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Working Paper

A new episode of increased urban income inequality in China

CIBC Working Paper, No. 2011-16

Provided in Cooperation with:

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Suggested Citation: Deng, Quheng; Gustafsson, Björn (2011) : A new episode of increased urban income inequality in China, CIBC Working Paper, No. 2011-16, The University of Western Ontario, CIBC Centre for Human Capital and Productivity, London (Ontario)

This Version is available at:

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**A New Episode of Increased Urban Income
Inequality in China**

by

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Working Paper # 2011-16

October 2011



CIBC Working Paper Series

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EIGHT

A New Episode of Increased Urban Income Inequality in China

DENG Quheng and Björn Gustafsson

I. Introduction

The development of income inequality in urban China is a hot topic. There is agreement that income inequality has tended to increase over the years, but evidence indicates that the development has not been smooth. For example, previous studies based on the China Household Income Project (CHIP) have found that earnings inequality at the individual level, as well as income inequality at the household level, in urban China increased profoundly from 1988 to 1995. However, although from 1995 to 2002 earnings inequality continued to increase, income inequality at the household level decreased modestly (Gustafsson, Li, and Sicular 2008). The rapid growth caused urban poverty, assessed by a poverty line representing constant purchasing power (“absolute poverty”), to diminish rather substantially (Appleton, Song, and Xia 2010). What has happened more recently, during the initial phase of the Hu Jintao-Wen Jiabao leadership (2002-7)? In this chapter we aim to shed new light on developments during the 2002-7 period. We use data from the CHIP survey from the same twelve provinces for both years and analyze household income per capita.

Our first research question is: How did income, income inequality, and poverty develop? We show income growth curves and report summary statistics on income inequality. Furthermore, we show cumulative density functions and report summary measures on relative poverty for 1988, 1995, 2002, and 2007. The second research question is: What were the forces for change? To understand this we decompose the Gini coefficient for disposable household per capita income by the income components for 2002 and 2007. The third research question is: How have various categories of the population fared during the period from 2002 to 2007?

One major finding is that the period between 2002 and 2007 was characterized by a new episode of increased income inequality in urban China. However, if measured by summary indices such as the Gini coefficient, the increase was not as rapid as the increase between 1988 and 1995. Poverty among urban residents assessed by various poverty lines expressing constant purchasing power decreased. However, it is also true that an even larger proportion of urban residents falling under a poverty line, defined as a fixed percentage of the contemporary median income continued between 2002 and 2007.

We find two sources to be the most important contributors to inequality -- the rapid growth of imputed rent from owner-occupied housing and the rather rapid growth of enterprise income (income from self-employment and from owning a private business). These sources originated from policy changes introduced during the pre-Hu-Wen leadership period. We report on substantial differences in a household's economic situation across cities. China's urban poverty problem is disproportionately concentrated in low-income cities and affluent households are more prevalent in high-income cities. China's children grow up in households with rather different economic situations. There is also a wide variation in economic well-being among the elderly. No dramatic change in the income determining process across the two years was found.

There are many aspects of urban inequality in China, and we do not study all of them in this chapter. One essential limitation here is that, following many other studies, our analysis concentrates on urban residents. This means that we leave aside the important issue of how rural migrants are faring and how their increased number has contributed to the development of inequality among all persons and households living in urban China. It should also be understood that the perspective here is how individuals living in households and sharing income with other household members are faring, whereas other studies in this volume analyze how inequality in workers earnings and wages has evolved and what are the dominant

reasons for it (see, for example, Chapter 10 in this volume). Although clearly the two perspectives are strongly related, they are not the same. This becomes apparent in Gustafsson and Ding (Chapter 9, in this volume) which shows that redistribution within Chinese urban households to a large extent has counteracted impulses toward increased inequality due to increased unemployment and other forms of non-work. Furthermore, as is the case in much of the literature, we are interested in the distribution of income as an indicator of the welfare of household members. Here we assume that resources within households are equally shared, an assumption that might not be correct in all cases. Yet it is rather difficult to replace this with another assumption due to the lack of information. Finally, income obviously is not the only indicator of well-being and we therefore welcome parallel studies that focus on other welfare indicators, such as education and health (see Chapters 5 and 6 in this volume).

In the next section we provide some background information on how changes in urban China during the 2002-7 period are relevant to our research questions. Section III presents the data and definitions of some of the key variables. Section IV examines overall development, and Section V analyzes the decomposition of the Gini coefficient by income components. Section VI describes how various categories of persons have fared, and the chapter concludes with a summary of our findings.

II. Background

During the period from 2002 to 2007, the Chinese economy continued to grow at an astonishing rate -- GDP rose by 82 percent. Many processes contributed to this development, affecting changes in the composition of the affected groups in the population. For example, the proportion of young children decreased, whereas the proportion of elderly increased. We will discuss those changes considered to have had the most effect on the development of income inequality.

There have been considerable changes in the types of work-units in which Chinese households earn their incomes. In the past, almost all economic activities in urban China took place in state-owned enterprises (SOEs) or collective units. However, during the second half of the 1990s, central policies promoted diversified ownership and allowed ineffective work-units to go bankrupt. This led to many job losses as the aggregate number of those employed in SOEs and collectives declined from 144 million in 1995 to 61 million in 2002, an enormous loss of 83 million jobs, or 12 million jobs per year (NBS various years). As a consequence, an employment problem of unprecedented magnitude became a strong stimulus for the increased income inequality (see also Cai, Chen, and Zhou 2010). Although jobs in SOEs and collectives continued to decrease from 2002 to 2007, the reduction declined to 2 million per year; in 2007, 64 million workers were employed in SOEs and 7 million in collective units.

The downsizing and restructuring of the state and collective sector was counteracted by the growth of the private sector (see, for example, Chen, Li, and Matlay 2006; Haggard and Huang 2008; Dickson 2008; and H. Li et al. 2008). Shortly after the founding of the People's Republic of China and until 1978, the social and political environment allowed little room for the development of either private enterprises or self-employment. Private enterprises were not officially recognized until April 1988 when China issued provisional regulations on private enterprises. The regulations gave legal status to privately-owned firms that employed eight or more workers (called *siying qiye*). However, adoption of the regulations did not immediately change the environment for private business. For example, private entrepreneurs faced, and still face, problems of accessing credit via formal channels. Furthermore, complex rules govern private enterprise activities and owners must spend considerable time and resources interacting with bureaucrats. Most observers agree, however, that opportunities for operating private enterprises have increased. An indication of the increased social acceptance is that the

in 2002 the Sixteenth National Congress of the Communist Party of China amended its constitution to allow private owners to become members of the Communist Party.

In order to legally run a business as a private owner one must register with the State Administration for Industry and Commerce at different levels. Official statistics show a growing number of registered private enterprises after the 1988 change in legal status. There were 139 000 private businesses in 1991, over 2 million in 2002, and as many as 5.5 million in 2007 (*Zhongguo siying jingji nianjian* 2009). Measured by the scale of their operations, private enterprises are rather heterogeneous. There are many small firms (for example, in the retail and service sectors) and a few large units in, for example, manufacturing and mining. Thus, one would expect the earnings of private owners to be rather unequally distributed. Private firms employed 20 million workers in 2002 and no fewer than 46 million workers in 2007.

Another part of the private sector is made up of the self-employed (see, for example, Yueh 2009). During the period of the planned economy, SOEs provided stable employment, heavily subsidized housing and health care, as well as old-age security. Consequently self-employment was not an attractive option for most urban workers. However, when jobs disappeared and the various benefits and subsidies were phased out, the incentives to become self-employed increased. Particularly during the early stages of the reform process, switching to self-employment was an attractive alternative for low-skilled workers who risked being laid off. More recently, however, a substantial number of skilled workers and professionals have also moved into self-employment. During the 2002-7 period, the number of self-employed increased from 22 million in 2002 to 33 million in 2007 (NBS various years). This means that in 2007 the private sector, including both the self-employed and workers in private enterprises, employed as many workers as the state and collective sectors.

