

6. Income Equality and Social Policy

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Yingfeng Xu

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Topics

Contents

1	Poverty reduction	1
2	Income inequality	6
3	Social policy	12

1 Poverty reduction

A miracle of poverty reduction?

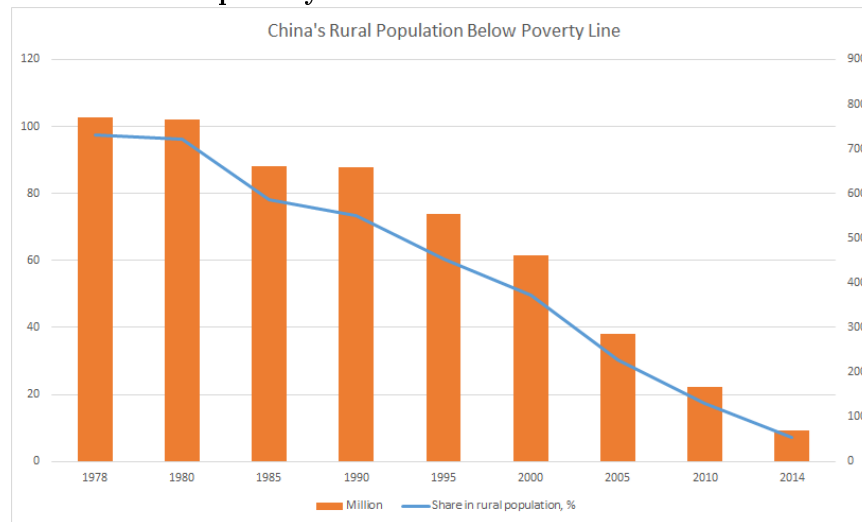
- According to official poverty line of 627 yuan in 2002, the number of those who live in poverty was cut from 250 million (a quarter of population) in 1978 to 26 million in 2004
- Absolute poverty fell as income floor was lifted up, especially in 1995-2005
- According to World Bank's poverty line: \$1 a day or 850 yuan in 2002, the number of people in poverty jumps from 29 million to 114 million
- However, the trend of extensive poverty reduction since 1978 is about the same

Current measure of poverty

- In 2010, the Chinese government raised the poverty threshold to 2,300 yuan of annual cash income, a 92% rise from the level in 2009
- Accordingly, the population in rural poverty became 128 million in 2010, 13.4% of the population with rural hukou, rising from 26.88 million in 2009

- By 2014, the number declined to about 7 million
- The Party plans to lift these people above the poverty line by 2020
- The new poverty threshold of 2,300 yuan is 38.9% of average rural per capita income (5,919 yuan) and 12.0% of urban per capita disposable income (19,109 yuan)

Incidence of rural poverty



World Bank measure of poverty

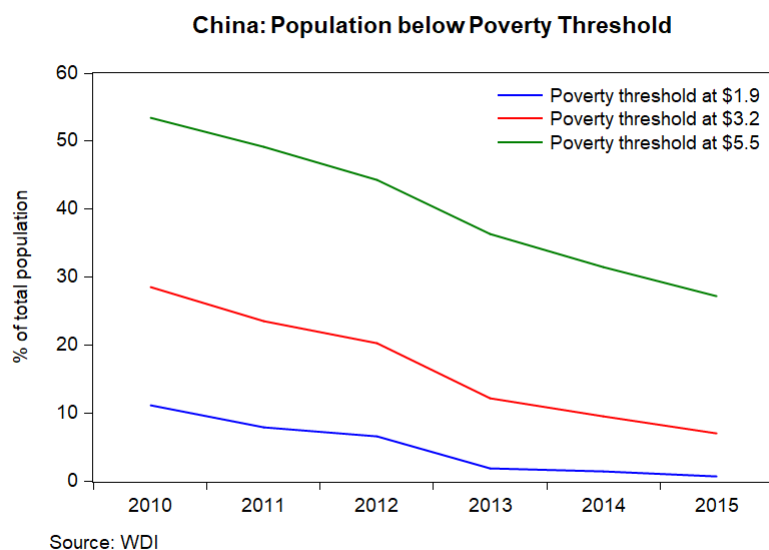
- The earliest international measure of poverty line in the 1990s is \$1 a day as a simple and easily understood threshold
- In 2008, this threshold in terms of *2005 intl \$* was changed to \$1.25 a day
- In 2015, this threshold in terms of *2011 intl \$* was updated to \$1.9 a day for low income countries, \$3.2 a day for lower middle income countries, \$5.5 a day for upper middle income countries, of which China is now a member

