Acknowledgement:

The United Nations System in China wishes to acknowledge the invaluable contributions of the authors of the Equity in China Chapeau Paper and express sincere thanks for their involvement in its production: Professors Liu Minquan of the Center for Human and Economic Development Studies at Peking University, Li Shi of the China Institute for Income Distribution at Beijing Normal University, and Liu Bohong of the Women’s Studies Institute of China have each provided an insightful perspective from their respective areas of expertise; Sir Richard Jolly has brought the underlying issues together in his succinct opening summary; and Dr. Jan Vandemoortele has been a resonant voice in guiding dialogues with the UN System in China since the “Rethinking the Equity-Efficiency Relationship: Challenges Ahead” seminar in July of 2012. The United Nations System in China would also like to recognize the energetic support of Ms. Gillian Mellsop, UNICEF Representative and Ms. Ann Herbert, ILO Director from the inception of this paper to final publication – we thank them for their leadership.
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In July of 2012, the UN System in China convened a seminar on “Rethinking the Equity-Efficiency Relationship: Challenges Ahead” with national and international experts. The rationale for the dialogue stemmed from the desire to compliment the Government’s efforts to address emerging and urgent challenges of growing disparities and inequalities. While China has rapidly transformed into a vibrant and dynamic middle income country and has already achieved half of the Millennium Development Goals targets, major gaps exist between urban and rural areas, between the wealthier East Coast and the poorer Western and Central regions, between men and women, between the Han majority and other ethnic minority groups, etc.

Dr. Jan Vandemoortele – an internationally renowned expert in the field of development who served for over 30 years with the United Nations and is co-architect of the Millennium Development Goals – led the discussion, providing insights into the global experience in promoting equitable development. Chinese experts and scholars represented by the Chinese Academy of Social Sciences, State Council Development Research Center, National School of Public Administration, Renmin University, Beijing Normal University, Women’s Studies Institute, China University of Political Science and Law, China Development Research Foundation, among others, joined the discussion.

This paper, which includes valuable contributions from Professors Liu Minquan, Li Shi and Liu Bohong, is the first of a series of UN publications designed to explore concepts of equity and policies towards closing the gaps. It will be followed by a series of thematic papers addressing equitable development in different sectors in China, such as health, education, employment, etc.

The pursuit of greater equity in China is deeply imbedded in the UN System’s development support. We believe it is not only vital for China’s harmonious and stable domestic development, but also for her rise on the global stage and her growing global stewardship.

Renata Lok-Dessallien

UN Resident Coordinator in China
Dr. Jan Vandemoortele served in various capacities with the United Nations for over 30 years, both in the field and at headquarters—with UNICEF, UNDP, ILO and on loan to the World Bank. His last position was as UN Resident and Humanitarian Co-ordinator to Pakistan. He is the co-architect of the Millennium Development Goals and has published widely on the topic. He now reads, writes and regularly speaks at high schools, universities, NGO forums, UN seminars and donor conferences. He holds a PhD in Development Economics. He is member of various advisory groups, including to the UN Secretary-General.

Sir Richard Jolly is Honorary Professor and Research Associate of the IDS (Institute of Development Studies) at the University of Sussex. Richard Jolly was an Assistant Secretary-General of the UN, serving as Deputy Executive Director (Programmes) at UNICEF from 1982-95 and co-author of the widely-acclaimed Human Development Report from 1996-2000. In 2001, he was knighted by Queen Elizabeth II for services to the UN and International Development. He co-directed the UN Intellectual History Project with Louis Emmerij and Tom Weiss, the summary volume of which is UN Ideas That Changed The World (details on www.unhistory.org). He has written or co-written many articles and books on development, the latest of which is UNICEF: Global Governance That Works, to be published by Routledge in May 2014.
Liu Mingquan is Professor of Economics and the Founding Director of the Center for Human and Economic Development Studies (CHEDS), Peking University. Before Joining Peking University in 2005, he was Professor of Economics at Hopkins-Nanjing Center, Johns Hopkins University, and a lecturer and research fellow with the University of Leicester and the University of Cambridge in the UK. His recent research has focused on human development (principally health, environment, and poverty eradication) in the People’s Republic of China (PRC) and in other East and Southeast Asian economies. His most recent major work was a United Nations Development Programme human development research report: Human Development in East and Southeast Asian Economies: 1990-2010, which reviewed progress in human development in these economies over the past 20 years. He has also recently contributed to United Nations Department of Economic and Social Affairs top-level consultations on poverty eradication and the post-2015 agenda. He has led a series of important research projects on rural development, rural finance, health, education, the environment and poverty in the PRC, and has published articles in leading international and PRC journals addressing these issues. He is currently visiting Asian Development Bank Institute. He received an M.Phil from the University of Cambridge, and a D.Phil from the University of Oxford.


Liu Bohong is a Professor at China Women’s University, and a senior research fellow and former Deputy Director General of the Women’s Studies Institute of China. She was a member of the fifth, sixth and seventh Population Specialists Committee of the State Family Planning Commission, and Deputy Secretary-General of the Chinese Women’s Research Society. She is a member of the expert committee of the China Association for Employment Promotion, and adjunct Professor at Beijing Foreign Studies University, Yunnan University of Nationalities, and Shandong Woman University. She has collaborated with several UN agencies in China, serving as an adviser on gender. Her main research direction includes gender and public policy, and gender and development.
This is an important collection of papers. With clear focus and succinct style, they document earlier and recent trends in China’s inequality, assess their significance for further progress and growth and reach measured conclusions for policy and action during the next few years.

China has already set world records for growth and poverty reduction. These records relate to both the extent of progress in these two central areas of human and economic progress and for the speed with which the progress has been achieved over the last three decades.

The three papers now focus on a third dimension of progress which requires action: inequality. They summarize recent trends in inequality and also show how inequality needs to be brought into the mainstream of policy. This is for three reasons:

- as a condition for sustaining growth and poverty reduction in the future;
- as a precautionary measure for people and human society in China to avoid the problems which extremes of inequality have brought to many other countries of the world;
- and finally, as a worldwide demonstration that China can retain its reputation as a leader and record setter in terms of development.

The need for policy in China to give strong attention to reducing inequality relates directly to experience in China over the last three decades. It may be useful to summarize the three papers dealing with China included in this collection, by Liu Minquan, Li Shi and Liu Bohong.

Liu Minquan sets China’s recent progress in long term perspective. He shows how record economic growth since 1980 depended on the equality-focused policies and actions of the founding years of the PRC, especially land reform and educational expansion. He warns that it is neither historically nor analytically accurate to attribute post-1980 growth to market reforms alone. These earlier actions diminished inequalities in land-holdings and in access to education, both crucial for later development. Market reforms in other countries which have not laid a foundation of greater equality in land-holding and education, have usually failed or been very slow in
poverty reduction and have had weaker performance in economic growth. None have achieved the same rapid or sustained growth as China.

Liu Minquan points out that the system of collective agriculture, in spite of important weaknesses in incentives, had two advantages. Instead of paying out all collective income to individuals in relation to their performance, some part was set aside for an accumulation fund and a welfare fund. The first helped to build up rural infrastructure and the second underpinned the rapid development of rural health services and primary and secondary education. Advances in both health and education were important for later success. The increase of life expectancy in the PRC outperformed all other countries from 1950/5 to 1970/5. These early reductions in illiteracy and big increases in junior and senior secondary education meant that the Chinese labour force was well prepared quickly to pick up the new skills required for export-oriented production in the post 1978 era. Their strong health gave them the stamina to work long hours in the new factories (indeed, excessively long hours by Western standards).

With this as background, Liu Minquan turns to the future challenges. He points out that inequality has worsened since 1980. Initially, rural and urban income gaps fell from 2.5 in 1978 to 1.7 in the early 1980s – but then rose to 3.3 in 2009. China’s overall Gini-coefficient by the latest estimate has risen to 0.49, now one of the highest outside of Latin America, where many countries are now taking action and Gini coefficients are being brought down1. He sees the challenge as moving to a path of “sustained future growth of the economy while simultaneously achieving an adequate level of equity.”2 This will require giving more attention to expanding domestic demand while simultaneously tackling issues of income distribution and, more generally, social equity. But there are problems: rising wages may threaten China’s competitive place in export markets and increasing the coverage of social insurance and protection faster than economic growth will lead to an increase in the share of national income going to these programmes.

Liu Minquan rightly argues that nothing is “more important than human capital accumulation to an economy or nation if it wants to develop, to modernize and to catch up with today’s developed countries.”3 Education and training are a fundamental form of human capital formation but there are other activities also - health, good nutrition and family knowledge and care which ensure that family living standards encourage good child upbringing. Just as the pre-1978 policies laid the human foundations and equitable structures which the last three decades of Chinese development could build on, so current policies, for better or worse, will lay the foundations for China’s next fifty years.

The issues and challenges of distribution reform in China today are explored further by Li Shi. He starts by recognizing how extremes of inequality constrain capital accumulation, economic growth and consumption. Such extremes slow or even reverse poverty reduction. They increase social mistrust between the rich and poor, thereby weakening the social contract.

1UNDP Human Development Report 2013 gives the Gini-coefficient for China as 0.428 for the most recent year available 2000-2010. It lists 10 countries in Latin America with Gini coefficients of .49 or more. Other countries with Ginis above .49 are 8 countries of Sub-Saharan Africa, 5 small island states and Haiti. Table 3. Pages 152-155.
2Liu Minquan, “Economic Growth and Equity in the People’s Republic of China” p 40
3Liu Minquan, ibid p 42
Li Shi identifies key features in recent developments of income distribution. Among rural residents, the income gap after earlier widening has recently slowed. In contrast, the income gap among urban resident has been widening. Although the public perception is that urban gaps are wider than rural ones, Li Shi points out that this is not borne out by statistics—though some commentators suggest that the incomes of urban high income households are underestimated. This said, the national income gaps in China is at its highest level for fifty years, with the Gini coefficient rising from 0.44 in 2000 to 0.49 in 2008—though apparently dropping slightly to 0.474 in 2012.

Li Shi identifies a number of further problems which need tackling:

- High incomes in monopoly and monopolistic sectors is one important issue. In 1990s the income gaps across the different sectors was not excessive, with the highest paying only 30-40% more than average wages. But by 2011, average wages in the financial sectors was nearly double average urban wages—and in Beijing, the average wages in the financial sector were more than three times average wages in manufacturing.

- The divergent urban-rural social security systems also bring problems which need attention. These divergences have led to widening gaps among different groups of people. Older people are particularly affected—with pensions for retired civil servants being among the highest, followed by retirees from private enterprise. “The worst old age security system is the one for the unemployed elderly.”

Li Shi makes specific proposals for tackling these inequalities. The first challenge is to increase the incomes of low-income groups. For this, he suggests a general rule for policy makers and a key focus for statisticians to monitor: in the years ahead, the incomes of the low income groups should rise at a higher rate than those of the higher groups. This would apply primarily to rural residents but also to a small number of low-wage urban workers. Some of this has been happening in recent years, as Li Shi recognizes. He points to three causes: rising prices of agricultural products, secondly, the increased demand for unskilled construction labour stimulated by the expansion of government infrastructural projects, which has also led to increases in income for rural migrants; and, thirdly, increases in social transfers for low income groups, made possible by rising government revenues. But all these are short term factors and it is not clear how long they will be sustained. A key issue for the longer run will be to make sure wage increases for the low paid can keep up with productivity increases.

Challenge two for the longer run, is to expand the middle class. Given China’s industrial structure, Li Shi estimates that this will take two generations—and will depend on expanding higher education from the current 3% to more than 50%.

Li Shi identifies three other challenges, each difficult: tax measures, controls on monopolies and more general political action to limit the power and influence of vested interests. Tax measures are needed to regulate high incomes, which are difficult because high incomes are often paid in alternative forms, such as bonuses, overseas payments or other perks, making it difficult to track and quantify them. Similarly, there are difficulties in formulating measures for controlling and
weakening the influence of monopoly sectors and limiting the interference of vested interests. Experience in Western countries shows the difficulties for any government in tackling these three problems. As if these three were not challenge enough, Li Shi adds a fourth and last: facilitating political reform. “Inequitable income distribution, which has led to growing public complaints and dissatisfaction, posing risks to social stability.”

Gender trends and inequalities are the third area of focus. Liu Bohong summarizes the trends in gender equity and inequities over the last three decades and sets out goals for the post-2015 period. She recognizes that “[g]ender inequity is one of the most common inequalities. Its association with poverty, social status, ethnic groups, races, religions, disabilities, marital status, age, sexual orientation and social identity makes women more disadvantaged in these vulnerable groups.”

She assesses the negatives as well as the positives of changes. China has made remarkable progress in more than doubling the proportion of women in university education – from 23% in 1980 to nearly 51% in 2010. Yet this progress has not been matched by opportunities and returns in the labour market. Employment opportunities for men and women have both fallen, but faster for women than men. And the gap between the amounts earned by women compared with men has increased over the last twenty years, irrespective of age group, educational attainments, and areas with different levels of socio-economic development. Perhaps even more surprising, there has been a resurgence of traditional attitudes and thinking towards women which many thought had long disappeared. Today, some four out of ten Chinese men and almost five out of ten Chinese women now think that “a good job is inferior to a rich husband.”

Market reforms have transferred the costs of having a child and caring for a child from government to employers and individuals. And with this, there has been an increase in the amount and value of unpaid domestic care, mostly of course undertaken by women.

Liu Bohong, concludes that it is essential to include gender equity and protection of women’s rights as vital goals in the post-2015 agenda. She proposes four specific goals:

1. Clearer definitions of “fairness” and “equity” in relation to women should be incorporated in the agenda, along with indicators for monitoring progress, for instance women’s access to employment and earnings as well as access to education.

2. Substantive equity, fairness and justice should be mainstreamed into national legislation and decision-making and be fully indicated in the “Five-in-One” model of the socialist cause.