The expansion of the private sector means that enterprise income, defined here as income from self-employment or from being an owner of a private business, expanded rapidly from its low base during the first phase of the Hu-Wen leadership. In Section V we report that during these years, enterprise income increased more rapidly than total income. In contrast, during the period under study very few Chinese households earned property income because savings were small, interest was low, and stock ownership did not exist. In Section V we report that during the period under study property income also increased more rapidly than total income. However, property income still constitutes a rather small proportion of the total income of Chinese households.

Although enterprise and property income increased rapidly during the initial years of the Hu-Wen leadership, wages from working in an SOE or in a privately owned unit are still the primary sources of income. But wage earnings have increased less rapidly than many other sources of income. In Section V we report that the share of wage earnings in total income has actually fallen. How much a specific household earns in wages depends on various household circumstances. These include changes in the household's labor supply, with a long-run trend of fewer adult persons earning income from work, changes in wage rates due to changed methods for setting wages, changing demand, and changing supply. Regarding the latter, the increased number of rural-to-urban migrants, who most often are low-skilled, presumably negatively affected the wages of low-skilled workers. However, the expansion of higher education presumably exerted downward pressures on wages of highly-skilled workers. Chapter 10 in this book goes into more detail on changes in wage inequality in urban China in the 2000s.

In pre-reform China an overwhelming majority of households were allocated low-rent housing, i.e., large housing subsidies. However, due to the various types of housing reform that proceeded at different speeds in different locations, most housing in urban China had

been privatized by 2002. The privatization typically followed a pattern by which the tenants were given an opportunity to buy the apartment where they were living at a price lower than the market price. Such capital gains were typically greater for better-off workers because these workers generally had been allocated larger apartments in better locations (Logan, Fang, and Zhang 2010). For this reason, and due to the transactions on the emerging housing market, one can assume that imputed rents from owner-occupied housing are positively related to household income.

No recent visitor to urban China can fail to note the intense construction activity taking place. During the first phase of the Hu-Wen leadership, the housing stock increased rapidly. Furthermore, housing demand increased rapidly as well. Many people had accumulated savings enabling them to afford housing and, at the same time, access to loans increased. One essential part of the picture is that urban residents typically expect future income increases. Furthermore, the rapidly increasing housing prices led to expectations of increased price increases, making urban residents more inclined to invest in the housing market, thus feeding price increases even at the risk of creating price bubbles. We observe that housing prices in urban China increased rather rapidly during the initial phase of the Hu-Wen leadership. In Section V we report that the rental value of owner-occupied housing, on average, increased almost twice as rapidly as total household income.

In urban China a very large proportion of women over the age of 55 and men over the age of 60 receive pensions as former SOE, government, or collective employees. Few of the elderly work for wages; however, many live with their grown and economically active child and his or her spouse, and others live alone with their spouse and receive pensions as their dominant source of income (Palmer and Deng 2008). Pension payments are linked to work histories; from the perspective of Western observers, replacement rates are considered to be high. An overwhelming proportion of all retirees have long work histories and thus have

substantial pension incomes. Many retirees with limited means have enjoyed increased real income as the minimum enterprise-employee pension increased from 714 yuan per month in 2005 to 963 yuan per month in 2007. With their long work careers leading to relatively large apartments, many of the elderly enjoy imputed rents from owner-occupied housing. On the whole, China's older urban population has a living standard not significantly different from that enjoyed by the working population.

Many of the situations that are described above have increased income inequality at the household level. However, most likely other forces are also at work. For example, the rapidly increased incomes have moved income-earners into higher tax brackets. Although tax schedules have been reformed, the progressive tax system presumably counteracted those forces leading to higher income inequality. For more on income taxes in China, see for example Xu and Yue (Chapter 11, in this volume).

III. Data and Definitions

We use data from the 2002 and 2007 CHIP urban surveys. The 2002 data cover twelve provinces: Beijing, Shanxi, Liaoning, Jiangsu, Anhui, Henan, Hubei, Guangdong, Chongqing, Sichuan, Yunnan, and Gansu. We extract data from the same provinces in the 2007 survey that also includes Shanghai, Zhejiang, Fujian, and Hunan. For comparisons with earlier periods, if possible, we use data for the same provinces from the 1988 and 1995 urban surveys (Sichuan was not surveyed for 1988). The 1988 survey is described by Eichen and Zhang (1993), and information on the 1995 and 2002 surveys is found in S. Li et al. (2008). Li, Luo, and Sicular (Chapter 2 in this volume) provide details on the 2007 survey.

We define household income per capita in the same way as the earlier analyses. It includes earnings, pensions, enterprise income, housing subsidies, imputed rents from owner-occupied housing, and income in-kind. Enterprise income includes self-employed income as

well as income accruing to private entrepreneurs. Our definition also includes imputed rents from owner-occupied housing, which is defined as 8 percent of the net worth of owner-occupied housing (current replacement value minus the outstanding debt). Taxes and fees are treated as negative income. We introduce sample weights as described in Song, Sicular, and Yue (Appendix II to this volume).

The total household income is divided by the number of household members and is then ascribed to each household member, making individuals are then the unit of analysis. Income is measured in 2002 constant prices using the Consumer Price Index. This study differs from Gustafsson and Ding (in this volume) in that our population includes children and the elderly. Following Brandt and Holz (2006), we also take into account spatial price differences.

IV. Overall Development

Figure 8.1 about here

In this section we study the overall development of household income and poverty. Although the development up to 2002 has been reported in earlier writings, information on the 2002-7 period is new. Starting with comparing the growth curves (Ravallion and Chen 2003) computed for percentiles, Figure 8.1 shows the annual growth during the three periods. Several interesting observations are revealed. Positive growth is reported for almost all percentiles and for all three periods. The exception is the lowest nine percentiles for the 1988-95 period when income fell. Income growth was generally fastest during the 2002-7 period, as seen the growth curve located entirely above the other two. Thus income growth of Chinese households accelerated during the first phase of the Hu-Wen leadership. For example, income growth at the median was 2.7 percent per annum during the first period, 7.3 percent during the second period, and an impressive 11.3 percent during the third period.

Figure 8.1 also shows that during the most recent period income growth generally was fastest at the top of the income distribution and lowest at the bottom; the upward slope means that income inequality increased. However, the growth curve for the 2002-7 period is less steep than the slope for the 1988-95 period.. In contrast, the growth curve for 1995-2002 is relatively flat: upward-sloping at the lower percentiles, downward sloping at the higher percentiles. From an examination of the slope of the three curves we can conclude that income inequality developed differently during the three periods. Between 1988 and 1995 there was a period of rapidly increasing income inequality, between 1995 and 2002 few changes occurred, and between 2002 and 2007 there was a new period of increased income inequality.

Table 8.1 provides numerical values for three often used income inequality indices, computed for 1988, 1995, 1988, and 2002. The indices reveal the same development as above. A period of rapid increases was followed by a small reduction and then by a new episode of increased income inequality. According to our definitions, in 2007 the Gini coefficient was 0.325, which by the standards of rich countries is not very high, but nor is it extremely low. Looking at the top of the distribution we see that the proportion of individuals having a per capita income of at least 200 percent of the contemporary median (i.e., affluent persons) increased rapidly from 4 percent in 1988 to 9 percent in 1995. The proportion did not change in 2002 but in 2007 it increased modestly to 11 percent.

Table 8.1 about here

The rather rapid income growth at the lower part of the income distribution between 2002 and 2007 means that poverty, assessed by a poverty line representing fixed purchasing power, decreased rapidly during the period. This is shown in Figure 2 where we report the Cumulative Density Functions for 1988, 1995, 2002, and 2007. In the figure we have drawn three alternative poverty lines, all attempting to express constant purchasing power by using

the consumer price index (CPI). Although this approach is used in several studies of changes in urban poverty in China (for a survey, see Riskin and Gao [2010]), it is not an entirely innocent assumption (see Meng, Gregory, and Wang [2005] who re-estimate the cost of a basic needs poverty line for each year during the 1986-2000 period).

