University of Nebraska - Lincoln
DigitalCommons@University of Nebraska - Lincoln

Cornhusker Economics | Agricultural Economics Department

6-30-2010

Poverty Reduction and the Income Inequality in China

Yi Liu
University of Nebraska - Lincoln, bessie@huskers.unl.edu

Wesley Peterson
UNL, epeterson1@unl.edu

Follow this and additional works at: http://digitalcommons.unl.edu/agecon_cornhusker

Part of the Agricultural and Resource Economics Commons

Liu, Yi and Peterson, Wesley, "Poverty Reduction and the Income Inequality in China" (2010). *Cornhusker Economics.* Paper 450.
http://digitalcommons.unl.edu/agecon_cornhusker/450

This Article is brought to you for free and open access by the Agricultural Economics Department at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Cornhusker Economics by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

CORNHUSKER ECONOMICS

University of Nebraska–Lincoln Extension

Nebraska Lincoln

June 30, 2010

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
http://www.agecon.unl.edu/Cornhuskereconomics.html

Poverty Reduction and the Income Inequality in China

Market Report	Yr Ago	4 Wks Ago	6/25/10
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$80.31	$97.50	91.23
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	125.35	130.98	135.88
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	*	116.61	117.50
Choice Boxed Beef, 600-750 lb. Carcass	140.00	168.19	154.50
Western Corn Belt Base Hog Price Carcass, Negotiated	56.53	80.53	77.56
Feeder Pigs, National Direct 50 lbs, FOB	31.36	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	56.26	88.45	84.08
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	111.00	137.00	130.75
National Carcass Lamb Cutout, FOB	261.06	311.89	312.37
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	5.35	3.66	3.39
Corn, No. 2, Yellow Omaha, bu.	3.74	3.52	3.26
Soybeans, No. 1, Yellow Omaha, bu.	11.75	9.47	9.59
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	6.14	5.64	5.14
Oats, No. 2, Heavy Minneapolis, MN , bu.	2.06	1.94	2.65
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	*	140.00	150.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	*	67.50	82.50
Grass Hay, Large Rounds, Premium Nebraska, ton.	*	67.50	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	130.37	115.00	92.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	47.45	35.00	32.00

***No Market**

In 2000, the United Nations adopted the Millennium Development Goals which set targets for raising living standards in low-income countries. The first goal was to "eradicate extreme poverty and hunger" (United Nations). The World Bank defines extreme poverty as income of less than $1.25 per day (World Bank, 2010a). Based on this definition, the World Bank estimates that the percentage of the population in China living in extreme poverty has fallen from 84 percent in 1981 to about 16 percent in 2005, a period during which China's population grew by more than 300 million people (see Table 1 on last page). Because China is a very large country with a current population approaching 1.4 billion (more than four times the United States population), its dramatic reduction in poverty over the past 30 years has had a profound effect on global poverty measures. In fact, poverty reduction in China is the main reason that the incidence of extreme poverty in developing countries has fallen from about 52 percent in 1981 to 25 percent in 2005 (Table 1). While the absolute number of poor in China fell by some 627 million, the number of poor in other developing countries actually grew slightly (from 1,065 million to 1,166 million). These figures represent a decline in the percentage of the total population in poverty in other developing countries because of general population growth over that 25-year period (World Bank, 2010b).

China's success in reducing poverty stems largely from economic reforms initiated in 1978. Interestingly, a major thrust of these reforms involved the elimination of strict agricultural production quotas and collectivized farming, allowing Chinese farmers to benefit from their efforts to expand production. As economic reforms spread to the industrial sectors, the Chinese economy began growing very rapidly, with average annual growth rates of more than ten percent over the past twenty years (for reference: average annual economic growth in the United States was about three percent over the same time period).

IANR

Extension is a Division of the Institute of Agriculture and Natural Resources at the University of Nebraska–Lincoln cooperating with the Counties and the U.S. Department of Agriculture.

University of Nebraska Extension educational programs abide with the non-discrimination policies of the University of Nebraska–Lincoln and the United States Department of Agriculture.

Between 1995 and 2008 China's Gross Domestic Product increased by a factor of six, and by 2008 China's economy had become the third largest in the world. Annual per capita income, measured in constant dollars adjusted for inflation and purchasing power, increased from $523 in 1980 to $5,515 in 2008 (for reference: U.S. per capita income in 2008 was $42,809; see World Bank 2010b). These economic gains have meant higher living standards, increased educational opportunities and healthier populations. For example, life expectancy at birth has increased from 65 years in 1978 to 73 years in 2008 (2008 U.S. life expectancy was 78; in Japan it was 83; World Bank, 2010b).

