

# Soaring Income Gaps: China in Comparative Perspective

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*Abstract: Despite repeated pledges by China's leaders to reduce the gap between rich and poor, income inequality has continued to rise. China's Gini coefficient, a standard measure of income inequality, was higher in 2007 than in the United States, Russia, or most other societies. Why have China's income gaps increased so fast and so far, despite programs designed to promote greater equality? Standard explanations, such as income gaps inevitably rising with rapid economic development or in a post-socialist transition, cannot explain the Chinese case. Paradoxically, the sharp rise in inequality is driven more by the legacy of China's socialist system than by market forces or the global economy. It will not be possible to bring China's soaring income gaps under control unless the new leaders who took power in 2012 – 2013 are able to make much more fundamental reforms than have been attempted to date.*

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During the more than three decades since China's market reforms were launched in 1978, income gaps between rich and poor citizens have increased sharply. When Mao Zedong died (in 1976), no Chinese citizen owned substantial property or could live on inherited wealth. The maximum monthly salary was about 800 yuan, while beginning factory workers earned around 30 yuan (and most rural commune members much less). Substantial as these income gaps were, they are nothing like the gaps visible in China today. A minority of Chinese (close to 100 million) remain mired in poverty, while China has more than a million millionaires (in USD) and more than two hundred billionaires.<sup>1</sup> Rich entrepreneurs and real estate tycoons often live in palatial mansions, some designed as exact copies of European palaces, and their children may drive Ferraris, Maseratis, or Lamborghinis; play polo in their spare time; and frequent nightclubs where they spend more in one night than the average urban family earns in a month. Although China's top political leaders do not display such lavish lifestyles or

have personal fortunes on this scale, recent reports indicate that those connected by family ties to top Chinese Communist Party (CCP) officials, such as Wen Jiabao (China's outgoing premier) and Xi Jinping (the top CCP leader since November 2012), control businesses and assets ranging well into the millions, if not billions.<sup>2</sup> The children of top officials live privileged lives as well, although more in the form of attending prestigious foreign universities and being groomed to join the business and political elite and less in playing polo.

Despite their potential to benefit from rising inequality, for more than a decade CCP leaders have voiced alarm at the steadily rising gaps between rich and poor that characterize the society they lead, and they have launched a series of programs designed to create a more equitable society. Recognizing that the market reforms launched under the leadership of Deng Xiaoping tended to favor coastal regions and their cities, in 2000 Jiang Zemin (CCP leader between 1989 and 2002) launched a campaign to "develop the West" by steering state funding and foreign investment incentives toward China's inland provinces. Jiang's successor, Hu Jintao (CCP leader from 2002 to 2012), promoted the goal of making China a more "harmonious society" and instituted a wide range of policies – including the New Socialist Countryside Construction and the Cooperative Medical Insurance Scheme – designed to better the lot of the poorest Chinese, particularly in rural areas. More recently, during the transition to Hu's successor, Xi Jinping, the government on February 4, 2013, announced major new initiatives designed to narrow China's sharp income gaps.<sup>3</sup>

This recent history leads to several questions that will be addressed briefly in the coming pages:

1. What has been the trend in national income inequality in China during the reform period?
2. How does the Chinese trend look in comparative perspective?
3. What has caused the sharp rise in the gap between rich and poor in China over the last three or more decades?
4. Why have past efforts to reverse these trends and promote greater equality not been very successful, and can anything better be expected from the new initiatives?

Before attempting to answer these questions, some clarifying comments are in order. The focus throughout is on the national distribution of household incomes in China. However, in all societies, and particularly in China, there are many other types of inequality (for example, in political power, social status, access to education, and basic citizenship rights), and some may be more consequential than income in terms of their impact on a family's well-being. For instance, even though China's income gaps in 1978 were quite modest compared with other societies, many of life's necessities were bureaucratically allocated rather than available for purchase. So having more income didn't get you very much, while Mao Zedong didn't have to pay out of his top, but still modest, monthly salary for the use of the many resorts that were maintained around the country for his occasional personal use. Urban state employees were provided with subsidized housing and a package of benefits and subsidies that was worth more than their meager monthly salaries, while rural commune members (then 80 percent of the population) received none of these benefits and were bound to the soil as virtual "socialist serfs," unable to migrate and gain access to the official favoritism enjoyed by urbanites. Although

market reforms since 1978 have sharply reduced the role of direct bureaucratic allocation and increased the salience of family income (while making migration possible once again), Chinese society remains a hybrid mix of bureaucratic and market distribution, with the role of administrative rank and connections (rather than income) still very important.

What have been the trends in income inequality nationally in China over the past three decades, and how do they compare with other nations? I rely here on existing national data on the distribution of net household income, with the extent of income inequality measured by the summary Gini statistic, ranging from 0, total equality, to 1, total inequality. The trend for China over the time period of interest is displayed in Figure 1, along with the trends for selected other countries.

