

“The country’s sharp increase in income inequality is not the result of the rich getting richer while the poor become poorer.”

China’s Post-Socialist Inequality

MARTIN KING WHYTE

Since the death of Mao Zedong in 1976 and the launch of market reforms under Deng Xiaoping’s leadership in 1978, China has undergone dramatic changes that have affected the lives of Chinese citizens in multiple ways. With the step-by-step dismantling of China’s system of centrally planned socialism and other reforms, growth rates have accelerated, producing rising living standards, reduced poverty, and rapid increases in the skyscrapers, highways, and other symbols of a modern society.

**Inequality
On the Rise**

First in a series

However, in many analyses there is also concern about one consequence of these reforms. Whatever the problems of the Mao era, in this view, social equality was a primary goal, and China in the 1970s boasted an unusually egalitarian social order, one that was popular at home and admired by many around the world. Since 1978, in pursuing economic growth at all costs, so this argument goes, the goal of social equality has been abandoned, and China has become an increasingly unequal and unfair society. Many suggest that the widening gaps between rich and poor in China, and the contrasts of such gaps with the egalitarianism of Mao’s day, are creating anger and resentment among the citizens, fueling mass protests that increasingly threaten China’s political stability.

Certainly there is much about this view that is accurate. One can imagine Mao turning over in his crystal sarcophagus in Beijing at the news of foreign capitalists once again exploiting Chinese workers and of Chinese millionaires residing in palatial mansions while many of their fellow citi-

zens lose jobs, housing, and health insurance, with some destitute Chinese even forced to sell their blood to buy food. However, this picture of a nation transformed from egalitarianism under Mao into rampaging inequality over the past three decades is at best oversimplified, and in some respects dead wrong. China at the end of the Mao era was, in reality, a highly unequal and unfair society, and while the country today is much more unequal in many respects, most Chinese view the current social order as fairer.

THE SOCIALIST LEGACY

The social revolution carried out by the Chinese Communist Party (CCP) after 1949 under the leadership of Mao (with Deng as one of his leading lieutenants) was aimed at transforming China from a very unequal, petty capitalist society into a centrally planned socialist economy modeled after the Soviet Union. That transition was completed by 1956. Until Mao’s death two decades later, familiar institutions of a state socialist system shaped the contours of inequality in China.

In the countryside, the Chinese-style collective farms created in 1955–56 were consolidated into larger variants, people’s communes, in 1958. In the 1960s and 1970s, following Soviet precedent, peasant families retained small private plots and could raise food and a few animals there for their own consumption, or for sale in nearby markets (but not in the cities). However, most of their labor time and energy were spent in collective field work directed by production team cadres, with the efforts of family members recorded in work points whose value would not be known until after the harvest. After 1960, strict enforcement of the CCP’s household registration (*hukou*) system prohibited villagers from leaving farming or their villages to seek better opportunities in the cities.

As a result, while inequalities among families in a production team were relatively modest, income

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differences across teams, brigades, communes, and rural regions were larger. Moreover, income and other gaps between villagers and favored urbanites became much wider than they had been before the revolution, when no restrictions prevented geographical and social mobility. Ironically, the result of China's rural revolution was a system of de facto socialist serfdom for the peasantry, who constituted over 80 percent of the population.

In the urban economy, socialist transformation meant that all private ownership of businesses and other productive assets disappeared after 1956, and all production and employment were organized into state-owned or state-controlled firms subject to bureaucratic rather than market regulation. Upon completing school, urban youths were bureaucratically assigned to jobs, and with each job came a bureaucratically designated ladder of wage grades, a package of benefits, and often assignment to subsidized housing, with access as well to dining, child care, recreational, and other facilities. Such facilities frequently were organized within work unit compounds, many demarcated by walls with gatekeepers.

THE IRON RICE BOWL

The security of this employment package in state-owned enterprises (SOEs), often referred to as the "iron rice bowl," contrasted sharply with the insecurity of jobs, incomes, and much else before the revolution. However, individuals were expected to accept their assignments and continue their labors unless bureaucratically transferred, and they had very little ability to choose their first jobs, seek other work, move elsewhere, or refuse to accept a transfer. In some periods authorities mobilized educated youths by the millions to leave cities and settle down in the countryside, rather than assigning them urban jobs.

