

Mind the Gaps: A Political Economy of the Multiple Dimensions of China's Urban-Rural Divide

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Project: series of articles - book

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Approach:

- Problem with economic analysis
- Over simple belief in benefits of market economy
- Lack of attention to, (recognition of need for) “broad development strategy”
- Lewis Model: Dual Economy – (Backward/Modern - A Gap)
- Miss-specified – underspecified objectives

Plan

1. Introduction:

- Approach, *Possible* Preconceptions, China: R-U and Hukou

2. Gaps:

- Income; Consumption

3. The Causes of the Divide/Gaps:

- Inferior status of Ag. and Rural Areas; Development Strategy in the Pre-Reform Period; Growth Orientation in Reform Period; Inequality of Opportunity

4. Implications:

- Achieving Equality and Efficiency; Abolish Hukou? Policy Implications

1. Introduction

- Approach: *Normative political economy*
- Particular twin concerns:
 - Welfare of the poor - welfare of rural society
 - Claimed policy objectives
 - Development of the “West”
 - Harmonious Society
 - Justice
- Greater “understanding” by econ. policy makers of the nature/size of the problem of rural urban divide
 - i.e. appreciation of issues around measurement of the different dimensions of the Divide – the Gaps
- Links between “gaps” and policy and objectives
- Inform policy debate : (*help the “right side”*)

Possible Preconceptions

- Pre-reform => Reform
 - Equality => Inequality
 - Maps onto R-U
- Necessary?
 - A Concomitant of Growth:
 - Kuznets – “empirical regularity” vs Myrdal
- Comparison with other LDCs
 - Fast
 - More orderly
- Distinguishing feature –Hukou

China: R-U and Hukou

- Urban or Rural status in China
 - similarities and differences with other LDCs
 - Geographic:
 - comparing livelihoods of people in rural with urban areas
 - Individual:
 - people's status is legally defined by their Hukou
- => Despite moving to urban areas - and being there for long time, still classified as “rural”
- 120 million with rural Hukou status in urban areas
 - Legal status rights – employment/social security/education/health/land

