

URBAN AND RURAL INCOME INEQUALITY IN CHINA

-REVIEW OF THEORIES RELEVANT TO CHINA'S ECONOMIC REFORM

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The Background- Urban Rural Income Inequality

- ◆ **China's Economic Reform**
- ◆ **Remarkable Economic Success**
- ◆ **Significant Urban and Rural Discrepancy**
- ◆ **One of the Major Policy Concerns**

Significance of the Research

- ◆ **Little Previous Research Specifically for China** (Despite Many Researches on this Topic)
- ◆ **The Problem is Unique in China**
 - **Low Level Economic Development**
 - **Still in the Process of Economic Reform**
 - Transforming Planning to Market System
(Privatization of State Owned Enterprises)
 - Transforms Agricultural Sectors to Modern Industrial Sectors (Rapid Urbanization)
 - Strong Institutional Imprints of the Old Management Systems (Hierarchical Structure)

Significance of the Research (Cont.)

- ◆ **Conflicting Objectives in the Reform**
 - Between Rapid **Economic Growth** and **Legitimacy of the State**
 - Between **Economic Progress** and **Enlarging Income Inequality** (AGAINST THE GOAL OF ECO REFORM)
 - **Reshuffling Interests** among Stakeholders
 - Between **the Need for Political Stability** and the **Urgent Demand** for Replacement of the Old Socialist Institutions
- ◆ **Deserving Special Consideration**

Main Points

- ◆ The emergence of a market society should not be limited to the growth of markets merely as a medium of economic exchange.
- ◆ It is risky to fully depend on either **the Pure Market Mechanism** or **the State Intervention** as the solution for current socioeconomic constraints.
- ◆ **New institutional approach** may be a sensible alternative in understanding regional inequality in transition economies.

Paper Layout

- ◆ The conceptual issues of income equality
- ◆ Reviewing the socioeconomic development in urban and rural China
- ◆ Rural urban excessive migration as an outcome of the income inequality
- ◆ Relationship between income inequality and economic development
- ◆ Deficiencies of neoclassical view and state-centered view in dealing with the income inequality
- ◆ Conclusions

Deficiencies of the Neo-classic Theories on Income Inequality

- ◆ The Convergence Hypothesis (Ohlin, 1933; Solow, 1956)
- ◆ The Inverted U-curve Hypothesis (Lewis, 1955; Kuznets, 1953, 1965).
- ◆ Economic growth and societal stability are both essential
- ◆ (1) income inequality tend to diminish when national economy reaches a higher level of development;
(2) a country may not be able to reach such level of development unless it manages such income inequality.

Deficiencies of the State-centered Approach on Income Inequality

- ◆ State's Intervention is likely to correct the imbalances (Wang and Hu, 1999,p.36).
- ◆ **James Scott** suggests that the tragedy frequently results from state efforts to oversimplify and standardize people and things (Scott, 1998).
- ◆ **Amartya Sen** also questions the role of the state as a centralized power in the national socioeconomic development.
- ◆ Theory of **Public Choice** (Buchanan et al., 1980).

Conclusions

- ◆ The more constructive way is through the new institutional approach to better understand the complexity of urban and rural inequality
- ◆ The new institutionalism emphasizes on understanding the interrelationships between economic organizations and social institutions.
- ◆ It is still far from conclusive yet how to effectively utilize the new institutional approach in seeking the solution to the inequality problem in economic transition. Further exploration is very necessary.