As in the Soviet Union, within any urban work organization there were relatively modest differences in wages, the size and quality of housing assigned, and other benefits, although those with the highest ranks were often entitled to special privileges, such as access to a chauffeured limousine and special medical clinics and vacation resorts. The paucity of supplies in state stores in combination with strict rationing of grain, cooking oil, cotton cloth, and much else also tended to keep urban consumption differences within modest ranges.

However, as in the countryside, socialism did not equalize or redistribute across urban organiza-

tions and locales. Those working in high priority organizations located in China's largest cities operated under higher wage scales and enjoyed access to more generous benefits and scarce commodities that were not available to those at the lower end of the bureaucratic hierarchy. As in other state socialist systems, inequality was organized more in terms of local variations in organizational affiliation and rank, rather than via differential incomes and property that translated into class differences in purchases and lifestyles. (From 1962 onward Mao convulsed society with class struggle campaigns, even though China lacked social classes in any meaningful sense after the socialist transformation was completed in 1956.)

The Cultural Revolution launched by Mao in 1966 added new radical elements to China's Soviet-inspired organizational template. All material incentives, production bonuses, and prizes were eliminated, and any remaining displays of status differences in clothing or adornment (even signs of rank on military uniforms) became taboo, leading to the fairly uniform (and unisex) style of dress that struck visitors to China during the 1970s. Also, intellectuals, political elites, and professionals were required to spend extended periods away from their offices, cleansing themselves of their elitist attitudes through manual labor and other menial tasks (for example, surgeons emptying hospital bedpans).

University entrance exams were abolished, and youths finishing secondary school had to work for several years in a commune, factory, or military unit before they could even be considered for college, with selection based on recommendations from workmates and supervisors, rather than on academic records or test scores. These Cultural Revolution reforms all pursued greater social equality by "leveling down" to the "masses," rather than through any affirmative action assistance to the disadvantaged.

To sum up, the increased equality at the end of the Mao era was of a very unusual and selective sort. Primarily it entailed reduced gaps in incomes, consumption, and lifestyles within each local unit, but across organizations and locales, and across the rural-urban divide, if anything inequalities increased. Furthermore, the remaining inequalities were not ones that Chinese citizens were likely to view as fair, since they were based on where you were born (for villagers) or where you had been bureaucratically assigned (for urbanites), rather than on your own talents and efforts. Within orga-

nizations Chinese were likely to see such patterns as inequitable because they violated the socialist formula of “rewards according to contributions.” Mao condemned any desires for rewards or advancement as “bourgeois” sentiments.

THE REFORM MODEL

After Mao's death, Deng emerged as China's reform leader. The Cultural Revolution's “leveling down” policies were repudiated. Nationwide university entrance examinations were revived in 1977. In 1978 authorities launched a more fundamental departure from planned socialism and toward market reforms, though in a step-by-step fashion rather than via “big bang” rapid privatization. Starting in the 1950s Japan and other East Asian societies had implemented a development strategy that combined rapid economic growth with improved popular living standards. With some oversimplification, we can characterize Deng's strategy as abandoning Soviet-style central planning and adopting instead a version of the Japanese development model.

At the core of this new model was a commitment to implement whatever policies and institutional changes were necessary to stimulate productivity and economic growth in a labor-intensive, export-promoting, market-driven development process, even if by doing so inequalities increased. But the abandonment of Mao-style egalitarianism was more direct than this statement implies. Deng rejected Mao's egalitarianism as “everyone eating from the same big pot,” an approach he saw as destroying incentives. Instead, he argued, “it is good to allow some people to get rich first,” as this would stimulate others to try to do so as well. Much of the reform effort focused on fostering competition and providing rewards (to organizations and localities as well as individuals) to stimulate productivity and economic growth.

The specific institutional changes adopted after 1978 are well known and too complex to summarize here, but a few deserve emphasis. Market reforms began first in the countryside, with de-collectivization of agriculture and the dismantling of communes allowed and then required. This resulted in a return to family farming, though without rural families enjoying full private property rights to their fields. Prior restrictions on rural marketing and family businesses were eliminated, and very

rapidly village families redirected their energies to growing produce and making handicrafts for sale in the cities, and to establishing factories that made goods for sale elsewhere and even overseas. Migration restrictions were relaxed, and soon millions of rural migrants began leaving their villages to seek better opportunities, particularly in the cities.