3. A mechanism for accountability should be put in place to achieve the post-2015 goals.

4. Development and implementation should involve the public as participants as well as supervisors.

Jan Vandemoortele sets these experiences in historical and global perspective. “After spending decades in obscurity,” he emphasizes that inequality is now back in the public eye in most parts of the world, as well as in the policy concerns of international agencies and institutions. He follows

Li Shi, “Income Distribution Reform in China: Issues and Challenges” p50
Liu Bohong, “Gender Equity in China” p52
Liu Bohong, ibid p54
Liu Bohong, ibid p51
Jan Vandemoortele, “Inequality and Gresham’s Law – the bad drives out the good”, p17
Equity in China: Chapeau Paper 2013

this up by noting that recent empirical evidence shows that some of the earlier propounded truths are in fact false–even though many of these myths are still frequently used in arguing against action:

- Growth and equity are not opposed but are friends. Vandemoortele shows that extremes of inequity lowers economic growth, not cause it to increase. He introduces a new variation of Gresham’s law (that bad money drives out good). In the case of inequality, Vandemoortele argues that “bad inequalities”, extremes of inequality, drive out the good, moderate forms of inequality. A certain degree of inequality is needed to provide incentives for good work, creativity and daily effort. But extremes are damaging and counter-productive.

Vandemoortele cites some of the world’s greatest philosophers: Plato argued that there should exist “neither extreme poverty nor excessive wealth among citizens, for both are productive of great evil.”\(^9\) The ideal ratio of rich to poor was not higher than five to one, a view also held by Aristotle.

Jan Tinbergen, the first Nobel prize-winner in economics, thought that the ratio should be no more than seven to one.

Although, Vandemoortele recognizes that consensus on the impact of equity on economic development has been difficult to establish\(^11\), he cites a distinguished list of international economists who have recently written in support of the argument that high inequalities and inequities undermine prosperity and well-being, at least beyond a certain threshold. He also cites a number arguing that higher levels of inequalities lead to slower rates of economic growth. This list includes Martin Ravallion of the World Bank (2000), Milanovic (2012) and the Nobel laureate Stiglitz (2012)\(^12\).

Vandemoortele rejects the case for concentrating on equality of opportunity rather than equality of outcomes. Arguments in favour of equality of opportunity assume that this is played out on a level playing field. In reality such a level playing field hardly ever exists. And even if a playing field starts level, high and growing inequalities soon reinforce the imbalances, making the disadvantaged even less able to compete fairly. As Vandemoortele puts it, “high inequalities in terms of outcomes make equality of opportunity virtually impossible.”\(^13\) As one example, education fees for higher education in most countries today increasingly act as a serious barrier for persons from poorer backgrounds to get access to higher education of quality. At the same time, high fees provide a red carpet to higher education for children from higher income families. Though scholarships can and do assist a few exceptionally bright children from poorer families, many of the poorest do not get enough education even to qualify for scholarships.

Perhaps most important, Vandemoortele also emphasizes the costs to a country’s population of unequal outcomes of incomes, drawing on the work of Wilkinson and Pickett reported in their book entitled The Spirit Level.\(^14\) This study has shown that over a wide range of countries, greater inequality means that the well-being of richer people at the top as well as poorer groups

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\(^9\) Jan Vandemoortele, ibid p 17
\(^10\) Jan Vandemoortele, ibid p 17
\(^11\) Jan Vandemoortele, ibid p 18
\(^12\) Jan Vandemoortele, ibid p 17-21
\(^13\) Jan Vandemoortele, ibid p 27
at the bottom are worse according to almost every quality of life indicator: life-expectancy, infant
mortality, obesity, homicides, learning, teenage pregnancy, illegal drug use or mental illnesses.
Although the findings of this study were initially subject to criticism, Vandemoortele cites a recent
evaluation undertaken by Rowlingson of the University of Birmingham. After reviewing the peer
reviewed literature, Rowlingson concluded that “the basic methods of the Spirit level are robust
and the main finding of the correlation between income inequality and health and social problems
stands up to the criticisms”.15 Her studies also suggested that the causal link between income
inequality and health and social problems strengthens once the Gini-coefficient exceeds the level of
about .30, well below the level in China today.

Vandemoortele concludes with some strong words, on growing gaps and deepening disparities that
have no redeeming value. "Reliable surveys and credible analyses confirm that once they exceed a
certain threshold, gaps and disparities become harmful for everyone, including those at the top."16

Conclusion
This series of papers collectively illustrate the importance of addressing inequality in the context
of changing development paths in China. One of the key reasons underlying the pursuit of equity
and equality is its link with strengthening human capabilities and human capital accumulation,
as the papers have either explicitly or implicitly indicated. An egalitarian society creates a more
enabling environment for equal development of human capital across the entire population. It is of
particular importance to the future development of China when the country is seeking to transform
its economic model from the current one that is still largely export-oriented and dominated by
low value-added manufacturing industry to one that is more knowledge-based with technology-
tensive industries that are competitive at the global level. The success of such transformation
requires a high level of human capital. Full realization of a country’s human potential clearly would
be hampered if certain population groups are put at a disadvantaged position in terms of getting
equipped with knowledge and skills that are required to work in the high valued-added industries.

In this light, the equity and equality situation of China has strong implications for the country’s
sustainable development over the longer run. The world has been changing so fast that China
needs to upgrade its industrial structure to stay competitive. The 12th Five-year Plan has identified
7 strategic emerging industries, which have sent a strong signal that the country is keen to move
its industries upstream, in the face of growing global competition. On the domestic front, studies
have shown that China has either already passed or quickly approaching the so called “Lewis
Turning Point” - a point where the non-agricultural sectors have largely absorbed all the surplus
labor from the rural areas, which set the stage for a surge in labor costs. Coupled with the fact
that China is rapidly ageing, the time that China can boast a sizeable and cheap labor force as its
comparative advantage will gradually disappear in the following decades. In this context, economic
transformation, underpinned by substantive accumulation of human capital, is crucial for sustained
growth of the country.

Cited in Jan Vandemoortele, “Inequality and Gresham’s Law –the bad drives out the good” p24
16 Jan Vandemoortele, ibid p27
At the conceptual level, concerns with equity and sustainability are also closely related in a more fundamental sense: both are about distributive justice. Inequitable processes are unjust, whether across groups or generations. The current generation is destroying the environment needed for long-term, sustainable development. Doing this for short-term economic gains is no different from a present-day institution limiting the aspirations of certain groups for equal opportunities to jobs, health or education.

Given the intersection of equity and sustainability in so many ways and at so many levels, the development of equity-related policy in China is highly relevant to the discussion of the Post-2015 development agenda that builds on the agreement from last year’s United Nations Conference on Sustainable Development. These discussions have put sustainable development at the core of the Post-MDG agenda formulation. Issues of inequality have been raised by many of those engaged in these discussions and there is now a general consensus that sustainable development will not be achieved without a simultaneous pursuit of equity. The High-Level Panel of Eminent Persons on the Post-2015 Development Agenda\textsuperscript{17} embedded tackling inequality of opportunities in all their proposed Post-2015 Development Goals. It is clear that the global development community has acknowledged the inextricable link between equity and sustainability.

Such a dual pursuit of equity and sustainability will require strong government interventions. It will also require important contributions from the private sector and from civil society. A new global partnership is needed – one that brings in many groups: those living in poverty, women, youth, people with disabilities, indigenous and local communities, marginalized groups, central and local governments, multilateral organizations, businesses, civil society, scientists, academics and other stakeholders. Working together toward equity and sustainability will also require a “re-moralisation” of the current economic discourse – one that places less emphasis on profit and “one-dimensional economistic” ideas, and more on human advance and social progress.\textsuperscript{18} Against this backdrop, Rabindranath Tagore’s call to “fight with our faith in the moral and spiritual power of men” is clearly as valid as it was when he said it during his visit to China in 1924.

\textsuperscript{18}Jan Vandemoortele, ibid p27
Abstract
After decades of neglect, inequality is back in the public eye. The paper first clarifies the difference between ‘equality’ and ‘equity’; between ‘equality of outcomes’ and ‘equality of opportunity’. It then shows that the presumed trade-off between growth and equity is invalid. Research confirms that they are friends, not foes. The way the economic pie is cut has a bearing on its size, but not in the manner the conventional narrative has held for so long. High inequalities—i.e. those that go beyond the incentive-element—do not make the pie grow faster. Evidence shows that inequalities are on the rise within the majority of countries—in terms of income, education, wealth and health. Although the trends are unmistakable, evidence does not always swing debates. Therefore, the paper reviews the arguments made by some of the principal philosophers of political economy. It concludes with that Gresham’s law—which originally states that bad money drives out good—also applies to inequality. Bad inequalities drive out good inequalities in that high inequalities of outcomes make equality of opportunity virtually impossible. High inequalities also affect our ‘benevolent instincts’ that are essential in curbing excesses in the pursuit of self-interests in the marketplace. Hence, of all the competing ends we might pursue, narrowing the gaps must go hand in hand with combating poverty because high inequalities will make all other goals so much harder to achieve.

“In the future, a condition of prosperity without equality, wealth without peace, will probably prevail.”
(Zhang Junmai 1923)

1Zhang Junmai (1886-1969) was a disciple of Liang Qichao (1873-1929)—both leading modern thinkers in China. The quoted is from Mishra (2012: 299).
1. Introduction

Inequality is back on the political agenda in several countries; from the National People’s Congress in Beijing to the White House in Washington D.C. Virtually all players involved in the discussions about the post-2015 agenda-to replace the Millennium Development Goals-agree that the new agenda must fittingly capture inequalities; a rare point of agreement in an otherwise confused and divided debate.

What made inequality come in from the cold? Nothing new, really. Albert Hirschman acknowledged that most “conflicts of market society are over the distribution of the social product among different classes, sectors or regions” (1994). Much earlier, Plutarch—a Roman philosopher (ca. 45–120 CE)—wrote than an imbalance between rich and poor is ‘the oldest and most fatal ailment of all republics’. Going further back in time, the Greek philosopher Plato (427–347 BC) argued that there should exist ‘neither extreme poverty nor excessive wealth among citizens, for both are productive of great evil’. He added that the ideal income-ratio between the rich and the poor was about 4:1. Thus, rather than to ask why the topic is back; the relevant question is why it vanished from public discourse in the first place.

After clarifying some relevant terminology, the paper looks at the validity of the trade-off between economic prosperity and societal equity. It subsequently examines the evidence about growing gaps within countries. It then reviews the thoughts of the major philosophers of political economy about inequities. The evidence, the research and the relevant philosophical thoughts, combined, make a strong case that a variation of Gresham’s law—that bad money drives out good-applies to inequality too.

Inequality has been compared with good and bad cholesterol. Branko Milanovic wrote that good inequality “is needed to create incentives for people to study, work hard, or start risky entrepreneurial projects”; while bad inequality “provides the means to preserve acquired positions” (2012a: 12). Unlike cholesterol, however, bad and good inequalities do not occur independently from each other. High outcome-inequality interacts with equality of opportunity.

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1 His disciple Aristotle (384–322 BC) accepted a 5:1 ratio.
2 In 1558, Thomas Gresham, financial adviser to Queen Elisabeth 1 of England, noted that when two coins are in circulation of the same nominal value but containing different metals, one will drive out the other. The coins composed of the more expensive metal will be hoarded and will disappear from circulation; driven out by ‘bad’ money. The term ‘Gresham’s law’ was coined in the 19th century.
Similar to the original Gresham law, this paper will argue that bad inequalities drive out good inequalities. When markets reach into aspects of life that are traditionally beyond market norms—e.g., education, health care, security, democracy, judicial process, environmental protection, even carbon emissions, immigration and judicial processes—then high inequalities of income and assets will make a level playing field impossible. High outcome-inequality will make that many people will not be in a position to take advantage of otherwise equal opportunities; effectively ruling out that all inequalities result from incentives. Hence, of all the competing ends we might pursue, narrowing the gaps must go hand in hand with combating poverty because high inequalities will make all other goals so much harder to achieve—if not impossible altogether.

2. Equality or equity?
Before looking into the available evidence about growing inequities and the harm they can cause, a few words are in order about terminology. The terms ‘equality’ and ‘equity’ are often used interchangeably, although they embody quite distinct points of view. Equality implies that no differences should exist between people. Everyone should earn or receive the same. Equity, on the other hand, accepts differences but rejects disparities that are unfair and avoidable. Differences must be based on a level playing field and on principles of social justice; they have to be earned fairly. The distinctive feature of high inequities is that they are always unfair, often systemic, and mostly avoidable (Whitehead and Dahlgren 2007).

The term ‘gender equity’, for instance, is incorrect because it would imply that differences in life chances that stem from one’s gender would be acceptable. The correct terminology is ‘gender equality’ because differences that are solely related to gender are unacceptable. The same applies for racial equality. When it comes to human development, of course, the correct term is ‘equity’ because differences will always exist. The question, however, is whether the differences are based on fairness and on a level playing field.

This paper will use the terms ‘inequalities and inequities’ and ‘gaps and disparities’ interchangeably. They come in pairs and in plural because they take so many forms and shapes.

3. Equality of opportunity or equality of outcomes?
The debate about inequality commonly distinguishes between ‘equality of opportunity’ and ‘equality of outcomes’. Most people readily accept that the latter is undesirable because it would undermine the incentives for individual effort and talent development—i.e. the ‘good’ inequality. Outcome-equality would deny the many differences that exist among individuals, their situations, their drives, and their ambition. There is no reason why everyone should earn or receive the same, because different people pursue different priorities in life. Given that equality of outcomes is generally considered as undesirable—and untenable—many advocate instead for ‘equality of opportunity’. It provides a more feasible and sensible target because it allows for differentiated outcomes that result from personal choice and effort.

Ricardo Paes de Barros et al. argued that “in an ideal world, inequality in outcomes should reflect only differences in effort and choices individuals make, as well as luck and talent” (2009: 15). However, outcome-inequality is often caused by inequality of opportunity. Based on a sample of 19 Latin American countries, they estimated, conservatively, that between “one-half and one-quarter of
current inequality of consumption [i.e. outcome-inequality] reflects inequality of opportunity, a very sizable share” (ibid: 2).

Not only does inequality of opportunity lead to outcome-inequalities; outcome-inequalities often thwart equality of opportunity. It is this direction of the causal interaction between the two that makes high inequality so harmful for society. The argument that the pursuit of equality of opportunity will be sufficient for creating an equitable society assumes that all individuals face opportunities on a level playing field. That assumption, however, is often violated in practice. Free education is a form of equality of opportunity, but it lacks practical meaning for children without adequate nutrition or basic health care. Moreover, it does not compensate for the disadvantages experienced early in life. Pre-school children who grow up in poverty, for example, have a considerable vocabulary gap vis-à-vis children from better-off families. Yet studies show that the vocabulary gap before age six is the single best predictor of disadvantage later in life (Tough 2012). Chang made the obvious point that “equality of opportunity is the starting point for a fair society. But it’s not enough” (2011: 210). In other words, the pursuit of equality of opportunity may not be sufficient for achieving just outcomes.

