

Income Inequality in China: Analyzing the Causes and Evaluating the Policy Approaches

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Introduction

As the rapid growth of economy, the income inequality in China also has risen promptly during past three more decades. Although the GDP is growing at 10% each year, the Gini coefficient is also increase to over 0.55 (Wu and Rao, 2016). It is becoming a biggest issue in the society that the most individuals are concentrate in (Luo and Zhu, 2008). The differentiation between rich and poor is extremely easy to cause social class antagonism which can lead to the turbulent in society. As an ordinary person, I feel very confuse about the phenomenon that the wealthy become richer but the poor become poorer in China although the economy is being developed constantly. There are many scholars discussed the factors which impact on the formation of unfair income distribution in China. According to Kim (2016), It caused by several reasons such as regional inequality, education inequality, and emigration. Other scholars also emphasized the influence informal employment issue (Xue, Gao and Guo,2014). Although the Chinese government adopted a series of measures such as “agricultural support polies”, “targeted tax reductions”, and “minimum wage increases”, it still cannot be solved during a short time and some policies cannot improve this phenomenon (Li and Sicular,2014). In the future, we need to improve the policies to solve this problem at the source such as advocating eliminate crimation, emphasizing the function of education (Xie and Zhou,2014). There has been plenty of research regarding Chinese income distribution and current policy that the government adopt to deal with this issue. But a little about the evaluation of policy and some current official statistic of Chinese well-being is untruth due to the government want to stable social order and build a harmonious society (Hvistendahl.2013). This paper synthesizes results from various sources that talking about the factors which impact on income inequality in China and the current measures that the Chinese government adopt to deal with unfair income distribution. What is more, I will analyze the current situation of income

distribution in China based on previous real data and give a fair evaluation of current policies to help the government improving these methods. Such an analysis can help the individuals knowing the real situation of Chinese income distribution, help the government to improve current policy and find out the best solution from the source to solve this problem. This review will not regard asset as an income.

The Gini Coefficient and Current Situation of Income Distribution in China

Although the Chinese economy got rapid development, individuals still feel the benefits did not fall on everyone equally. We can utilize the Gini coefficient as an important method to measure the inequality among values of income distribution despite having some limitation. The actual value of Gini coefficient can only be between 0~1. If the value of Gini coefficient is more close to 0, the income distribution is more equal. On the contrary, if the value of Gini coefficient is more close to 1, the income distribution is more unequal (Gini, 1909). Since the Chinese National Bureau announced the Gini coefficient in 2000 was 0.41, no more relevant data had been released till 2013, which were slightly under 0.5. The released Gini

coefficient in China is much lower than the data collated by economists which had reached the shockingly high level of 0.61(Gan L, et al, 2014). Because the government want to stable social order and build a harmonious society . In the literature review I will try to avoid using problematic data and find the real condition of income distribution in China. So I adopt other statistic collected by several Chinese university survey organizations rather than government official data to analyze the real income distribution situation in China. Table 1 shows the newly available survey data with organization name, sample coverage, sample size ,measure of family income , and estimated Gini coefficients.

Table 1. Seven recently collected, nationally representative survey data sets in China and the corresponding estimates of the Gini coefficient

Data source	Name of organization	Coverage of provinces	Sample size (no. families)	No. families with positive income	Measure of income	Gini coefficient (without PPP adjustment)	Gini coefficient (with PPP adjustment)
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	0.483 (0.496)	
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	0.545	0.518
CGSS 2012	Same as above	29 provinces of Mainland China (excluding Tibet and Hainan)	11,765	10,326	Self-reported total family income in 2011	0.539 (0.563)	0.515 (0.537)
CFPS 2010	Peking University	25 provinces of Mainland China (excluding Inner Mongolia, Xinjiang, Tibet, Hainan, Ningxia, Qinghai)	14,798	13,837	Total family income in 2009 from all sources	0.530 (0.541)	0.517 (0.525)
CFPS 2012	Same as above	Same as above	13,316	11,785	Total family income in 2011 from all sources	0.532 (0.526)	0.526 (0.517)
CHFS 2011	Southwestern University of Finance and Economics	25 provinces of Mainland China (excluding Inner Mongolia, Xinjiang, Tibet, Hainan, Ningxia, Fujian)	8,438	8,092	Total family income in 2010 from all sources	0.611 (0.633)	0.588 (0.609)
CLDS 2012	Sun Yat-sen University	28 provinces of Mainland China (excluding Tibet, Chongqing and Hainan)	10,612	9,735	Self-reported total family income in 2011	0.536	0.531

