

# Effects of income inequality on China's economic growth<sup>☆</sup>

Duo Qin<sup>a,\*</sup>, Marie Anne Cagas<sup>c</sup>, Geoffrey Ducanes<sup>d</sup>,  
Xinhua He<sup>b</sup>, Rui Liu<sup>b</sup>, Shiguo Liu<sup>b</sup>

<sup>a</sup> *Queen Mary, University of London, Mile End Road, London E1 4NS, UK*

<sup>b</sup> *Institute of World Economics & Politics (IWEP), Chinese Academy of Social Sciences (CASS), China*

<sup>c</sup> *SAS Institute, Philippines*

<sup>d</sup> *University of the Philippines, Philippines*

Received 1 February 2008; received in revised form 1 June 2008; accepted 1 August 2008

Available online 19 September 2008

---

## Abstract

A pilot empirical study is carried out on how income inequality affects growth through incorporating panel data information into a quarterly macro-econometric model of China. Provincial urban and rural household data are used to construct income inequality measures, which are then used to augment household consumption equations in the model. Model simulations test the inequality effect on GDP growth and its components. Results show that income inequality forms robust explanatory variables of consumption and that the way inequality develops carries negative consequences on GDP and sectoral growth.

© 2008 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.

*JEL classification:* R11; E21; D3; C5; C2

*Keywords:* Income inequality; Growth; Macroeconometric model; China

---

## 1. Introduction

Since undertaking market reforms, the Chinese economy has achieved sustained high growth and rapid progress in poverty reduction. The World Bank estimates that in the more than two

---

<sup>☆</sup> This study was carried out when the authors were working together on a macroeconomic modeling project for Asian Development Bank.

\* Corresponding author at: Department of Economics, Queen Mary, University of London, Mile End Road, London E1 4NS, UK. Tel.: +44 2078823641.

*E-mail address:* [d.qin@qmul.ac.uk](mailto:d.qin@qmul.ac.uk) (D. Qin).

decades since reforms started, average income per capita in China has quadrupled while more than 270 million people have been lifted out of poverty (Chen & Wang, 2001). GDP growth in China averaged nearly 10% annually for the past decade, and it has not yet shown signs of slowing down.

If there seems to be a dark lining to these extraordinary achievements, it is that income inequality in the country – seen as a whole, within/between urban and rural areas, and across provinces – has also risen quite rapidly in the period (see, for example, Chen & Wang, 2001; Zhang & Kanbur, 2005; World Bank, 1997). Income inequality is generally seen to affect long-term economic growth, although there is no consensus on the direction of the effect. If income inequality affects growth positively, it is possible that the poverty-reducing impact of this growth offsets the direct adverse effect of inequality on welfare, and thus reason to tolerate relatively high inequality. On the other hand, if inequality affects growth negatively, then addressing it immediately should be an important concern.

This paper investigates empirically how much and in what ways income inequality affects China's economic growth by means of incorporating income disparity measures derived from provincial panel data of urban and rural household income into a macro-econometric model, and simulating the effects of changes in income inequality on growth. The rest of the paper is structured as follows. Section 2 gives a summary of the inequality situation in China. Section 3 briefly surveys the literature on the transmission mechanism between income inequality and economic growth. Section 4 describes our modeling approach and discusses available inequality measures which might be pertinent to our investigation. Section 5 describes the estimation results of incorporating income inequality into the macro-econometric model. Section 6 presents the results of model simulations showing the effects of inequality changes on other economic variables. The last section concludes with a summary of the findings and a brief discussion of relevant policy implications.

## 2. Background on income inequality in China

Income inequality had remained fairly mild and stable under an egalitarian regime prior to the economic reform, which started in 1978. According to Li, Zhang, Wei, and Zhong (2000, pp. 3–4), the Gini ratio of urban households was 0.16, the Gini ratio for rural households was 0.21 in 1978,<sup>1</sup> and the Gini ratio among the provinces was 0.14 in 1979. The situation has changed considerably since the reform. According to a World Bank report (1997), China has undergone three different periods since 1980 as far as the growth-equity characteristics are concerned. The period 1981–1984 is classified as one of *growth with equity*, during which real mean income increased by 12.6% annually while the Gini ratio rose only marginally. The period 1984–1989 is classified as one of *income inequality with little growth*, during which overall real mean income increased by less than 1% annually while the growth was very unevenly distributed.<sup>2</sup> The third period from 1990 onwards is one of *growth with income inequality* as both overall real mean income and the Gini ratio grew rapidly.

The aggregate Gini ratios have been estimated in several studies. Krongkaew (2003) reports the per capita income Gini ratio to be 0.29 in 1981, and to have risen to 0.30 in 1984, 0.35 in 1989, 0.39 in 1995, and 0.46 in 2000. Li et al. (2000, p. 8) estimate that *within rural areas* the

<sup>1</sup> Li et al. (2000, p. 3) list several estimates for rural households' Gini ratio: 0.21 estimated by the Chinese National Bureau of Statistics in 1978, 0.22 estimated by Adelman and Sunding in 1987, and 0.31 estimated by the World Bank in 1983.

<sup>2</sup> However, this description may not be so accurate if we look at the official statistics on per capita GDP.

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات