Income distribution in China

To each according to his abilities

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Market reforms mean that China is becoming more unequal

“LET some people get rich first,” was the famous instruction of Deng Xiaoping, as China struggled to throw off the shackles of Maoist egalitarianism. Yet the widening gap between rich and poor, and between urban and rural people, is worrying officials, who increasingly fear that it poses a threat to China's social stability.

A correspondent for the Communist Party mouthpiece, the People’s Daily, broached the subject at a news conference given by China’s prime minister, Zhu Rongji, in March. “The general public has voiced fairly strong complaints about income distribution,” ventured the reporter, asking what Mr Zhu thought about the issue. In response, Mr Zhu admitted that, according to 1999 figures, China’s Gini coefficient (which measures income inequality) was 0.39, “close to the internationally recognised danger level”. This, he said was “not yet” a serious problem.

Some Chinese economists, however, believe that the “danger level” has already been passed, and that official statistics considerably understate the income gap. Their worries are plausible: clad in communist flannel for the past 50 years, China may find it harder to tolerate levels of inequality that would cause few problems in a country like the United States (whose Gini coefficient is about the same as Mr Zhu's figure) with a long tradition of social mobility. At any rate, there is no doubt that China is in the grip of widespread discontent. Rising crime and serious, if sporadic, protests are a sign that even though absolute poverty is declining, at least in the countryside, rising relative poverty is resented. And in the cities, absolute poverty is increasing as well.

The Gini coefficient is a commonly used statistical gauge whereby nought represents perfect equality and one would mean that a single person received all the income (sometimes a scale of 1 to 100 is used instead). Chinese officials have tended in the past to accept that a figure over 0.4 should start ringing alarms.

Curiously, just a few days before Mr Zhu gave the figure of 0.39, Xinhua, the official news agency, said the figure stood at 0.458, “greater than the international warning line”. He Qinglian, an economist who wrote a 1998 bestseller called “China’s Pitfall” that looks at social disparities, believes the real figure is “way beyond” the one cited by Mr Zhu. Miss He says it could be close to 0.6. Official figures are unreliable, she says, because they fail to take into account illegal or undeclared earnings which often amount to a substantial proportion of incomes, particularly among the rich. Even using Mr Zhu's figure, China's income distribution is slightly more uneven than India's. If Miss He's figure is closer to the mark, it is among the world's most skewed.

Most Chinese, however, are less concerned with international comparisons or the national overview than they are with their own circumstances relative to their neighbours—in other words, keeping up with the Joneses. Here, even the sharply rising Gini coefficients provided by the State Statistics Bureau for rural and urban China (0.34 and 0.29 respectively in 1999, compared with 0.21 and 0.16 in 1978—see chart) do not fully capture the widely differing pace at which income distribution is changing in different urban areas and in different parts of the countryside.

When the economic reform era began in the late 1970s, urban residents enjoyed guaranteed jobs for life, free housing and health care. Unemployment was virtually non-existent and rural residents were banned from moving into urban areas. There was no private enterprise. Most people’s lives were spartan. But at least most people were not significantly worse off than their neighbours: and in those circumstances, as Tolstoy remarked, a man can endure almost anything.

By the mid-1990s, 9% of urban residents were living below the official poverty line of 1,800 yuan ($217) a year. But in...
some areas the proportion was much higher—30% in Xian, a city of 2.7m people, for example. And in some north-eastern cities that are home to many of the country’s worst-performing state-owned industries, it was even worse, with 60% of Shuangyashan’s 1.8m inhabitants living in poverty. Most of these people were forced into poverty by factory closures and lay-offs. Unemployment benefits, on the rare occasions when they were provided at all, barely sufficed to satisfy their basic food and clothing needs.

At the other end of the spectrum, Chinese economists reckon the country has about 3m yuan millionaires and over 1,000 yuan trillionaires. The richest 20% of urban households receive 42% of total urban income, whereas the poorest 20% receive only 6.5%. Such figures are pounced upon by diehard Maoists in China as evidence of how economic reform has gone badly wrong. The Maoists may have been marginalised politically in the past two decades, but their arguments—still vigorously expressed in a clutch of Beijing journals, make increasing sense to the many people in China who are on the losing side of reform.

After China joins the World Trade Organisation, officials expect inequalities to increase further, as hopelessly inefficient state-owned enterprises collapse and other companies benefit from improved access to world markets. Rural incomes will be further depressed by increased agricultural imports. According to official statistics, the average urban income was 1.7 times its rural counterpart in 1984. By 1999 it was 2.65 times. That gap will continue to widen, driving more country-dwellers into the cities and putting even greater pressure on the urban unemployed. Small wonder then if Chinese leaders are spooked by income disparities that are ominously similar to those that fuelled the revolution 50 years ago.