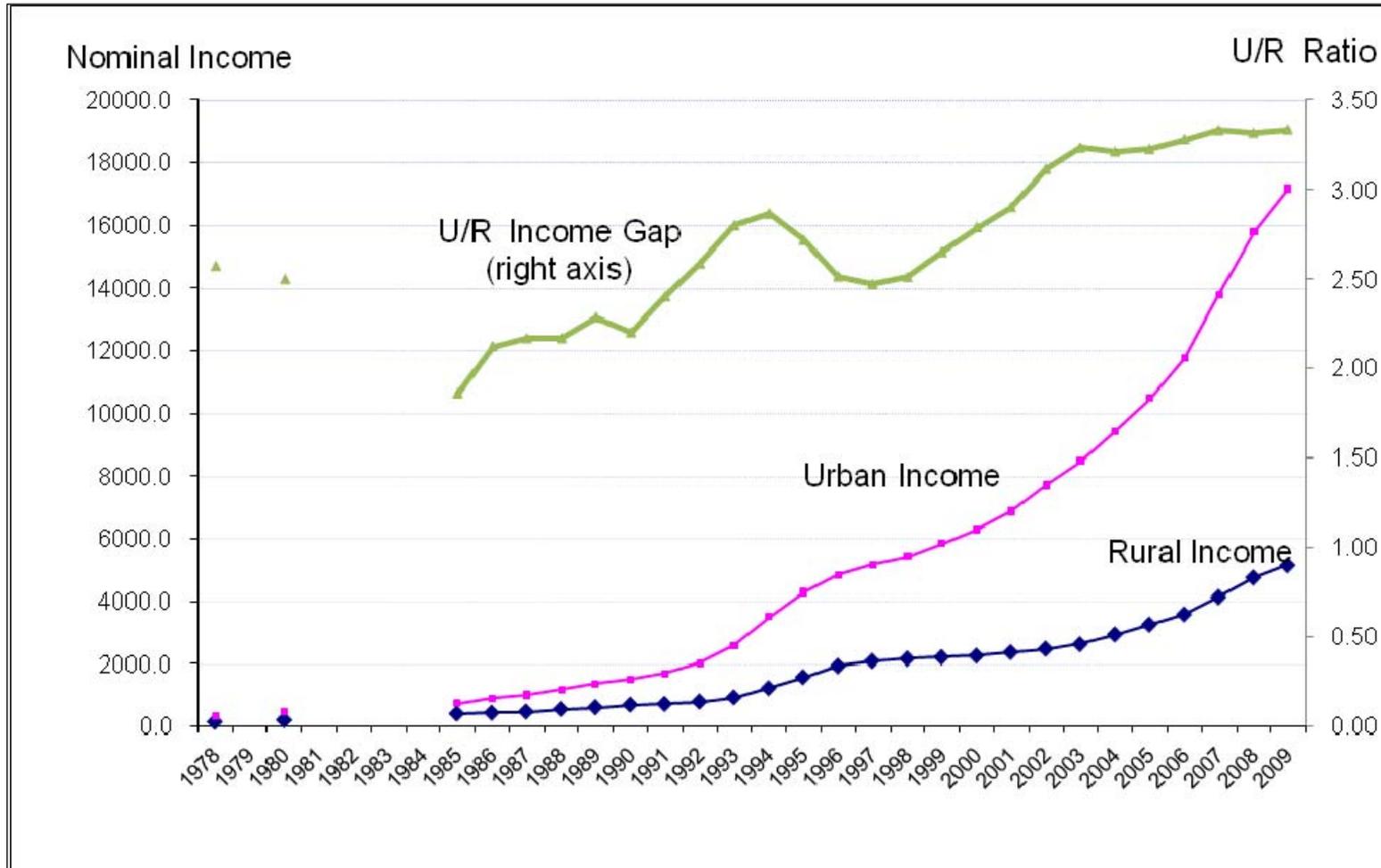
2. Gaps

1. Income
2. Consumption
3. Education
4. Healthcare
5. Employment
6. The Child Care Gap
7. Access to public services and
8. Pensions
9. The Environmental Gap
- Other s

Ends and Means

- Gaps have implications not only directly for well being but indirectly through economic channels

Evolution of R-U Income Gap



- Large and Increasing

Income

- Urban-rural income gap: increasing/among world's largest
- HH disposable income only capture a small part of difference between real incomes
- No consensus on most appropriate measure of income gap
 - Most of the literature takes into account “cost of living differences”
 - generally higher in cities and use a bigger price inflator for urban areas.
 - This results in a much smaller urban-rural gap
 - BUT differences in the quality of the goods that are typically consumed by urban and rural consumers mean this is problematic
- Non-monetary factors => “real income”
- Also
 - Gap “average income” in both urban and rural areas
 - BUT within areas average hides very wide dispersion
- Rural areas there are many truly poor households

Urban “Residents”

- “Minimum Standard of Living” ensure a basic livelihood.
 - If family income falls below a locally specified minimum income level, the local government should finance the shortfall