The lower poverty line in Figure 8.2 corresponds to the US\$1.25 PPP per day poverty line of the World Bank. In 2002 prices, this was 1,761 yuan (Chen and Ravallion 2010). The second and third poverty lines correspond to two and three times this amount respectively. There is no official poverty line for urban China. It can be seen that within the segment of poverty lines, the cumulated density function for 2007 is below that of 2002. Thus, we can conclude that poverty as assessed against a poverty line representing constant purchasing power has continued to decrease. We also note that although the decrease at the highest poverty line is substantial, at the lowest poverty line the decrease is not easy to detect since by 2002 a very small proportion of urban residents fell below the poverty line.

Figure 8.2 about here

Table 8.2 about here

In Table 8.2 we report the numerical values for the Foster, Greer and Thorbecke (FGT) (1984) poverty index, computed for two “absolute” poverty lines in urban China for 1988, 1995, 2002, and 2007. Starting with the lowest line, the US\$1.25 world poverty line, we see that the proportion of urban residents considered to be poor actually went up from 1 percent in 1988 to 3 percent in 1995, but thereafter fell to lower than 1 percent. However, when doubling the poverty line, not less than one-third of the urban residents were considered poor in 1988. The proportion thereafter decreased particularly rapidly between 1995 and 2002, and reached only 1 percent in 2007. The other two indices tell much the same story about the development of urban poverty. Note that when we compute the poverty rates, resources received by the households within the means-tested minimum living guarantee program (*dibao*) are

considered. We can conclude that the expansion of the *dibao* system for urban residents from the mid-1990s and into the new millennium did not manage to fully counteract the underlying increase in relative poverty.

However, in a rapidly growing economy, does it make sense to assess the extent of poverty solely or predominantly against an “absolute” standard? There has been much debate on this issue during periods of growth in rich countries. For example, when Eurostat reports how many persons and households in the European Union are at risk of becoming poor, the assessment is made against a poverty line defined as a fixed percentage of the median income for the country where the person and household resides. For some years, a poverty line set at 60 percent of the median poverty line was used. A recent study on inequality and poverty in thirty rich countries uses the same approach (OECD 2008). In academic work on urban China, Wong (1995, 1997) has also used this approach, setting the poverty line at 50 percent of the median of the city under investigation (Guangzhou and Shanghai). Saunders (2007), in a international comparison of poverty among older people in urban China uses a poverty line set to 50 percent of the median income for urban China. We follow this approach, putting the poverty line at 40, 50, 60, and 70 percent of the contemporary median income in urban China. The results are reported in Table 8.3.

Table 8.3 about here

Table 8.3 shows that independent of the median income in urban China, relative poverty in urban China has increased in all years under study. Whereas 8 percent of urban residents fell under a poverty line put at 60 percent of the median income in 1988, the proportion increased to 15 percent in 1995, to 19 percent in 2002, and to 21 percent in 2007. The latter number is within the range or above the average of similarly defined poverty rates for thirty OECD countries in the mid-2000s (OECD 2008).

From the two exercises conceptualizing and measuring poverty we can conclude that China's urban poverty record differs dramatically depending on the lens by which it is viewed. From a third-world perspective, China is a success story -- in 2007 almost no one fell under the US\$1.25 poverty line. However, seen through the lens of rich countries, the situation appears to be worrisome. Relative poverty rates in China are not low and urban poverty is not trivial. A similar conclusion follows from application of the Subjective Poverty Line approach to defining a poverty line for urban China. Gustafsson, Li, and Sato (2004) report poverty rates of 6 to 7 percent for a sample of twelve cities in 1999. Another worrisome detail is that the relative poverty rates in urban China have been rising steadily for as long as two decades.

V. How Changed Income Sources Have Affected Income Inequality

In this section, by decomposing the Gini coefficient for total household income, as defined in Section III, we shed light on how income inequality has changed. The Gini coefficient can be written as the weighted sum of the concentration coefficients of the various income sources. The weights are the shares of the income source in the total per capita income. Thus we have:

$$G = \sum_k \frac{\mu_k}{\mu} C_k \tag{1}$$

where μ_k and μ are the means of income source k and the total per capita income respectively, and C_k is the concentration coefficient of income source k . The concentration coefficient measures the association between income source k and the total per capita income, with values ranging from -1 to +1. If the concentration coefficient is negative, it means that low-income earners are receiving larger amounts (in an absolute sense) than high-

income earners. Not only is the sign of the concentration coefficient of interest; its magnitude in comparison to the Gini coefficient is an indicator of the distributional profile of the income source. If the income source has a concentration coefficient that is equal to the value of the Gini coefficient of the total per capita income, the distribution of the income source is as equal as the total per capita income. However, if the concentration coefficient of an income source is greater (or smaller) than the Gini coefficient of the total per capita income, this income source is considered to be dis-equalizing (equalizing).

We define eight components of income and decompose the Gini for 2002 and 2007. Table 8.4 lists the components and reports the mean values for the two years under study as well as the changes in both absolute and relative terms. The largest component in both years is earnings, followed by imputed rents from owner-occupied housing (a rapidly increasing component), and finally pensions. Our fourth component is enterprise income, which more than doubled between 2002 and 2007. Although property income increased rapidly in 2007, it is still a minor component of income. Evidence that the planned economy generally had disappeared from urban China by 2007 shows up in the small housing subsidies and the rapid decline of in-kind income in absolute terms between the two years. Negative net transfer income grew very rapidly.

Table 8.4 about here

In Table 8.5 let us first inspect the numerical values of the concentration coefficients for the income sources with a relative share of larger than 1 percent in 2007. We find that the distributional profile of earnings is close to the Gini coefficient in both years. In contrast, imputed rents of owner-occupied housing is dis-equalizing and its numerical value increased between the years under study. Pensions have a concentration coefficient similar to the Gini coefficient for both years. Enterprise income moved from being rather equalizing to being

marginally dis-equalizing. Property income, with the highest concentration coefficient of all income sources, increased between the two years. Net transfer income moved from being more or less unrelated to income in 2002 to being proportional in 2007.

We now use the decomposition to throw light on which channels have led to an increase in income inequality as measured by the Gini coefficient. Let us analyze the results in the following way: The difference between the two Gini coefficients for the different years can be written as:

$$G_1 - G_0 = \sum (u_{1k} C_{1k} - u_{0k} C_{0k}) \quad (2)$$

where u_{ik} is the share of income source k in the total per capita income in year i (2002 and 2007), C_{ik} is the concentration coefficient of the income source k in year i , and G_i is the Gini coefficient of per capita disposable income in year i (2002 and 2007). The contribution to the changed Gini coefficient from each income source, reported in Table 8.6, column 3, in turn can be decomposed into changed relative shares (keeping the concentration coefficient constant) and changed concentration coefficients (keeping the relative share constant). As the latter exercise can be performed using different reference years, we report the alternatives in Table 8.6.

Table 8.6 about here

Table 8.6 shows that the two largest contributors to the increase in the Gini coefficient are the two rapidly expanding income sources -- imputed rents of owner-occupied housing and enterprise income -- that also became more concentrated among those who were better-off. Starting with the former, it can be seen that in the hypothetical situation of only an increased relative share of the rental value of owner-occupied housing, the Gini would have increased by as much as 2.8 percentage points, or alternatively 3.1 percentage points (depending on which year's concentration coefficient is used as the weight). In addition, the higher value of the concentration coefficient for the imputed rents of owner-occupied housing would have

increased the Gini by 0.6, or alternatively 0.9 percentage points. These numbers can be compared with the actual increase in the Gini which was 2.6 percentage points. Thus, the development of the housing market was a major contributor to the increase in income inequality in urban China between 2002 and 2007. The second source of inequality came from enterprise income - an increase of the Gini by 1.0, or alternatively 1.7 percentage points, due to a higher concentration coefficient, and 0.2, or alternatively 0.1 percentage points, due to an increased relative share. Table 8.6 also reveals that the impulses working against increased income inequality came from both net transfer income and earnings.

VI. How Various Groups Have Fared

What determines economic well-being in urban China? How did various groups in urban China fare during the initial phase of the Hu-Wen leadership? We will use three breakdowns to divide the population: ownership sector, age of the individual, and education of the household head. We will then describe changes for each breakdown and estimate the multivariate models. For each breakdown, we show growth-curves, report means, measures of income inequality, relative poverty, and proportions of affluence.