By the mid-1980s the rapid improvements in agricultural production and rural incomes stimulated by these changes reduced the gap between average urban and rural incomes, while rapid increases in food production and marketing enabled rationing in the cities to be phased out, a development that in turn facilitated more rural to urban migration. However, China's migrants, who numbered well over 100 million by the mid-1990s and over 200 million by 2010, in virtually all cases still retained their agricultural household registrations and were thus not entitled to full urban citizenship rights and the benefits enjoyed by urbanites.

Two trends early in the reform period were potentially harmful to rural interests in spite of the increased opportunities generated by de-col-

lectivization and non-farm employment. The altered fiscal terrain that accompanied these reforms led to a collapse of most Mao-era village medical insurance plans, producing anxiety about how to pay for medi-

cal bills out of pocket. (Even so, rising incomes and improved diets enabled rural health and life expectancy to improve, despite the decline in medical insurance coverage.) In addition, the rising opportunity costs of extended schooling and the weakened financial base of rural schools led to sharp drops in rural secondary school enrollments in the 1980s.

Both of these trends were eventually addressed through new state policies—by a government effort after 1986 to make enrollment at least through nine years of schooling compulsory, and by an effort launched in 2003 to develop new but very basic medical insurance plans in all Chinese villages. As a result, by 2010 about 90 percent of rural residents were once again covered by medical insurance, and almost all rural children were completing lower middle schooling.

INEQUALITY REDUX

In the cities, market reforms began in the 1980s with a strategy that the economist Barry Naugh-

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ton has termed “growing out of the plan.” This involved allowing private and foreign enterprises to operate in China for the first time since 1955, while initially not privatizing state firms. However, the latter were required to become more efficient in order to compete with the new entrants, rather than being able to rely on bureaucratically guaranteed funding and distribution of their products. After 1979 China established special economic zones (SEZs) along the coast where tax relief and other incentives attracted foreign companies to set up factories.

Foreign direct investment began to pour in, soon making China the largest FDI recipient among developing countries. Within a few years sleepy rural towns designated as SEZs, such as Shenzhen, were transformed into major cities, swelled by waves of migrant laborers attracted to the new jobs offered via foreign investment. Migrants have become vital to the economies even of long-established cities. They do much of the construction and hauling work as well as laboring in domestic and hotel services, sales, and manufacturing—though they continue to suffer systematic discrimination in wages, benefits, and everything else (including having their children excluded from urban public schools, at least until quite recently).

As a result of these and other market-oriented reforms, China’s coastal cities and SEZs began to develop very rapidly, and after the mid-1980s the gap in average incomes between the coast and the interior, and between urban areas in general and the countryside, began to widen once again. On the latter point, available evidence indicates that the ratio of the average household income of urbanites (not including migrants) to rural households was something on the order of 3:1 before the reforms. It closed slightly to approximately 2.5:1 in the mid-1980s, but then rose to more than 3:1 again by the early 1990s, and by 2007 had widened further to about 4:1. (Even if urban migrants and their lower incomes are included in the calculation, China’s urban-rural income ratio is currently around 3:1, among the most extreme on earth, comparable to nations such as Zimbabwe and South Africa.)

NO GUARANTEES

During the 1990s two major institutional reforms further altered the structures of inequality affecting Chinese cities. First, China’s leaders abandoned their previous strategy of “growing out of the plan” by tackling the reform of remaining

SOEs. The new effort aimed to preserve, reform, and provide enhanced funding for the largest and most important state-owned enterprises, while requiring smaller and less profitable SOEs to either merge, privatize, or go out of business.

Within remaining SOEs, the aim was to “smash the iron rice bowl” of lifetime jobs and guaranteed wages and benefits by mandating that managers reward and promote their most essential employees, while laying off large numbers of others deemed expendable. From the mid-1990s into the early years of the new millennium, millions of SOE workers were laid off, and SOE employment totals plummeted (from 113 million in 1995 to 41 million in 2002). Although efforts were made to soften the blow through basic subsistence payments and by ramping up re-employment service agencies, for a decade Chinese cities had millions of former SOE employees who had thought their livelihoods were secure but now found themselves scrambling to find new ways to earn a living.