In the initial year shown in the figure (1981), China's Gini is estimated at 0.28. In the years since 1981, the curve for China moves fairly steadily and steeply upward, although for a time (from 1995 to 2002) this trend appeared to be leveling off (at about Gini = 0.46). However, by the last year shown in the chart, 2007, income inequality had resumed its climb, reaching an estimated Gini of 0.49 in that year.<sup>4</sup> This is a relatively high degree of income inequality, a level above that reached in the United States, Russia, and the other countries in the chart according to this metric. However, a Gini of 0.49 is still below the levels reached in a number of other countries not shown in the chart (countries in sub-Saharan Africa and Latin America, in particular), where Gini levels over 0.50 and even above 0.60 have been observed.<sup>5</sup>

China's income distribution trends since 2007 are unclear and under debate. According to a 2013 report by Ma Jiantang, head of China's National Bureau of Sta-

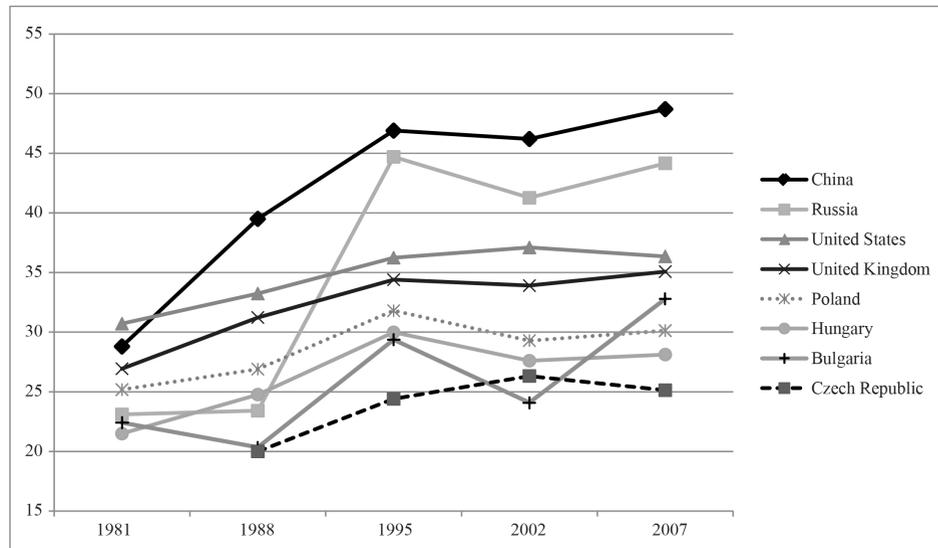
tistics, China's Gini plateaued at around 0.49 between 2005 and 2009 but has since declined slightly but steadily, to an estimated 0.47 in 2012.<sup>6</sup> However, in 2012 another group of researchers released a survey report suggesting that in 2010 China's Gini had reached 0.61, which would put China at or near the top of the world league tables.<sup>7</sup> Regardless of how these debates are resolved, the dominant picture is clear: China has experienced an unusually sharp increase in income inequality since the early 1980s and currently ranks fairly high compared to other societies in terms of the size of the gaps between its rich and poor citizens.

How can this dramatic increase in China's overall income inequality be explained? A number of explanations are commonly given. First, some analysts contend that when an agrarian country industrializes, there is a predictable and inevitable tendency for income gaps to increase initially before subsequently declining. They cite a 1955 study by economist Simon Kuznets in support of this "inverted U-curve" trajectory, which is based on the notion that as modest numbers of agriculturalists leave farming for more productive and lucrative industrial work, income inequality will initially increase; but eventually, when large numbers of agriculturalists have left, the urban middle class has grown, and the rural population has shrunk, rural wages start to rise and overall income inequality will decline.

However, explaining China's increased income gaps as following the upward arc of an inevitable inverted U-curve is not credible. Newer cross-national research shows that there is no such consistent inverted U-curve trend of income inequality with economic development.<sup>8</sup> The experience of other East Asian countries, in particular, contradicts the Kuznets hypothesis. Japan, Taiwan, and South Korea became noted for experiencing

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Figure 1 Net Household Income Inequality Trends: China Compared with the West, 1981 – 2007