How many people in poverty in China?

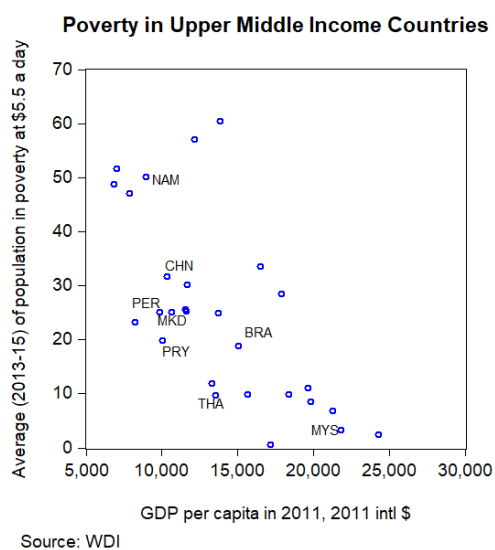
Poverty threshold	People in poverty
Chinese official threshold: 2,300 yuan	3.1% (30.5 million) in 2017
World Bank for LIC: 1.9 (2011 intl \$), about 13.3 yuan	0.7% (10 million) in 2015
World Bank for LMC: 3.2 (2011 intl \$), about 22.4 yuan	7% (95.5 million) in 2015
World Bank threshold for UMC: 5.5 (2011 intl \$), about 38 yuan	27.2% (373.1 million) in 2015

Note: China's GDP per capita is 10,356 (2011 intl \$) in 2011, or \$28.4 a day, agricultural value-added per person (rural) 5,726 yuan in 2010

China: trend in poverty reduction



Poverty in Upper Middle Countries



Incidence of rural poverty

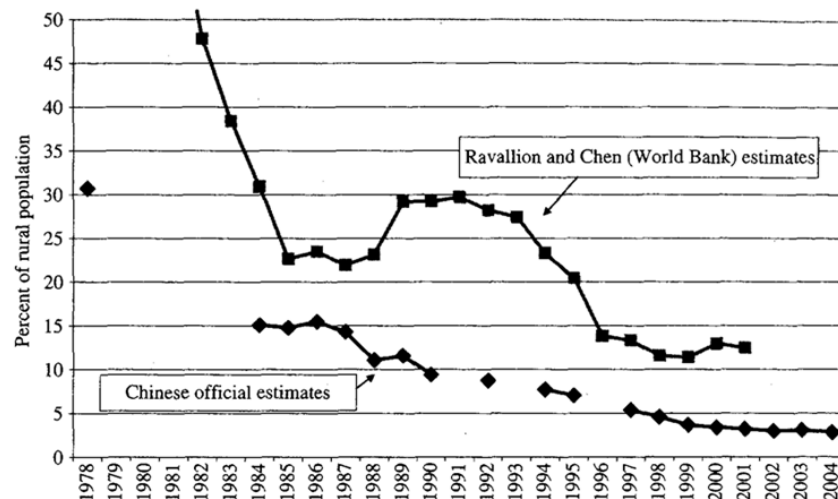


Figure 9.1
Incidence of rural poverty in China

Poverty headcount ratio at \$2 a day (PPP) (% of population)

