Since the reforms of the late 1970’s, China’s industrial transformation has touched nearly every market, consumer, and producer around the world. At home this country’s unprecedented long term growth dynamic has lifted hundreds of millions of people out of poverty and made every city in the country a middle-class urban economy, including the three essential growth drivers of discretionary income, durable household assets, and inclusive public goods and services. At the heart of this sustained momentum has been a virtuous cycle of investment in physical and human capital, the former expanding productive capacity and employment, while the latter supported rising productivity and real wages. The macro impacts of these trends are apparent to all, with per capita incomes increasing tenfold over a few decades, conferring living standards on rural migrants and their children that would have been unimaginable to their ancestors.

In this paper, we seek to assess more detailed characteristics of China’s progress in real income growth, using large household survey samples to elucidate the influence of education level, gender, and geography on individual real income growth over the last decade. Despite the egalitarian goals of public investment and other policies since the reforms began, we find patterns of returns to education are highly differentiated. Among other insights, our results indicate nearly universal gender differences in returns to education, suggesting potential discrimination and revealing different incentives for male and female workers (and their families) making decisions to invest in education. Our results also reveal robust and interesting differences in returns to education by location, suggesting both differential personal incentives to seek educations and underlying pressures for migration by those who do. Taken together, these findings indicate the existence of systemic mechanisms that contribute to inequality across the country. Although these may not be directly observable in our samples, the consistent and robust patterns observed in economic returns to investment in human capital suggest a need for more determined and targeted policies to realize China’s goals for inclusive prosperity.

The next section places our work in the context of more recent published research on returns to education. Section three describes the data, estimation strategies, and our more detailed empirical findings. A final section offers conclusions and discusses extensions of this work.