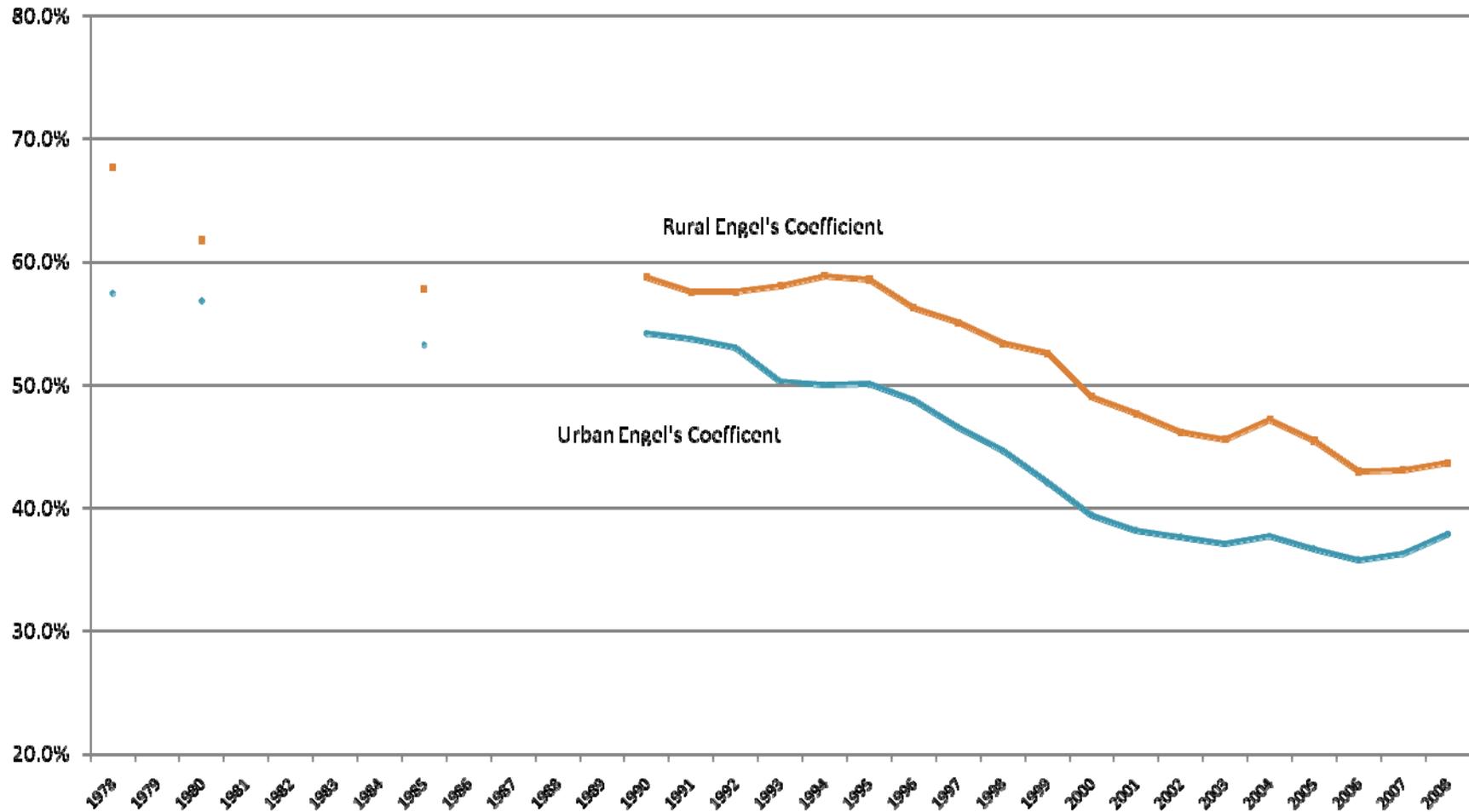
Rural “Residents”

- No such guarantee
 - Rely on private savings and family support or simply have to do without

Hukou status?

- Income figures for rural migrants
 - generally much lower than the incomes of those with urban Hukou status
- calculation of urban income and they find a smaller size of the urban-rural income gap

Rural-Urban Consumption Gap



Consumption

- Conventional view:
 - pre-reform period both urban & rural areas equally poor
 - consumption inequality was not so severe
- BUT
 - Crisis - 30 million died *The Great Famine* (1959-62)
 - Urban areas guaranteed supply of food, and the strict enforcement of Hukou system prevented, or substantially reduced, rural-urban migration during the period of the famine.
- Reform - Household Responsibility System (HRS) 1979-84
 - resulted more efficient/productive/ (possibly resilient) agriculture production, most rural areas were freed from hunger