Period	China	India	Thailand	Malaysia	Philippines	Indonesia
1980-85	95	85	44	12		88
1985-89	84	84	41	12	59	91
1990-94	81	82	26	11	54	85
1995-99	68		18	9	44	79
2000-04	51		16	8	44	67
2005-09	36	76		2	45	56

Bottom 20% of income share, average in 2000-2001, China's number is 5.2%

	OECD	non-OECD	Asia-5
Mean	7.8	6.0	7.0
Median	7.6	6.3	6.4
Maximum	9.6	9.4	8.9
Minimum	5.4	1.8	5.2
Std. Dev.	1.3	2.0	1.7
Observations	19	101	5

Explain poverty trends

- The rural reform in 1979-84 played a decisive role in lifting Chinese people out of poverty
- Hunger was no longer a constant threat by 1985
- After 1985, the growth of agricultural production was reverted back to the slow trend rate
- In 1986, 328 counties (increased to 592, or 20% of all counties in 1993) were designated as poverty counties eligible for special assistance
- Poverty counties are in remote land with harsh natural conditions

How to lift the floor of rural poverty

- Raise farm labor productivity by increasing land-labor ratio: more emigration of rural labor
- More price subsidies for farmers, though many agricultural prices are already above world prices
- Current free-trade negotiation constrains the subsidy space
- More fiscal transfers to fund education, healthcare and other social spending

Urban poverty

- While most poverty is found in remote villages, urban poverty has emerged as a social challenge in recent years

- Urban poverty refers to people without adequate income. A major source is massive layoffs in state-owned enterprises in 1998-2000. About 25 million state employees need to find new employment
- Though migrant workers earn income, they usually live at the urban poverty line

Key points

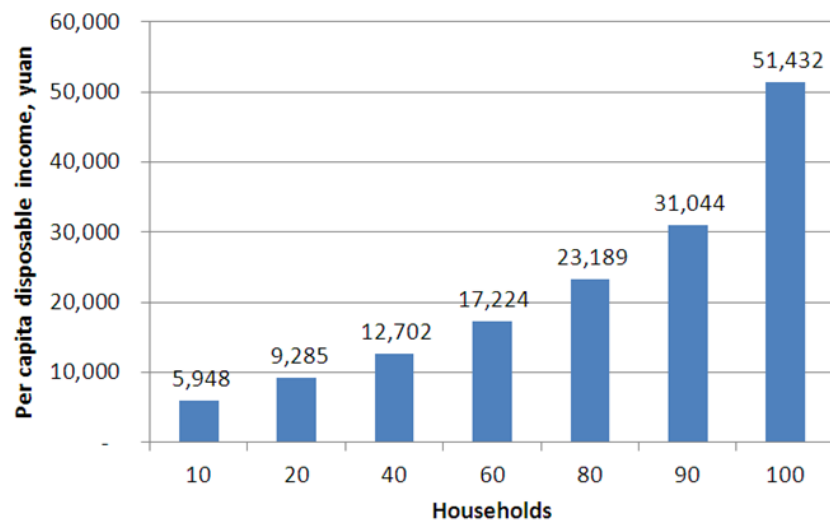
- (Absolute) poverty measure refers to the floor for a decent minimum living standard
- There is no doubt that China has reduced poverty substantially since 1978
- However, 2,300 yuan is out of date, current international standards suggest that poverty is still pervasive in China
- But current scale of pure farming does not enable rural residents to live above the poverty line
- Price subsidies do not offer lasting remedy for raising farm income
- Fundamental solutions need to enable rural residents to leave land, get integrated into a national social insurance system, and have access to universal education and health care

