

China's Economic Growth and Inequality

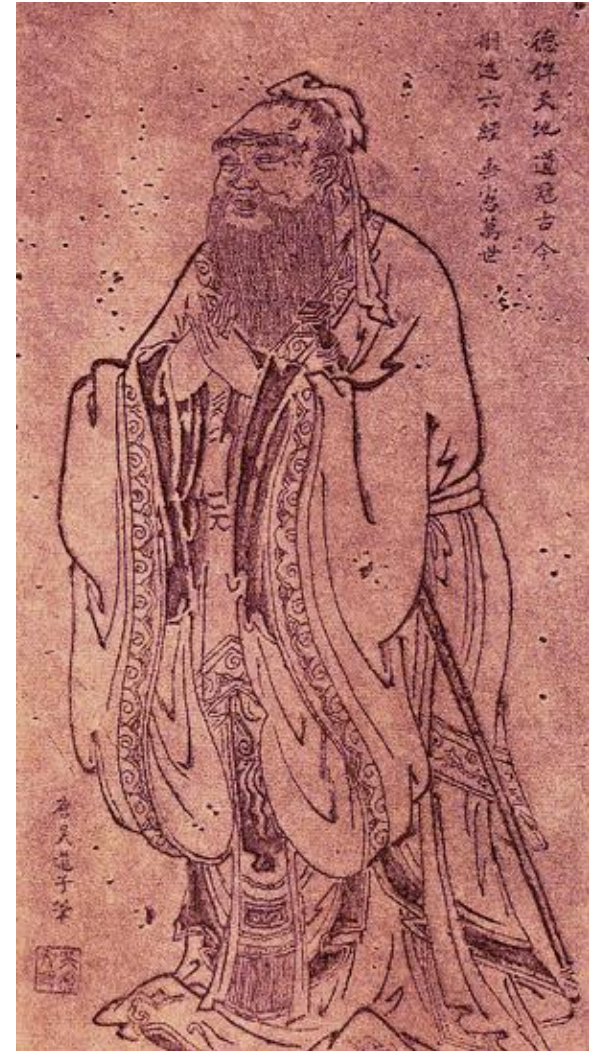
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Outline

- 1. China's Ethics and Economic Thought in Confucian Tradition**
2. China's economic reform and the changing focus on equity and efficiency
3. Causes for the deterioration of the distribution of income since mid-1980s
4. Discussions and Policy Implications

Confucius (551 BC-479 BC)

- China Confucian ethics and economic thought emphasize benevolence(仁); attach importance to people's livelihood and proper income equality.
- “Doctrine of the middle course” (中庸之道)



Confucius-2

- “Overdone is just as bad as underdone”(过犹不及)
- “We should be worried more about inequality than inadequacy”(不患寡而患不均)
- “Tyranny is fiercer than tigers”(苛政猛于虎)

Mencius (372 BC - 289 BC)

- “People are the most important, the state follows, the king being the least.”(民为贵，社稷次之，君为轻)
- Implication for the Confucian thought in the contemporary society