Jose Gabriel Palma noted that “better equality of opportunities in terms of access to education” does not necessarily lead to “a more equal distribution of income” (2011). The conventional narrative often claims that education is the single most important determinant of growing inequalities. If education lies at the root (and assuming that people have the choice to attain as much education as they desire and able to complete), then growing disparities in outcomes should not be a concern. Inequalities are simply explained by one’s efforts at school and one’s willingness to take advantage of school opportunities. Commenting on Stiglitz’s book on inequality, the former chairman of Chatham House wrote, “Railing against the one per cent and occupying Wall Street won’t provide a solution” (Julius 2012). However, Paul Krugman anticipated such arguments by warning, “Pundits try to put a more benign face on the phenomenon [of growing disparities], claiming that it’s not really the wealthy few versus the rest, it’s the educated versus the less educated” (2011).

Amartya Sen (1992) proposed to focus the discussion on capabilities to achieve functioning, i.e. the things that individuals manage to do in leading a healthy and productive life. What is important is the real freedom to acquire well-being-freedom in the form of capabilities to choose achievements. Erich Fromm (1941) argued that freedom has two distinct dimensions. The first is freedom from restrictions and from interferences by others in one’s life. The second is the freedom to attain one’s full potential. It is obvious that ‘freedom from’ and ‘freedom to’ will not always match, yet Fromm argued that the two are indispensable for achieving genuine freedom. It requires that one’s choices are not restricted by external factors (i.e. freedom from) and that one has the ability to realize particular choices (i.e. freedom to). The architecture of human rights reflects the same distinction; with civil and political rights referring to ‘freedom from’ and social, economic and cultural rights covering ‘freedom to’.

People who see their personal success mainly as the result of their own effort and talent tend to favour the aspect of ‘freedom from’. Those who believe that their personal success is, at least in part, determined by exogenous variables (e.g. gender, family background, ethnic group, social class, as
well as luck) usually prioritize the aspect of ‘freedom to’. Most people agree that true freedom requires both aspects.

4. Equity and growth: friend or foe?
Exploring the link between equity and growth is crucial for establishing the argument that Gresham’s law applies to inequality too. However, consensus on this topic remains elusive. Discussions can be traced back to Adam Smith, John Maynard Keynes, Arthur Lewis and other major economists. The central argument was that inequality channels resources towards individuals with higher marginal propensity to save, which will lead to higher aggregate saving and capital accumulation; eventually generating faster economic growth. Inequalities were also seen as indispensable because they provide incentives for innovation, hard work and talent development. A meritocracy requires that the most industrious and the most talented members of society receive adequate rewards. According to this narrative, equity will have a price in the form of slower growth and fewer jobs.

According to that narrative, high inequalities are not harmful; not a pressing concern for society. In other words, there is no such thing as ‘bad inequality’. Aggregate growth is considered as the driving force for sustained progress. All progress is seen as growth-mediated; never as equity-mediated. Robert Lucas—Nobel laureate in economics—exemplified this view by stating, “the potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production” (2004).

However, starting from the 1990s, another perspective has gradually emerged. High inequalities in incomes, in assets and in capabilities have been causally related to lower rates of economic growth. Indeed, recent analyses show that, beyond a certain threshold, high inequalities and inequities undermine collective prosperity and individual wellbeing. Contrary to standard theory, the evidence suggests that there is such thing as too much inequality. Several studies have concluded that high inequalities lead to slower growth. Thus, more equity will not necessarily mean less growth, as the conventional narrative has held for so long.

Both evidence and theory suggest that high inequalities and inequities make the pattern of production sub-optimal and inefficient. While high inequalities may temporarily stimulate growth by sustaining private consumption, they will ultimately lead to excessive household indebtedness, which will eventually depress aggregate demand. They also stimulate conspicuous consumption, which tends to generate few productive jobs. High inequalities contribute to financial instability too. Ashwani Saith concluded that high inequalities “are both instrumentally, as well as intrinsically, toxic” (2011).

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4 In his bestselling book Thinking, Fast and Slow, Daniel Kahneman—psychologist and Nobel laureate in economics—wrote, “A recurrent theme of this book is that luck plays a large role in every story of success” (2011: 9).
5 The UK Prime Minister expressed his position regarding putting growth ahead of combating inequality (The Guardian 2013).
6 They include Alesina and Rodrick (1992) who showed, based on data from 65 countries, that more equal countries had higher rates of growth; a finding echoed by Corry and Glyn (1994). Persson and Tabellini stated, “inequality is harmful for growth” (1994). After reviewing the growth literature, Jonathan Temple concluded, “it has become extremely difficult to build a case that inequality is good for growth” (1999).
7 “On balance, the existing evidence using cross-country growth regressions appears to offer more support for the view that inequality is harmful to growth than the opposite view” (2000: 16). Milanovic wrote, “the pendulum has swung from a rather unambiguous answer that inequality is good for growth to a much more nuanced view that favors the opposite conclusion” (2012a: 12).
8 Milanovic argued, “The root cause of the [2008 financial] crisis is not to be found in hedge funds and bankers who simply behaved with the greed to which they are accustomed (and for which economists used to praise them). The real cause of the crisis lies in huge inequalities in income distribution which generated much larger investable funds than could be profitably employed” (2009).
In his book *The Price of Inequality*, Joseph Stiglitz wrote, “The underlying thesis is that we are paying a high price of our inequality—an economic system that is less stable and less efficient, with less growth” (2012a: xii). High inequalities also lead to the concentration of political power in the hands of those who possess economic wealth, thereby undermining the workings of the democratic system. Michael Sandel observed, “If the only advantage of affluence were the ability to buy yachts, sports cars, and fancy vacations, inequalities of income and wealth would not matter very much. But as money comes to buy more and more-political influence, good medical care, a home in a safe neighborhood rather than in a crime-ridden one, access to elite schools rather than failing ones—the distribution of income and wealth looms larger and larger” (2013: 8). The pathology of high inequalities includes powerful special interest groups and high political polarization; which delay policy reforms and impede counter-cyclical measures. In short, they generate divisions and internal strife, usually with undemocratic and unfair outcomes.

Other publications confirm that equity and growth are friends, not foes. The then editor-in-chief of Finance and Development wrote, “a more equal society has a greater likelihood of sustaining longer-term growth” (IMF 2011a). In the same year, the then IMF managing director stated, “Ultimately, employment and equity are building blocks of economic stability and prosperity” (IMF 2011b). In an IMF staff working paper, Michael Kumhof and Romain Rancière observed, “The United States experienced two major economic crises over the past century […] Both were preceded by a sharp increase in income and wealth inequality” (2010: 3). They concluded, “Because crises are costly, redistribution policies that prevent excessive household indebtedness and reduce crisis-risk ex-ante can be more desirable from a macroeconomic stabilization point of view than ex-post policies such as bailouts or debt restructurings” (ibid: 3).

High inequalities and inequities also affect social mobility. Several studies have shown that the correlation between the income of the parents and that of their children is strongest in more unequal countries (Blanden 2009; Wilkinson and Pickett 2009; Economic Mobility Project 2009; OECD 2010). The ‘Great Gatsby Curve’ shows a direct relationship between high inequality and low mobility. Miles Corak wrote, “children are much more likely as adults to end up in the same place on the income and status ladder as their parents in the United States than in most other countries” (2012: 1). Data confirm that as disparities deepen and gaps widen, the family background becomes the dominant factor in determining outcomes in terms of income, rather than effort or talent. In this light, talent seems to have been redefined as the ability to choose one’s parents.

Given the aforementioned findings, the conventional growth-narrative does no longer jive with the evidence. Trickle-down has not produced its presumed effect—neither in developing nor in developed countries. Human poverty persists in too many countries that have seen high rates of growth, indicating that aggregate growth is insufficient for driving poverty down. Other countries have reduced poverty without witnessing strong economic growth. Stiglitz stated, “It might not be so bad if there were even a grain of truth to trickle-down economics” (2012b).9

The orthodox view that redistribution will merely result in the sharing of poverty, not of wealth, is thus fallacious. Solid research and robust evidence show that equity helps to sustain economic growth. A focus on equity is thus not synonymous to opposing growth; quite the opposite. Dagde-

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9 John Kenneth Galbraith derided the trickle-down theory by referring to it as the ‘horse and sparrow theory’. He wrote, “If you feed the horse enough oats, some will pass through to the road for the sparrows” (1982).
viren et al. found that “greater distributional equality provides a favourable initial condition for rapid and sustainable growth” (2000: 28).

The observed trends about growing inequalities and inequities contradict the so-called ‘Kuznets hypothesis’, which posits that inequalities within a country will first increase before decreasing. As the economy shifts from agricultural to industrial activities and services, gaps and disparities will widen until the economy attains a mature level of development; according to the Kuznets hypothesis. Then, inequalities will level off and eventually decline. Many researchers have tried to empirically validate the inverted U-shaped link between inequality and the level of per capita income. They all failed to do so conclusively. Moreover, rising inequalities and inequities in industrial countries since the late 1970s cast a long shadow on Kuznets’ hypothesis. There is obviously more to inequality than the level of development. Societies are too complex and contain too many conflicting interests to be subject to a simple automaticity such as the Kuznets hypothesis. Simon Kuznets (1955) emphasized himself that improvements in income distribution would not come automatically; that they would depend on institutions such as the welfare state and trade unions. Palma concluded, “there is not much statistical evidence here for an ‘Inverted-U’ path between inequality and income per capita” (2011).

In short, the way the economic pie is cut has a bearing on its size; but not in the manner the conventional narrative has held for so long. High inequalities—i.e. which go beyond the incentive-element—do not make the pie grow faster. The belief that aggregate growth will automatically yield equitable and sustainable outcomes is no longer tenable in the face of the growing evidence. When beliefs and ideologies are contradicted by the evidence, they need to be revisited with a healthy degree of openness and discipline.

5. Are inequalities really widening?
Inequality between countries may have decreased globally, due to the phenomenal growth in China and in other emerging economies. But for policy relevance, the debate must focus on within-country inequalities; not between-country inequities. Moreover, people’s perception about inequality is invariably about gaps and disparities within society; not between societies. A growing body of data and studies indicates that income disparities within countries are widening (e.g. UNCTAD 1997; Galbraith et al. 1998; Cornia 1999; OECD 2011; Milanovic 2012b). No matter how it is measured, it is increasingly difficult to dispute that inequalities are on the rise in the majority of countries. The trends are unmistakable, whether one looks at income or education, wealth or health.

Palma (2011) found that about 80 per cent of the world population lives in regions where the median country has a Gini coefficient of close to 0.40. He observed a remarkable similarity regarding the share of national income accruing to the middle classes. Based on data for 135 countries, he found that about half of national income accrued to half the country’s population; those comprised between the bottom 40 per cent and the top 10 per cent. This similarity is quite remarkable, given the important differences among the countries in terms of their level of development, their political

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10 It should be recalled that the Asian Tigers developed quickly following an initial land redistribution and a sustained provision of basic social services to all.

11 The Gini coefficient measures income inequality within a country. It was developed a century ago by an Italian statistician, Corrado Gini. The higher the coefficient, the higher the degree of inequality. A coefficient of zero means perfect equality, where everyone has exactly the same income. A coefficient of one means extreme inequality, where one person has all the income and everyone else has zero income. Most observers agree that the threshold for an equitable society is situated between a Gini coefficient of 0.30 and 0.35.
and economic regime, and their degree of inequality. The middle class (defined as those comprised between the top decile and the bottom four deciles) seem to be able to defend their fair share of national income. In this light, he concluded, “what really matters in distributional terms is the income-share of the rich” (2011). Indeed, a distinctive feature of the rise in inequalities and inequities since the late 1970s has been the extraordinary concentration of income at the top; mostly at the very top.

In the USA, for example, the top 10 per cent appropriated a staggering 91 per cent of the income growth between 1989 and 2006 (Mishel et al. 2009). Most gains were concentrated among the top 1 per cent; capturing nearly 60 per cent of the income growth between 1976 and 2007 (Rajan 2010). Most of all, the gains went to the top 0.1 per cent, whose share in national income soared from 4 per cent in 1979 to 12 per cent by 2006 (Mishel et al. 2009). The authors put it concisely, “the economy did well, except for the people in it” (ibid: 16).

Such trends are not limited to the USA. China is one of the front runners, not only in terms of aggregate growth but also in terms of widening gaps. Liu (2011) documented that the Gini coefficient for China soared from about 0.30 in the early 1980s to nearly 0.50 today. For 2012, official data show the country’s Gini coefficient at 0.474. Martin Jacques categorised the causes of this phenomenal increase in three groups: “the growing gulf between the coastal and interior provinces; [...] between urban and rural areas; [...] and between those in the formal economy and those dependent on informal economic activities” (2012: 195).

Inequality has risen in other countries too. Income inequalities rose in the majority of developing countries with data (ILO 2008). Over the past 30 years, income inequality worsened in 17 out of 22 rich countries (OECD 2011). Only three OECD-countries saw their distribution of income improve, but barely so. Some of the steepest increases in inequality were observed in traditionally egalitarian countries such as Sweden and Finland. More recent data show that the gulf between the rich and the rest has widened further since the onset of the financial crisis—“Inequality has increased by more over the past three years to the end of 2010 than in the previous twelve” (OECD 2013).

Growing gaps are also observed in non-monetary terms. Two UNICEF colleagues examined data on infant mortality in 24 developing countries and concluded that, during the 1980s and 1990s, progress for the bottom quintile (the poorest 20 per cent of the population) was “modest, and in most developing countries it was not statistically significant” (Minujin and Delamonica 2003). Other studies have led to similar findings—e.g. Moser et al. (2005), Reidpath et al. (2009). Banks et al. analysed UK and US data—two countries with well-developed statistics. After controlling for behavioural risk factors—such as smoking, drinking and obesity—they found that “men at the bottom [...] are in much worse health than those at the top” (2007: 27); irrespective whether education or income was used to gauge their socio-economic status.

These trends raise a fundamental question: What does aggregate growth mean, when most of the gains accrue to a small minority at the top? Advocates of the conventional growth-narrative tend to dismiss this question as ‘politics of envy’. They argue that the poor and the middle classes may be getting a smaller share of national income, but because the economy is growing so fast due to the rewards given to the rich for their extraordinary contributions—the income of the poor and the
middle classes still grows in absolute terms. However, recent evidence contradicts this view. Stiglitz showed that “Although it [the USA] has managed to increase GDP per capita, from 1980 to 2010 by three-fourths, most full-time male workers have seen their incomes go down” (2012b).