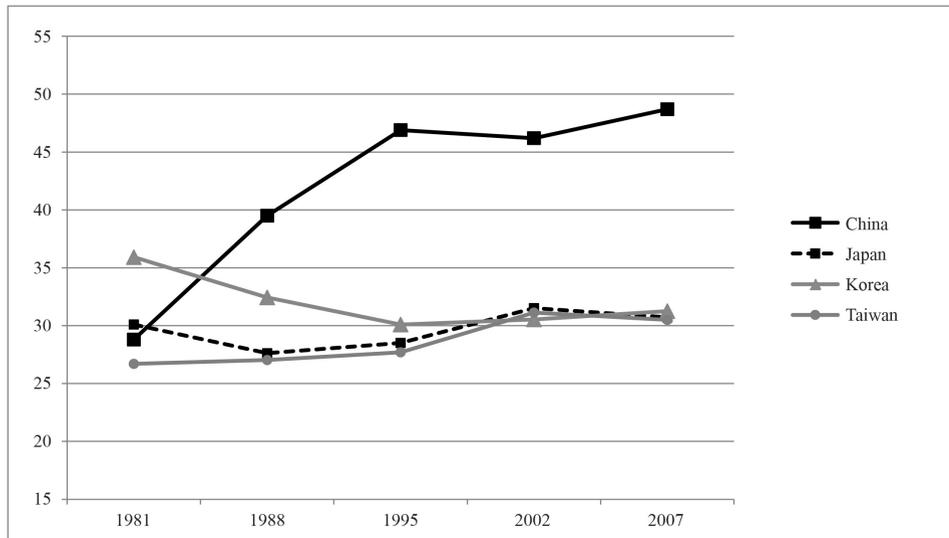
Y-axis = National Net Household Income Distribution Gini Coefficients x 100. Sources: For China: The 2002 and 2007 figures are from Li Shi, Luo Chuliang, and Terry Sicular, "Overview: Income Inequality and Poverty in China, 2002 – 2007," in *Rising Inequality in China: Challenges to a Harmonious Society*, ed. Li Shi, Hiroshi Sato, and Terry Sicular (New York: Cambridge University Press, 2013), 44 – 84. The 1988 and 1995 figures are from Björn Gustafsson, Li Shi, Terry Sicular, and Yue Ximing, "Income Inequality and Spatial Differences in China, 1988, 1995, and 2002," in *Inequality and Public Policy in China*, ed. Björn Gustafsson, Li Shi, and Terry Sicular (New York: Cambridge University Press, 2008), 35 – 60. The 1981 figure is from World Bank, *Sharing Rising Incomes: Disparities in China* (Washington, D.C.: World Bank, 1997). For other countries: Frederick Solt, "Standardizing the World Income Inequality Database," *Social Science Quarterly* 90 (2) (June 2009): 231 – 242, using the latest available update: SWIID Version 3.1, December 2011.

"growth with equity." The gaps between rich and poor did not widen with initial industrialization, and in some periods actually declined, although in more recent times income inequalities have generally been modestly on the rise in Japan, Taiwan, and South Korea (see the Gini trends for these countries in Figure 2). The trends in these Asian cases resemble a U-curve more than an inverted U-curve.<sup>9</sup> So rapid economic development can be combined with relatively stable or even improving income equality, not the wider gaps China has experienced.

Another common explanation for China's rising inequality is that it is driven by that society's transformation from centrally planned socialism to an increasingly capitalistic economy. Under socialism, so this argument goes, private property, inherited wealth, capitalist profits, and foreign exploitation play no role, while the state and central planners manage production and incomes to meet the needs of their citizens – in Lenin's phrase (from *State and Revolution*), with "everyone employed for workingmen's wages." With central planning abandoned, and

Figure 2  
Net Household Income Inequality Trends: China Compared with East Asia, 1981 – 2007

Martin  
King Whyte



Y-axis = National Net Household Income Distribution Gini Coefficients x 100. Sources: For China: The 2002 and 2007 figures are from Li Shi, Luo Chuliang, and Terry Sicular, “Overview: Income Inequality and Poverty in China, 2002 – 2007,” in *Rising Inequality in China: Challenges to a Harmonious Society*, ed. Li Shi, Hiroshi Sato, and Terry Sicular (New York: Cambridge University Press, 2013), 44 – 84. The 1988 and 1995 figures are from Björn Gustafsson, Li Shi, Terry Sicular, and Yue Ximing, “Income Inequality and Spatial Differences in China, 1988, 1995, and 2002,” in *Inequality and Public Policy in China*, ed. Björn Gustafsson, Li Shi, and Terry Sicular (New York: Cambridge University Press, 2008), 35 – 60. The 1981 figure is from World Bank, *Sharing Rising Incomes: Disparities in China* (Washington, D.C.: World Bank, 1997). For other countries: Frederick Solt, “Standardizing the World Income Inequality Database,” *Social Science Quarterly* 90 (2) (June 2009): 231 – 242, using the latest available update: SWIID Version 3.1, December 2011. Note that the 2007 entry for Taiwan is actually from 2005 in the SWIID database, as a 2007 estimate is not available.

with private property, capitalist and foreign enterprises, and the pursuit of profits returning with a vengeance, the gaps between rich and poor inevitably grow.