Starting with the ownership sector, we find it useful to define three categories: a.) Persons living in a household primarily connected to the state sector, i.e., people earning wages from employment in SOEs or government institutions (the state sector) b.) Persons living in households primarily connected to the private sector, i.e., workers in privately-owned firms, owners of a private firm, or those earning income from self-employment (the private sector), and c.) Persons living in households with no working adult, i.e., mainly elderly persons living on pensions (non-workers). Our divisions are based on the presumption that impulses toward higher income in the 2002-7 period can be assumed to be strongest at the top of the income distribution within the dynamic and rapidly expanding private sector. Impulses come not only

from higher wages among skilled workers in private firms, but also from incomes earned by private owners as well as the rapidly increasing imputed rents from owner-occupied housing. It is also assumed that incomes at the top of the income distribution in the slowly shrinking state sector have increased, but not as rapidly as those in the private sector. In contrast, income increases at the lowest end of the distribution in the two sectors are believed to be due to decreased labor supply and comparatively slow earnings, for example among less-skilled workers. Furthermore, we are interested in how spatial characteristics measured by the mean income in the city where the household resides affect the income level. In our reading of the literature, this issue has not attracted much research interest.

Applying our definitions, we find that the proportion of people primarily connected to the private sector increased from 24 percent in 2002 to 33 percent in 2007; mirroring this, during the same period the proportion primarily connected to the state sector decreased from 64 percent to 55 percent. In both years, 11 percent of people in urban China lived in households with no adult worker (see Table 8.7). Figure 8.3 shows that, as expected, income growth was fastest at the top of the private sector, followed by non-workers in most of the distribution. There is a pattern of people in the state sector experiencing lower income growth than people in the other two sectors. At the median, income growth was fastest in the private sector, followed by non-workers, and finally in the state sector. The upward sloping growth curves for the private and public sectors indicate that income inequality within the private sector increased more rapidly than within the state sector, as shown by the Gini coefficients reported in Table 8.7. In contrast, the growth curve for non-workers does not show a clear slope, and the Gini increased less than it did within the other two categories. Similarly, although the relative poverty rates for people in the private and state sectors increased from 2002 to 2007, among non-worker households there was a slight decrease in the relative poverty rate.

Figure 8.3 about here

Table. 8.7 about here

Developments in the three sectors to a certain extent mirror those in two other alternative disaggregations of the population. In Figure 8.4 and Table 8.8 we divide the population into children (a category with a decreasing proportion), and adults and elderly (a category with an increasing proportion). In contrast to the case in many rich countries, the mean income of the elderly is higher than that of the adults. Although the overall impression from Figure 8.4 is that income growth has been similar for the three age groups, there are certain noteworthy differences. The elderly stand out in terms of a rapid increase at both tails of the distribution, but not in the middle. Income inequality measured by the Gini coefficient within this category increased whereas relative poverty decreased slightly. Income inequality also increased among children and adults, but not as rapidly as it did among the elderly. Relative poverty rates increased for both children and adults. It should be noted that the highest growth rates are observed at the top of the distributions for children and the elderly, but not the adults.

Figure 8.4 about here

Table 8.8 about here

Figure 8.5 about here

Table 8.9 about here

As opposed to rural China, few persons in urban China live in households headed by a person with only a primary education. In Figure 8.5 showing growth curves for persons living in households with the head having different levels of education, we find a large difference between the less-educated, many of whom are elderly, and all others. At the lower part of the distribution, incomes grew fastest among the less-educated. For all categories except for the

less-educated, the growth curve indicates increased income inequality but small changes in the computed relative poverty rates.

The overall impression from the bivariate analysis is that at the middle of the income distribution, the changes were similar for the various subgroups. This is confirmed when we run regression models for 2002 and 2007 and compare the coefficients across years. The explanatory variables measure the schooling of the household head, the age of the household head, and the age of household head squared. Continuous variables measure the number of children in the household, the number of adults working in the state sector, the number of adults working in the private sector, the number of non-working adults, the number of elderly with pensions, and the number of elderly without pensions. A dummy for Han ethnicity as a control variable is included in the specification, as is the log of city per capita income and dummies for the province. Descriptive statistics for the explanatory variables are presented in the Appendix to this chapter.

Table 8.10 about here

The estimates are reported in Table 8.10. They show that household per capita income is closely positively linked to the mean income of the city where the household resides. The estimates for the coefficients for the years of schooling are 0.048 in 2002 and 0.051 in 2007, that is, they are quite similar. Household per capita income decreases with the number of adult household members, and most rapidly if the household member is not employed. Although the number of elderly with pensions increases with per capita income, the opposite is the case for elderly without pensions. Among the coefficients for the province dummies, the positive coefficient for Guangdong stands out as having a high t-value in both years.

In a second step, we focus on individuals at the two tails of the income distribution. We specify one probit model where the dependent variable is relative poverty, defined as household per capita income below 60 percent of the median per capita income. In another

model we investigate the determinants of affluence, defined as living in a household with a per capita income of at least 200 percent of the median per capita income. The explanatory variables are the same for both models and for the linear regression model. The estimates are documented in the Appendix to this chapter. In Table 8.11 we present the main results as predicted probabilities for some typical individuals.

Table 8.11 about here

The overall impression from Table 8.11 is that differences in the mean city income can make a rather large difference in terms of the probability of being relatively poor or for being well-to-do. Consider the typical individual *A* who lives in a household consisting of two employed adults and a child and the head has nine years of education. The probability of being poor in 2002 ranges from 2 percent if the household resides in a high-income city and up to 16 percent if the household resides in a low-income city. In 2007 the corresponding variation increases from 5 percent to as much as 58 percent. This example illustrates that although the relative poverty rate in the 2007 sample is only slightly higher than the relative poverty rate in the 2002 sample, there may be hidden substantial increased poverty risks for households with certain characteristics.

The simulations in Table 8.11 also show that children and the elderly fare rather differently depending on their household. Among the elderly, there is substantial variation based on city income, the type of household, and whether or not the elderly receives a pension. It is striking that an elderly person without a pension living in a multi-generational household (individual *B*) in a low-income city in 2007 is predicted to have a 67 percent probability of being poor and a less than 1 percent probability of being rich. In contrast, a person living with one's spouse (individual *G*) in a high-income city has less than a 1 percent probability of being poor and a 96 percent probability of being affluent. The simulations also illustrate how the probabilities are affected if one adult loses his or her job (compare individual *A* and

individual *C*), the importance of the level of education of the household head (compare individual *C* and individual *D*), whether there is a child (compare individual *D* and individual *E*), and whether there is an elderly person receiving a pension (compare individual *F* and individual *E*).

The findings in this section show that there are differences in how various categories of Chinese urbanites fared between 2002 and 2007. For example, households closely connected to the expanding private sector and at the top of the income distribution experienced more rapid income increases than most other households. Furthermore, although relative poverty increased from 2002 to 2007 for children as well as for adults, this was not the case for the elderly. Overall, however, the data do not indicate any dramatic change in income determination from 2002 to 2007.

In contrast, we find substantial differences in the economic situation of the household across cities. China's urban poverty problem is disproportionately concentrated in low-income cities and affluent households are disproportionately concentrated in high-income cities. We have reported that there is a wide variation in household income among urban households with children or with elderly. Elderly couples living alone, particularly if they live in high-income cities, fare much better than elderly living in multi-generational households, particularly in households in low-income cities.

VII. Conclusions

In this chapter we study income changes among Chinese urban residents between 2002 and 2007 and we compare the changes to their experiences in the preceding periods. Using the CHIP data, we investigate changes in real income, income inequality, and poverty. The reasons for the changes in income inequality are investigated by decomposing the Gini coefficient for per capita household income by the income components. Furthermore, we

describe how various categories have fared by breaking down the population into three dimensions: the relationship to ownership of the workplace, age of the individual, and education of the household head. We show the bivariate analyses and estimate the income functions.

We report that overall income increased more rapidly in urban China between 2002 and 2007 than it did during the two preceding periods. For example, although median per capita income grew by 2.7 percent per annum from 1988 to 1995, it grew by 7.3 percent from 1995 to 2002 and it grew by as much as 11.3 percent from 2002 to 2007. In contrast to the 1995-2002 period, income inequality increased between 2002 and 2007, although the increase was not as rapid as that between 1988 and 1995.