2 Income inequality

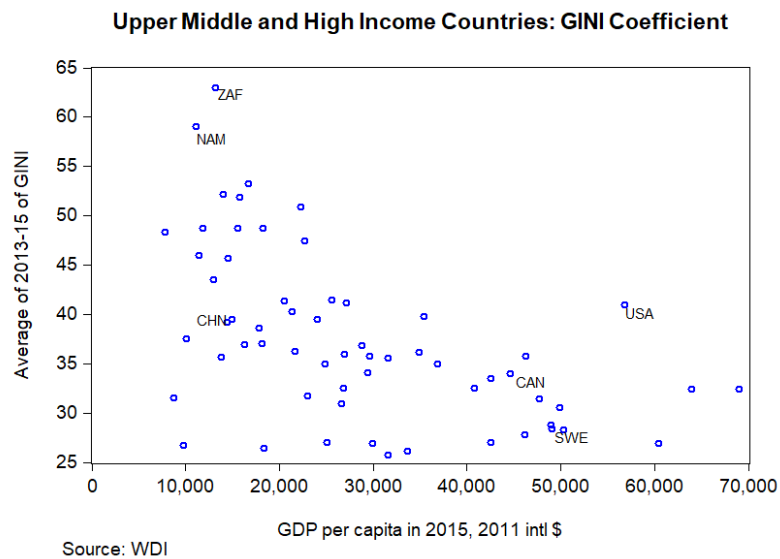
Income inequality

- A common measure of income inequality is the Gini coefficient, ranging from 0 to 1.
- In 1983, China's overall Gini coefficient was 0.28, making China a society of most equal incomes. But in 2001, the Gini coefficient rose to 0.45.
- Gini coefficient is a bit simplistic. A more informative indicator is the shape of income distribution: pyramid shaped or olive-shaped.

Distribution of urban household income in 2014



Gini coefficient in upper middle and high income countries

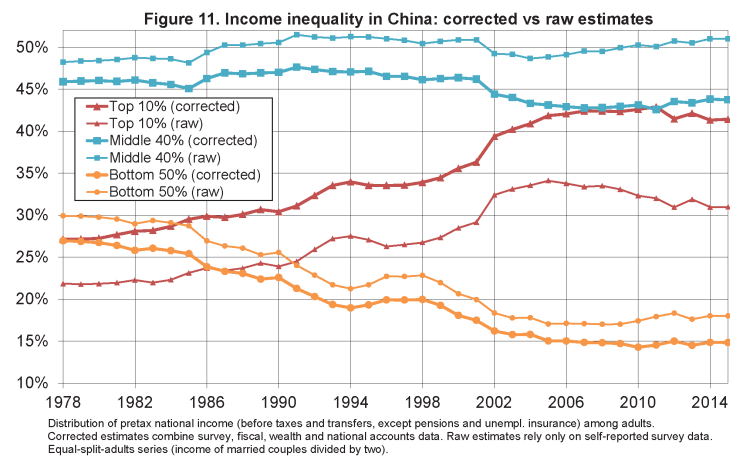


The study of Piketty et al (2017)

- China's household survey misses high income individuals
- This study incorporates additional data from

- high-income individuals (tax data)
- Wealth estimates
- The wealth-income ratio rose from 3.5 in 1978 to 7 in 2015
- Top 10% of individuals earn 41% of income, instead of 31% (uncorrected survey data)
- Top 1% of individuals earn 14% of income, instead of 7% (uncorrected survey data)

Income inequality in China



Income distribution (Piketty et al, 2017)

Table 1 : Income thresholds and income shares in China, 2015

Income group	Number of adults	Income threshold	Average income	Income share
Full Population	1 063 542 632	¥0	¥57 807	100.0%
Bottom 50%	531 771 316	¥0	¥17 150	14.8%
Middle 40%	425 417 053	¥34 442	¥63 210	43.7%
Top 10%	106 354 263	¥117 812	¥239 476	41.4%
<i>incl. Top 1%</i>	<i>10 635 426</i>	<i>¥345 520</i>	<i>¥804 886</i>	<i>13.9%</i>
<i>incl. Top 0.1%</i>	<i>1 063 543</i>	<i>¥1 071 112</i>	<i>¥3 641 463</i>	<i>6.3%</i>
<i>incl. Top 0.01%</i>	<i>106 354</i>	<i>¥6 207 479</i>	<i>¥18 503 392</i>	<i>3.2%</i>
<i>incl. Top 0.001%</i>	<i>10 635</i>	<i>¥30 203 833</i>	<i>¥78 833 979</i>	<i>1.4%</i>