In fact, research suggests that high inequalities are bad for everyone, including those at the top. In their book The Spirit Level, Wilkinson and Pickett (2009) documented that more unequal countries do worse according to almost every quality-of-life indicator. Whether the test is life expectancy, infant mortality, obesity, teenage pregnancy or mental illnesses, the more equal the society the better its performance. The best predictor of how countries rank is the differences in wealth within them rather than the differences in wealth between them. The editors of the British Medical Journal concluded earlier, “what matters in determining mortality and health in a society is less the overall wealth of that society and more how evenly wealth is distributed” (BMJ 1996).

Based on their composite index of health and social problems, Wilkinson and Pickett examined the wellbeing of people at the top and found that they invariably do better in equal societies than in more unequal countries. They compared people in the same social class, at the same level of income or education across countries, and found that those in more equal societies do better. Their explanation focused on psycho-social factors. High income differentials, they argued, create steep social gradients and greater distance between social groups. Fewer contacts between social groups not only foster stereotyping, they also deepen the misconceptions people have about others. Since people commonly hold prejudice against those with lower socio-economic status, high inequalities and inequities undermine social cohesion. Ultimately, they lead to distrust, status anxiety, insecurity and chronic stress for everyone, including those at the top. Tony Judt confirmed this: “There is quite a lot of evidence that people trust other people more if they have a lot in common with them: not just religion or language but also income” (2010: 66).

Wilkinson and Pickett’s book has been intensely debated and hotly contested (e.g. Saunders 2010, Snowdon 2010). The Economist (2012) dismissed it based on the opinion of just one of these pundits. The Rowntree Foundation took a different approach. It commissioned Karen Rowlingson of the University of Birmingham to conduct an independent review of the evidence presented by Wilkinson and Pickett. After examining the peer-reviewed literature, she concluded, “the basic methods in The Spirit Level are robust and the main finding on the correlation between income inequality and health and social problems stands up to these criticisms” (Rowlingson 2011: 18). She added, however, that there is more debate than consensus about the causal relationship between inequality and social problems. Yet she concluded that “some rigorous studies provide evidence of such a relationship” (ibid: 5). Evidence suggests there might be a ‘threshold effect’ whereby the causal link between income inequality and health and social problems strengthens once the Gini coefficient exceeds the level of about 0.30.

High inequalities also affect good behaviour. Psychologists have shown that people abstain from acts that are individually beneficial but socially harmful as long as others do so too. Once a significant proportion starts to act selfishly and is perceived to get away with it without legal sanction or moral disapproval, good behaviour—which is mostly voluntary—quickly evaporates. Widening dispar-

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12 They built an ‘index of health and social problems’, composed of ten unweighted indicators: (1) life expectancy, (2) school performance in math and reading, (3) infant mortality, (4) homicides, (5) imprisonment, (6) teenage pregnancy, (7) trust, (8) obesity, (9) mental illnesses, and (10) social mobility.
ities and deepening gaps inevitably lead to such perceptions because they increase social distance and ultimately undermine trust.\[13\]

6. How do philosophers view inequities?

Evidence does not always swing debates. This was recently illustrated by the ‘Reinhart-Rogoff controversy’. In their oft-quoted paper they stated, “We examined the experience of 44 countries spanning up to two centuries of data on central government debt, inflation and growth. Our main finding is that across both advanced countries and emerging markets, high debt/GDP levels (90 percent and above) are associated with notably lower growth outcomes” (Reinhart and Rogoff 2010). But in 2013, a student discovered a mistake in their spreadsheet analysis, which invalidates the statistical significance of their conclusion. Yet, many policy makers continue to mention the flawed study to justify austerity policies. It is called ‘confirmation bias’. Thomas Kida (2006) showed that a principal mistake we make in thinking is to seek to confirm our ideas, rather than to question them. This is why it is so terribly difficult to change a prevailing narrative.

This section, therefore, reviews the arguments about inequality made by some of the principal philosophers of political economy. Although their thoughts are dated, they still help to enlighten the age-old debate about growth and equity.

Friedrich Hayek (1899-1992) argued that the preservation of individual freedom is incompatible with a full satisfaction of our views of distributive justice. Ayn Rand (1905-82) took this point to its radical conclusion. She vigorously dismissed any concern about inequalities and inequities. In her book Atlas Shrugged, she argued that one must always pursue one’s self-interests; not because of subjective choices, moral sentiments or legislative sanctions, but because it represents the only reasonable option for society. According to her view, caring for and sharing with others will endanger our collective prosperity and jeopardize individual freedom. Two concepts were taboo in her world view: assistance and redistribution. Rand’s view still exercises a powerful influence today, not only on politicians but also on leading economists.\[14\] For instance, a Nobel laureate in economics stated, “Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution” (Lucas 2004).

Those who dismiss the importance of equity frequently point to the views of Adam Smith (1723-90), especially those expressed in Wealth of Nations. Smith argued that the free market would have a civilizing effect on society. His main point was that if everyone pursued his/her self-interest in the free market, it would contribute to collective prosperity. Before Wealth of Nations, he wrote Theory of Moral Sentiments. As a gentleman of the Enlightenment era, Smith was convinced that all humans underwrite the same basic moral sentiments. He called them ‘our benevolent instincts’. That earlier book is important because his argument about the merits of laissez-faire implied the assumption that the actors in the marketplace would share moral sentiments which would temper...
selfishness and to tame greed. To feel for others and little for ourselves; to restrain our selfishness and exercise our benevolent affections, constitute the perfection of human nature’, he wrote. Together with David Hume (1711-76), he belonged to the ‘sentimentalists’ who argued that moral sentiments are socially beneficial; that everyone will be better off if they are widely held in society; thereby making a social contract redundant.

Max Weber (1864-1920) warned that ‘technological rationality’-i.e. rationality without morality-has the capacity to dehumanise people. Hirschman (1982) observed that markets exhibit a proclivity towards eroding the moral foundation on which they rest. Fred Hirsch argued that the pursuit of self-interest at the expense of the common good will undermine the viability of the market system, which is premised on civic behaviour. He called it the ‘depleting moral legacy of capitalism’. He wrote: “The weakening of traditional social values has made predominantly capitalist economies more difficult to manage” (1976: 118). Joseph Schumpeter also predicted that capitalism would encounter growing hostility because “after having destroyed the moral authority of so many other institutions, in the end [capitalism] turns against its own” (1942: 143). Sandel stressed the “corrosive tendency of markets” (2013: 9).

Philosophers such as Karl Marx (1818-83) questioned whether moral sentiments would shape the functioning of the free market, or whether market forces would influence moral sentiments. Will sentiments-such as benevolence-determine the functioning of the marketplace-as Smith believed? Or will the marketplace corrode moral sentiments and lead to widening gaps and disparities-as Marx or Hirsch argued? This question is still with us today. The John Templeton Foundation (2008) asked thirteen contemporary philosophers, scholars and public figures the question: ‘Does the free market corrode moral character?’-not dissimilar to the one Marx raised. Four reacted with a categorical ‘no’; another four replied with a nuanced ‘no’; two said ‘it depends’; three answered ‘yes’.

Public attitudes towards inequities and inequalities do not only vary among individuals and from one society to another, they also change over time. Hirschman wrote, “changes in values do occur from time to time in the lives of individuals, of generations, and from one generation to another”. He urged, however, that “those changes and their effects on behavior are worth exploring-that, in brief, de valoribus est disputandum” (1984).

As moral sentiments are not static, the question is whether attitudes toward inequalities and ineq-

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15 Such virtuous sentiments include benevolence and sympathy, empathy and self-restraint, co-operation and respect, honesty and integrity, prudence and moderation. They are also underwritten by all traditional religions; commonly summarized by the Golden Rule: ‘Do unto others as you would have them do unto you’. Confucius was the first to formulate it but he did so in the converse way, ‘Do not unto others what you would not have them do unto you’-often referred to as the Silver Rule. Actually, the Enlightenment philosophers of the 18th century retrieved much of their ideas from the ancient philosophers, including Confucius’ human sentiments of fellow-feeling-called ‘Ren’. Concerns about equity and fairness have deep roots indeed in the Confucian tradition.

16 Thomas Hobbes (1588-1679) and John Locke (1632-1704) had appealed to the need for a social contract. Hobbes famously described life without it as ‘poor, nasty, brutish and short’. The theory of these ‘contractarians’ was revived in the 20th century by John Rawls (1921-2002), who introduced his new principle of justice. In terms of Fromm’s freedom, Rawls prioritized ‘freedom to’ by picturing that everyone is born behind a veil of ignorance. One would not know beforehand what position one would hold in society or what talents one would be endowed with once the veil was lifted. Under those circumstances, Rawls argued, most people would support his principle of justice in that inequalities ought to be arranged in such a way that they yield the greatest benefits for the least advantaged.

17 Jeremy Bentham (1748-1832) posited that actions in themselves cannot be judged on the basis of moral sentiments. He argued that they must be valued by their consequences. He introduced the utilitarian principle of the ‘greatest happiness of the greatest number’. The right action, he deduced, will be the one that produces the greatest happiness of the greatest number of people. ‘Utilitarianism’ remains central to economic thinking today. Bentham reasoned that legislative sanctions would be superior to Smith’s moral sentiments in reconciling individual self-interest with the common good. He assumed, however, that legislative sanctions would reflect the view of the majority; not that of special interests groups. As such, legal fines and legislative sanctions also embody moral norms and values.

18 A word play on the saying ‘de gustibus non est disputandum’—there is no arguing about tastes.
Equities have fundamentally changed in recent decades. In the 1930s, for instance, US President F.D. Roosevelt stated, ‘The test of our progress is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have too little’. In the 1960s, US President J.F. Kennedy shared similar sentiments when he said, ‘If a free society cannot help the many who are poor, it cannot save the few who are rich’. It is a moot question whether leaders or public figures would be taken seriously today if they were to speak to such moral sentiments.

Warren Buffett did exactly that when he wrote, “while most Americans struggle to make ends meet, we mega-rich continue to get our extraordinary tax-breaks” (2011). By calling on the rich to pay their fair share of taxes, he followed in Smith’s tradition of expressing moral sentiment of fairness and solidarity. Yet, his call was rejected by the overwhelming majority of his peer group. Contrary to what Smith believed, moral sentiments are not universally shared. Our ‘benevolent instincts’ might not be as innate as he thought. They are indeed subject to external influence.

7. Conclusion

High inequalities and inequities have a high price, yet they are of limited worth—both inherent and instrumental. They have no redeeming value. Reliable surveys and credible analyses confirm that once they exceed a certain threshold, gaps and disparities become harmful for everyone, including those at the top. In short, there is such thing as too much inequality. Gresham’s law is not only applicable to money. Bad inequalities also drive out good inequalities.

The pursuit of equality of opportunity is necessary but insufficient for creating an equitable society; because high inequalities in terms of outcomes make equality of opportunity virtually impossible. Of all the competing ends we might pursue, narrowing the gaps must go hand in hand with combating poverty.

Although many maintain that inequities do not matter, the evidence shows that equal societies do better than unequal ones, not only in terms of health and education but also in terms of economic prosperity and social mobility. The old philosophers understood that equitable development, driven by shared moral sentiments or sanctions, will be socially beneficial. But most economists prefer not to deal with moral questions. In their view, private virtue has no public value. They conveniently ignore Smith’s view that the invisible hand would be driven by ‘our benevolent instincts’ to temper selfishness and to tame greed. Smith’s modern acolytes distort his views by overlooking the importance of moral sentiments for the smooth functioning of the free market system—or Bentham’s legislative sanctions.

Psychologists at the University of Berkeley recently found that rich individuals tend to behave more unethically than others. “The increased unethical tendencies of upper-class individuals are driven, in part, by their more favorable attitudes toward greed” (Piff 2012). In other experiments, people who are primed by money invariably become more individualistic, show a reluctance to get involved with others, and are less likely to request help from others (Jacques 2012: 56). In other words, concerns about fairness and equity are “economically significant” (ibid: 308).

They also fail to mention that Smith argued for strict bank supervision; for he knew that a small group of bankers with corrosive moral sentiments could ruin the entire economy. Top bankers (sometimes labelled as ‘banksters’ today) no longer seem constrained by legislative sanctions or driven by moral sentiments. A 244-page report into the business practice at Barclays bank identified “lack of humility and generosity” as part of the culture that led to the Libor-rigging scandal (Salz 2013: 82).
Though solid, the conclusion that high inequalities and inequities are harmful is having a hard time gaining currency; not because it is invalid but because it is deeply inconvenient. The conventional narrative dismisses it as faulty, anecdotal or irrelevant. Even those who perceive high inequalities and inequities as deplorable often accept them as unavoidable. This point is often expressed by the refrain ‘there is no alternative’. Yet there are alternatives (e.g. Stiglitz 2012a; Jolly et al. 2012).

While the prevailing narrative increasingly uses terminology such as ‘pro-poor’ or ‘inclusive’ growth, it will not have any practical meaning; unless free markets are seen as good servants but bad masters.

Smith’s moral sentiments and Bentham’s legislative sanctions are under threat. Examples abound where the wealthy and special interest groups use lobbyists and spin-doctors to manipulate and distort the public discourse in order to shape legislation to perpetuate their privileges and advantages, at the cost of everyone else. In this respect, many a country seems to be descending into moral deprivation and legislative barbarism. Keynes and Schumpeter warned that capitalism would not survive if it would furnish the rich with the means to get ever richer. When the former argued that practical men are often the slave of some defunct economist, he added, ‘the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas’.

Indeed, a new enclosure seems to have emerged in recent decades—not of common lands but of our intellectual commons. Breaking this intellectual enclosure will require the re-moralisation of the economic discourse. A new narrative must undo the encroachment of one-dimensional economistic ideas. The discourse should not only take into account the economic calculus of public action, but also the ethical dimension of private actions. Hirschman proposed to resolve the contradictory objectives between self-interest and the common good by considering “public morality as an ‘input’” (1984).

By way of bringing this discussion full circle, it must be acknowledged that Zhang Junmai’s quote, given at the beginning of this paper, was quite accurate in predicting how the past century would unfold—‘prosperity without equality, wealth without peace’. On the other hand, the majority of people still subscribe to shared moral sentiments.22 Tagore’s words, expressed when Zhang Junmai hosted him on a visit to China in 1924, retained their relevance: “We must fight with our faith in the moral and spiritual power of men” (quoted by Mishra 2012: 236). One of the biggest challenges faced today is to turn the widespread sentiments of fairness and equity into a practical reality, through public action and policy reforms.