The increases in real income at the bottom of the income distribution from 2002 to 2007 mean that, assessed against poverty lines representing constant purchasing power, the proportion of people considered to be poor decreased. However, as such income gains were slower than those at the median, the trend of increased relative poverty in urban China continued. Therefore, views about China's poverty problem very much depend on the perspective by which it is viewed. If households are observed through a lens that is used to view low-income countries, poverty is not a problem in urban China today. However, if viewed through a lens used to view high-income countries, the poverty problem among Chinese urban residents is as large as it is in most rich countries.

Income inequality among urban residents increased through two major channels. It should be noted that this did not include labor-market earnings. The most important channel was the rather rapid increase of imputed rents from owner-occupied housing, particularly at the top of the income distribution. This can be due to the increases in the stock of owner-occupied housing or, and probably more importantly, due to the rapid increase in housing prices. The other channel is the rapid increase in income from enterprises at the top of the income

distribution. In 2007 China had more private entrepreneurs and persons who were self-employed than it had in 2002 and their incomes were more concentrated in the higher part of the income distribution.

Between 2002 and 2007 Chinese urbanites did not enjoy a uniform rate of income growth. For example, households closely connected to the expanding private sector and at the higher end of their income distribution experienced more rapid income increases than most other households. However, the overall impression has been that no dramatic changes in income determination occurred between 2002 and 2007. In contrast, we have reported substantial differences in the economic situation of households across cities. China's urban poverty problem is disproportionally concentrated in low-income cities and affluent households are most prevalent in high-income cities. We have also illustrated that urban children and the elderly reside in households with rather diverse economic circumstances. Elderly couples living alone, particularly if they live in high-income cities, fare much better than those living in multi-generational households, particularly if they are living in low-income cities.

Thus, in this chapter we show that China's road toward increased income inequality did not come to a halt during the first phase of the Hu-Wen leadership. On the contrary, both income inequality and relative poverty increased. However, it should be stressed that our analysis of the income components indicates that the major impulses for the increased income inequality were the rapid increases at the top of the distribution due to imputed rents from owner-occupied housing and income from the private sector. Both these impulses can be attributed to policy changes initiated in the pre Hu-Wen leadership period.

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Appendix

Table 8A.1. *Descriptive statistics*

	2002	2007
Schooling of the household head	10.67	11.99
Age of the household head	47.67	48.99
Age of the household head squared	2394.96	2535.29
No. of children in the household	0.49	0.44
No. of adults working in the state sector	2.10	1.78
No. of adults working in the non-state sector	0.83	1.15
No. of non-working adults	0.30	0.27
No. of elderly with a pension	0.27	0.32
No. of elderly without a pension	0.07	0.06
Han ethnicity	0.96	0.97
Log of city per capita income	9.08	9.64
Beijing	7.06	10.70
Shanxi	9.39	8.30
Liaoning	10.23	10.48
Jiangsu	10.48	7.79
Anhui	7.15	7.34
Henan	10.11	8.92
Hubei	10.00	5.46

Guangdong	8.54	10.64
Chongqing	4.03	5.62
Sichuan	8.25	8.21
Yunnan	8.96	8.48
Gansu	5.79	8.07

Source: Authors computation from the CHIP.

Table 8A.2. *Poverty function (poverty line set at 60 percent of the median income)*

	2002	2007
Schooling of the household head	-0.193*** (0.007)	-0.216*** (0.008)
Age of the household head	0.038** (0.018)	-0.013 (0.016)
Age of the household head squared	-0.001*** (0.0002)	-0.0002 (0.0002)
No. of children in the household	0.247*** (0.048)	0.120*** (0.044)
No. of adults working in the state sector	0.465*** (0.031)	0.640*** (0.028)
No. of adults working in the non-state sector	0.711*** (0.031)	0.823*** (0.027)
No. of non-working adults	0.842*** (0.042)	1.104*** (0.045)
No. of elderly with a pension	-0.502*** (0.060)	-0.450*** (0.052)

No. of elderly without a	0.659***	0.422***
pension	(0.071)	(0.071)
Han ethnicity	0.017	0.034
	(0.115)	(0.116)
Log of city per capita income	-3.388***	-3.604***
	(0.110)	(0.099)
Beijing		
Shanxi	1.253***	-0.392***
	(0.237)	(0.137)
Liaoning	0.979***	-0.183
	(0.235)	(0.132)
Jiangsu	1.137***	-0.047
	(0.234)	(0.152)
Anhui	1.097***	-0.719***
	(0.236)	(0.144)
Henan	1.103***	-0.367***
	(0.233)	(0.134)
Hubei	1.052***	-0.309**
	(0.233)	(0.146)
Guangdong	0.667***	-0.696***
	(0.241)	(0.141)
Chongqing	0.996***	-0.744***
	(0.250)	(0.145)

Sichuan	1.219***	-0.237*
	(0.235)	(0.133)
Yunnan	0.935***	-0.398***
	(0.235)	(0.132)
Gansu	1.147***	0.029
	(0.238)	(0.136)
Constant	27.661***	34.377***
	(1.120)	(1.076)
Pseudo R ²	0.2527	0.2992
No. of observations	20434	21545

Note: ** indicates statistical significance at the 5% level, *** indicates statistical significance at the 1% level.

Source: Authors' estimates from the CHIP.

Table 8A.3. *Well-to-do function, with 200% of the median income as the threshold*

	2002	2007
Schooling of the household head	0.246*** (0.010)	0.267*** (0.011)
Age of the household head	0.016 (0.022)	-0.007 (0.017)
Age of the household head squared	0.0002 (0.0002)	0.0002 (0.0002)
No. of children in the household	-0.316*** (0.079)	-0.388*** (0.070)
No. of adults working in the state sector	-1.423*** (0.056)	-1.008*** (0.046)
No. of adults working in the non-state sector	-1.638*** (0.061)	-1.056*** (0.048)
No. of non-working adults	-1.731*** (0.086)	-1.327*** (0.082)
No. of elderly with a pension	0.026 (0.079)	0.419*** (0.062)

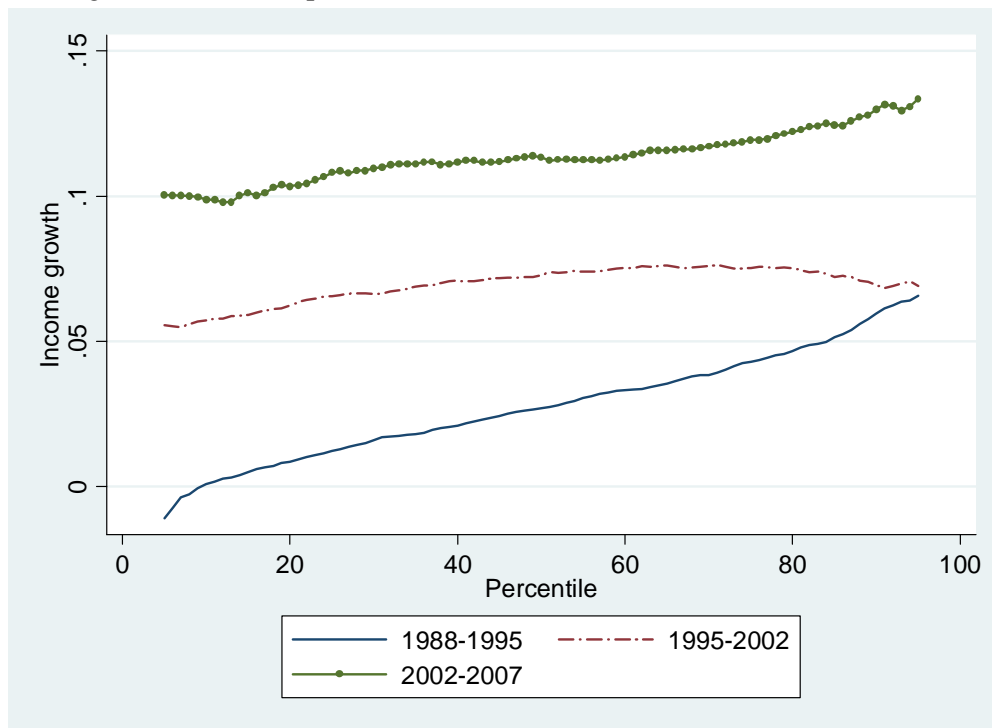
No. of elderly without a pension	-0.763*** (0.192)	0.406*** (0.137)
Han ethnicity	-0.587*** (0.136)	0.182 (0.157)
Log of city per capita income	4.516*** (0.196)	4.115*** (0.145)
Beijing		
Shanxi	0.952*** (0.180)	0.068 (0.198)
Liaoning	0.728*** (0.122)	0.071 (0.123)
Jiangsu	0.550*** (0.113)	0.053 (0.086)
Anhui	0.401** (0.178)	-0.214 (0.140)
Henan	0.769*** (0.142)	0.001 (0.126)
Hubei	0.14 (0.186)	-0.09 (0.153)
Guangdong	0.945*** (0.103)	0.585*** (0.084)
Chongqing	0.740*** (0.166)	0.169 (0.168)