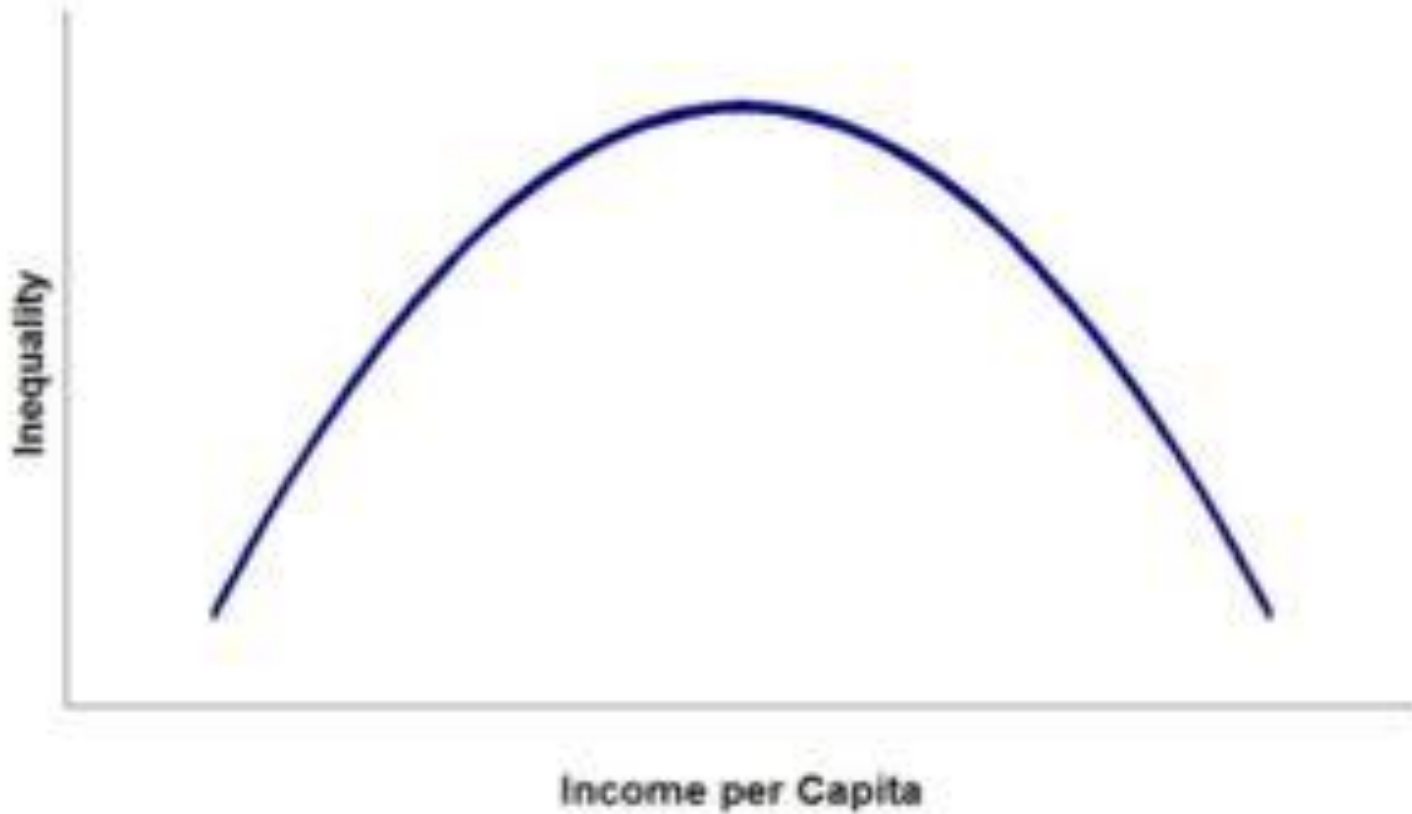


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- Kuznets (1955) proposed an inverted “U” shaped curve to describe the relationship between inequality and economic development