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22 Researchers asked a representative sample of UK and US citizens to estimate the distribution of wealth in their respective country and to indicate what, in their view, would constitute an ideal situation. While the results indicated that they grossly underestimated the level of inequality in their own country, all respondents wanted a more egalitarian distribution. The researchers of the US survey observed a surprising level of consensus: “All demographic groups [across the political spectrum, gender and income] desired a more equal distribution of wealth than the status quo” (Norton and Ariely 2011: 9). Judging from social movements around the world that call for more equitable development and social justice, it is clear that the desire for a more fair society goes well beyond the two countries surveyed. The UK survey was conducted in May 2013; the results are available at http://inequalitybriefing.org.
References


Abstract
There are likely to be many factors which have together shaped the current pattern of growth and equity in the People’s Republic of China (PRC). Among them are the foundations laid in the pre-1978 era, especially in respect of land-related institutional reforms and social sector investments. These factors successfully complemented the subsequent export and foreign direct investment promotion strategies the PRC followed in the post-1978 years. However, given the large size of the PRC, while these strategies have helped to kick-start its economic take-off, the long-run growth of the country cannot depend on it. Expanding domestic demand and investment in human capital will be the key and inter-connected strategies in the short and long-run.

1. Introduction
It has been common for observers and researchers to attribute the record economic growth of the PRC in the last three decades to factors such as market oriented reforms, ownership changes, and the adoption of an export and foreign direct investment (FDI) led development strategy. While these have undoubtedly contributed to the PRC’s growth success since 1978, to attribute the entire post-1978 economic performance to these factors would not seem to be justified. One has to ask if each of these factors singularly, or together, constituted a necessary and/or sufficient set of conditions for the PRC’s subsequent economic success. And if they were a necessary set of conditions, what other crucial factors were involved to ensure this success. If, however, they represent a sufficient set of conditions, then why are there countries whose economies have, in fact, been much more market oriented, whose ownership structure has been a lot more privately based, and which have similarly followed an export and FDI-led development strategy, have not recorded as resounding a success as the PRC in terms of economic growth, whether contemporaneously with the PRC, or before it, or after it?


The author would like to thank Yu Min, Narayan Poudel, Wang Yue, Wu Xin, Xie Zihai, Cui Yuming and Chiho Hasegawa for assistance with the tables and figures, and Li Shi for sharing with him his most recent work in progress. An earlier version of the paper was given at the 2011 PEGNet Conference, Hamburg, in September 2011, and privately circulated among some of the author’s present and past colleagues, and he would like to thank them and Yu Jianhua, Xia Qingjie, Mino Vandemoortele, Kate Bird, Peter Morgan, and Mario Lamberte. However, the author alone is responsible for any error and omission.
When one ponders over these questions, then it clearly dawns that other additional factors will need to be identified, not necessarily as alternatives to the above mentioned ones, but as complementary to them, but factors which are nevertheless important, and perhaps even critical, to explaining the PRC’s recent growth success, or, indeed, its less sanguine record on equity. This paper shall highlight the PRC’s pre-1978 legacy, in particular land-related institutional reforms and investment in social sectors.

2. Recent pattern of economic growth and equity
The PRC has had unprecedented rates of economic growth over the last three decades and longer, when compared with both its own past record and those of most other countries, developing and developed, over the same period. Its annual gross domestic product (GDP) growth rates for the three decades 1978–2009 lie consistently above the world average growth rates, sometimes with a gap of over 10 percentage points. Except for the two years 1989–1990, generally the gap has been between 5 and 10 percentage points in favor of the PRC. Over the period of roughly three decades, the PRC’s own average growth rate is 9.90%, while the average of the world growth rates is 2.98%.

At the same time, there has been a steady worsening of income distribution, both within the space and urban sectors separately, and for the country as a whole. The Gini coefficient for the PRC as estimated by the World Bank for the period 1980–2004 has been steadily rising in value, implying a worsening trend in income distribution. Indeed, for the country as a whole, its value has surpassed the widely recognized international warning level (0.4) by the mid-1990s. And the latest estimate (Li, 2011) has shown a new climb up to 0.49 in 2007. Rural and urban Gini coefficients rose along similar trajectory and reached 0.38 and 0.34 in 2007, respectively.

A significant aspect of the income distribution in the PRC is, indeed, the income gap between the rural and urban sectors. In 1978, the year when economic reforms started in the country, the ratio of average urban to average rural income was just over 2.5 times. The gap then narrowed in the early 1980s to around 1.7, widened substantially thereafter to reach above 2.8 in 1994, then fell briefly again to below 2.5 in 1997, and thereafter rose consistently to over 3.3 by 2009, with a slight dip in 2010 (Li Shi 2007; Li 2011). The short-run fluctuations this trajectory exhibits have to do with the particular reform policies carried out by the government at various stages of the reform course, but the general upward trend until only very recently is unmistakable. It simply reflects the fact that the PRC, in spite of the long period of unprecedented growth, has been deeply amidst its growth phase, the long and often arduous process of absorbing rural surplus labor into the more productive sectors of industries and services, and of transforming a country from a predominantly agrarian to a predominantly industrial or even post-industrial economy, in terms of both output and employment shares. And this is, indeed, the story I intend to tell, in the way I interpret it, in the rest of this paper.

3. Pre-1978 origins
History matters, but often in ways more intricate and subtle than one thinks. An important case in

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1 Liu (2011b) also emphasizes the importance of the size of the PRC’s economy.
2 It’s difficult to give a comprehensive definition of equity (Sen, 2009), and neither is it within the scope of this article to do so. By equity here is meant in relation to income distribution only. In any society, certain income gaps can be regarded as equitable, but significant income gaps can be almost certainly regarded as inequitable.
point has to do with the land reform in the PRC. After its founding, the new government pushed through a nationwide land reform program (as they had done before in areas under their control), whereby all private holdings of land above a certain ceiling were confiscated and turned over to the landless or those who had little land. While the ethical ground of such outright confiscation itself may be open to debate, the incentives and distributional consequences of the move should be obvious: self-ownership of land should and would typically give farmers more incentives to cultivate land, so it should have had a productivity-boosting effect, and farmers would of course see their income increasing compared with if they remained a wage laborer, a fix-rent or share-cropping tenant.

However, such incentive effects were severely moderated when the new government then tried, starting in the mid-1950s, to collectivize land. As a collective farm member, a farmer would receive an even smaller share of the produce of his own labor than, say, under share-cropping (where, throughout history and across the globe, a farmer would typically receive around half of his produce). This heavy lid on the production incentives of the farmers was not removed until after the “agricultural reforms” in the late 1970s and early 1980s when the collective system was fully dismantled. However, land in theory was and still is collectively owned, although under the new system it is allocated, on a more or less egalitarian basis, to private use. This new system has had enormous implications for the pattern of equity and growth in the rural PRC, the pattern of rural-urban labor migration, and ultimately the pattern of equity and growth for the PRC as a whole.

While the system before 1978 had its serious drawbacks, it also had an important plus side, which has to do with its role in facilitating rural social sector and physical infrastructural investments. The key to seeing this side of the matter lies with the payment system of the collective, whereby each member would be paid according to his labor contribution vis-à-vis that of other members. If a person’s labor contribution were measured in “work-points”, that person’s income (monetary) from the collective would simply be the number of work-points he earned multiplied by the monetary worth of each work-point, the latter being given by the total collective income divided by the aggregate number of workpoints earned by all the members in the collective.

Such a payment system had two important properties that turned out to be highly beneficial in terms of facilitating social sector and agricultural physical infrastructural investments. First, not all collective income had to be distributed to members; part of it could be set aside for social welfare and other purposes. As it happened, two such set asides were regularly made, called the “accumulation fund” and “welfare fund”, respectively. The former was used for “expanded production”, while the latter for social sector investments such as in education and health. Indeed, it was the collective funds such as these, rather than government funding, that were principally responsible for the rapid development of rural health services and rural primary and secondary education in the PRC during the period.

The collective payment system described above also enabled collectives to finance such investments in yet another crucial way. For any labor inputs related to these investments, be they the hours contributed by paramedical professionals such as bare-foot doctors or certain categories of teachers (e.g., the so-called Minban teachers), or hours contributed by still others to public health projects and the building of local schools and clinics, could similarly be paid in workpoints, with the effect of increasing the aggregate number of workpoints in a collective and hence reducing
the dividend rate of each workpoint. In effect, the practice amounted to spreading the labor cost in question over all members of the collective proportional to their labor contribution. In this sense, it is very much like a form of income tax.

Could these investments be carried out to the same level without the collective system? Could it be done differently through, for example, a formal system of central and local government taxation and budgetary allocation? If the answer is yes, then the collective system would be redundant even as far as these investments are concerned. My view is that without the collective system some such investments could have occurred but they could not have been on the same scale, nor have achieved the same level of efficiency and effectiveness. But I shall not go into detail here.

It should also be noted that in addition to collective investments in social sectors and in physical infrastructure, local and central governments did also contribute some funds, but their contributions usually catered for only the “top-end” needs (e.g., in the case of health, local and central government contributions might cover, or partly cover, the costs of building and maintaining county-level or sometimes also township-level health facilities, but typically not village level facilities and staff costs). So there were efforts from all parties, but by far the largest single contribution was made by the collectives.

It is not possible to provide a monetary measure of the totality of these investments, whether in social sectors (education, health, and other) or in rural physical infrastructural investments. Nor would it be possible to give a precise breakdown of the totality of investments involved into respective components (collective-funded, government-funded, etc.). No systematic data was collected at the time allowing for such analysis. But the extent of improvement in certain health and education indicators should give us an idea of the likely scale of social investments during the period. Figure 1 compares the PRC’s achievements in life expectancy over two periods before and after 1975, internationally with both developed and developing countries. The contrast is striking. While the PRC outperformed all other countries by a massive margin in the pre-1975 period, its performance in the subsequent period is, at best, lackluster.

As regards education, Table 1 provides the PRC’s 1990 National Census findings on achievements of each age cohort, measured by the proportion of the population in that age cohort achieving or not achieving alternative educational levels. As can be seen, there was a sharp 16-percentage-point fall in the illiteracy cum semi-illiteracy level for the 1946–1950 cohort, compared with the level of the immediately preceding cohort. This actually coincided with the founding of the PRC in 1949. But other aspects of the table are also of much interest. Thus one observes an 11-percentage-point jump in junior secondary education for the 1961–1965 cohort, and an even larger 12-percentage-point increase in senior secondary education for the 1956–1960 cohort. In the latter case, though, this sharp rise was followed by an equally sharp fall (10 percentage points) for the cohort 1966–1970. Note that under the PRC’s education system, generally senior secondary education completes at the age of 18, junior secondary completes at 15 and primary education completes at the age of 12. Thus, with some careful scrutiny of the data presented in the table, it would appear that development of basic and secondary education have achieved remarkable progress during the pre-

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7 As well as social sector investments, the collective also facilitated rural physical infrastructural investments in a big way. The same mechanism that financed much of social sector investments noted above could be put to use for financing and undertaking such physical infrastructural investments as well. Liu (1998) and Liu (2002) studied rural physical infrastructure in the collective era and beyond, as well as its contribution to rural development in the PRC.
1978 period, even better than immediately after 1978⁴.

Figure 1: Relationship between Initial Level and Life Expectancy Gains for Two Periods:
A) from 1950–55 to 1970–75; B) from 1970–75 to 1995–2000

Source: Caselli, Meslé, and Vallin (2002)

⁴ Note that the data given in Table 1 refer, in fact, to the whole PRC, and not just its rural areas. However, given that its rural population share then was well over 80%, we have every reason to believe that the principal part of the improvement must have come from the rural sector. Liu (2011b) discusses the issues in more detail.
Table 1: Educational Attainment by Age Cohort, PRC 1990 National Census

<table>
<thead>
<tr>
<th>Age cohort</th>
<th>Age in 1990</th>
<th>Illiteracy and semi-illiteracy</th>
<th>primary</th>
<th>Junior secondary</th>
<th>Senior secondary</th>
<th>Higher education</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-1984</td>
<td>6-9</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976-1980</td>
<td>10-14</td>
<td>83.5</td>
<td>16.5</td>
<td></td>
<td></td>
<td>0.05</td>
</tr>
<tr>
<td>1971-1975</td>
<td>15-19</td>
<td>5.5</td>
<td>35.91</td>
<td>46.78</td>
<td>11.25</td>
<td>0.40</td>
</tr>
<tr>
<td>1966-1970</td>
<td>20-24</td>
<td>6</td>
<td>34.31</td>
<td>44.65</td>
<td>12.27</td>
<td>2.82</td>
</tr>
<tr>
<td>1961-1965</td>
<td>25-29</td>
<td>7</td>
<td>25.11</td>
<td>43.71</td>
<td>21.95</td>
<td>3.07</td>
</tr>
<tr>
<td>1956-1960</td>
<td>30-34</td>
<td>12</td>
<td>32.56</td>
<td>32.56</td>
<td>20.77</td>
<td>1.89</td>
</tr>
<tr>
<td>1951-1955</td>
<td>35-39</td>
<td>17.25</td>
<td>44.69</td>
<td>27.72</td>
<td>8.61</td>
<td>1.74</td>
</tr>
<tr>
<td>1946-1949</td>
<td>40-44</td>
<td>20.5</td>
<td>50.28</td>
<td>21.07</td>
<td>6.24</td>
<td>1.87</td>
</tr>
<tr>
<td>1941-1945</td>
<td>45-49</td>
<td>36.5</td>
<td>37.31</td>
<td>17.46</td>
<td>6.19</td>
<td>1.94</td>
</tr>
<tr>
<td>1936-1940</td>
<td>50-54</td>
<td>41</td>
<td>39.24</td>
<td>11.80</td>
<td>5.58</td>
<td>2.45</td>
</tr>
<tr>
<td>1931-1935</td>
<td>55-59</td>
<td>54.5</td>
<td>33.22</td>
<td>7.51</td>
<td>3.39</td>
<td>1.46</td>
</tr>
<tr>
<td>1926-1930</td>
<td>60-64</td>
<td>62.5</td>
<td>28.22</td>
<td>5.91</td>
<td>2.40</td>
<td>0.94</td>
</tr>
<tr>
<td>1925 and before</td>
<td>65+</td>
<td>73.5</td>
<td>21.07</td>
<td>3.84</td>
<td>1.30</td>
<td>0.53</td>
</tr>
</tbody>
</table>

Note: The numerical values given in the Table are based on corresponding charts from the source book. While every effort is made to ensure an accurate rendering of the original bars into numbers, no accuracy of these numbers is assured.