Sichuan	0.797***	0.504***
	(0.159)	(0.124)
Yunnan	0.350**	0.798***
	(0.151)	(0.151)
Gansu	0.25	-0.259
	(0.229)	(0.247)
Constant	-43.461***	-43.229***
	(1.948)	(1.536)
Pseudo R ²	0.3030	0.3217
No. of observations	20434	21545

Note: ** indicate statistical significance at the 5% level, *** indicates statistical significance at the 1% level.

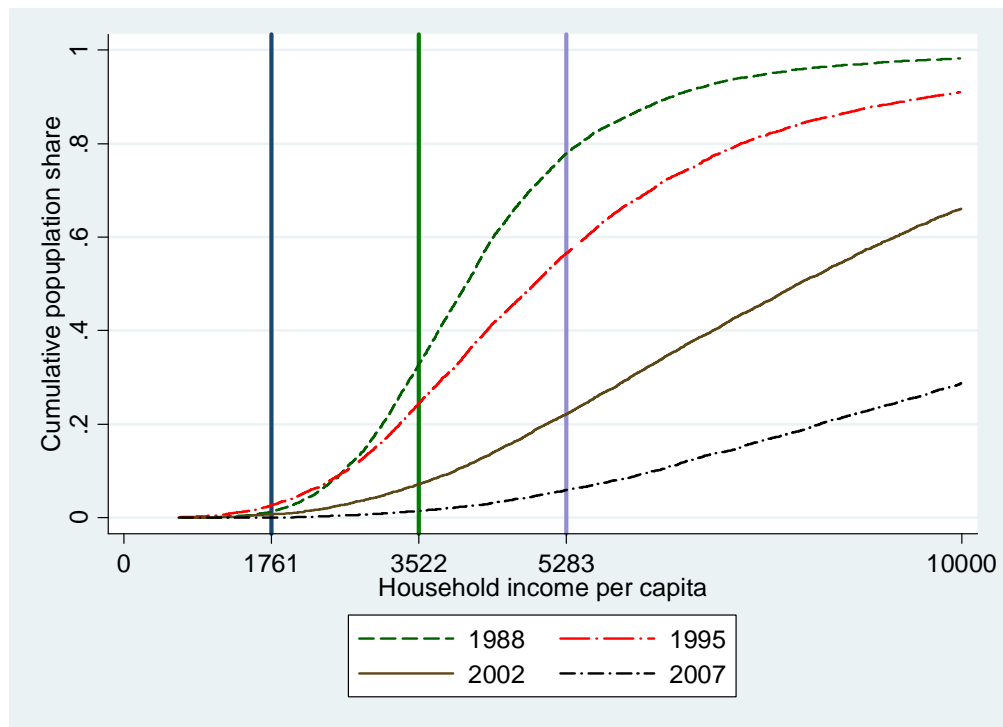
Source: Authors' estimates from the CHIP.

Figure 8.1 Income Growth Curves for the 1988-95, 1995-2002, and 2002-7 periods (annual income growth at various percentiles)



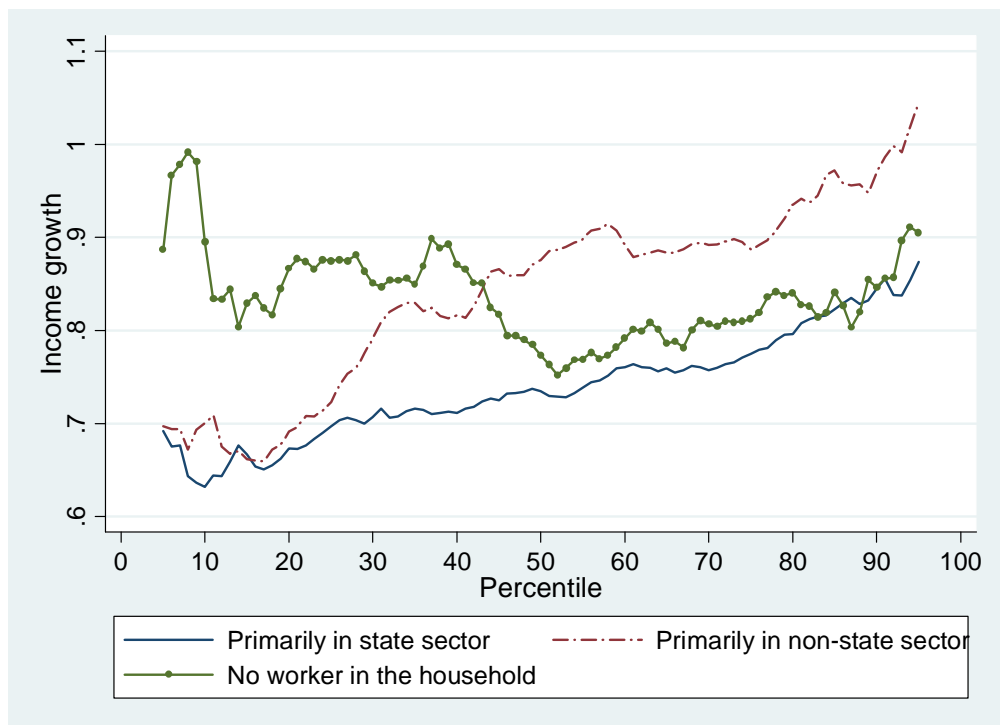
Source. Authors' computations from the CHIP.

Figure 8.2 Cumulative Distribution of Income, 2002 and 2007



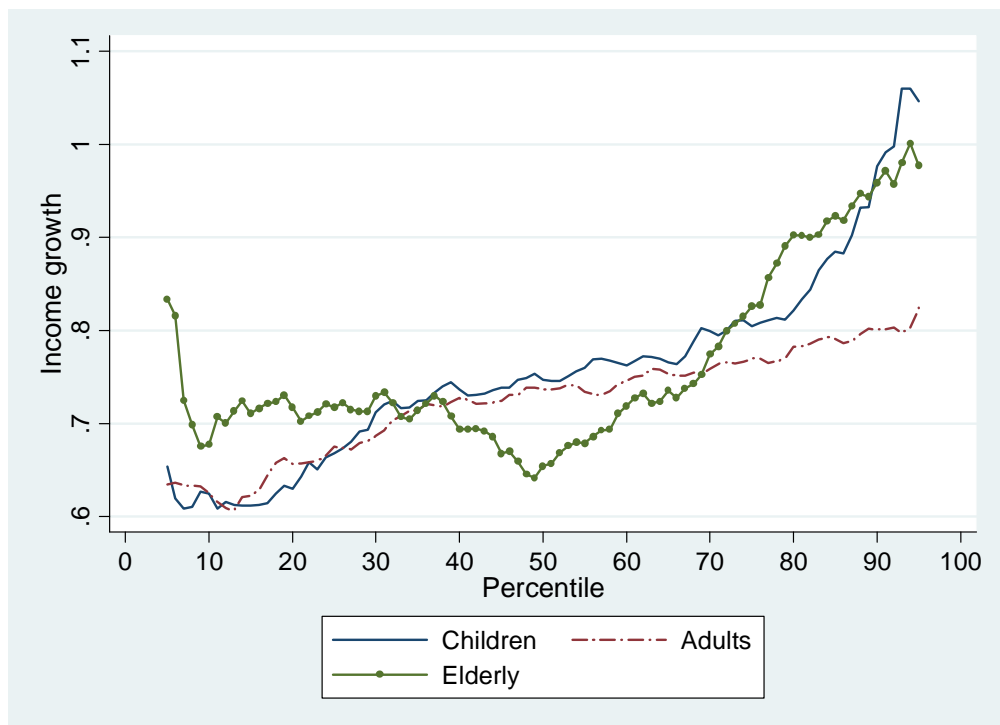
Source: Authors' computations from the CHIP.