Wealth distribution, (Piketty et al, 2017)

Table 2 : Wealth thresholds and wealth shares in China, 2015

Wealth group	Number of adults	Wealth threshold	Average wealth	Wealth share
Full Population	1 063 542 632	¥0	¥281 718	100.0%
Bottom 50%	531 771 316	¥0	¥36 293	6.4%
Middle 40%	425 417 053	¥84 932	¥184 173	26.2%
Top 10%	106 354 263	¥420 197	¥1 899 019	67.4%
<i>incl. Top 1%</i>	<i>10 635 426</i>	<i>¥2 979 431</i>	<i>¥8 347 004</i>	<i>29.6%</i>
<i>incl. Top 0.1%</i>	<i>1 063 543</i>	<i>¥7 988 140</i>	<i>¥46 156 982</i>	<i>16.4%</i>
<i>incl. Top 0.01%</i>	<i>106 354</i>	<i>¥67 744 170</i>	<i>¥309 247 711</i>	<i>11.0%</i>
<i>incl. Top 0.001%</i>	<i>10 635</i>	<i>¥465 654 285</i>	<i>¥1 623 209 327</i>	<i>5.8%</i>

Rural and urban Gini coefficients

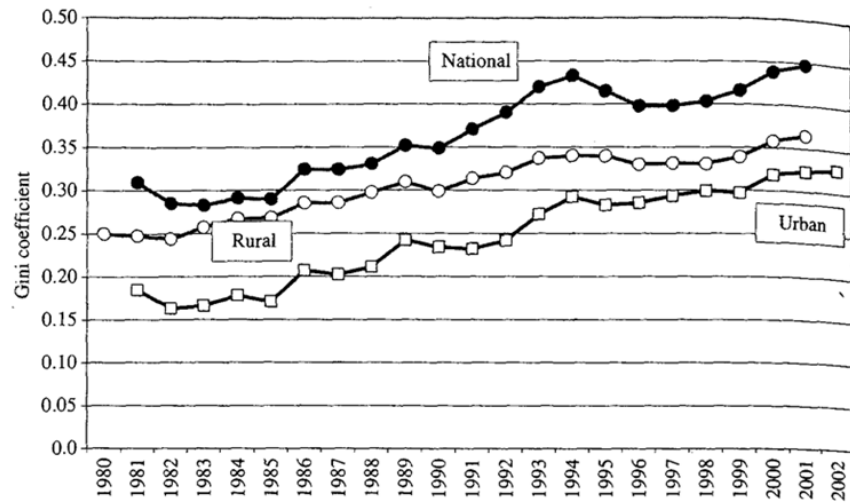
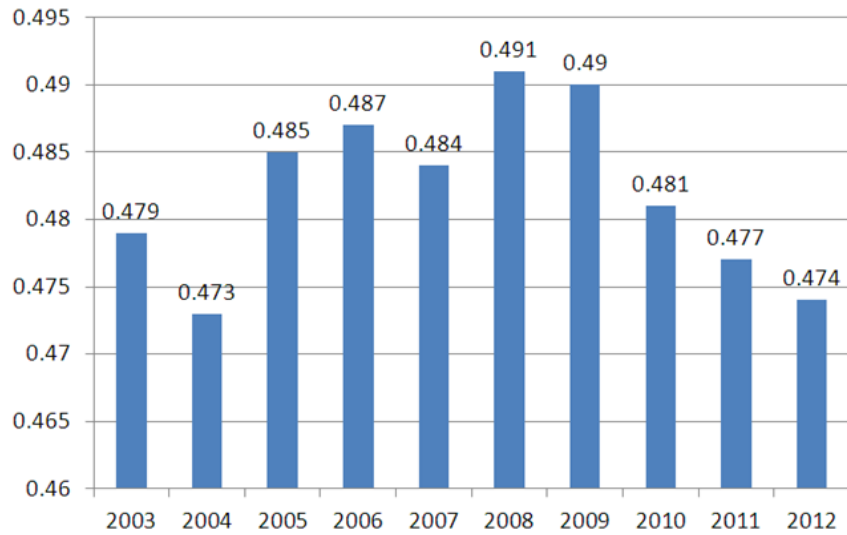
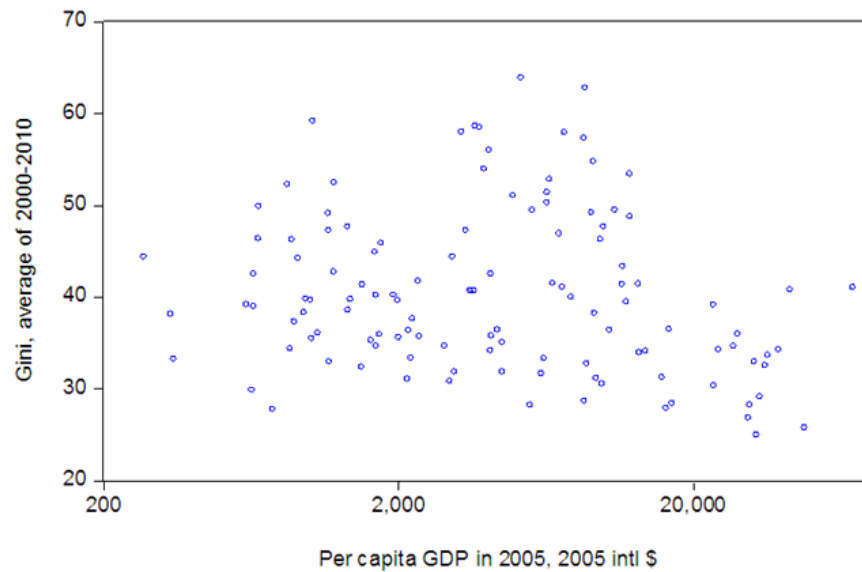