4. The post-1978 reforms

Beginning in 1978 and in the ensuing years, the PRC embarked on a series of economic reforms, the first of which took place, in fact, in agriculture, which saw the dismantling of the collective system as noted above. That reform released the pent-up productive capacity made possible by the collective system, but which was also denied an outlet by it. Soon thereafter, the reform spread to industries and urban areas as well, accompanied by major export- and FDI-promotion drives. Together, these reforms ushered in a period of rapid and sustained economic growth in the country, but not without worsening income distribution.

The reforms, in essence, constituted a sharply different and new development strategy: in place of the old emphasis on socialist planning, it now stressed the role of the market in resource allocation; instead of former dictums of self-reliance, it now actively sought for foreign markets, alternative management models, and capital and technology. However, sharply different as it may be from the PRC’s former development strategy, important complementarities exist between the two. Much of the subsequent success may, in fact, be seen to have arisen on the basis of the foundations laid in the prior period.

First, the fact that by the time when economic reforms began and when exports and FDI assumed a major role, the PRC had already had a literate and reasonably educated workforce, thanks to the
social investments made in health and education in the period before 1978. While this labor force may not have been exceedingly well-educated and highly-skilled, the level of literacy and education they received, and the generally good health conditions they had, nevertheless quickly enabled them to learn the new skills required of them, and to have the physical stamina to work very long hours. True, the relatively low income they would have otherwise received if they had stayed back in their village may have set a rather low (reservation) wage for them, which in part helped attract investments that offered them the new job opportunities in the first place. The fact of the matter remains that if they had in fact lacked their literacy and basic educational accomplishments, or the ability to quickly learn new skills, a mere willingness to accept a low wage may not have enabled them to both contribute to and benefit from economic growth, in the way they did.

Secondly, the process of economic growth is, at the same time, one of rural-urban migration. However, this process has progressed at a quite moderate pace in the PRC, compared with in other economies going through similar kinds of change (Liu, 2011b). It has been customary to attribute this to the PRC’s hukou system whereby people (including farmers and urban residents) were restricted to their registered place of residence in respect of such entitlements as to land, job opportunities, and other social benefits (e.g., school places, health insurance, etc.). While it must have had a downward effect on urban-bound migration, how this should be comprehended and evaluated is an issue. In fact, upon closer examination, it turns out that a prime factor keeping farmers back in their village—or, if they have left their village for work in an urban place, even keeping parts of their family there or making them periodically return to their village—is the land they are still entitled to there. That is, they have by no means become landless and uprooted, and there is actually still a source of income out there for them in their village. If this factor were removed, then the scale of migration could have been much greater, even while restricted by the hukou system.

Needless to say, urbanization is a necessary phase of the economic and social development of a country. But excessive migration at any particular point in time can be detrimental to that process. When landless farm laborers flock to the margins of cities, often unemployed or merely scraping a living by performing various “informal” work, and without having any recourse to return to their village, an economic and social underclass is created, with all the negative implications for equity and income distribution. Although some presence of such an underclass may also be observed in the PRC, the farmland entitlement system (or the Responsibility System) has exercised, it must be reckoned, an important constraining force on that, preventing an extensive dispossessed and impoverished class from emerging on the margins of cities. This point is well borne out by Table 2, which compares the extent of urban poverty in the PRC with that in India.

While the contrast between the PRC and India in urban poverty as this table presents is sharp, it has to be noted that the estimates for the PRC may have underestimated the extent of urban poverty there. The source of discrepancy has to do with the possible underrepresentation of the migrant population in the PRC’s urban poverty surveys, who as a group would generally be poorer than the locally registered urban population. Nevertheless, even with the full inclusion of the poor from this group, it is unlikely to overturn the basic contrast revealed by the table.
### Table 2: Urban and Rural Poverty in the PRC and India, Selected Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Urban</th>
<th>Rural</th>
<th>Total</th>
<th>Urban Share of Poor</th>
<th>Urban Share of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>PRC</td>
<td>3.3</td>
<td>39.1</td>
<td>29.1</td>
<td>3.2</td>
<td>29.8</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>40.1</td>
<td>48.9</td>
<td>46.6</td>
<td>22.5</td>
<td>26.2</td>
</tr>
<tr>
<td>1996</td>
<td>PRC</td>
<td>1.7</td>
<td>24.8</td>
<td>17.4</td>
<td>3.1</td>
<td>32.2</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>40.5</td>
<td>46.8</td>
<td>45.1</td>
<td>24.1</td>
<td>26.8</td>
</tr>
<tr>
<td>1999</td>
<td>PRC</td>
<td>1.6</td>
<td>27</td>
<td>18.2</td>
<td>3</td>
<td>34.9</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>37.4</td>
<td>44.3</td>
<td>42.4</td>
<td>24.2</td>
<td>27.5</td>
</tr>
<tr>
<td>2002</td>
<td>PRC</td>
<td>0.8</td>
<td>22.4</td>
<td>14</td>
<td>2.2</td>
<td>37.7</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>36.2</td>
<td>42</td>
<td>40.3</td>
<td>25.2</td>
<td>28.1</td>
</tr>
</tbody>
</table>

*Note: Headcount index using a poverty line of $1.08/day in 1993 purchasing power parity (PPP).*  
*Source: Ravallion, Chen, and Sangraula (2007)*

### 5. Implications

Many factors have contributed to the PRC’s present pattern of growth and equity. Some of these have routinely been cited and discussed in the current literature: market-oriented economic reforms, ownership reforms, export and FDI promotion, among others. In this paper, I have highlighted the importance of those factors that have less often been mentioned in the literature, the foundations laid in the pre-1978 era, especially in respect of land-related institutional reforms and social sector investments. What, however, are the implications of this reading of the events for the future?

#### Growth and equity

First and foremost, due to its size, the PRC in fact has to break an entirely new path for sustained future growth of the economy while simultaneously achieving an adequate level of equity. In particular, given the limitations its large size imposes on the role of export expansion and FDI inflow in its developmental process, the PRC will have to rely, much more than other successful but smaller newly industrialized economies have done before it, on expanding its domestic demand. And this also means that, quite early on in its developmental process, it will have to simultaneously tackle issues of income distribution and, more generally, social equity. That is, other smaller economies might feasibly rely on a growth-first-and-equity-later development strategy, whereby they might pursue export expansion and FDI promotion right until more or less all their surplus labor is absorbed into the more productive sectors of the economy, and only then adopt policies to tackle income distribution and equity. As it is a large country, this option is denied to the PRC.

The issue of domestic demand growth has, in fact, been widely recognized among researchers and policymakers in the PRC for some time. However, the understanding of its role has been rather limited. A temporary fall in foreign demand was believed to have occurred, which was in turn thought to be due to a combination of the PRC’s domestic trade policy changes and RMB appreciation, or more recently to the international financial crisis. As a consequence, policy...
responses have been, on the whole, ad hoc, and have primarily taken the form of increased
government expenditures on infrastructural investments. While these measures did indeed
temporarily boost domestic demand, the efficiency of such investments is seriously in question.
In any case, the extent to which they can be used as a long-run solution to what is a systemic
domestic demand gap problem is seriously in doubt. Yet such a long-run solution has to be found.
It needs to be clearly recognized that the current demand gap reflects, in fact, something more
structural, and needs to be tackled as such.

My own view is that there needs to be increased household demand, and this means increased
household disposable income. Wage increases can help achieve this aim, especially if they are for
low-wage earners. Increased transfer incomes through better social protection programs can raise
domestic demand, too. There has, however, been great reluctance on the part of the government to
do either of these.

In the first case, it is feared that a rise in wages could reduce firms’ competitiveness and adversely
affect exports and inward foreign investment. This may be true. But it needs to be recognized that
continued reliance on the current strategy of expanding exports, in many cases of the rather cheap
and low-tech kind, cannot be in the PRC’s short or long term interest. In the short term, as noted,
such a strategy may well further drive down export prices. In the long run, it may even cause the
country to be “trapped” in a dependence on cheap and low-tech exports without being able to
extricate itself, that is, to fall into the so-called “middle-income trap”.

Secondly, there appears to be much reluctance on the part of the government to commit itself to
expand the coverage of social insurance and protection programs6. Thus far no major concrete
steps have actually been taken. While prudence in this respect is no doubt needed, excessive
prudence is, however, unwarranted. At the heart of the matter is that many policy makers in the
PRC appear to see such transfers principally in negative light. Perceived failures of similar attempts
in certain countries (e.g., some Latin American countries), where social protection appears to
have outpaced economic growth, are often cited. The positive role of these transfers, on the other
hand, has generally received little attention. However, it would actually be difficult to imagine, for
example, how a developed western nation might look, both in respect of social equity and as a
systemic component of aggregate demand, without such transfers. At times, social transfers do
appear to cause severe strains to the macro-economy. The key is how to make the most of these
social insurance and protection programs and minimize negative side-effects.

**Social sector investments and middle-income trap**
Among the positive economic impacts of such social protection programs is their effect on human
capital accumulation. Without such government spending, especially on education but more
generally on health and other social protection programs, it would be difficult to see how education,
from basic to tertiary, could have been as extensively popularized in the developed nations today.
And human capital accumulation, through the innovations and technological progress that it gives
rise to, has of course been widely recognized to be the most important factor responsible for
today’s developed economies achieving their “developed” status, and is also widely thought of as
the solution for today’s successful developing economies (the so-called middle-income economies)
to avoid falling into, as has recently been dubbed, the “middle-income trap”.

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There is really nothing more important than human capital accumulation to an economy or nation if it wants to develop, to modernize, and to catch up with today’s developed countries. Without it, it will not be able even to learn to use the available technology, and to join existing regional or global production networks, let alone to imitate and adapt, and, hopefully, eventually to innovate itself and to move into the high value-adding segments of a production or value creating process. The human capital accumulation made in the pre-1978 era enabled the PRC to complete the first phase of this arduous transformation process (that is, learning to use available technologies and to join international production networks). The country may right now have reached the second phase of the process, namely, imitation and adaptation. But to move the country into the third phase of own-innovation and into the really high value-adding segments of a value chain requires a lot more human capital stock than the PRC currently has, and this means that more, and a lot more, investment in education, training and other processes of knowledge and skills development is needed. As well as increased levels of financial inputs, it may also require appropriate institutional changes to the existing formal and informal education and training systems.

While directly targeting education and training is important, it should not be overlooked that, often, effective human capital accumulation also requires a comprehensive range of other measures. Improvements in health are obviously an example. A wide body of literature attests to the crucial link between a young person’s health status and his/her educational outcome, other things being equal. Undernourishment of children has a strong negative effect on their school performance, for example. Indeed, the link seems to begin even from the very point of conception, through the fetal stage. The implications are great. It means that better nutrition and health care for the parents now may have ample rewards both for themselves, their children, and for the society subsequently.

Once we look at the matter in these terms, then public spending on education, and health, and indeed on other social protection programs, is not necessarily a net cost to society without, as it were, generating any social benefits. Far from it, such spending may generate far and wide benefits. It may not often be easy to see these benefits, as there are inevitably other factors involved, and it may well be tempting to attribute the benefits actually accruing from such public spending to other factors, while the cost of this spending is for all to see. This appears to be a main factor preventing the emergence of a public consensus for more, and much more, government spending on education, health and other social protection programs in the PRC. Further studies of the link between public spending and human capital accumulation may contribute to the eventual arrival of such a consensus and would, therefore, be especially welcome on this account.

It should be made clear that while we have emphasized the need for increased public investment in education, it does not imply that we disregard the role of private investment. Private investments in this area have been extensive in the PRC (as in many other developing or newly industrialized countries). But private investments can, unfortunately, only benefit those who can afford. Given the well-known capital market imperfections for education, those with little means to make such investment will usually be denied the opportunity of better education. On the other hand, human potentials rarely abide by such neat boundaries, that is, the boundary dividing those who can and those who cannot afford the investment.
Here we are, of course, only speaking in terms of the instrumental value of education. From the viewpoint of human development, it may also be argued that education is intrinsically important as well, and that basic social justice demands that there is at least some minimum level of equity in this important dimension of human development. So while private investment would be most welcome, public investment is also needed. The challenge is how to make these two types of investment complementary to, rather than substituting for, each other.

6. Conclusion
There are many factors which have together shaped the current growth and equity pattern of the PRC. Among the critical ones are the foundations laid in the pre-1978 era, especially in respect of land institutional reforms and social sector investments. These legacies successfully complemented the export- and FDI-promotion strategies which the country subsequently followed in the post-1978 period. The former had a direct beneficial impact on income distribution and rural-urban migration, while the latter enabled the PRC to successfully pursue an export- and FDI-promotion strategy, which has, in fact, been a main engine of the recent economic growth in the country. However, while these strategies have helped to kick-start the economic take-off of the country, its long-run growth can hardly depend on them. In both the short-run and long-run, it will be important for the PRC to expand its own domestic demand for its vastly expanded production capacities, and this means improving on the current income distribution patterns as well. In particular, in addition to wage increases, it will be important for the country to expand its social protection programs, with a view to expanding domestic demand and, more importantly, to renewing and expanding its investment in human capital. There is really nothing more important than renewed human capital accumulation for the PRC if it is to continue to develop, to modernize, and to catch up with today’s developed countries. While past superior human capital accumulations have helped the PRC to compete and outperform other similarly positioned economies in recent decades, continued growth of the economy and continued improvements of the living standards of its people in the forthcoming decades will require vast amounts of new human capital accumulation. Therefore, an increase in government investments on the supply side to improve educational and training facilities and the quality of such education and training, or on the demand side to raise the level of access to such education, may well prove to be of special importance.
REFERENCES:


Income Distribution
Reform in China: Issues and Challenges

by Professor Li Shi
China Institute for Income Distribution, Beijing Normal University

Over the past three decades, China’s socioeconomic landscape has undergone substantial changes. The country’s unprecedented rapid economic growth has been accompanied by dramatic changes in the pattern of income distribution, with a widening income gap and worsening income inequities. However, China is not unique in its widening income gap; since the 1980s, most countries in the world have, to varying extents, experienced a similar phenomenon. This has prompted soaring public attention to and expectation for income distribution reform.

