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Income inequality within and across counties in rural China 1988 and 1995

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Abstract

Using household data from samples covering 18 provinces in 1988 and 1995, income inequality within and between counties in rural China is assessed. The approach enables us to aggregate average income and income inequality to the levels of provinces and the three regions comprising eastern, central and western China. Most of income inequality in rural China in 1995 was found to be spatial and the uneven development of mean income across counties stood for most, but not all, of the rapid increase in income inequality. Mean income of the three regions diverged most forcefully. © 2002 Elsevier Science B.V. All rights reserved.

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1. Introduction

The present process of economic growth in rural China has a pronounced spatial character. Product markets and the emerging factor markets are relatively isolated from each other as communication capacity and labour mobility are limited in such a large

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country. Income of rural households differs considerably from one location to another, as do changes in income. In the literature and among informed observers there seems to be a consensus on income inequality in China being on the rise.

Many researchers and observers attribute much of the increase in income inequality at the household level in rural China to increased spatial disparities. Industrialisation and from it generated income growth have taken place unevenly with the eastern region taking the lead. There are many earlier studies which have assessed the variation of mean income across provinces and how it has changed. Other studies have analysed how the income gaps between the eastern, the central and the western regions of provinces have developed. Still other studies have focused on how mean income at the county level varies across China.

Our study differs from previous work on spatial aspects of income inequality in rural China in the sense that we analyse intra-county and inter-county inequality using micro-data from household income surveys. From this data, we can derive mean income and inequality measures at the county level, which allow us to acquire the same indicators at the province level and then also at the regional level. This approach is attractive because it allows us to decompose total inequality among rural households in China into inter-location and intra-location; from regional level down to county level. The 2-year data sets, collected for 1988 and 1995, also enable us to investigate the changes in income inequality over the period.

The following research questions are posed in this paper:

1. What is the importance of differences in mean income across counties for total inequality in rural China as a whole? How large a proportion of total inequality in rural China can be attributed to differences in mean income across provinces, and how large a proportion can be attributed to variation in mean income across the three regions?

2. What is the importance of changes in mean income across counties for the change in income inequality in rural China? How large a proportion of the change in income inequality in rural China can be attributed to dissimilar growth of mean income across the provinces and across the three regions?

In addition to these two questions, we also address a methodological concern; a considerable proportion of research on income inequality and its changes in China is built on data referring to only a small number of provinces. When growth of income has a pronounced spatial character, it can be problematic to infer conclusions from such data about how income inequality in rural China as a whole has developed. Following this line, we pose the third research question:

3. How well can results on inequality and its changes in two or three provinces be generalised to rural China as a whole?

The paper proceeds with a section in which central definitions are introduced and then moves on to a literature review. In Section 4, we present the sample and the empirical specification. Results on the importance of differences in mean income across counties for income inequality in rural China and the changes in income inequality are reported in Section 5. Section 6 addresses the issue of how reasonable are results for rural China as a whole drawn from samples covering two or three provinces for rural China as a whole. The findings of the paper are summarised in the final section.

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