Figure 9.2
Evolution of Gini coefficient

Gini coefficient in recent years



A global view of income inequality



Why has income disparity widened?

- Urban areas in coastal provinces have been the main beneficiary of export expansion
- The increasing rural-urban divide has been the main contributing factor
- Rising rural and urban Gini coefficients indicate:
 - Increasing significance of property income
 - High returns to human capital
 - Corruption, illegal and unjust accumulation of wealth
- Under-development of the re-distributive mechanism through government taxes and transfers

What needs to be done?

- The main factor for China's Gini to be above 0.45 is that rural income floor is substantially below urban income floor.
- In advanced economies, the rural and urban income floors are equalized. And most people fall into the middle class.
- So the key is to bring up rural income floor and expand urban workers into the middle class rank with skill-intensive jobs.

Key points

- The Chinese society is pyramid shaped, in contrast to olive-shaped advanced economies
- Income and wealth inequality is very pronounced in comparison with advanced economies and emerging markets
- The data from household surveys grossly underestimates top income groups and understates true income and wealth inequality
- The past growth model has been geared to make a few rich on the back of the poor
- The future growth model should be inclusive to lift up the people on the floor

3 Social policy

Socialist capitalism or capitalist socialism?

- Compared with the past, future economic growth should be more inclusive and equitable
- Lift rural income floor requires:
 - Reform in rural land system
 - Consolidation in land use and modern farming
- Strengthen labor bargaining power
- Enhance the redistributive role of the fiscal system
- Implement a nationally unified and portable social insurance system
- Equalize access to quality education and health care

Review questions

- What has China achieved in poverty reduction?
- How serious has been the widening of income disparities in China? How is income inequality measured?
- What can be done to improve income inequality?