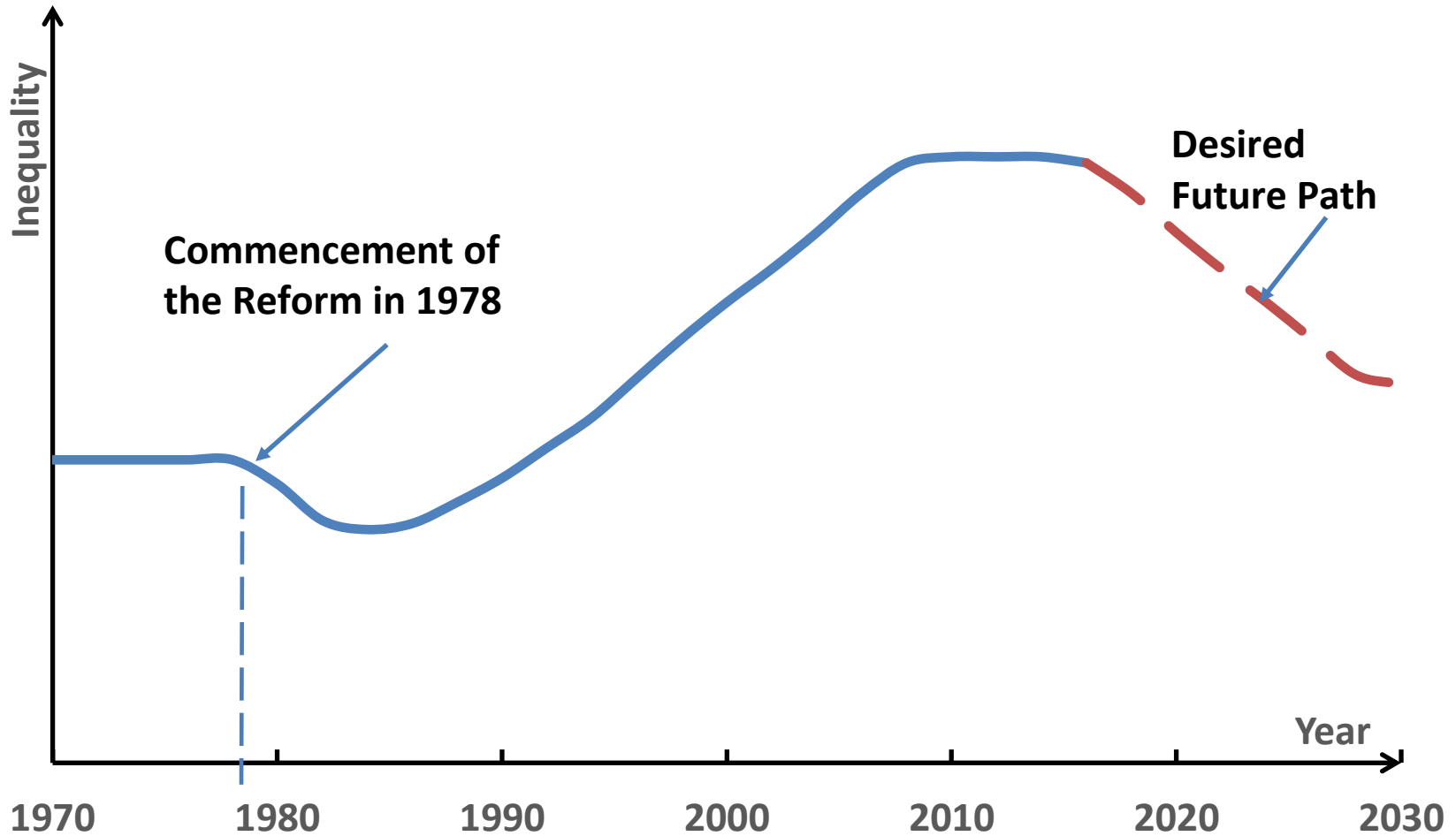
Relationship between Inequality and Per-Capita Income



- But in his best-seller book *Capital in the Twenty-First Century*, the French economist Thomas Piketty analyzes the empirical data on the evolution of inequality in income and wealth and concludes that the rate of return on capital is greater than the rate of economic growth over the long term, resulting in a concentration of wealth and socioeconomic instability.

- During the reform period China has experienced a transition from an economy of high degree of equity and low efficiency/productivity to the one with lower equity and higher efficiency/productivity