However, the downsizing of SOEs had another, more positive side. From the 1990s onward, growing private and foreign businesses provided employment alternatives to SOEs, and increasing numbers quit their state jobs to join such firms or to start their own companies. So two modes of exit from state employment developed that had quite different implications—*xiagang* (layoffs) and *xiahai* (“going down into the sea”—of private business). For youths finishing their schooling in urban areas after the early 1990s, these reforms meant competing for jobs in a revived labor market, rather than accepting a bureaucratic assignment.

Joining or starting a private business held out the possibility of becoming very rich, though also the peril of failing and becoming destitute, as in other market economies. In 1990 stock markets were opened in Shanghai and then Shenzhen, so that both state and private firms could by being listed gain access to equity funding, a development that enabled urbanites fortunate enough to have extra funds to try to get rich by playing the stock market.

The other major urban reform of the 1990s was the mass privatization of housing. Most urbanites until then had lived in cramped apartments rented from their work organizations or city housing bureaus. A government-launched initiative to privatize housing at first mainly involved providing families with subsidized financing to enable them to buy the apartments that they already lived in.

By 2005 more than 80 percent of all urbanites had become homeowners in this fashion.

But that was not the end of the process. Once they owned their own apartments, many urbanites began to play the housing market, buying up additional housing, renting out their own apartment while moving elsewhere, or even starting up housing development companies to take advantage of the pressing demand for new and better housing fueled by both Chinese and foreigners in rapidly expanding cities. (By 2011 China had reached the milestone of having 50 percent of its population living in cities, up from about 20 percent at the time the economic reforms were launched.)

CONSPICUOUS CONSUMPTION

These trends had several important implications for social inequality. First, it became less common for an organization's managers, workers, and janitors to live together in work unit housing compounds. Those who could afford it could now rent out or sell their current apartments and buy a flat in one of the new apartment complexes that were springing up, or even purchase a mansion in one of the gated and guarded compounds built to cater to the truly wealthy. At the same time many urban families living in older neighborhoods found their homes condemned and destroyed to make way for construction of such new housing complexes, and thereby were forced to move to more distant apartments provided as compensation.

By 2010, work unit housing complexes no longer dominated China's urban housing patterns. Instead cities increasingly displayed the full range of housing from run-down and crowded working class neighborhoods to glittering new apartment towers and fancy detached homes with all the amenities. Income rather than bureaucratic affiliation increasingly became the sorting device for urban housing, as it had been in China before 1955.

An additional implication of these changes is that a portion of urban residents ceased to rely mainly on wage or pension income, but instead derived a growing share of their incomes from property they owned—from housing, from businesses, and from investments. At the top of the income pyramid created by the reforms arose large numbers of millionaires and even billionaires, many of them deriving their wealth from hous-

ing development firms or other private business empires, their newfound riches often made possible by the close ties they cultivated with political elites. China now has more than one million US-dollar millionaires according to media estimates, and perhaps 200 to 600 billionaires.

Today this new wealth makes possible conspicuous consumption that would have been unimaginable, not to mention politically suicidal, under Mao. In addition to lavish mansions, China's newly rich display a growing demand for private jets, for very expensive foreign cars (Ferraris, Lamborghinis, or Maseratis, with a Porsche or Mercedes for those with more modest tastes), for foreign travel and foreign schooling for their children, and for the luxury clothing, nightlife, and private clubs that the very rich enjoy in other countries.

Below this layer of the super-rich is a growing Chinese middle class, mostly urban and increasingly well-educated holders of white-collar jobs. The growth of the middle class has been fueled not only by China's hectic growth, but also by a massive expansion of higher education in recent years.

At the time of Mao's death, China had barely half a million college students nationwide, a number much smaller than at the end of the 1950s. But in the reform era college enrollments expanded steadily, to 1.5 million in 1985, over

2 million in 1990, and close to 3 million in 1996. In 1998 China's leaders made a decision to expand college enrollments at a breakneck pace, exceeding 20 million by 2008.

