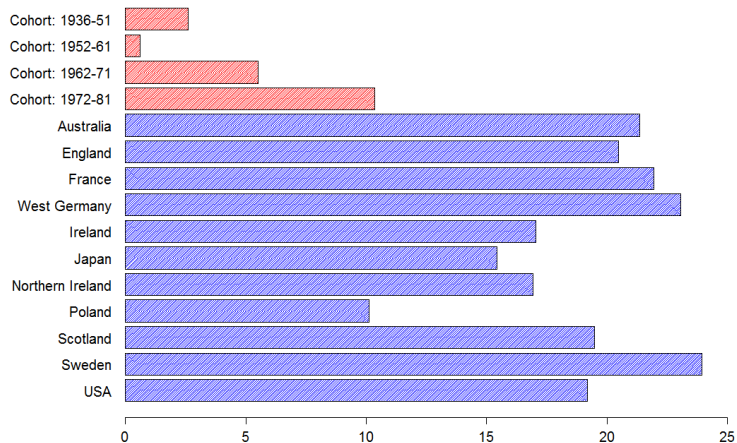


# Strength of Status Hierarchy



Source: Zhou and Xie (2015)

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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. High inequality per se is unlikely to cause social unrest in China because (a) Chinese culture endorses merit-based inequality and (b) social mobility is reasonably high.

## 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. 2015. "Market Transition, Industrialization, and Social Mobility Trends in Post-Revolution China." Working Paper.