

Inequality and Politics in China Marc Blecher

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in the Developing World
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- I. Nationally
 - A. Under the structural reforms begun in 1978, China has experienced a massive and very rapid increase in overall income inequality.
 1. 1978 GR = .33 (World Bank, quoted in Griffin and Zhao eds., p. 8) → .45 in 2002 (Riskin/Khan paper).
 2. Even after this massive increase in such a short period of time, Latin Americanists and Africanists think China looks like a communist paradise *cf.* their bailiwicks.
 3. Nonetheless, China's is now more \neq overall than India and Indonesia, and it's approaching the Philippines (.48) and Malaysia (.49), which are the most \neq in Asia (CIA data).
 - B. The single biggest component of China's income \neq is the urban-rural gap.
 1. 2002: 3:1 (up from 2.47 in 1995).
 2. Riskin and Khan describe the 3:1 figure as "almost unheard of in the developing world" (p. 34).
 3. Reflects the extreme urban-bias in China's pattern of growth.
 - C. One indicator of how bad it is is that income \neq within the urban and rural areas is way less than the national figure:
 1. Urban: GR = .32 (2002)
 2. Rural: GR = .37 (2002)
- II. Urban areas:
 - A. Overall income inequality has declined a bit: 2002 GR = .318, *cf.* 1995 GR = .332.
 - B. Wages are distributed increasingly unequally: 2002 GR = .32, *cf.* .25 in 1995.
 - C. But their effect is offset mainly by privatization of housing and reform of non-housing subsidies, which has removed major subsidy to better-off urbanites.
- III. Rural areas:
 - A. Significant drop in inequality from 1995 (GR = .42) to 2002 (GR = .38), though it's still significantly higher than 1988 (.34).
 1. The earlier rise was due to sharply increasing role of wage income, which is very unevenly distributed.
 2. The recent decline is, likewise, due to the spread of rural employment in the past seven years.
 - a. Wage income is still far more unequally distributed than farm income, but with more rural people in it, the overall distribution of rural income can become less unequal.

3. Rural \neq would be much higher were it not for China's extremely egalitarian distribution of land.
 - a. In China's case (as in Korea and Taiwan, to name just two) this is due to the legacy of thoroughgoing land reform.
 - b. This suggests that rural \neq in China stems from a profoundly different root than it does in India.
 4. The overall message here is that rural proletarianization — or call it the rise of the labor market if you like — is the cause of much increased rural \neq .
 5. Another reason for the drop in the last seven years is the reform of rural taxes, which are still highly regressive though less so than they were in 1995.
- IV. Regional (*i.e.*, inter-provincial) \neq
- A. Rose steadily after 1982, but was clawed back a little after 1995
 - i. Due, perhaps, to central government policies to promote developmental balance by investing in the west.
- V. Poverty
- A. In 2004, the number of destitute poor, which China classifies as those earning less than \$75 a year, increased for the first time in 25 years by 800,000 to 85 million people, even as the economy is growing by 9 percent.
- VI. Gender
- A. Overall, urban female earnings were only 15.6% less than male earnings in 1988, and 17.5% less in 1995 — which is relatively low *cf.* other comparable countries.
 - i. The increase was greatest in the most marketized sectors of the economy, which suggests a tendency for widening the gap even further since 1995, though I have not yet identified any more recent data.
 - B. About half the 1995 gap was due to differences in labor market assets such as education and skill — which suggests that much of the source of the gender gap lies outside the labor market itself.
- VII. Class
- A. Very rapid rise of a new middle class that is extremely skillful at establishing a robust beachhead for itself through education and networking, including close ties with the government.
 - i. In many places, the rise of the Chinese bourgeoisie did not just occur with government permission, and was not just a side effect of the structural reforms. Rather, in some places the government actually conjured up the bourgeoisie as an economic force for development and a political ally.

VIII. Welfare

- A. China has basically abandoned public health care provision, and now ranks third from last in fairness of health care provision according to the WHO.
- B. It has done very little to develop a social safety net.
 - I. This is especially striking when:
 - a. put in the context of the burgeoning growth of the economy overall, and the urban middle classes in particular; and also when
 - b. compared with Vietnam (Chris Wong paper), which has done more on social welfare despite its slower growth.

IX. Now let's turn to the politics and policy aspects of these matters. While initially increased \neq was a goal of the structural reformers (under Deng's cynical slogan of "letting some get rich first,"), it has now become a source of concern to the new leadership installed in the last two years. There are signs of some policy initiatives:

- A. The "Great Western Development Strategy" gives greater emphasis to investment in the poorer provinces.
- B. A new program of rural poverty alleviation, including support for:
 - 1. farm production
 - 2. rural education and training
 - 3. emigration from ecologically destitute areas
- C. Measures to support the urban poor:
 - 1. temporary payments for laid-off workers
 - 2. unemployment insurance to replace that
 - 3. minimum income support
- D. These may have helped account for a bit of the mild moderation of \neq in the past seven years.

X. Yet there are real problems with all of these.

- A. The fiscal system which would handle the transfers is dysfunctional and overly politicized in favor of the wealthier areas.
 - I. That would also make any reversal of the regressive tax system more difficult.
 - a. Not that there is significant talk about this issue anyway!
- B. Corruption drains off significant funds too.
- C. The rural poverty alleviation plan — which is the most crucial to alleviating the core \neq problem of the urban-rural gap — depends on further outmigration, which is difficult politically in the face of rising urban crowding.
- D. Raising rural incomes also depends on increasing off-farm waged employment, which is, as we have seen, highly disequalizing.
- E. Finally, the rural economy would benefit from much improved terms of trade. But this would require policies that are now *verboden* under WTO rules.

- XI. That's the policy side. In terms of politics:
- A. There's a very interesting political debate taking place at the level of élites and intellectuals.
 1. Élités: Hu Jintao and Wen Jiabao vs. Jiang Zemin
 2. Intellectuals: new left vs. economic liberals
 - B. Does the government need to worry about the destabilizing effects of ≠? Though from a normative point of view I'm very uncomfortable saying so, I actually think that the government may not need to be so fearful as some say.
 1. We know that the relationship between ≠ and poverty on the one hand and social movements and protests on the other is pretty attenuated.
 2. My research on workers politics suggests that the structural reforms and the central government actually enjoy hegemony even within the working class, including its lower strata.
 3. Worse yet, if there is anything to Sam Huntington's point (in *Political Order*) about the potentially destabilizing effects of certain kinds of reform, efforts to discuss poverty and inequality openly, and do something about them, could even backfire:
 - a. they could raise expectations
 - b. they could legitimate a certain sorts protest around those issues
 - c. they could end up pumping more resources, intended to ameliorate poverty and ≠, into the hands and pockets of local government officials — which has been a flashpoint of protest.