This extraordinary expansion has several implications for social inequality. Most of the added college spaces have gone to urban youths, with children of villager and migrant families facing much greater obstacles in completing upper middle school and passing college entrance exams. Overall, about 75 percent of those who take the college exams now gain admission, so the university dreams of urban parents (almost all with only one child) are now more in reach than is the case in much richer societies.

However, the unprecedented expansion of higher education has created new problems, including a growing number of college graduates who cannot find white-collar work, ending up instead in what is called the "ant tribe" (*yizu*), those who remain unemployed or compete with rural migrants for menial jobs. The standards for be-

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ing considered middle class are also rising, with a well-educated man in some large cities increasingly expected to own his own apartment and car before he can hope to find a young woman willing to marry him. So conspicuous consumption and status competition reverberate up and down the stratification hierarchy.

UNEQUAL, BUT MOBILE

China's reforms and impressive economic growth since 1978 have transformed inequality patterns. Social stratification in China today is a complex hybrid. It retains some features of the socialist era—for example, the CCP's political monopoly, state supported and controlled large firms dominating many lines of business, and paths to upward mobility involving political vetting and promotion in the party-state bureaucracy, not to mention the *hukou* system that aggravates China's largest and most inequitable cleavage, between city and countryside. At the same time, contemporary social stratification also features a re-emerging class hierarchy based on education, income, and personal assets obtained through competition in China's revived markets.

Overall it is clear that China is a much more unequal place than it was in 1976 when Mao died, at least in terms of income and personal wealth. At that time nobody possessed substantial personal wealth, the maximum monthly income was only about 800 yuan, and China's national Gini coefficient of income distribution (a statistic that can range from 0=total equality to 1=total inequality) was below .30, a very moderate figure compared to other societies. Today things are very different, with millionaires and even billionaires in growing numbers, and with China's Gini coefficient now estimated at close to .50, among the highest in the world (though still below the levels of nations like South Africa and Brazil).

The country's sharp increase in income inequality is not the result of the rich getting richer while the poor become poorer. China's extraordinary economic growth has raised the living standards of most of the population dramatically, and the World Bank estimates that more than 500 million Chinese have been raised above internationally recognized poverty lines. Thus many fewer Chinese are desperately poor today (less than 10 percent, rather than over 60 percent at the start of the reforms), but the income of the rich has been

increasing faster than the income of the poor. The tide of economic development is lifting almost all Chinese boats, but at unequal speeds.

Despite increased inequality, China today is also not a society in which most individuals are locked in place by where they were born or assigned, thereby forced to accept the work, compensation, and benefits decided for them by socialist bureaucrats. Instead, individuals can and do change jobs, move to other locales, start businesses, and plan strategies to try to get ahead without worrying that they will be criticized for having bourgeois attitudes. Bureaucratic officials still wield considerable power in China's hybrid stratification hierarchy, but they don't have the nearly total control over those they supervise that they did in the Mao era.

Socialist serfdom has also ended, with hundreds of millions of villagers leaving farming for local nonagricultural jobs or for work in the cities. Even though the rural-urban income gap is still huge and growing, and migrants face systematic discrimination and denial of basic citizenship rights in the cities, most migrants regard their opportunities as far preferable to staying in the countryside, as Mao forced them to do. In some ways China has returned to a familiar social order, as stark inequalities combined with much upward and downward social mobility were the rule in China in past centuries.

Surveys that colleagues and I have been conducting in China in recent years (in Beijing in 2000, and then nationally in 2004 and 2009) indicate that, despite the dramatic increases in income gaps unleashed by reforms, most citizens feel optimistic about their own chances to get ahead. A majority also believe that talent, hard work, and schooling are the primary routes to mobility, rather than viewing most of the benefits of the reforms as a monopoly enjoyed by the already rich and powerful.

Given these survey findings, the mass protest incidents that have become ever more common in recent years are mainly a response to abuses of power and other procedural justice issues, rather than being fueled by feelings of distributive injustice and anger at the rich. However, whether China's leaders can continue to generate economic growth rapid enough to sustain popular acceptance of current inequalities, while also keeping suspicions of system unfairness at bay, remains to be seen. ■