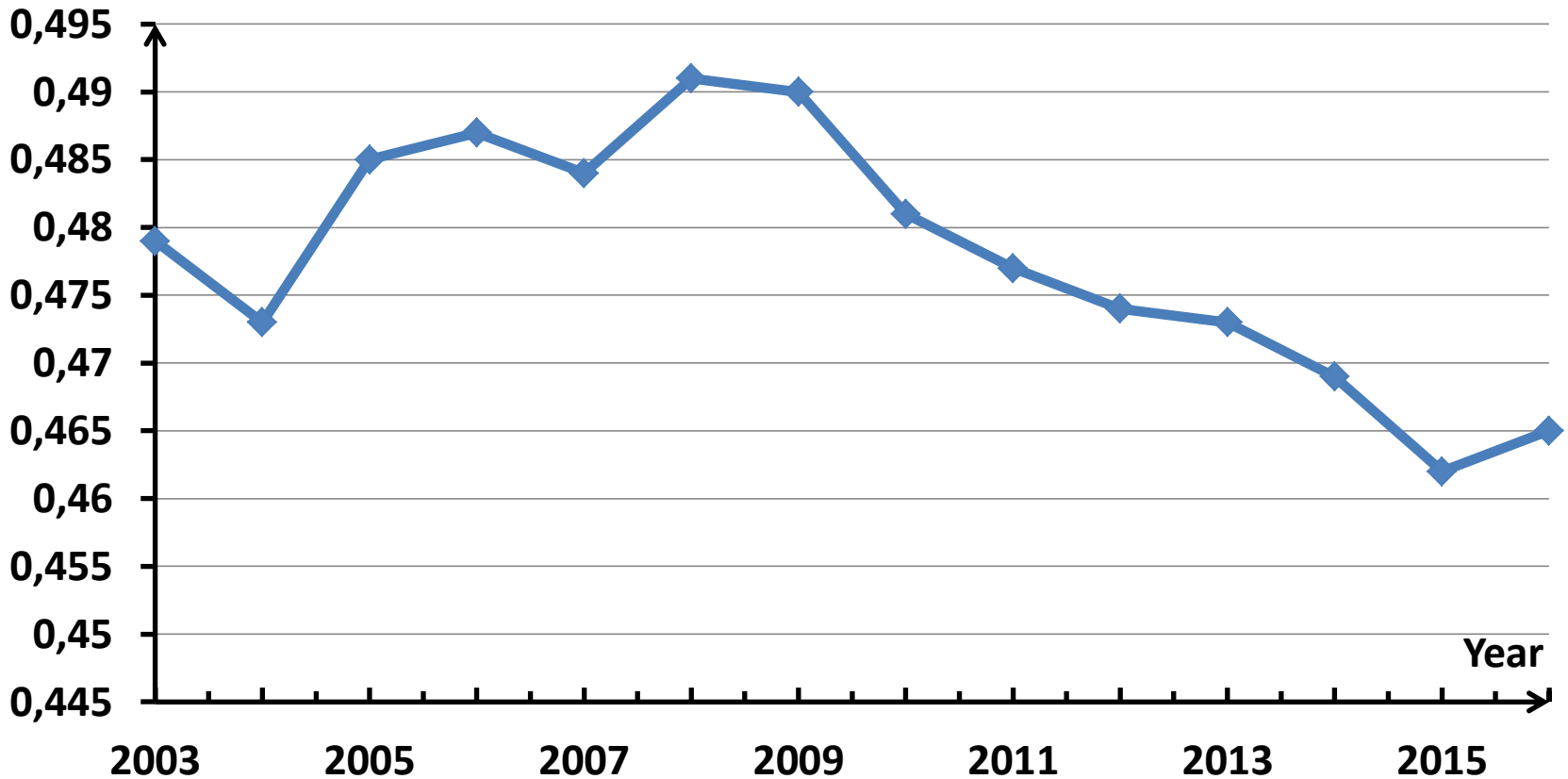
An illustration of China's Changing Inequality



- In 1978, the Gini coefficient was 0.16 in urban areas, 0.31 in rural areas, and 0.33 for the country as a whole.
- Agricultural reform in the early years of the reform led to faster increase in rural income than urban income, and hence improving the overall income distribution in China.

- The market-oriented reforms in urban areas led to a gradual deterioration of the distribution of income in urban areas.
- At the beginning of this century, the Gini coefficient of China's income distribution was close to 0.5, which made China one of the most unequal societies in the world.