Yet the idea that abandoning socialism for capitalism is the driver of rising inequality in China is also not that persuasive. First, as noted at the outset of this paper and as explained in the literature on post-socialist transitions, centrally planned socialist systems do not systematically promote egalitarian distribution, but instead bureaucratic allocation, and

in practice, socialist bureaucrats tend to produce societies that are quite unequal, although unequal in ways that are somewhat distinct from capitalism.<sup>10</sup> So whether a post-socialist transition will produce higher income gaps – or if it does so, how much higher – is an empirical question, not an outcome determined simply by the switch from socialism to capitalism. The second reason to reject this explanation comes from the experience of other post-socialist countries. There are many countries that emerged

from the Soviet bloc that have been undergoing post-socialist transitions. Several are included in Figure 1. While some increase in income inequality has been experienced in most, with the possible (but very important) exception of Russia, the East European post-socialist countries have not experienced as sharp of an increase in inequality, nor have they reached such high Gini levels as China.<sup>11</sup> In other words, while it appears that the switch from socialism to capitalism in an economy leads to some increase in income inequality, this transition cannot explain why China's Gini levels have risen so sharply and to such high levels as are visible today.

If China's recent rise in income inequality cannot be explained either as the inevitable consequence of development or of the transition from central planning to market distribution, what other explanations are more credible? The key to answering this question is to recognize crucial ways in which China is different from the other societies in these comparisons and how those differences affect inequality patterns. In advanced capitalist societies, inequality patterns are often shaped by the competition among social classes and the political parties and lobbying groups allied with them, with democratic governments pressured either to increase redistribution from the rich to the poor or, under some circumstances, to enact policies that favor the wealthy. This is not a narrative that can be applied to China, which remains a Leninist political system where the CCP actively works to prevent the wealthy and business interests, or for that matter the poor, from openly organizing to press their interests. China since 1978 has operated instead as an authoritarian developmental state, pursuing policies designed by CCP elites primarily to generate rapid economic growth and na-

tional power (and generating rising inequality in the process).

It might be assumed that the experiences of East Asian countries are more relevant to China, since they launched their industrialization drives as authoritarian regimes or, in the case of Japan, as a single-party dominated developmental state. During their periods of developmental "takeoff," their governments did relatively little to promote redistribution to the poor and the working class. But if their authoritarian nature meant that Japan, Taiwan, and South Korea were relatively immune to peasant- and working-class pressures, how did they achieve "growth with equity?"

Much earlier than its role in pioneering export promotion from the 1950s onward, Japan under the Meiji reformers after 1868 introduced institutional changes to dismantle feudal social barriers in order to promote general citizenship, emphasized enhanced human capital formation through universalized modern education, and invested heavily in electrification, transportation, public health, and other measures designed to increasingly link the fates of dispersed villagers into the national economy while giving them the human capital needed to contribute to that economy's growth. However nasty Japanese colonial rulers were in both Korea and in Taiwan during the first half of the twentieth century, they promoted similar efforts to improve human capital and health and integrate colonial subjects into the economic order of their colonies, and ultimately of Japan.

When Japan became the pioneer in East Asian development in the 1950s, the structural preconditions just described were in place to ensure that the economic successes of Japanese manufacturing firms spread rapidly to other sectors of the economy and the population.<sup>12</sup> This historical context meant that Japan mini-

mized the economic dualism that characterizes many developing countries, where a small and isolated modern economy linked to global markets tends to be surrounded by a large and relatively unaffected agricultural economy. The economic successes of pioneering industrial firms generated broad linkages, with business demand spreading to subcontractors, with laborers moving to meet growing markets for their services, and with wages eventually rising while opportunities to leave assembly lines to start small businesses proliferated.

In other words, a development strategy based upon labor-intensive manufacturing primarily for export, when combined with a well-integrated national society and markets and relatively high human capital, translated into effective economic linkages that facilitated the “trickle down” of higher living standards even in the face of governmental favoritism toward business interests. When Taiwan and South Korea successfully followed their versions of the Japanese development strategy, the benefits of business success similarly spread rapidly through their well-integrated and relatively well-educated populations.

If China after 1978 basically followed the same economic development strategy as Japan, Taiwan, and South Korea earlier,<sup>13</sup> of export-promotion of labor-intensive consumer goods manufacturing, why then did income distribution trends turn out so differently? Part of the answer is that China is a much larger and more diverse country in terms of territory, terrain, and population than the other East Asian countries, making it difficult to achieve the national integration and backward linkages visible in these other countries. However, that is only part of the answer. Even more important was the legacy of China’s system of centrally planned socialism between 1955 and the early 1980s.

Paradoxically, given the relatively modest income inequalities that characterized China’s socialist era, a series of institutions and policies were put in place that would later obstruct the kinds of linkages and spreading of benefits of firm success seen in the other East Asian countries.