- Measures:
 - Calorie Gap: Hides quality differences
 - Engel's coefficients: % spending on food in the total consumption expenditure:
Payments for food services
- Again many take for granted use of a lower price index to rural areas
 - BUT differences in the quality of goods are ignored
- Another problem is a possible misattribution of production expenditure to consumption expenditure
 - Rural HHs not only consume grain but also need to plant for next year
 - If *grain purchased = consumption* then overstating rural consumption
- Despite improvements many in rural areas are still struggling to meet the bare necessities of life
- While - urban consumption risen massively

3. The Causes of the Divide/Gaps

- “Inferior Status” of Agriculture
- Policy Distortions
 - Development Strategy in the Pre-Reform Period
 - Development Strategy in the Reform Period
 - Inequality in Opportunities

Inferiority Ag. and Rural Areas

- Agricultural sector is based on land
 - Land is a factor of production of which there is a limited supply
 - standard “economic law” - likely to face diminishing returns to labour
 - especially when surplus labour
- Surplus labour + low level of capital investment=> low capital to labour ratio=> low labour productivity/low income
- Low income => RU migration
 - In “market economy” - an “equalizing effect”
 - However cost of migration, cultural differences, and geographical distance might act as barriers that prevent the equalizing effects of wage between two sectors.
 - Lewis (1954), the urban wage is approximately 30 percent higher than that in rural areas.

Development Strategy in the Pre-Reform Period

- Intrinsic “inferiority of agric.” exacerbated by policy
- Development strategy
 - “exploit” the agricultural sector/rural population
 - to support industrial development/urban areas/population
- “Rationale/Hope”
 - Transfer of resources from rural to urban areas - prioritise the industrial sector
 - Generate growth => positively affect whole country
- Institutionalized the urban-rural divide
 - Hukou system - avoid “excessive” rural-urban migration

Growth Orientation in Reform Period

Focuss on Agric. (1979-84) - dominated by increased urban investment

Regressive Tax System:

- While price controls on agricultural output were gradually relaxed the tax and subsidy system remained unchanged until 2003-06
 - Urban households pay relatively little direct tax
 - Rural population still pay direct taxes

Tax

- Theory: high tax may leads to more or less work depending on balance of “income effect” and substitution effects
- Rural China - high levels of surplus labour - high taxation only results in reduced living standards not increased output