At the same time, inequalities in the distribution of income in China have increased sharply. Prior to the economic reforms of the late 1970s, Chinese leaders emphasized egalitarian policies that gave rise to a fairly equal distribution of income. People were poor, but there were few significant disparities in the amount of income individuals were able to earn. It is not unusual for inequalities in the distribution of income to arise as countries begin to experience growth and industrialization. As long ago as 1955, Simon Kuznets noted that poor countries tend to have fairly equal income distributions that become more unequal as they begin to grow. Countries that pass a certain level of income begin to implement redistributive policies and to enhance opportunities for the poor, with the result that inequality tends to be lower in high-income countries. The United States is an exception to this generalization, with much higher levels of inequality than most other countries with similar income levels (Figure 1). According to Kuznets's hypothesis, it is not surprising that inequality in China began to rise as per capita incomes grew.

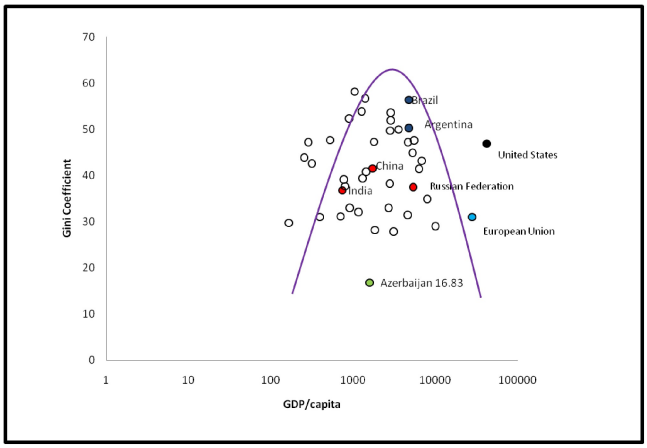

Figure 1. Income Distribution and the Kuznets Curve

As a practical matter, growing income inequality in China may have been driven by economic reforms that allowed some people to "get rich first," a term developed from Deng Xiaoping's well-known statement (Wan, 2008). In addition, inequality has been exacerbated by the significant gap between rural and urban residents. Urban incomes are on average 65 to 75 percent higher than rural incomes. Much of China's rapid economic growth has been concentrated in coastal areas, while inland regions have lagged behind. Increasing interpersonal inequality has been driven in part by growing returns to skills and education, which favor urban residents working in manufacturing industries (Wan, 2008).

Income inequality can be measured in many different ways. Most analyses of this subject begin with measures of the percentage of total income that flows to individuals or households, ranked from the poorest to the richest. In the United States, the income share of the richest ten percent of the population is about 30 percent, while the share of the poorest ten percent is less than two percent. A completely equal income distribution (something that has never existed) would mean that everyone has the same income, so the poorest ten percent would have the same share of income (10%) as the richest ten percent. The most common measure of income inequality is the Gini ratio, which can take values from zero to 100, with higher values representing greater inequality. The Kuznets relationship based on per capita income and the Gini ratios are illustrated in Figure 1, in which a typical Kuznets curve has been superimposed on the data. It is clear that the countries included in Figure 1 do not follow the Kuznets prediction very closely. The history of inequality in China, however, seems consistent with the Kuznets hypothesis. Chen et al. (2008), estimate that China's Gini coefficient increased from 30.29 at the beginning of the economic reforms in 1978 to 41.53 in 2006, signaling a substantial increase in income inequality.

As the Chinese economy continues to grow, income distribution may become even more unequal. Income inequality can be a problem, as it may lead to social and political instability. If China follows the pattern predicted by the Kuznets curve, however, the government will eventually respond to this potential problem by establishing social safety nets that will help reduce these income inequalities. That has been the pattern in today's high-income countries, with the exception of the United States where income inequality has grown over the past 30 years. Most analysts seem to agree that the main source of inequality in China is the gap between the incomes of rural and urban households (Chen et al., 2010; Chan and Hu, 2003). Migration of workers from rural areas to the cities could contribute to a more equal income distribution through two avenues. First, wages in manufacturing are generally higher than wages in agriculture. Second, migration from rural areas to the cities means an increase in the urban labor supply that could result in lower urban wages. It would also reduce rural labor supply, leading to higher wages in the countryside (Bjorn, 2008).

In Europe, industrialization was driven by the release of excess rural labor that could be employed in the growing manufacturing industries. The economic transition was

facilitated by increased agricultural productivity that allowed fewer farmers to produce enough food to feed the growing urban populations. It is likely that similar changes will be necessary in China to complete the change from a predominantly agrarian society to an urban-industrial country (Chen et al., 2008). The transition can be facilitated by appropriate government policies, for example, greater investments in agricultural research can lead to increased agricultural productivity and growing rural incomes. In May 2009, the Chinese government announced major reforms to the country's health care system, aiming to reduce the number of uninsured and improve health-care delivery in rural areas (MacLeod, 2009). It is likely that more initiatives of this nature will be needed if China is to slow, and eventually reverse the rising inequality that has accompanied its rapid economic growth.