China's Gini Coefficient, 2003-2016



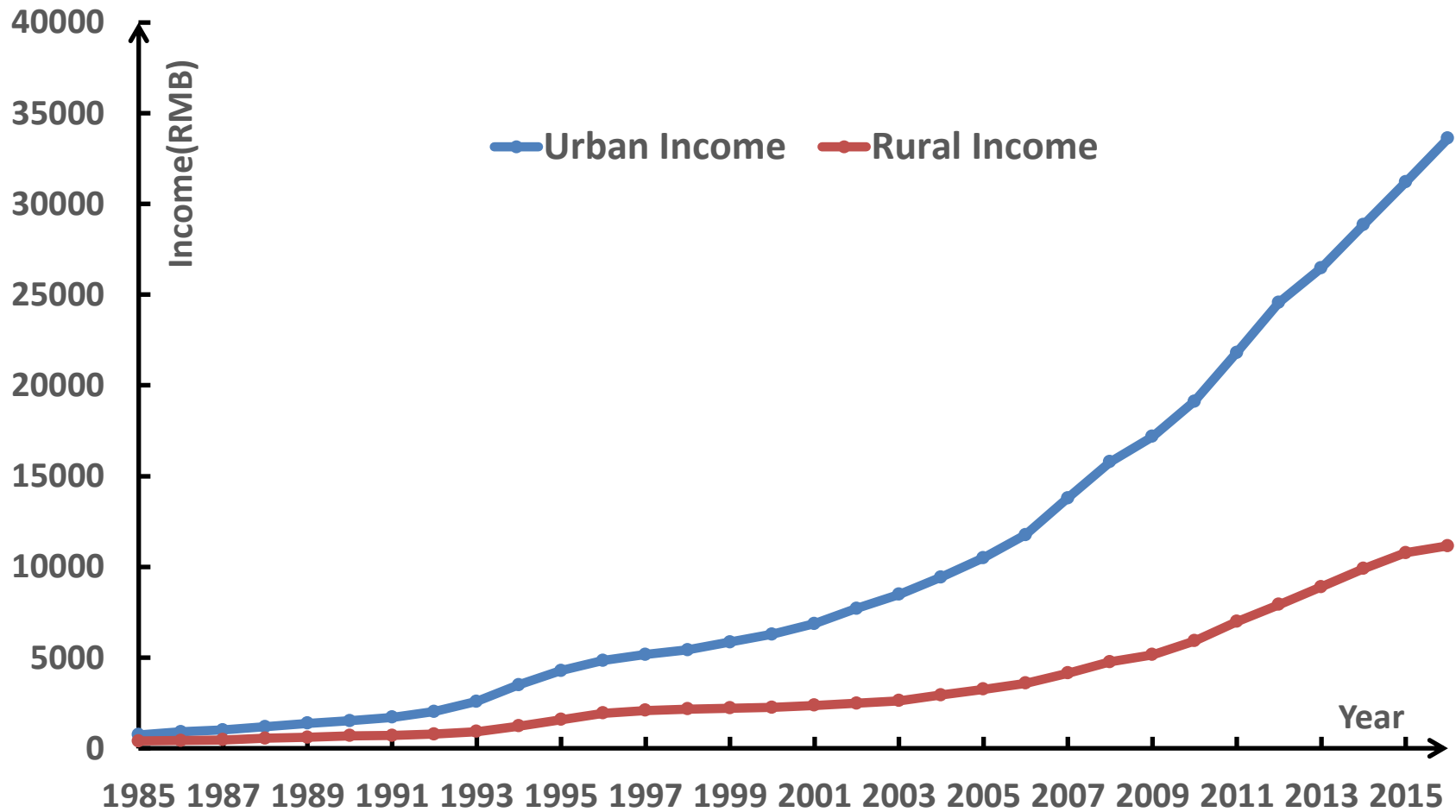
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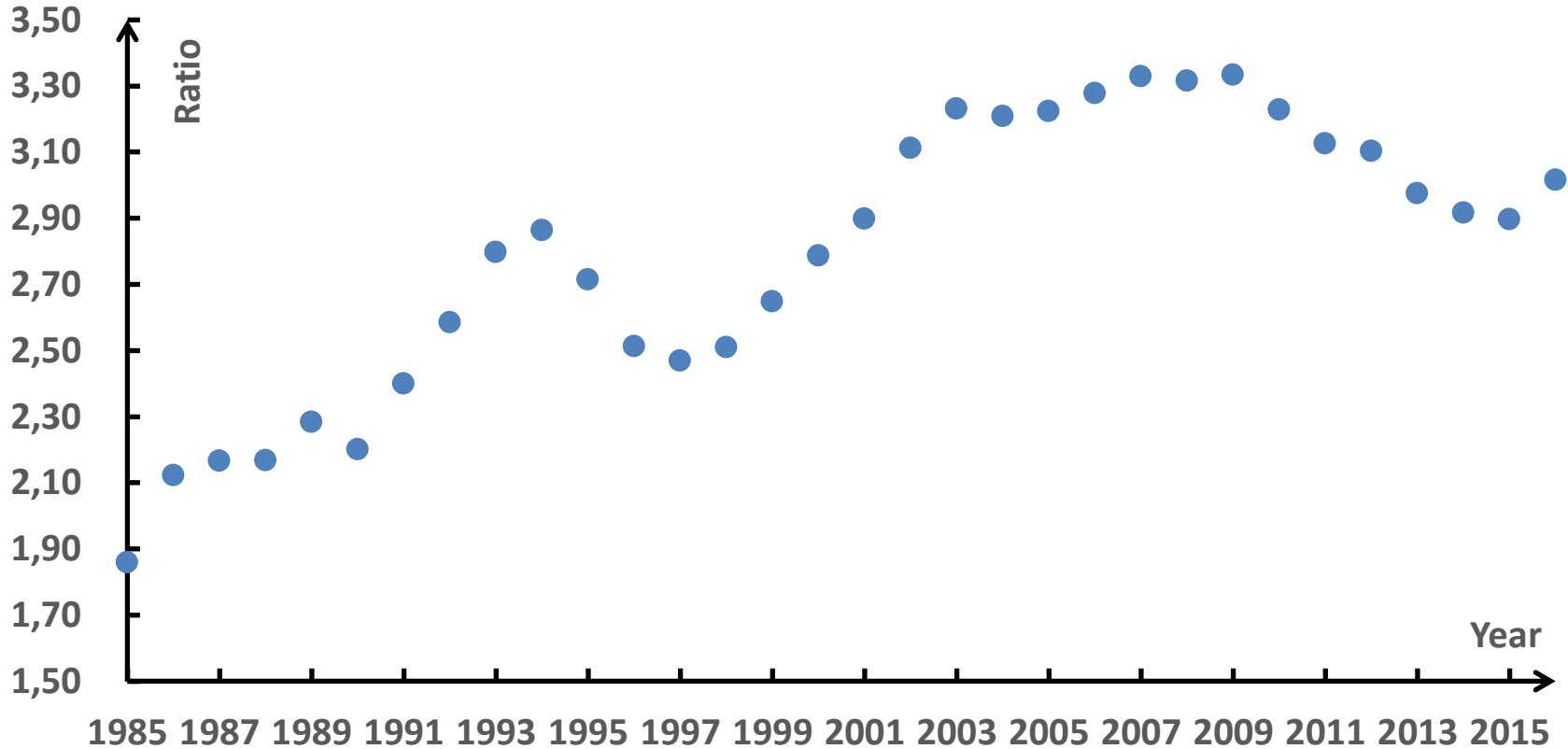
1. Continued Urban-Rural Duality

- Free spatial mobility and restricted social mobility with the household registration system (*hukou*)
- “Semi urbanization” and “shallow urbanization”
- At the end of 2015, population in China’s mainland totaled 1.374 billion, of which 56.1% lived in urban places, only 39.9% with urban *hukou*.

Rural and urban incomes



Urban/Rural Income Ratio



- The Chinese government has decided to convert 100 million rural registered population into urban during the thirteenth five year plan period (2016-20).
- China also plans to lift 70 million poor out of poverty in the same period.

2. Excessive “marketization” of social services

- The excessive “marketization” of basic education and primary health care during the reform, especially the early years of the reform.
- 90% of the rural Cooperative Medical Schemes (CMS) and the “barefoot doctor” system were dissolved after the collapse of the collective economy at the beginning of 1980s.

- In some localities tuitions and miscellaneous fees were collected from pupils' families to supplement the inadequate fiscal funding for compulsory education.
- Some children from poor rural families could not afford to pay the tuitions and fees and hence were forced to drop out.

3. Some institutions led to unequal opportunities in the market

- Under the present land system, the farmers are deprived of major financial gains generated from the non-agricultural use of the land.
- Under the present financial system, it is very difficult for the SMEs and rural households to get loans from the banks.
- The government's direct involvement in micro economic activities has squeezed the space for the development of private enterprises.

- “Rent-seeking” behavior of the corrupted government officials led to unfairness in the market.
- Entry barriers to some industries and the consequent monopoly pricing.
- Significant disparities in fiscal revenues/expenditures across localities.

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1. General thought

- Avoid/correct “overdone” in the direction of moving to an highly unequal society
- To better meet the basic needs of the people could reducing overcapacity in manufacturing and promoting growth

2. Enhance equity in the provision of public services and social security

- Strengthen the role of the government as last-resort supporter to meet the basic needs
- The central government should play a greater role in the financing of compulsory education to reduce the urban-rural and inter-locality disparities
- Use information technology to resolve the problem of "too difficult to go to school" facing the students in remote rural areas

- A nationwide basic pension and a basic healthcare scheme should be available to all the citizens

3. Further reforms toward a more competitive market

- Speed up the reform of the factor market
- Enhance the spatial mobility and social mobility of labor.
- Implement further reforms in the financial system, promote the development of the inclusive financial system, and make it better serve the SMEs and rural households.

- Enhance the equalizing role of the tax system
- Reduce the government direct involvement in the micro-level economic activities
- The National People's Congress and the Chinese People's Political Consultative Conference (CPPCC) should play more important roles in the formation of consensus for future reforms.

Thank You !