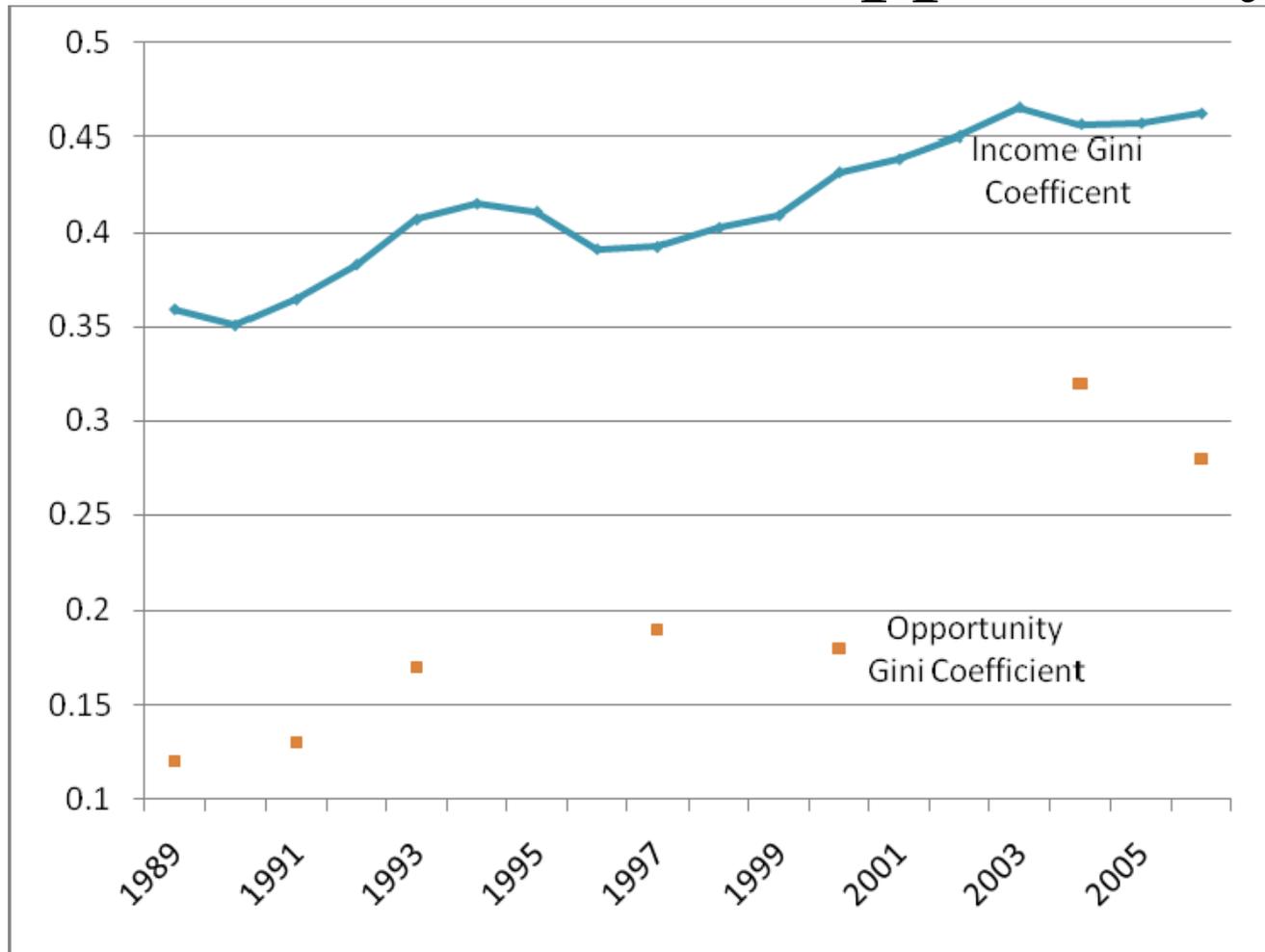
Paradox: Increase market – increasing inequality

Inequality of Opportunity

“relates not only to differences in access to education and employment, but to the inequality in all factors affecting the individual’s welfare, over which they have no control.”

- Estimates suggest that more than half of the inequality of *income* was caused by “inequality in opportunity”
- allowing economic advantage/disadvantage to be transmitted from one generation to the next

Income Gini and Opportunity Gini



- Correlation
- Causation

4. Achieving Equality and Efficiency

- Postulated trade-off between welfare and efficiency
- Some claim China faces just such a trade-off
- Not necessarily the case!
- Economic mechanisms by which efficiency and equality can be achieved simultaneously exist

Breaking 'Vicious Circle' of various traps

- Small injections in rural China => big returns in Equality and Efficiency

Improvement Equality of Opportunity

- Small improvements in Opportunity for Rural people => big returns in Equality and Efficiency

Abolish Hukou?

- Yes
 - Justice/Freedom
 - Positive incentivising effect
- No
 - Irrelevant to more fundamental problems
 - Negative consequences
 - Loss of land/safety net
 - Loss of dynamic people
 - Urban squalor
 - Other policies – more important
 - Standard addition traditional Deve Econ .
 - Balance => Rural “investment” => “Harmony”

Policy Implications

- Our over-riding concern : “welfare of the poor”
- But possible dangers
 - Market solution/democracy
 - urban poor loose services - rural poor loose land
- Rural poor
 - who have migrated - access to urban services
 - But until/only if fully done should keep link to land
 - Fiscal centralism: More services in the countryside
 - Services target at deepest needs
- Politically difficult - greater awareness can help

Thank you for your
kind attention