Income Inequality in China’s Emerging Economy and Its Interaction with China’s Growth Pattern

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1. Outline

• Income inequality in China
  – Functional income distribution
  – Wage dispersion
  – Household and personal Market income distribution

• Income inequality and growth model in China
  – Growth model in China
  – Interaction between income inequality and growth model in China

• Introducing wage-led growth model to China
  – Wage-led growth model
  – Minimum wage policy
  – Wage bargaining

• Conclusions and future work
2. Income Inequality in China

- A rapid increase in disparities of income distribution was observed during these decades. China has changed from a country with a fairly even income distribution into a country with wide income disparities.

——(Han, 2004)
2.1 Functional income distribution

- Rapid wage growth
- Remarkable decline of labor income share

Figure 1. Unadjusted labor income share in China, 1992-2011

Source: ILO. Global Wage Report 2014/15: Wages and Income Inequality, p27
2.2 Wage dispersion

Figure 2 Urban Wage Inequality in China

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<td>2.54</td>
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</table>

2.3 Household and personal market income distribution

Figure 3 Gini Coefficients in China (overall, rural and urban)

Sources: Li and DaCosgta, 2013, Transportation and Income Inequality in China: 1978-2007
2.3 Household and personal market income distribution

Figure 4 Household Saving Rate and Household Income as A Percentages of GDP, 1990-2008, Annual

Notes: Saving rate of urban households = (1 – per capita consumption expenditure) / per capita disposable income. Saving rate of rural households = (1 – per capita total consumption expenditure) / per capita net income
Source: Knight and Wang, 2010, Are China’s Macroeconomic Imbalances Sustainable?
3. Income inequality and the growth model in China

3.1 The growth model in China

- Highly driven by investment
- Export-oriented

Figure 5 Net exports of goods and services, 1992-2007

Source: Bergsten, Freeman, Lardy and Mitchell, 2008, China’s Rise: Challenges and Opportunities, p109
3.1 The growth model in China

- Low consumption

Figure 6 The Components of GDP in China, 1999-2008, percentage of GDP

Source: Knight and Wang, 2010, Are China's Macroeconomic Imbalances Sustainable?
3.2 Interaction between income inequality and growth model in China

Current Growth Pattern

- Highly depend on external-demand
- Internal imbalance
  - Rising current account surplus and weak consumption demand
  - Less government policy attention
  - Functional and personal income inequality

Income Inequality
3.2 Interaction between income inequality and growth model in China

**Income Inequality**

- Lower wage share, lower disposable income
- Weak domestic consumption demand
- Increasingly dependence on the external demand of investment and export
- Aggravate the imbalance and unsustainability of economic growth

**Growth Pattern**
4. Introducing wage-led growth model in China
4.1 Wage–led growth model

“…wages will have to rise broadly in line with (potential) output; labour income shares have to be at least roughly stable in the medium to long run, and may even rise if distribution claims of firms, rentiers, the state or the foreign sector are falling and permit the increase of the labour income share without triggering cumulative inflationary processes

---Eckhard and Mundt (2012)
4. Introducing wage-led growth model in China

4.1 Wage–led growth model

- For China
  - “income-balanced” growth regime
  - to reduce the income inequality and at the same time stimulate domestic demand for a sustainable development
  - labor market policy is of great importance
4.2 Minimum wage policy in China

- March 1st 2004, full implementation of the minimum wage policy in overall China
- Local governments renew the minimum wage standards at least once every two years
- Challenges: various standards; firm-base enforcement, etc.
4.2 Wage bargaining in China

- The communication and consultation behavior
- Debate on the All China Federation of Trade Unions (ACFTU) in China
- New opportunities by wage-led growth regime
5. Conclusion and future work

• Gradually adding the wage-led regime
• Labor market policy
• Future work
  – Minimum wage policy and collective bargaining
  – Other redistributive policies
Thank you for your attention!
References


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