(Xie and Zhou,2014)

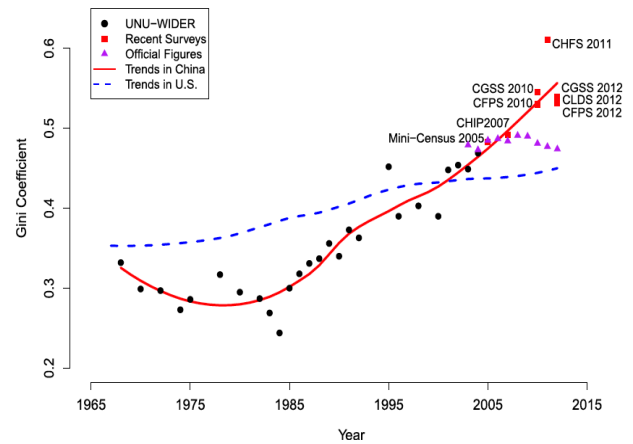
According to Table 1, although the value of

Gini coefficient comes from different organization has little bit different, it still keeping at almost the same level. The Gini coefficients are over 0.5 which are obviously higher than government official data, this evidence shows that the income inequality in China stay at a high level. Especially the 2011, the statistic released by Peking University shows the Gini coefficient up to 0.6. it means the income distribution in China is extremely unequal.

Not only the Chinese Gini coefficient is rapidly increase but also higher than other country in the world. According to Xie and Zhou (2014) and showed in fig.1, although the curve of Gini coefficient trend in U.S. is above the trend curve in China, the trends rise obviously in China compared with in the United States. In 1980, the Gini coefficient in China was lower than 0.3, but it increased dramatically within 30 years but the trends in U.S. was relatively stable during that time. Thus, due to the sharply increase, the Gini coefficient in China is over 0.55 in 2012, which is far higher than that in the United States. Through analyzing the Chinese Gini coefficient from several aspects, it reviews that the Chinese income distribution is unequal and move forward to a more severe situation.

Therefore, I want to find out the reasons of income inequality in China in the next section.

Fig. 1.



(Xie and Zhou,2014)

The Factors which Impact on the Formation of Chinese Income inequality

There are four main reasons of income inequality issue which including regional disparity, education inequality, migration and informal employment (Kim, 2016; Xue, Gao and Guo, 2014)

First of all, different region has different factor endowment and position advantages. The area which has favorable regional advantages will attract more investment, thus provide more high quality employment to local people than other regions. Therefore this group of people will get more income and into a positive cycle.

Secondly, the labor is skilled or not was

becoming the determinant of income status during 1989-2004, so there were many people return to schooling (Luo and Zhu, 2008). The returns of different skill enlarge the gap between richer and poor and the main index to measure the workers' skill level is the years of education. Because of the intense competition of the university entrance exam in China, only a small percentage of students could get the admission into colleges. As a result, those who do not have the chance to go to the university will get low wages when they get jobs.

Thirdly, the large quantity of migrant workers moved from rural to urban in the past ten years. Due to the number of migratory worker is continually increase and their low education level, the less job opportunities could be offered to each person. They only acquire low paying jobs. Therefore, it could be one of the factor of the formation of income inequality in China.