To explain how this occurred, a brief review of earlier debates about the Mao-era economy is helpful. Economist Audrey Donnithorne characterized China in the 1960s and 1970s as a “cellular economy.” She meant that as a reaction to the greater difficulty of implementing central planning in agrarian China than in the Soviet Union, in combination with administrative decentralizations carried out after 1957 and the disruptions of the Cultural Revolution (launched in 1966), provinces, cities, counties, and even communes were required to emphasize self-reliance, and most economic exchanges took place within local administrative boundaries rather than across them. In other words, to a greater extent than in the USSR or in market societies, national economic integration became relatively weak, and the central government had limited resources or ability to overcome these cellular divisions.<sup>14</sup>

Donnithorne’s views and evidence were strongly challenged by economist Nicholas Lardy. Using evidence on patterns of industrial investment and development, Lardy was able to show that China’s central authorities retained a powerful ability to redirect financial resources, and that they used this authority to redirect funding and industrial development away from existing coastal cities, and particularly from Shanghai, to promote newer industrial cities in China’s interior.<sup>15</sup> In the views of most observers, Lardy was perceived as having “won the debate” with Donnithorne.

However, in retrospect, perhaps that victory was declared too soon. Lardy’s

*Martin  
King Whyte*

claim was not that tendencies toward local autarky were lacking in China's administrative and economic system, but that a powerful and committed central state could and did override those tendencies to redirect resources across administrative boundaries. And during the Mao period, this state action more often than not promoted redistribution from richer to poorer and less developed locales – what another economist, John Gurley, called “building on the worst.”<sup>16</sup> However, this redistribution from advanced to less developed locales was almost entirely confined to the favored urban industrial sector. There was no comparable effort or mechanism for redistribution by the central authorities from richer to poorer regions within the agricultural sector. Nor was there redistribution of resources from the urban industrial sector to the countryside, but rather the reverse. In fact, Mao and his colleagues used a combination of household registration (the *hukou* system), migration restrictions, and rationing to keep the rural and urban portions of Chinese society from having much in the way of market exchanges with each other for the two decades after 1960, and to prevent rural residents from migrating into urban settlements of any size – producing “cities with invisible walls.” So hostility to market exchanges and the promotion of self-reliance, when combined with other institutionalized tendencies (such as heavily favoring urban industry) weakened the human and economic linkages that had existed across locales and between rural and urban China down through the centuries.<sup>17</sup> China under Mao developed a much higher level of political integration than before the revolution, but in terms of the movement of people, goods, and services, China in 1978 was a less integrated economy than in 1949.<sup>18</sup>

In other words, China's socialist era left a legacy of local economies that each tried

to self-sufficiently produce a fairly full range of goods – grain, cement, trucks, even local beers – but with the bureaucratic administrative structure of the CCP providing the integration that market exchanges across territorial boundaries failed to promote, and in the process often redirecting resources from advanced to more backward cities. Inequality was much more structured by location and place in the administrative hierarchy and CCP priorities than by social classes, interest groups, and the other collectivities that are the drivers of stratification in advanced capitalist societies.

What changed after China's market reforms were launched in 1978? Two contradictory tendencies were set in motion. On the one hand, many of the institutionalized barriers that had blocked the flow of people and goods and services began to weaken. Villagers were allowed for the first time in a generation to leave farming for local non-agricultural employment or to seek work in the cities. Entrepreneurial villagers and urbanites alike responded to the poverty, shortages, and consumer frustrations of Chinese socialism by growing mushrooms or rabbits to sell elsewhere, starting up family restaurants, or even launching companies to manufacture toys or athletic shoes to sell not just to urban consumers, but overseas. Energetic traders roamed the face of China, seeking clothing, housewares, or jewelry that could be bought cheaply in one locale and sold for profit elsewhere. When migrating Chinese were successful, invariably they sent a portion of their earnings to their families back home. In other words, the horizontal economic and human linkages that socialism had so effectively obstructed began to revive, and markets and geographic mobility began to once again make China a more integrated society and economy.

However, there was another dynamic that the reforms unleashed, and this second tendency was even more powerful. As market reforms were launched, the CCP's developmental state threw all of the relatively "cellular" geographic subunits of the Chinese economy into hectic competition to generate growth, employment, and rising living standards, with very substantial career and material rewards awaiting those who excelled in this competition. Local officials competed with one another to launch ambitious development plans, gain large shares of state investment and bank funding, and attract foreign investors. Localities still wanted to have their own successful agriculture, cement factories, auto plants, and beer companies, but now they also wanted to attract foreign investors, build shiny new airports, and construct hotels and amusement parks to cater to the tourist trade. Some localities have been much better positioned and successful than others in this competition, leading to sharply diverging economic fates from place to place. It is in China's boomtowns that personal fortunes can be made most readily, and where millionaires who hope to become billionaires relocate. It is also in these locales that an almost incestuous collusion among officials, managers of reformed state-owned enterprises, private business and real estate tycoons, state banks, and other large entities produces sweetheart deals, heavily subsidized investments, shady land seizures, and even blatant corruption, rather than the intense competition and risk-taking that classic models of capitalism presuppose. An important consequence of this unequal competition at the level of ordinary citizens is that even today in urban China your income is determined less by your education, occupation, and work experience, and more by your location and organizational affiliation, than is the case in advanced capitalist economies.<sup>19</sup>

