

The Economics of China

Living Standards: Incomes, Inequality, and Poverty



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Living Standards: Incomes, Inequality, and Poverty

- Poverty in China: Before 1978.
 - Before 1978, part of China's population that was considered poor in terms of income, was "**socialist poor**".
 - That is, although they had low incomes as individuals, they "were part of a functioning collective system" which provided them with some kind of a social safety net and benefits.
 - For example, "they had access to the land, rudimentary income guarantees, and even some access to basic health care".
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 - This made them **better off than poor populations in other economies** (and in China in the 1980s and 1990s) which suffer from both "low income and an extremely precarious existence" with little or no help from the government.
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- Poverty in China: How to define poverty?
 - One definition of **poverty** is **earning a daily income below the World Bank's "dollar-a-day" poverty line.**
 - This poverty line increased to \$1.90 a day in 2011 given inflation.
 - "The 2008 official Chinese poverty line is almost identical to the World Bank dollar-a-day standard".
 - The Chinese official poverty line increased after 2010, from 1,274 to 2,300 RMB.

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- Poverty in China: How did China perform after 1978?
 - To make the long story short: success with caveats.
 - As mentioned in a previous chapter: "According to World Bank data, the reduction in the absolute number of those living in poverty in China between 1981 and 2010 accounted for **95 percent of the total reduction worldwide of those in poverty**".
 - From around 250 million rural people below the dollar- a-day poverty line in the beginning of the 1990s, the number of **rural people under the poverty line had declined to 27 million by 2010**.
 - "This almost 90% reduction in poverty over a 20- year period is a remarkable achievement", and makes China one of the most successful countries in terms of poverty reduction in the past few decades.

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- Poverty in China: How did China perform after 1978?
 - The previous slide talked about success, what about the caveats?
 - **The trend of poverty reduction was not smooth.**
 - That is, after initial success between 1978 and 1985, there was "a bounce- back of poverty after 1985, as inflation eroded the gains many farmers had made".
 - This happened at a time in which:
 - "The social safety net in the countryside, tied to the agricultural collectives, had collapsed".
 - "transfer payments of all kinds are low".
 - "In the mid-1990s, China was doing almost nothing to redistribute income".

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- Poverty in China: How did China perform after 1978?
 - Another caveat.
 - Bringing someone "out of poverty" doesn't make them "rich", they could simply be "**near poor**".
 - This means that many people will still be considered poor if we revise the definition of "poverty line" upwards.
 - Indeed, when the Chinese official poverty line was increased after 2010, the number of rural people considered poor increased from 27 million to 166 million.
 - That being said, this figure is still better than the early 1990s, and in fact it decreased significantly to 55 million in 2015. So, success again!

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- Inequality in China: How to measure inequality?
 - A general point first.
 - Many kinds of inequality exist in different societies (and they can be related).
 - We have income inequality, wealth inequality, educational inequality, inequality of opportunities, inequality in mortality trends¹ and so on.
 - Many economists focus on income inequality and wealth inequality.
 - One measure of income inequality is the Gini coefficient.
 - A Gini coefficient further away from zero reflects a higher degree on inequality (0 means extreme equality and 1 means extreme inequality).

¹ <https://blogs.worldbank.org/developmenttalk/defense-gini-coefficient>

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- Inequality in China: How did China perform after 1978?
 - Until recently, the answer is poorly!
 - We mentioned before that China was (overall) a very equal society during the Socialist Era.
 - In three decades after 1978, "China has gone from being one of the most egalitarian societies...to being more unequal than the United States".
 - The table below shows some recent estimates² of the Gini coefficient for income inequality in a group of countries including China:

Brazil	China (2009)	Mexico	United States	China (2015)	Indonesia	India	Germany
0.53	0.49	0.48	0.41	0.39	0.38	0.36	0.28

²from different years, from the textbook and World Bank estimates

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- Reasons for **increased income inequality until 2009** in China include:
 - "After reform, urban residents have increasingly been **differentiated between those who possess the capital, skills, and opportunities to benefit from the new economy and those who don't**".
 - "**Asset income** has increased as a share of total income and is **much more unequally distributed**".
 - In addition, there was an **increase in the gap between urban incomes and rural incomes from 1985 to 2009**.
 - Meanwhile, **the government was doing little in terms of income redistribution**.

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- It seems that **after 2009, income inequality started decreasing.**
- Reasons for that decrease include:
 - ① • There was "**rapid growth of migrant (low skilled labour) wages**, especially between 2008 and 2014".
 - ② • **Government** started implementing some serious **redistributive policies**, such as:
 - "New programs of medical insurance and modest retirement funds".
 - Government policy aimed at increasing rural incomes.
 - This includes lowering taxes, directly subsidizing grain farmers, increasing welfare payments, and keeping farm prices high.

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- While income is important, there are other Quality of Life Indicators used to assess "living standards" and "well-being".
- This includes:
 - Literacy rates.
 - Life Expectancy at Birth.
 - Human Development Index.

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- Literacy rates in China.
 - As mentioned before, China came out from the Socialist Era with a relatively healthy and educated population.
 - This was (at least in part) a result of the socialist development strategy "that included substantial attention to so-called basic needs" such as basic health and education services.
 - **So China was in a relatively well position to start with in terms of literacy rates.**
 - **By 2015, literacy rates were equal to 94.6%** of the adult population in China.
 - Moreover, "illiteracy was under 2% for every age group under 45" in 2015.

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- Life Expectancy in China.
 - Again, "35 years ago, China had unusually impressive life- expectancy data compared with its low income".
 - Life Expectancy remained relatively good while income was growing over the miracle growth period.
 - In a way, **"income has 'caught up' with life expectancy", not the other way around as we'd expect in a typical developing country.**
 - Recent numbers from the World Bank show that in 2018, Life Expectancy at Birth in China was approximately 77 years (74.5 for males and 79.1 for females).
 - In the same year, Life Expectancy at Birth in the United States was 78.5 years (76.1 for males and 81.1 for females).

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- Human Development in China.
 - United Nations Development Programme has a Human Development Index (HDI).
 - HDI "reflects a weighted average of life expectancy, literacy and school enrollment, and price-adjusted purchasing power parity (PPP) GDP per capita".
 - **China** has moved up from "low human development" in 1980 to "**high human development**" by 2014.
 - That being said, **there remains some variations across provinces.**
 - For example, while Beijing and Shanghai had a "very high" HDI of more than 0.8 in 2014, Yunnan and Tibet had a "medium" HDI of less than 0.7 in the same year.

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- Conclusion:

- China came out from the Socialist Era as a low income country albeit with a high degree of equality and a relatively well position in terms of literacy rates and life expectancy.
- Decades of miracle growth have moved China into a middle income country and moved millions of Chinese people out of poverty.
- However, economic growth came with increased wealth and income inequality.
- China became a highly unequal society; more than the United States in 2009 for example.
- After 2009, some economic forces in addition to government policies started decreasing inequality.
- Finally, overall, China improved in terms of other Quality of Life Indicators, although there are still some regional variations.