Figure 8.3 Growth Curves for Individuals Living in Households Primarily Connected to the State Sector, the Private Sector, and Those with No Workers, 2002 and 2007



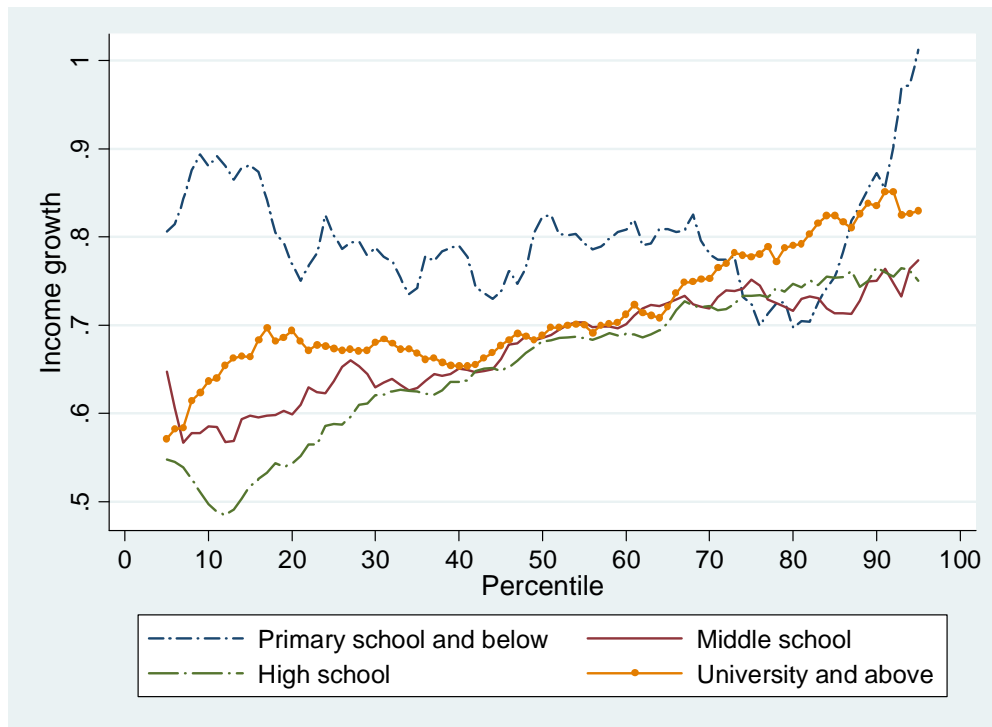
Source: Authors' computations from the CHIP.

Figure 8.4 Growth Curves for Children, Adults, and the Elderly, 2002 and 2007



Source: Authors' computations from the CHIP.

Figure 8.5 Growth Curves for Individuals Where the Heads of the Household Have Various Levels of Education, 2002 to 2007



Source: Authors' computations from the CHIP.

Table 8.1. *Income inequality 1988, 1995, 2002, and 2007, according to various inequality indices*

	Mean income	Median income	Gini	MLD	Theil index	Proportion having an income above 200 percent of contemporary median income. Percent
1988	4520	4173	0.2104	0.0726	0.0768	3.60
1995	6037	5034	0.3340	0.1931	0.2422	8.80
2002	9285	8072	0.3025	0.1547	0.1542	8.77
2007	16696	14077	0.3289	0.1829	0.1879	10.98

Source: Authors' computations from the CHIP, in 2002 prices with adjustments for regional differences in living costs.

Table 8.2. *Poverty indices for urban China computed for two “absolute” poverty lines, 1988, 1995, 2002, and 2007*

FGT indices: 1761 as the poverty line

	FGT(0), Poverty rate	FGT(1)	FGT(2)
1988	0.0135	0.0031	0.0089
1995	0.0269	0.0062	0.0027
2002	0.0073	0.0014	0.0004
2007	0.0007	0.0002	0.0001

FGT indices: 3522 as the poverty line

	FGT(0), Poverty rate	FGT(1)	FGT(2)
1988	0.3287	0.0648	0.0223
1995	0.2439	0.0591	0.0228
2002	0.0713	0.0167	0.0061
2007	0.0144	0.0029	0.0009

Source: Authors’ computations from the CHIP.

Table 8.3 *Relative poverty in urban China, computed using various relative poverty lines*

Percentages of persons under various percentages of the median income	1988 percentage	1995 percentage	2002 percentage	2007 percentage
40	0.98	4.13	5.86	7.09
50	3.23	8.49	11.56	13.51
60	8.00	15.21	19.23	20.67
70	15.67	24.45	27.27	27.75

Source: Authors' computations from the CHIP.

Table 8.4. *Components and growth of household income per capita, 2002 and 2007*

	Household income per capita		Growth	
	2002	2007	Amount	Annualized growth rate (%)
Earnings	5573.92	9071.66	3497.74	10.23
Imputed rents of owner-occupied housing equity	1690.16	4358.94	2668.78	20.86
Pensions	1399.50	2642.54	1243.04	13.56
Enterprise income	266.37	985.65	719.28	29.91
Property income	91.63	209.81	118.18	18.02
Income in-kind	81.87	88.40	6.53	1.55
Housing subsidies	231.22	86.74	-144.48	-17.81
Net transfer income	-49.70	-747.44	-697.74	71.97
Total	9284.98	16696.29	7411.31	12.45

Source: Authors' computations from the CHIP. Amounts are in 2002 prices.

Table 8.5. *Household income per capita and its decomposition*

	2002			2007		
	Proportion	Concentration	Contribution	Proportion	Concentration	Contribution
		coefficient			coefficient	
Earnings	60.03	0.2875	57.05	54.33	0.2946	48.67
Imputed rests of						
owner-occupied	18.20	0.3557	21.40	26.11	0.3899	30.96
housing equity						
Pensions	15.07	0.3266	16.27	15.83	0.3125	15.04
Enterprise income	2.87	0.0502	0.48	5.90	0.3404	6.11
Property income	0.99	0.5073	1.65	1.26	0.7180	2.74
Income in-kind	0.88	0.4762	1.39	0.53	0.4444	0.72
Housing subsidies	2.49	0.2073	1.71	0.52	0.0428	0.07
Net transfer						
income	-0.54	-0.0280	0.05	-4.48	0.3160	-4.30
Total	100	0.3025	100	100	0.3289	100

Source: Authors' computations from the CHIP.

Table 8.6. *Decomposing differences in the Gini coefficient for 2002 and 2007 by income sources*

Income source	u_{02}^* C_{02}	u_{07}^* C_{07}	Contribution to changed Gini (Column 2 - column 1)	$C_{02}(u_{07} - u_{02})$	$u_{02}(C_{07} - C_{02})$	$C_{07}(u_{07} - u_{02})$	$u_{07}(C_{07} - C_{02})$
Column number	1	2	3	4	5	6	7
Earnings	0.1726	0.1601	-0.0125	-0.0164	0.0043	-0.0168	0.0039
Rental value of owner occupied-housing equity	0.0647	0.1018	0.0371	0.0281	0.0062	0.0308	0.0089
Pension	0.0492	0.0495	0.0003	0.0025	-0.0021	0.0024	-0.0022
Income from enterprises	0.0014	0.0201	0.0186	0.0015	0.0083	0.0103	0.0171
Property income	0.0050	0.0090	0.0040	0.0014	0.0021	0.0019	0.0027
Income in-kind	0.0042	0.0024	-0.0018	-0.0017	-0.0003	-0.0016	-0.0002
Housing subsidies	0.0052	0.0002	-0.0049	-0.0041	-0.0041	-0.0008	-0.0009

Net transfer income	0.0002	-0.0142	-0.0143	0.0011	- 0.0019	-0.0125	-0.0154
Total	0.3025	0.3289	0.0264	0.0124	0.0125	0.0137	0.0139

Source: See Table 8.5. Values in column 3 are equal to the sum of the values in columns 5 and 6, as well as the sum of the values in columns 4 and 7 (ignoring rounding errors).