A host of literature indicates that an excessive income gap is detrimental to the long-term economic development and social cohesion of a country. Excessive income gap not only adversely affects consumption and economic growth, but also constrains the accumulation of human capital among low-income groups. It negatively affects poverty alleviation efforts and increases societal mistrust, in particular between the rich and the poor. Most critically, an excessive income gap can render ineffective the institutions and policies pivotal to realizing equality of opportunity (Jan Vandemoortele, 2013).

We must recognize both the gravity of China’s income gap, which is already undermining economic development and social stability, and the need to seek a solution. It is essential for us to rationally examine the characteristics of China’s income distribution pattern and identify relevant issues and challenges in order to identify a breakthrough solution to income distribution reform.

1. Basic characteristics of the income distribution pattern in China

The income distribution pattern can be assessed in two ways, namely in terms of the size of the income gap and in terms of the inequities in income distribution. The first mainly looks at how equally the national income is distributed among various population groups, which can be measured by different indices or indicators. For instance, the Gini-coefficient is used internationally to measure the size of the income gap. However, the Gini merely indicates the size of the income gap; it cannot assess whether or not a given income distribution is “reasonable.” From the economics
perspective, measurement of the income gap is considered empirical work, while inequity in income distribution is considered normative work. Assessments of income distribution inequity are necessarily based on value judgments, so different value systems may lead to different or even contradictory conclusions. However, that does not mean that a society cannot develop a broadly similar value system towards income distribution inequities. Indeed, a universal value system accepted by all members of society already exists to a certain extent. For example, all societies recognize corruption and income derived from corruption as a flagrant manifestation of inequity in income distribution.

The following section summarizes the key recent changes in China’s income distribution pattern:

First, the trend of the once widening income gap among rural residents has slowed down, with the income gap even narrowing in the last two years. Some comparable data suggest that the rural Gini-coefficient increased from 0.35 in 2000 to 0.385 in 2010. In the space of 10 years, the Gini increased nearly 4 percentage points, or an average of 0.4 percentage points per year. Moreover, this increase mainly happened in the first few years of the decade. Between 2000 and 2002, the rural Gini increased 2 percentage points; in the eight years through the end of the decade, it increased another 2 percentage points. Since 2010, the income gap among rural residents has decreased slightly, but the Gini-coefficient has not decreased by more than 2 percentage points.

Second, the widening of actual income gap among urban residents is accelerating. While the general public perception is that the urban income gap is wider than the rural income gap, some statistics suggest otherwise. For example, the National Bureau of Statistics (NBS) estimates that the urban Gini-coefficient increased slightly from 0.32 in 2002 to 0.35 in 2010. However, some experts have criticized this figure, suggesting an underestimation caused by the under-representation of high-income households in NBS’ household sample surveys. Such a sampling bias would also lead to underestimation of the urban-rural income gap and the national income gap. Some relevant studies suggest that if the sampling bias in NBS’ household surveys were to be corrected, the urban Gini-coefficient would exceed 0.4, making the urban income gap larger than the rural income gap.

Third, the national income gap is at its highest in some 50 years. According to NBS’ estimate, between 2000 and 2008, the national income gap continuously widened, with the Gini-coefficient increasing from 0.44 to over 0.49 over that time period. In the last few years, the income gap has slowly narrowed, with the national Gini-coefficient dropping from 0.491 in 2008 to 0.474 in 2012. At this time, it is still unclear if the small reduction seen over the last few years will continue in the longer term. It should also be noted that, given the underestimation of the national income gap due to the sampling bias in NBS’ household surveys, the extent to which the reported Gini-coefficient captures actual income gap trends and changes is somewhat unclear. More importantly, we cannot over-interpret what has been, to date, a small, short-term reduction in the income gap, or assume that it marks the beginning of a long-term trend.

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5 Li Shi, Hiroshi Sato and Terry Sicular, editors, Rising Inequality in China: Challenges to a Harmonious Society, Cambridge University Press, 2013
Meanwhile, notable inequities in income distribution that have existed in China for a long time, have not been resolved or alleviated.

First, income gap between urban and rural areas remains a serious issue. According to the NBS survey data, urban-rural income gap widened significantly between 2000 and 2009, with income ratio between urban and rural residents increased from 2.78 in 2000 to a record-high of 3.33 in 2009. Since 2009, urban and rural income gap saw three years of slight decline, with the ratio dropping to 3.13 in 2012. To some extent, rural household incomes have been underestimated due to the omission of some rural residents’ income from wage labor. On the other hand, urban household incomes have also been underestimated, due to the under-representation of high-income samples in the urban household survey. Therefore, it appears that the urban-rural income ratio of around 3, to a certain extent, does reflect the actual situation in China.

Why has China’s income gap been viewed as a manifestation of inequities in income distribution in addition to being an empirical phenomenon? This is because urban-rural income gap in China bears specific characteristics born out of the China context, caused by not only historical reasons, but also current systemic and political factors. During the era of a planned economy, the Government of China, in pursuit of rapid industrialization, adopted wholly separated social and economic strategies and policies for urban and rural areas. In effect, rural interests were sacrificed to meet the capital needs for urban industrial development. The divergent urban-rural development model led to the lagging of rural economic development, social insurance, public service and income growth, compared to urban areas. This model has not been adjusted since the reform and opening up period, which has resulted in rural areas continuing to lag behind in social and economic development. In this sense, the current urban-rural income gap can be traced to an inequitable economic development strategy, and is rooted in an inequitable socioeconomic system, along with inequitable public service policies. Income gap in China is the manifestation of serious inequities in income distribution.

Second, the issue of high income in monopoly sectors has not been effectively addressed. In the early 1990s, income gaps across different sectors were not excessive; wages in the highest-paying sectors were 30–40% higher than average wages. However, since the beginning of this century, wages in some monopoly sectors have rapidly increased to much higher than average levels. For example, in 2011, the average wage in the financial sector was 94% higher than the average urban wage. In Beijing, the average wage in the financial sector was 2.3 times that of the average urban wage, and more than 3 times that of average wages in the manufacturing sector. Research shows that the highest wages are typically paid to jobs in monopoly sectors, and the high wages paid by these jobs can be attributed to the sectors’ monopoly on profit.

Third, the divergent urban-rural social security systems have led to the widening of income gaps among different groups of people. This is exemplified by the broad range of pension schemes, with hugely varying pension levels for retirees. In urban areas, the pension system for retired civil servants is the best, followed by that for retirees from public institutions (shiye danwei), than by that for retirees from enterprises. The worst social security system is that for the unemployed. In rural areas, an old age social security system is now being promoted, but it is at a far less advanced level than that in urban areas.

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9According to The Challenge of China’s Aging Population, a report released by the Peking University National School of Development, different pension systems have hugely varying benefit levels. The new rural pension scheme has very low benefit levels, while the pension schemes offered for government civil servants and private enterprise employees have much higher benefit levels. The median benefit level provided by the new rural pension scheme is RMB 720 per person per year. The corresponding amount is RMB 1,200 for the urban pension scheme; RMB 18,000 for the pension program provided by private enterprise; and RMB 24,000 for retirees from government and public institutions, which is 33 times that provided by the rural pension scheme.
Finally, problems brought about by corruption and income inequity remain grave social challenges. It is difficult to come up with a numerical figure for income gained through corruption, or to fully capture how the widening income gap has been influenced by “grey income” or income gained through corruption. But the inequitable nature of such income is incontrovertible. In the past several years, there has been an increase in the number of arrests of corrupt government officials, and with large sums of money implicated, suggesting that corruption is worsening.

2. Challenges in the Reform of the Income Distribution System

In response to the widening income gap and growing income inequity in China, scholars have made a number of policy recommendations, and the Government has considered how best to adopt and implement appropriate policies. In terms of narrowing income gaps, a broad consensus has been reached to “lift low income, expand middle-class income and restrict high income.” However, three key challenges must be confronted in the design of appropriate policies.

Key Challenge 1: Increasing the income of low-income groups

The first key challenge lies in steadily increasing the income of low-income groups at a higher rate than that of higher-income groups. The low-income group primarily consists of rural residents, along with a small number of low-wage urban workers. In the past several years, according to official statistics, the income of rural residents has increased faster than that of urban residents. Moreover, income growth among low-income rural residents has been higher than that of higher-income rural residents. If this trajectory continues, the government’s “lift low income” goal will be achieved, assuming that the recent trend is not an aberration or only a short-term phenomenon.

It is likely that the recent income growth among low-income rural groups is due to the confluence of the following three short-term factors: 1) Farmers have benefited from the rapid increase in the price of agricultural products, which has resulted in rapid increase in agriculture-derived income. 2) The government’s stimulus package in response to the global financial crisis called for large investment in infrastructure building projects. This led to increased demand for unskilled construction labor and a relatively rapid increase in wages for those who took up such construction jobs, typically migrant workers from rural areas. 3) Government revenue has increased very rapidly, providing the fiscal capacity to implement social transfers for low-income groups.

At present, it is unlikely that these three short-term factors will be sustained in the long run, and even as the effect of these short-term factors begins to wane, no suitable substitutes have been identified. Although the new Xi-Li Government has highlighted the urbanization of rural people in its newly proposed urbanization plan, unless housing, social security, school enrollment for migrant children, and other basic rights are guaranteed, these new urban residents will see limited benefits from the new urbanization drive. For many rural residents, it will not be possible to move to cities, find jobs and settle down within a short time. This will make it hard to realize operations at scale in agriculture, thereby delaying or restricting land policy reforms. In turn, this will make it difficult for farmers to derive increased profit from the land in a sustained manner. Moreover, as the prices of domestic agricultural produce have converged with (or even exceeded) global market prices, it will not be possible to raise farmers’ income by further increasing the prices of agricultural products.
As for increasing the wages of low-income urban groups (including migrant workers), a notable challenge is to ensure wage increases keep up with productivity increases. Increasing the wage of low-income workers is critical to the work of “lifting the low income.” Over the last decade, the government has adopted several measures to lift the low income, including raising the wage level of low income, introducing the minimum living allowance system (dibao), increasing the benefit levels for the rural “Five Guarantees” scheme, expanding coverage of the social security system, and supporting wage increases among low-income groups. At the same time, many local governments have, in recent years, supported increases in the minimum wage with great frequency and scale to fuel income growth among low-income groups. The impact of these policy measures on narrowing the income gap, however, is yet to be confirmed by research. Some relevant studies have found the dibao programme to have produced limited impact in narrowing the gap. The minimum wage policies are of great importance to the labor market, but income gaps cannot be narrowed by increasing the minimum wage alone. Moreover, the minimum wage standard must track the productivity levels of low-income people, if unemployment is to be avoided. Judging by the current human capital of the low-income population, productivity is unlikely to improve in the near term, which in turn constrains further minimum salary increase.

**Key Challenge 2: Expanding the middle class**

“Expanding middle-class income” takes time; short-term policies will only have very limited impact. Enlarging the size and proportion of the middle class is an important approach to narrowing the income gap in the long run, but effective measures are lacking. The expansion of the middle class depends on two factors. First is economic restructuring, or the shift from labor-intensive industries to capital or technology-intensive industries. Given China’s current industrial structure, this transformation will take two generations to complete. Second is popularization of higher education; enrollment rate in higher education must increase from the current 30% to over 50%. However, neither change can be achieved in the short run, as they require changing China’s development model and reforming the education system, both of which are long-term endeavors.

**Key Challenge 3: Effectively regulating high income with tax measures**

A common response to dealing with high-income groups is “restricting” their income. Rather than imposing indiscriminate limits, however, a more appropriate approach would be to “regulate” the income of high-income groups. High incomes come from different sources—some legitimate and some illegitimate—so different regulatory environments and policy responses are called for. Legitimately-derived high incomes should be subject to adjusted tax policies, while illegitimately-derived high incomes should be eradicated at a systemic level. Even for legitimately-derived high income, current tax measures are insufficient, and need to be gradually improved. For example, the current personal income tax policy does not effectively narrow the urban income gap. While high-income earners are subject to higher income tax levels, their actual levels of tax payment are still relatively low, due to rampant tax evasion. Property tax would be a more effective tool than personal income tax in regulating the income gap, but nationwide application of property tax is unlikely in the near future due to the influence of interest groups.

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There are also several key challenges in addressing inequities in income distribution.

**Key Challenge 4: Weakening the influence of monopoly sectors**
Attempts to regulate the high income of monopoly sectors will meet with strong resistance. China’s production factor market (labor market, capital market) is characterized by excessive government intervention, a lack of competition, information asymmetry, inadequate legislation and regulation, market monopolization and fragmentation, and factor price distortion. As a result, the primary distribution of people’s income is neither efficient, nor fair. Breaking up monopolies and introducing competition into all sectors is a major objective of China’s market reforms. However, most monopoly sectors are dominated by large state-owned enterprises closely associated with the government. These state-owned enterprises not only enjoy the favor and protection of the Government, but also greatly influence the policy-making process. As a result, proposals to curb the income of monopoly sectors and more equitably share their profits among the people are not accorded priority by the Government, and are even less likely to be translated into concrete policies.

**Key Challenge 5: Excluding the interference of vested interests**
As the income gap widens, income distribution reform becomes increasingly difficult, because the influence of vested interest groups also grows with the income gap. Past experiences show that income distribution reform is inextricably linked with factor market reform. Yet, market reform in China has proceeded in an imbalanced manner across sectors due to the interference of various interests. Some sectors are reluctant to relinquish their monopoly control, so they wield their power to thwart market reform, or support reform only when it is in their favor, and oppose it when it is not. In addition to the interference from monopoly sectors, vested interest groups are also acting against income distribution reforms. Delays in passing property tax and inheritance tax, for example, can be attributed in part to objections from vested interests.

**Key Challenge 6: Facilitating political reforms**
China has notably inequitable income distribution, which has led to growing public complaints and dissatisfaction, posing risks to social stability. It should be recognized that the inequities in income distribution touch on nearly all economic and social aspects. The inequities in income distribution reflect the flaws in China’s economic development model and its economic and political institutions. All-around reforms, and political reform in particular, are needed. However, in a society where stability has yet to be attained, the further destabilizing effect of political reform is a possibility. This possibility dampens the will and confidence of policymakers, resulting in stagnant political reform and greater difficulty in eradicating corruption and the income distribution inequities with which it is associated.
Gender Equity in China
by Professor Liu Bohong
Women’s Studies Institute of China

“Fairness and justice are inherent requirements of socialism with Chinese characteristics” (Hu Jintao, 2012). Public opinion has been divided over how to define fairness and justice, especially after the country’s transition into a market economy. However, the remarks above made by Hu Jintao in the Report to the Eighteenth National Congress of the Communist Party of China (CPC) have elevated fairness and justice to be the essential requirements of socialism. This also proves the urgent theoretical and practical needs for promoting fairness and justice in China.

