Changing Inequality in the Chinese Economy

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Measuring Inequality

- Measure of a country's economic performance, supplementing GDP growth.

- Inequality of what? Consumption.

- Should mean real consumption: allowing for price differences. No right way of doing that.

- Should be consumption of persons (not households).

Measurement problems

- Children.
  - Is $c equivalent to $2c for an adult?
  - Does a child count as one person or half?
- Hard to answer: shows how vague a concept inequality is.
- Measurement errors.
  - Presumably quite large.
  - Therefore inequality overstated and poverty overstated.

Measurement

- *Gini Coefficient.* An artificial measure, used because independent of scale. 0=equal, 1=maximum inequality.

- *Poverty proportion.* Can't be what we care about: lower consumption matters more.

- *Explicit view of the distribution.*
  e.g., average consumption of five quintiles, subpopulations defined by consumption level.

Numbers I

- China Gini *for households* (State Statistical Bureau):

1988	0.34	
1990	0.34	(1990s)
1995	0.39	HK: 0.52 and above
1999	0.40	S Asia: 0.32
2000	0.42	
2002	0.45 (CASS)	

Per capita annual living expenditure, China 2003

Quintile	Low	Lower	Middle	Upper	High
Rural	1065	1378	1733	2189	3756
Urban	3056	4557	5848	7547	[17472]

Urbanization

- Percentage proportion of population (UN)

1950	1960	1970	1980	1990	2000
12.5	16.0	17.4	19.6	27.4	35.8

Interpretation

- Great price-level differences between rural and urban.

- Inequality between rural and urban considerably overstated; probably inequality within rural and urban sectors too.

- Increase in inequality over time therefore overstated too. Perhaps not by much.

Reasons

- Urban cost of living higher.
- Shortage of skilled and semi-skilled workers (including professionals).
- High profit income.
- Increased pay of public-sector middle class, for noneconomic reasons.
- Efficiency wages: better paid workers work better, particularly in urban employments.

Assessing Growth Performance

- Increasing low consumption much more valuable than increasing high consumption.
- From GDP growth to growth of consumption, value-weighted:
  - Consumption per head, not output per head.
  - Deduct urban costs from urban consumption.
  - Greater weight for consumption-growth for the poor
- Reduces growth rate from 8% per annum to 5%, or less.

Conclusions

- Urbanization increases inequality, for a while.

- Later, urbanization will reduce inequality. In the next twenty years, migration to urban areas should be enormous. Higher urban incomes will contribute even to the lower parts of the distribution.

- Rural subsidies (e.g. Better schools, healthcare, infrastructure, agricultural subsidies) necessary if inequality is to be reduced sooner.