Table 8.7. *The development of population shares, mean income, income inequality, and relative poverty among individuals living in households primarily connected to the state sector, the private sector, and those with no workers, 2002 and 2007*

			2002			2007		
			Primarily in the state sector	Primarily in the private sector	No workers	Primarily in the state sector	Primarily in the private sector	No workers
Proportion	of	all	64.55	24.31	11.14	55.46	33.40	11.13
individuals (%)								
Average income			9822	7709	9938	17500	14773	18792
Gini			0.2856	0.3109	0.3267	0.3050	0.3444	0.3370
Percentage of persons								
under	40%	of the	4.82	5.85	10.00	5.22	7.88	7.88
median income								
Percentage of persons								
under	50%	of the	9.60	11.27	16.60	11.09	14.39	15.42
median income								
Percentage of persons								
under	60%	of the	16.48	17.78	24.90	17.95	22.47	22.68
median income								
Percentage of persons								
under	70%	of the	24.24	26.42	32.40	25.10	30.04	30.01
median income								
Percentage of persons								
above	200%	of the	8.05	9.70	10.26	9.92	11.81	11.09

median income

Note: A household is classified as primarily linked to the state sector (private sector) if most workers are occupied in the state sector (private sector). If the number of workers in the state sector is equal to the number of workers in the private sector, the household is classified as primarily linked to the state sector. As a consequence, we report a larger proportion of *households* primarily linked to the state sector than the proportion of state-employed *individuals* according to the *Statistical Yearbook of China*.

Source: Authors' computations from the CHIP. Amounts are in 2002 prices.

Table 8.8. *The development of population shares, mean income, income inequality, and relative poverty among children, adults, and the elderly, 2002 and 2007*

	2002			2007		
	Children	Adults	Elderly	Children	Adults	Elderly
Population shares	14.56	74.76	10.68	12.49	75.14	12.37
Average income	8146	9391	10201	14934	16573	19202
Gini	0.2887	0.3025	0.2965	0.3228	0.3199	0.3411
Percentage of persons under 40% of the median income	5.89	5.92	6.86	7.78	7.03	6.24
Percentage of persons under 50% of the median income	10.79	11.24	13.54	13.84	13.44	12.66
Percentage of persons under 60% of the median income	17.67	18.96	20.63	21.61	20.40	19.27
Percentage of persons under 70% of the median income	26.38	26.41	29.09	28.94	27.46	26.86
Percentage of persons above 200% of the median income	7.18	8.90	8.10	9.56	10.25	12.66

Note: A person is regarded as a child if she is under the age of 16 and as elderly if she is age 61 or older.

Source: Authors' computations from the CHIP. Amounts are in 2002 prices.

Table 8.9. *The development of population shares, mean income, income inequality, and relative poverty among individuals living in households with the heads of households having different levels of education, 2002 and 2007*

	2002				2007			
	Primary and below	Middle school	High school	University and above	Primary and below	Middle school	High school	University and above
Population shares	7.51	29.04	36.88	26.57	5.98	25.27	35.06	33.69
Average income	6892	7820	9220	11798	12443	13345	15824	20914
Gini	0.3027	0.2953	0.2844	0.2814	0.2997	0.3125	0.3143	0.3073
Percentage of persons under 40% of the median income	5.39	5.70	5.49	3.59	6.13	6.92	6.99	4.50
Percentage of persons under 50% of the median income	14.02	11.03	10.05	8.92	12.42	12.97	14.19	9.73
Percentage of persons under 60% of the median income	20.31	17.97	17.78	15.61	21.66	20.40	20.92	15.98
Percentage of persons under 70%	27.84	27.72	25.56	25.18	28.73	27.73	28.52	25.27

of the median								
income								
Percentage of								
persons above								
200% of the median	7.59	8.28	7.40	7.85	7.61	10.16	8.74	10.62
income								

Source: Authors' computations from the CHIP. Amounts are in 2002 prices.

Table 8.10. *Income function: Dependent variable, log of per capita income in the household*

	2002	2007
Schooling of household head	0.048*** (0.001)	0.051*** (0.001)
Age of household head	-0.002 (0.002)	-0.005** (0.002)
Age of household head squared	0.0001*** (0.00002)	0.0001*** (0.00002)
No. of children in the household	-0.065*** (0.007)	-0.050*** (0.007)
No. of adults working in the state sector	-0.152*** (0.004)	-0.159*** (0.004)
No. of adults working in the non-state sector	-0.201*** (0.004)	-0.191*** (0.004)
No. of non-working adults	-0.239*** (0.006)	-0.244*** (0.007)
No. of elderly with pensions	0.091*** (0.007)	0.078*** (0.007)
No. of elderly without pensions	-0.098***	-0.065***

	(0.012)	(0.012)
Han ethnicity	-0.073***	-0.007
	(0.016)	(0.017)
Log of city per capita income	0.862***	0.845***
	(0.015)	(0.012)
Beijing		
Shanxi	-0.048***	0.006
	(0.018)	(0.018)
Liaoning	0.035**	-0.021
	(0.014)	(0.015)
Jiangsu	0.023	-0.004
	(0.014)	(0.014)
Anhui	0.006	0.003
	(0.018)	(0.017)
Henan	0.032**	-0.018
	(0.016)	(0.016)
Hubei	0.017	-0.012
	(0.017)	(0.018)
Guangdong	0.103***	0.114***
	(0.014)	(0.014)
Chongqing	-0.004	0.047**
	(0.020)	(0.019)
Sichuan	0.004	-0.016
	(0.017)	(0.017)

Yunnan	0.026	0.056***
	(0.016)	(0.018)
Gansu	-0.014	-0.055***
	(0.019)	(0.019)
Constant	1.109***	1.303***
	(0.151)	(0.132)
Adj. R ²	0.4493	0.4995
No. of observations	20434	21545

** indicates statistical significance at the 5% level, and *** indicates statistical significance at the 1% level.

Note: Authors' estimates from the CHIP.

Table 8.11. *Predicted probabilities of relative poverty and affluence, 2002 and 2007 (percentages)*

Individual	City	Description	Relative poverty		Affluence	
			of the (percentage) individual			
Year			2002	2007	2002	2007
A	Low	HH aged	15.5	57.5	0.7	0.3
	Middle	47.9 years,	6.0	22.4	2.8	1.6
	High	9 years of	1.7	4.7	14.6	11.1
		education,				
		2 adults				
		employed				
		in the state				
		sector, 1				
		non-				
		working				
		adult, 1				
		child, Han				
B	Low	The same	26.2	67.3	0.3	0.4
	Middle	as A, but	11.0	30.5	1.3	2.4
	High	the	3.2	7.0	7.4	15.8
		household				
		increases				
		by one				

		elderly				
		person				
		without a				
		pension				
C	Low	The same	21.1	68.2	0.5	0.2
	Middle	as A, but	8.5	31.4	2.1	1.2
	High	one worker	2.4	7.3	11.2	8.4
		becomes a				
		non-worker				
D	Low	The same	6.5	32.1	2.8	1.3
	Middle	as C, but	2.3	9.2	10.7	7.3
	High	the	0.6	1.7	41.3	37.2
		household				
		head has				
		16 years of				
		education				
E	Low	The same	5.1	29.6	3.9	1.9
	Middle	as D, but	1.8	8.2	14.1	10.4
	High	there is no	0.5	1.5	49.1	46.6
		child in the				
		household				
F	Low	The same	3.2	21.1	4.0	2.9
	Middle	as E, but	1.1	5.4	14.5	15.0
	High	the	0.3	1.0	49.8	57.0
		household				