China has achieved remarkable economic and social development in the past 30 years since the reform and opening up; but its wealth gap is also unprecedented—as stated by Jan Vandemoortele, “inequality is back on the agenda.” Over the past 30 years, the CPC has continuously expanded and deepened its understanding of socialism construction, having developed plans from “Three-in-One” at the beginning of the reform and opening up, to “Four-in-One” at the 17th National Party Congress, to “Five-in-One” at the 18th National Party Congress. On the theoretical front, people have been engaged in hot debates on issues such as “developing socialism or capitalism”, “let some people get rich first or strive for common prosperity”, “efficiency or equity”. In the end, almost all the people, from policy makers to economists and to the rank-and-file, accept the following views: “development is the absolute need”, “we must make the pie of social wealth bigger”, and “money makes things easier”.

2. The Resolution of the CPC Central Committee on the Guiding Principles for Building a Socialist Society with an Advance Level of Culture and Ideology, passed in the Sixth Plenary Session of the 12th Central Committee of the CPC in 1986, for the first time, confirmed that the general layout of China’s socialist modernization is to implement economic and political reform and to promote culture and ideological progress.
3. The Report to the 17th National Congress of the CPC on Oct. 15th, 2007, Hold High the Great Banner of Socialism with Chinese Characteristics and Strive for New Victories in Building a Moderately Prosperous Society in All Respects, has indicated that, “we must uphold the basic program consisting of the basic objectives and policies for economic, political, cultural and social development under socialism with Chinese characteristics.”
4. The Report to the 18th National Congress of the CPC on Nov. 18th, 2012, Firmly March on the Path of Socialism with Chinese Characteristics and Strive to Complete the Building of a Moderately Prosperous Society in All Respects, stated that “The whole Party must purposefully make pursuing comprehensive, balanced and sustainable development the basic requirement for applying the Scientific Outlook on Development. We must fully implement the overall plan for promoting economic, political, cultural, social, and ecological progress…”. “In building socialism with Chinese characteristics, we base ourselves on the basic reality that China is in the primary stage of socialism. Our overall approach is to promote economic, political, cultural, social, and ecological progress, and our general task is to achieve socialist modernization and the great renewal of the Chinese nation.”
Is China’s development outcome truly satisfying? Seeing the spread of the sustainable development concept, the widened gap between the rich and the poor, through in-depth discussion on the post-2015 development goals and reflection upon China’s development process, more and more people begin to question the growth imperative and the miraculous market as the most efficient resource allocation mechanism; and they are now seeking a more equitable and sustainable development model and path. This paper will discuss gender equity and the change of women’s social status in more than 30 years after the reform and opening up from a gender perspective, and recommend some goals for the post-2015 agenda.

Gender inequity is one of the most common inequalities. Its association with poverty, social status, ethnic groups, races, religions, disabilities, marital status, age, sexual orientation and social identity makes women more disadvantaged in these vulnerable groups. At the same time, women worldwide are playing an increasingly important role in developing economy and society; they contribute more economic gains back to their families and society. Women are the engine of social development. No society can prosper with half of its people’s aspiration and creativity constrained.

The idea of gender equity in this paper is similar to that of Vandemoortele’s, that people, men or women are able to freely develop themselves and make choices regardless of the restrictions from the traditional social gender roles and all kinds of social prejudice and discriminations. Gender equality doesn’t mean women and men should be the same, but they should enjoy the same rights, responsibilities and opportunities. Therefore, the researcher emphasizes the idea of substantive equality, namely women should not only enjoy equal opportunities, procedures, rules and laws, but equality of results.

China’s reform and opening up has led to unprecedented opportunities for all, including for Chinese women. Education is one of the acknowledged areas where governments and people are proud to see development. In 1980, women represented 23.4% of the total college students. The number increased to 33.7% in 1990, 40.9% in 2000 and 50.8% in 2010. The proportion of female university students doubled and exceeded the number of male students within 30 years. The gap of mean years of schooling for men and women shrank from 1.9 years in 1990 (men 7.4 years, women 5.5 years) to 1.3 in 2000 (men 8.3 years, women 7.0 years), to 0.8 in 2010 (men 9.2 years, women 8.4 years).

Except for the low enrollment rate in some rural areas, urban women in China have received equal education compared to men, which is unprecedented in Chinese history. The surveys on Chinese women’s social status in 1990, 2000 and 2010, showing the steady increase of Chinese women’s education status, have also proved this point.

The issue in question is whether equities in educational opportunities can be translated into an equitable educational outcome, and further into the equal return on human capital investment for women. Both aspects can be measured by the employment opportunities and income, because in general better educational attainment can generate better job opportunities and income.

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In reality, it is not such a pleasant picture in terms of job opportunities for Chinese women. According to three surveys on the social status of Chinese women, although the employment rates for both men and women have decreased in the past 20 years, the decrease is steeper for women. Among the interviewed urban working women aged 18 to 64 years old, their employment rate dropped for 15.5 percentage points in the recent twenty years from 76.3% in 1990 (in comparison with 90.0% for men), to 63.5% in 2000 (81.3% for men), and further to 60.8% in 2010 (80.5% for men). The survey also indicated that women working in the informal sectors outnumber those in the formal ones and the majority of the former entered the sectors with reluctance. Among the people working in the formal sectors in the urban area, the decrease of employment rate among women is greater than men, with 17.33 million or 29.4% fewer women from 1995 to 2002. It is true that the economic restructuring has cost more job opportunities for women compared to men, and the same trends have been confirmed through the changes of labour force participation based on the fifth and sixth censuses. An interaction analysis for those with different educational attainments showed that “women need to be more competitive than men in order to enter the workforce, in particular among those with a three-year college degree or higher”, indicating that the high investment of women in their human capital is met with a low return. Therefore, the overall increase of educational opportunities for women has not necessarily resulted in greater participation in the economy or a higher percentage of female workers. The same conclusion also stands when the educational outcome is measured by the status of educated women in the job market. Worse still, the inequities of outcome can impoverish women or reduce them to dependence on or subordinate to men.

The picture of employment income, which is a vital indicator for the equities of education or employment outcome, is not rosy either. According to the three surveys on the social status of Chinese women, the income gap between men and women has been widening despite an increasing trend for both men and women over the past 20 years. In 1990, the average income of the urban employed women was 77.5% of the urban employed men and that of the rural employed women 79.0% of that for their counterpart; in 1999, the urban ratio dropped to 70.1% and rural ratio to 59.6%; in 2010, the urban figure further decreased to 67.3% and rural figure to 56.0%. Since the market economy was launched in China, a higher employment income for men has continued to exist with a widening income gap between men and women, irrespective of any age group, educational attainments and in areas with different levels of socioeconomic development. Such a trend has also been confirmed by the studies conducted by Li Shi on the income gap among various groups. The universal perception that “better education attainment leads to better job opportunities and income” is partially true. Better education has generated higher income for Chinese men and women, instead of reducing the income gap between the two. Or rather, better education attainment of women has not been translated into an equal status in the job market or the equal recognition and return for their efforts.

Such a widening income gap between men and women has undermined the concept and reality of gender equity in China. [Since the founding of the People’s Republic of China, remarkable progress has been achieved in gender equity when Chinese women have been fully involved in all fronts of the national development program and become “half the sky” and master of their own fate.] However, the self-reliance mentality such as “women can achieve like men” and “women should not be the mirror for men just like the moon for the sun” established after 1949 has been severely challenged through the rapid transformation of Chinese society. According to the three surveys on the social status of Chinese women, the percentage of men and women who recognize the idea of “men as bread-winners and women as housewives” stand at 53.9% and 50.4% in 1990, 61.6% and 54.8% in 2010. This indicates that the traditional ideas have gained ground over ideas of gender equity such as “men and women should share the family and social responsibilities”, in particular among Chinese men. The percentage of men and women in favor of “a good job is inferior to a rich husband” rises to 40.7% and 48% in 2010 from 30.2% and 37.3% in 2000. How on earth can an equal social and family status be upheld when half the women in a country believe that their fate depends on marriage and men? Based on the changes in the public mentality, an indicator of the reality, it is shown that the market economy and multiculturalism have squeezed the equal social participation of women and increased their mental subordination to men.

This argument is supported by UN statistics. UN Human Development Report suggested that from early 1990s to 2005, China rose from the 111th to the 81st in terms of Human Development Indicator (HDI); yet when it comes to the Gender Development Indicator (GDI) and Gender Empowerment Measure (GEM), China failed to demonstrate a similar momentum. The progress is sluggish or even backward (See Chart 1.1). In 1995, in contrast, China was recognized by the UN Human Development Report as a model where the level of gender equity surpassed that of economic development.

The change can be attributed to the social differentiation effect of the market mechanism, the government’s withdrawal from providing domestic service, and the commercialization and privatization of public services. In the era of planned economy, when China’s economy was yet to be developed and its people yet to be enriched, the government granted every urban worker and their family with from-cradle-to-grave welfare and social security through their employers (or Danwei). Facilities run by employers offered child care, medical care, education, and daily life services (canteens, bathrooms, boiler rooms, shops, etc.) and relevant family policies saved workers (especially females) from preoccupations with family. Most importantly, these expenses were covered by the government, and the government and employers were obliged to provide these services.


12GDI is a gender-based development indicator to measure capacities and achievements covered in Human Development Indicators. The focus is on the difference in achievements by men and women. The greater the gender disparity, the lower the country’s GDI compared with its HDI.

13In UN Human Development Report 1995, China ranked 111th, 71st, and 23rd respectively in HDI, GDI and GEM. UNDP fully applauded this achievement by saying, “gender equity does not necessarily depend upon the income level”, and “ with 1/5 of the per capita actual income of Saudi Arabia, China is 10 ranks ahead of Saudi Arabia in terms of GDI”. See also UN Human Development Report 1995 (Chinese), p81.

14The Government of China had also implemented nursery and elderly support policies in rural areas, yet the level of services is limited by the rural-urban dual structure.
After the market reform, child birth expenses which were previously borne by the government were transferred to the employers and individuals, and thus became a part of the labor cost; and social service responsibility was placed on the society or the market. As this happened, family became a private domain and domestic services turned into private business. The reform of enterprises to separate supplementary businesses from major ones automatically leads to the personalization, liberalization, privatization and marketization of public and domestic services. As the government and employers no longer shouldered the responsibility to support the reproduction of labor power, family served as its last guarantee. The traditional division of family labor, or the male breadwinner model, follows naturally that women whose families cannot afford to buy domestic services assume housekeeping responsibilities. Thus, the cost of post-reform domestic services was shifted from the government to families, in particular to females.

According to the 2008 research by Dong Xiaoyuan et al, the value of unpaid domestic care accounted for 25-32% of China's GDP, 52-66% of the total consumption and 63-80% of the total value of industrial output. The contribution of the unpaid labor by females to the families and society was not only much neglected in the market economy but has also prevented women from employment. Profit-seeking enterprises and the competition and efficiency-oriented market blocked women’s entry on the grounds of their dual burden of employment and family. Being the first to lose jobs and the last to be employed, women who used to hold up half the sky were reduced to a discriminated and unwelcomed group in the market economy. In 30 years, the evolving economic and public policies have pushed women to the margin in the labour market, which has highlighted the worsening gender inequity.

Therefore, it is essential to list gender equity and protection of women’s rights as vital goals during the discussion of the post-2015 agenda. With gender vulnerability intertwined with other vulnerabilities, gender equity, social fairness and justice, and sustainable development will be achieved only when equity of all vulnerable groups is achieved. It is exactly why classical authors such as Karl Marx and Friedrich Engels regard gender equity as an indicator of a progressive society.

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During years of revolution and social development, the CPC amassed a wealth of political assets by holding up Marxist perception of women and listing liberation and development of women as a fundamental hallmark of socialism. After the Reform and Opening-up Initiative was implemented, the Government of China committed itself to respecting and safeguarding human rights including women’s rights by signing and ratifying a series of core UN human rights conventions. For example, gender equity was also enshrined in the Report to the Eighteenth National Congress of the CPC. Therefore, during the development of the post-2015 agenda, the Government of China should carry forward the tradition and honour its international and domestic commitments by reflecting the values and objectives of the afore-mentioned human rights conventions in the new human development framework.

First, the definition of “fairness” and “equity” should be clarified while developing the new agenda. More people-centered indicators on outcome or substantive equity should be put in place instead of equity of opportunities or processes. In particular, equity and non-discrimination should be the principles for people-centered indicators. For example, the new educational goal should not only ensure access to education, but also equitable curriculum and educational outcome; the new employment goal should not only ensure access to job opportunities, but also promote equity in the job structure, income and allocation of social resources. Should the post-2015 agenda fail to honour substantive equity, interests of women and other vulnerable groups will probably continue to be sacrificed for social development or for maintaining social stability, which will hamper the achievement of fairness and justice.

Secondly, substantive equity, fairness and justice should be mainstreamed into the national legislation and decision making processes and be fully reflected in the “Five-in-One” model of the socialist construction cause. The international human rights obligations committed by the Government of China and principles of fairness and justice should be incorporated in macro-level decision-making processes of the national political, economic, social, cultural and environmental programmes, in order to ensure the shift from a GDP-centered programme, obsessed by market miracles and economic priorities to one that tackles the underlying structural inequities and injustice. For example, except for the family planning policy, few of the social development programmes and public services in China are based on the people-centered and gender equity principle or encourage the innovation or improvement of family policies; and few of the cultural development policies or initiatives pertain to delivery of gender equity and non-discrimination. Should the post-2015 agenda fail to reverse the marginal status of disadvantaged groups including women in the development programme, the development programme can hardly bring about fundamental changes.

Third, an accountability mechanism should be put in place to achieve the post-2015 goals. The government is the primary duty bearer, and businesses, civil society organizations and citizens should also have a role to play in order to fulfill the agenda. In particular, accountability indicators should be developed for the government and businesses, so as to monitor and ensure their compliance with human rights, environmental protection and ethical standards, to ensure fairness, justice and sustainable development.
Fourth, development and implementation of the post 2015-agenda should involve the public both as participants and as supervisors. In China, a considerable number of government officials, business managers, intellectuals, community leaders and women’s organizations are still unaware of the MDGs or the post-2015 agenda. As they have not been involved in developing the agenda, they can hardly be expected to exercise the monitoring role during its implementation. Indeed, a democratic, equal and open political institution plays the key role in the development and implementation of the post-2015 agenda.