What is more, Chinese income inequality is also caused by informal employment issue, because They found that the income of informal labors is just the 65 percent of formal labors(Xue, Gao and Guo , 2014). Obviously, it is lead to the income distribution in China stay at an unfair situation. Thus the government adopt several methods to solve this problem immediately. The

next section, I will analyze current policy that the Chinese government utilized to deal with income inequality.

The Current Policy that Chinese Government Adopt to Deal With the Income inequality

At various times, the Chinese government adopt different measures intended to improve this problem. During the Hu-Wen decades, “open up the west” strategy is a significant method that the Chinese government utilized (Li and Sicular, 2014). What is more, the government set out “harmonious society” and “scientific outlook on development” policy agenda after 2004,. Under this agenda, relevant government departments implemented several methods to regulate the distribution of social wealth and safeguard social stability which including “agricultural support polies”, “targeted tax reductions”, and “minimum wage increases” (Benjamin, Dwayne, Brant, Giles, 2005).

First of all, Western China is a backward region because of the harsh natural environment, capital shortage and labor shortage. Therefore, the local people surfer from poverty. “open up the west” strategy increase the government

expenditure into infrastructure construction of Western area and improve the working and living environment in order to attract investment and talents with high education.

What is more, China is a big agricultural country, there are 900 million farmers in China (China's National Bureau of Statistic Bureau, 2015) and the real income of rural household is very low. After "agricultural support polies", the rights and interests of famer are guaranteed in China, thus increase the income of rural household in some degree. The rural labor did not need to migrate from rural to urban to seek a position, they can get good return through engaged in agricultural related work.

In addition, "targeted tax reduction" can help the government to reduce people's tax burden, especially those of low-income households due to rise in the minimum threshold for personal income tax.

At last, "minimum wage increases" can improve the wage level of grassroots works and ensures the basic life of the low income population. Thus reduce the income inequality and the basic life of the low guarantor of city has got the initial guarantee. Till now, I have analyzed some the factor which lead to the

income inequality and the solutions that the government utilized to solve this problem based on the Chinese current income distribution situation. However, those methods still have some limitation and did not completely settle this problem in China.

Discussion and Conclusion

Although "targeted tax reductions" reduces the tax bond of middle income population but fail to solve income inequality issue in the long term. "Targeted tax reductions" rise in the minimum threshold for personal income have no impact on the lowest- income population and highest- income population. Speaking in detail, first of all, the lowest-income population don't need to pay the tax even the government did not rise "targeted tax reductions". So this measure cannot improve the fact of low wage of those people. Secondly, because of the wealth gap is too big, the loss of income tax has minimal impact on highest-income group even can be ignored. Above all, "targeted tax reductions" cannot completely improve income inequality in China.

What is more, the Chinese government did not rise the policy relevant to education. The essential reason lead to the income inequality is

the imbalance of education resources (Raa and Pan, 2009). We cannot change the income distribution principle of “more pay for more work”. In 21century, the people who get more education and acquire more knowledge can play an important role in the society and create more social value. However, the education resource is inequality in China. In some poor backward area, the people have no chance to go to school. So the Chinese government need to increase the expenditure to improve the infrastructure construction related to education such as school construction and tuition waiver in order to give the same opportunity to the children of low-income families to accept education. This is a best way to avert they has the same destiny as their parents and improve the income inequality in China from the source.

The review of literature in this chapter has concentrated on income inequality in China. Income distribution is unfair in China which caused by several reasons including regional inequality, education inequality, emigration and informal employee issue. Although the government utilized some corresponding solutions, they are still need to be improved because Income inequality in China is a difficult problem. The government need to improve this

situation by emphasizing the function of education (Xie and Zhou,2014) and increase the expenditure to ensure the right of Chinese citizens that receive education has been further guaranteed. This review could help the individuals get a proper understanding of current income distribution situation and provides a basis idea of income distribution policy making for related government departments. I think this issue is a valuable topic for improve social welfare that should be analyzed in more detail in the future.

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