One of the key ingredients of success is the ability to attract cheap migrant labor, and most of the workers who assemble manufactured goods for export, not to mention build the new skyscrapers, highways, and airports and also sell clothing to, and clean apartments and perform domestic services for, urban families are rural-to-urban migrants. There are more than 200 million Chinese migrants currently, and they often constitute 30 percent or more of the de facto population of large cities. However, they remain a subordinate caste within China today, denied equal treatment compared to those with urban *hukou* in terms of employment opportunities, compensation, access to housing, education of their children, and much else – simply because they were born in a village. They constitute a modern variant of Marx's "reserve army of the unemployed," powering economic growth while keeping labor costs low.<sup>20</sup>

What role has the central government played in this heightened competition? Although there are exceptions, for the most part Deng Xiaoping and his successors have pursued a course opposite to that described by Lardy for the Mao era. The policies and resources of the central government have primarily involved "building on the best" in order to maximize economic growth, not redistributing to locales and sectors that are lagging. The special economic zones (SEZ) established along China's coast starting in 1979 as a means to attract foreign investment are perhaps the best known example of following Deng's stipulation that "some people . . . should be allowed to get rich before others." The maintenance of systematic discrimination up to the present against Chinese rural citizens and migrants represents another form of state-sanctioned inequality to serve the growth engine. As in the late Mao era, the rural-urban gap remains China's sharpest social cleavage,

Martin  
King Whyte

with the ratio of urban to rural family incomes already more than 3 to 1 in 2002 and rising to close to 4 to 1 in 2007, a figure that may not be equaled in any other nation. The rural-urban income gap alone contributed 45 percent of total national income inequality in 2002, rising to 51 percent in 2007.<sup>21</sup>

As noted at the outset, since 2000, and particularly under Hu Jintao's leadership of the CCP after 2002, the central government has launched major initiatives designed to make growth more equitable. That effort has produced some notable achievements, including eliminating the grain tax and rebuilding a rudimentary medical insurance system for Chinese farmers.<sup>22</sup> However, the problem is that what the central government gives with its left hand, it more than takes away with its right. In other words, during the same time period, state policy has operated in even more powerful ways that raise, rather than lower, income gaps, even if this outcome may not be intended.

Two instances of the regressive policies of China's developmental state in recent years involve access to basic human resources: housing and education. On the housing front, CCP leaders launched a drive to privatize urban housing after 1995. Prior to that time, less than 10 percent of residents of large cities owned the housing they occupied, with most renting housing through their work organizations at nominal rents. Reforms obligated work organizations and cities to heavily subsidize the purchase of apartments by their occupants. Once they had obtained ownership of their flats, urban citizens were free to rent them out, sell them, purchase additional housing, or even start real estate development companies. The demand for such housing, either as improved residences or as investments, soared in China generally, but particularly in the

largest and most desirable cities. The housing price boom (or bubble?) took off, without effective measures in place to tax the capital gains made when selling investment housing. As a result of these reforms, about 89 percent of urban citizens were homeowners by 2007 (but less than 4 percent of urban migrants). Family property in the form of housing is now a significant contributor to the incomes of many urban families, with it becoming possible for the first time since the 1950s to live on property earnings rather than wages. But urbanites in work units and cities favorably endowed with housing were launched into this market with more assets than others, and housing prices rose more rapidly in some neighborhoods and cities than others. So access to housing income is highly unequally distributed both within and across Chinese cities.<sup>23</sup> Urban housing reform, driven by state directives rather than market pressures in the first instance, has aggravated income gaps, both among urbanites and between urbanites and villagers (and migrants), who were left out of the deal entirely.<sup>24</sup>

The second illustrative example involves access to higher education, a topic further developed in William Kirby's essay for this issue. Starting in 1998, China's leaders launched an unprecedented expansion of university enrollments, and within a decade there were six times as many students in college as there had been before this drive began (a figure that rose by 2013 to about ten times as many). The state also poured large amounts of new funding into an effort to create world-class comprehensive universities, with a disproportionate share of the funding going to only a few dozen elite national universities, all of them located in large cities, with a heavy concentration in Beijing and Shanghai.<sup>25</sup> These changes have had several consequences relevant to our

theme. The main beneficiaries of massive university expansion are urban youths, who are favored in gaining entrance both in terms of the quality of their secondary schooling and test preparation and in terms of how the university entrance exam system works (and favored much more if they live in Beijing than in, say, Guiyang or Nanning). Increasingly the modal educational attainment of a young person with an urban *hukou* is university graduation, whereas for a rural or migrant youth the modal expectation is only graduation from lower middle school (that is, junior high school). However, even for those who succeed in gaining college entrance, quite different life outcomes loom. The higher education funding variation between advantaged and disadvantaged provinces and their universities has widened sharply as a result of the state quest for world-class universities. Graduates of top universities command high salaries, while those who graduate from lower-tier colleges often face unemployment or have to compete for jobs with urban migrants. One might have hoped that China's dramatic university expansion would increase the equality of opportunity for Chinese youths, but instead it has done the opposite, transmitting diverging life chances to the next generation.