References:

Bjorn, A. G., S. Li, and S. Terry (2008). "Income Inequality and Spatial Differences." *Inequality and Public Policy in China,* Cambridge University Press.

Chan, K. W. and Y. Hu (2003). "Urbanization in China: New Definition, Different Series, and Revised Trends." *China Review,* 3(2), 49-71.

Chen, Jiandong, Wenxuan Hou, Shenwu Jin (2008). " A Review of the Chinese Gini Coefficient from 1978 to 2005." Economic Association annual conference.

Chen, Jiandong, Dai Dai, Ming Pu, Wenxuan Hou, Qiaobin Feng. "The Trend of the Gini Coefficient of China." BWPI Working Paper 109, January 2010. http://www.bwpi.manchester.ac.uk/resources/Working-Papers/bwpi-wp-10910.pdf

Kuznets, Simon (1955). "Economic Growth and Income Inequality." *American Economic Review*, Volume XLV, Number 1 (March).

MacLeod, Calum (2009). "Chinese Health Care Reformers Aim to Help Rural Areas." *USA Today*, May 6, available at http://www.usatoday.com/money/world/2009-05-06-china-health-care-reform_N.htm

United Nations (2010). "Millennium Development Goals." http://www.un.org/millenniumgoals/

Guanhua, Wan (2008). *Understanding Inequality and Poverty in China.* United Nations University.

World Bank (2010a). "Poverty Reduction and Equity: Overview." http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:22397595~pagePK:210058~piPK:210062~theSitePK:430367,00.html

World Bank (2010b). *World Development Indicators.* http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2010/04/27/000333037_20100427005935/Rendered/PDF/542510PUB0WDI0101Official0Use0Only1.pdf

Yi Liu, Graduate Student
Dept. of Agricultural Economics
University of Nebraska-Lincoln
bessie@huskers.unl.edu

E. Wesley F. Peterson, (402) 472-7871
Professor
Dept. of Agricultural Economics
University of Nebraska-Lincoln
epeterson1@unl.edu

Table 1. Percent of Population in Extreme Poverty (less than $1.25 per day adjusted for currency purchasing power), 1981 - 2005.

Region	1981	1984	1987	1990	1993	1996	1999	2002	2005
East Asia-Pacific	77.7	65.5	54.2	54.7	50.8	36.0	35.5	27.6	16.8
China	84.0	96.4	54.0	60.2	53.7	36.4	35.6	28.4	15.9
Europe-Central Asia	1.7	1.3	1.1	2.0	4.3	4.6	5.1	4.6	3.7
Latin America-Caribbean	12.9	15.3	13.7	11.3	10.1	10.9	10.9	10.7	8.2
Middle East-North Africa	7.9	6.1	5.7	4.3	4.1	4.1	4.2	3.6	3.6
South Asia	59.4	55.6	54.2	51.7	46.9	47.1	44.1	43.8	40.3
India	59.8	55.5	53.6	51.3	49.4	46.6	44.8	43.9	41.6
Sub-Saharan Africa	53.4	55.8	54.5	57.6	56.9	58.8	58.4	55.0	50.9
All Developing Countries	51.9	46.7	41.9	41.7	39.2	34.5	33.7	30.5	25.2

Source: World Bank (2010b)

SUBSCRIPTION RENEWAL TIME!!! IF YOU HAVEN'T RENEWED, SEND YOUR CHECK NOW!!!

Cornhusker Economics

Subscription Rates Prorated by Month
(Subscriptions run from July 1 – June 30)
2010 - 2011

Full Subscription Fee (July 1 - June 30)	**$20.00**
Subscription as of July 1	20.00
Subscription as of August 1	18.40
Subscription as of September 1	16.80
Subscription as of October 1	15.20
Subscription as of November 1	13.60
Subscription as of December 1	12.00
Subscription as of January 1	10.40
Subscription as of February 1	8.80
Subscription as of March 1	7.20
Subscription as of April 1	5.60
Subscription as of May 1	4.00
Subscription as of June 1	2.40

Enclosed is my check for $_____ made payable to the **University of Nebraska**. Please begin my subscription to *Cornhusker Economics* for _____ months through June 30, 2011.

Name _____

Address _____

_____

_____

Mail with your payment to:
Nancy Pritchett, 307 Filley Hall, University of Nebraska, Lincoln, NE 68583-0922.
Phone: (402) 472-1789