What are the lessons we can draw from China's experience of soaring income inequality? Several conclusions can be drawn from these trends:

- Social inequality in China today, as in the Mao era, continues to be primarily structured by locational factors, and it is misleading to see it simply as an outcome of market competition or interest group struggles between rich and poor.
- The sharp rise and high level of China's income inequality are rooted in features embedded more in that society's social-

ist past than in market forces, or for that matter in influences from the global economy. Specifically, a society that in 1978 was characterized by relatively poorly integrated local economic units with weak horizontal linkages developed even wider local disparities as a consequence of local competition plus central policies and resources that rewarded the winners in this competition more than the losers.

Martin  
King Whyte

- Although the growth of migration, widening of trade networks in goods and services, and other responses to market reforms, as well as central programs designed to promote more equitable development, have had positive effects, their impact has been dwarfed by the momentum unleashed by CCP policies and interventions that work in favor of localities and sectors of the population that already enjoy advantages.
- This analysis suggests that only if China's leadership enacts strong and comprehensive reforms (of taxation policy, investment patterns, state bank lending, educational access, the *hukou* system, and much else) to swing the balance back might it be possible to bring China's soaring income inequality under control. New programs and funding directed at the disadvantaged will not suffice. The CCP leadership that took over in 2012 declared its desire to introduce systematic and equalizing reforms, but given the vested interests and momentum built into China's more than three decades of growth, this will be a tall order.

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- <sup>1</sup> However, income inequalities in China today are not the result of the rich getting rich and the poor getting poorer. China's booming economy for more than three decades has brought improved living standards to the overwhelming majority of Chinese, and the proportion living below the internationally recognized poverty line (\$1.25 per day, per person in constant dollars) has fallen from something like 60 percent at the end of the Mao era to under 10 percent today. But the incomes of China's poor have not increased as rapidly as the incomes of the rich.
- <sup>2</sup> On the Wen Jiabao family fortune, see David Barboza, "Billions in Hidden Riches for Family of Chinese Leader," *The New York Times*, October 25, 2012. On the Xi Jinping family financial empire, see "Xi Jinping Millionaire Relations Reveal Hidden Fortunes of Elite," Bloomberg News, June 29, 2012. On the connections and wealth of the children and grandchildren of the CCP's founding "eight immortal" leaders, see "Heirs of Mao's Comrades Rise as New Capitalist Nobility," Bloomberg News, December 26, 2012.
- <sup>3</sup> Chris Buckley, "China Issues Proposal to Narrow Income Gap," *The New York Times*, February 5, 2013.
- <sup>4</sup> The highest quality income surveys for China were conducted in 1988, 1995, 2002, and 2007 by an international collaborative team, the China Household Income Project Surveys (CHIPS). The renewed increases in income inequality that those surveys documented are discussed in detail in Li Shi, Hiroshi Sato, and Terry Sicular, eds., *Rising Inequality in China: Challenges to a Harmonious Society* (New York: Cambridge University Press, 2013).
- <sup>5</sup> In the same time period in other populous Asian societies, such as India, Pakistan, Bangladesh, and Indonesia (as well as post-socialist Vietnam), Gini estimates (reported in the same data sources) generally have been in the 0.30 to 0.39 range, and without the sharp rise visible for China.
- <sup>6</sup> See [http://www.china.com.cn/zhibo/2013-01/18/content\\_27692231.htm?show=t](http://www.china.com.cn/zhibo/2013-01/18/content_27692231.htm?show=t). Specifically, the Gini figures given by Ma were as follows: 2003, 0.479; 2004, 0.473; 2005, 0.485; 2006, 0.487; 2007, 0.484; 2008, 0.491; 2009, 0.490; 2010, 0.481; 2011, 0.477; 2012, 0.474. He attributed the modest improvement in income distribution largely to rural incomes rising more rapidly than urban incomes in the period since 2007.
- <sup>7</sup> See Ernest Kao, "China Wealth Gap Continues to Widen," *South China Morning Post*, December 10, 2012.
- <sup>8</sup> Roberto Korzeniewicz and Timothy Moran, "Theorizing the Relationship between Inequality and Economic Growth," *Theory and Society* 34 (3) (June 2005): 277–316. The study by Simon Kuznets that they debunk is "Economic Growth and Income Inequality," *American Economic Review* 45 (1) (March 1955): 1–28. Obviously, more recent trends in highly industrialized countries depart from the Kuznets scenario as well. The return to rising levels of income inequality in advanced countries since the 1970s has produced trends over time that might better be described as a "supine S."
- <sup>9</sup> United Nations, *Growth with Equity: Policy Lessons from Selected Asian Countries* (New York: United Nations, 1999); Wang Feng, "The End of 'Growth with Equity'? Economic Growth and Income Inequality in East Asia," *AsiaPacific Issues* no. 101 (July 2011): 1–8; and Eunju Chi and Hyeok Yong Kwon, "Unequal New Democracies in East Asia: Rising Inequality and Government Responses in South Korea and Taiwan," *Asian Survey* 52 (5) (October 2012): 900–923.
- <sup>10</sup> See the discussion in Ivan Szelenyi, *Urban Inequalities under State Socialism* (New York: Oxford University Press, 1983); and Martin King Whyte, *Myth of the Social Volcano: Perceptions of Inequality and Distributive Injustice in Contemporary China* (Stanford, Calif.: Stanford University Press, 2010).
- <sup>11</sup> Branko Milanovic and Lire Ersado, "Reform and Inequality during the Transition: An Analysis Using Panel Household Survey Data, 1990–2005," United Nations University-World Institute for Development Economics Research Working Paper No. 2010/62 (May 2010).

- <sup>12</sup> Nationwide land reform programs in the late 1940s and 1950s also made an important contribution to growth with equity in these countries.
- <sup>13</sup> One difference is that Chinese socialism had eliminated private businesses familiar with operating in overseas markets, so that after 1978 China had to rely much more on foreign direct investment and Hong Kong commercial expertise in order to develop its export manufacturing sector.
- <sup>14</sup> Audrey Donnithorne, "China's Cellular Economy: Some Economic Trends since the Cultural Revolution," *The China Quarterly* 52 (October 1972): 605–619.
- <sup>15</sup> Nicholas Lardy, *Economic Growth and Distribution in China* (New York: Cambridge University Press, 1978).
- <sup>16</sup> John G. Gurley, "Capitalist and Maoist Economic Development," *Bulletin of Concerned Asian Scholars* 2 (3) (April–July 1970): 34–50.
- <sup>17</sup> See Kam Wing Chan, *Cities with Invisible Walls* (New York: Oxford University Press, 1994); Fei-ling Wang, *Organizing through Division and Exclusion: China's "Hukou" System* (Stanford, Calif.: Stanford University Press, 2005); and Martin King Whyte, ed., *One Country, Two Societies: Rural-Urban Inequality in Contemporary China* (Cambridge, Mass.: Harvard University Press, 2010).
- <sup>18</sup> To give one simple example, in the late-Mao era, unlike in other societies (including the USSR), farmers were forbidden to bring produce or handicrafts into cities to sell to urban consumers.
- <sup>19</sup> See the discussion in Wang Feng, *Boundaries and Categories: Rising Inequality in Post-Socialist Urban China* (Stanford, Calif.: Stanford University Press, 2008).
- <sup>20</sup> In the last decade or so, migrant wages have begun to increase, after remaining relatively stagnant during the 1980s and 1990s. However, migrants still are disadvantaged compared to comparable laborers with urban *hukou* not only in wages, but also in access to most other benefits and services.
- <sup>21</sup> Li, Sato, and Sicular, *Rising Inequality in China*, 32.
- <sup>22</sup> There is a comprehensive discussion of multiple "harmonious society" programs in *ibid.*, chap. 1. According to national surveys the author directed in China, the rural coverage rate by public medical insurance increased from only 15.4 percent in 2004 to 89.6 percent in 2009.
- <sup>23</sup> See the discussion of the increasing role of wealth, particularly in the form of housing assets, between 2002 and 2007, as well as the homeowner statistics, in *ibid.*, chap. 3. One observer contends that the result of China's urban housing privatization and subsequent price increases is arguably the largest accumulation of real estate wealth in history, worth over US \$17 trillion in 2010; see Leta Hong Fincher, "Women's Rights at Risk," *Dissent* 60 (2) (Spring 2010): 37. In contrast to China, in 2007 only about 65 percent of American urbanites were homeowners.
- <sup>24</sup> Villagers generally live in privately owned ancestral housing, and when they build new housing they pay for it themselves, with no subsidized mortgages. Migrants usually live in factory dormitories or have to rent, often from suburban villagers.
- <sup>25</sup> China's "211 Project," initiated in 1995, aimed to identify one hundred universities with the potential of becoming "world class" and initially invested 11 billion yuan in their development; the "985 Project," launched in 1998, focused on a smaller set of elite universities (eventually thirty-nine) and invested more than 12 billion yuan in them in the first two years; and the "111 Project," launched in 2006, aimed to bring large numbers of foreign scientists to China to enhance the research capabilities of the same elite universities favored by the 985 Project. For the regressive impact across provinces of these reforms on university funding and enrollments, see Hannah Waight, "Ordered Inequality: The Role of Reform in Structuring Disparities in Chinese Higher Education," Sociology 237 seminar paper, Harvard University, December 2012. For the role of university enrollment expansion in widening the

*Soaring  
Income  
Gaps* rural-urban disparity in college access, see Maocan Guo, “School Expansion and Education Stratification in China, 1981 – 2006,” Sociology Doctoral Program qualifying paper, Harvard University, 2009.