

approach to poverty. This comment reminded this reviewer of an article by A. B. Atkinson which discussed the significance of government poverty reports.⁷ In this article Atkinson said that (1) while pursuing a variety of objectives besides poverty reduction, a significant aspect of economic and social policies is that when reducing poverty, they show the terms of reference through government poverty reports; and (2) simply presenting the indicators of poverty skews the reporting of poverty conditions, but a government's publishing of its poverty reports can draw attention to the limitations of existing statistical indicators on poverty and to the appearance of new forms of deprivation. For these reasons Atkinson rated poverty reports highly. This reviewer feels that a high rating like that of Atkinson's is also valid for this three-volume study and for World Bank policy. (Hiroki Nogami)

⁷ A. B. Atkinson, "Promise and Performance: Why We Need an Official Poverty Report," in *Living as Equals*, ed. Paul Barker (Oxford: Oxford University Press, 1996), pp. 134–36.

China's Retreat from Equality: Income Distribution and Economic Transition edited by Carl Riskin, Zhao Renwei, and Li Shi, Armonk, N.Y., M. E. Sharpe, 2001

This book is a sequel to *The Distribution of Income in China* edited by Keith Griffin and Zhao Renwei,¹ which was published in 1993. Both are the products of full-fledged international joint studies by researchers from the Economics Institute of the Chinese Academy of Social Sciences (CASS), Sweden, the United States, Britain, and other countries. This collaborative research is based on sample data drawn from extensive proprietary national surveys of household income. The elaborate research design, reliable sample data, and sophisticated analytical methods combined synergistically to produce this book, which, without dispute, is the fruition of first-class studies on the Chinese economy or research on income distribution.²

¹ Keith Griffin and Zhao Renwei, eds., *The Distribution of Income in China* (Houndmills, Basingstoke: Macmillan Press, 1993)

² Previous excellent research on China's economic development and income distribution in Chinese language was done by Chen Zongsheng (*Jingji fazhan zhong de shouru fenpei* [Economic growth and income distribution] [Shanghai: Shanghai Sanlian Shudian, 1991] and *Gaige, fazhan yu shouru fenpei* [Reform, development, and income distribution] [Shanghai: Fudan Daxue Chubanshe, 1999]). Partly due to limited availability of sample data, his studies were not necessarily sufficient in their analysis of income inequality across the country and the causes of inequality. The Rural Survey Team of the State Statistical Bureau made an analysis of inequality in rural household income by region, using proprietary sample data, but the results were not entirely satisfactory in terms of the clarification of the causes of inequality (State Statistical Bureau, Rural Survey Team, *Zhongguo nongmin shouru yanjiu* [Studies on peasant income] [Taiyuan: Shanxi Renmin Chubanshe, 1987]; Zhu Xiangdong, eds., *Zhongguo nongcun jumin xiaofei yu shichang* [Consumption and market in rural China] [Beijing: Zhongguo Tongji Chubanshe, 2000]). There is also the elaborate work done by Hiroshi Sato in Japan, but this, too, left much to be desired in the analysis of inequality in income and factors behind it, due to the limited availability of data (Hiroshi Sato, *The Growth of Market Relations in Post-reform Rural China: A Micro-Analysis of Peasants, Migrants and Peasant Entrepreneurs* [London: Routledge Curzon, 2003]).

The joint research work dates back to 1987, when the Economics Institute, CASS, obtained funding for a project under the Seventh Five-Year Social Science Fund. The institute's research team, which had little experience in empirical research on income distribution, was aided by the Ford Foundation and other institutions, which funded the training of key members of the team in the United States and other places. The relationship of mutual trust that developed between the Chinese team and overseas partners in the process led to the second joint study.³

Both sample surveys were conducted through the use of the National Household Survey System of the State Statistical Bureau. However, the size of the samples in the 1995 survey was reduced to 14,929 from 19,267 households (10,258 rural samples and 9,009 urban samples) in the 1988 survey, due to budgetary constraints. Nonetheless, the data set of the 1995 survey is undoubtedly one of the largest available.⁴

This book is composed of three parts, and a total of fourteen chapters. Each chapter conducted a multi-faceted empirical analysis of the reality, changes and causes of the income inequality that exists in China as a whole, and in urban and rural areas. The quantitative analysis of the sample data uncovered a raft of interesting facts. A number of key findings that drew particular interest from this reviewer are summarized below.⁵

(1) The actual state of income inequity: The Gini coefficient of income inequality increased 23.1 per cent from 0.338 in 1988 to 0.416 in 1995 in rural areas and 42.5 per cent from 0.233 to 0.332 in urban areas. The Gini coefficient for rural and urban household income combined rose 18.3 per cent from 0.382 to 0.452 (p. 28). Inequality in income distribution grew rapidly in urban areas and increased at a relatively slow pace in rural areas. However, the absolute level of inequality was far higher in rural areas than in urban areas.

(2) Causes of inequality in rural areas: The biggest cause of the increase in income inequality was the large regional imbalance in the development of nonagricultural sectors (p. 37). The higher ratio of income from nonagricultural activities to total rural household income and inequality in wage earnings are the primary causes of the increase in inequality among rural households (p. 227). The income from nonagricultural activities of rural households is dominated by place of residence and the level of education of household members (p. 101). However, equality in the distribution of rural land and the rental values of owned housing have an income-equalizing effect in rural areas. This is a phenomenon specific to China, and is not seen in other developing countries.⁶

³ Zhao Renwei et al., eds., *Zhongguo jumin shouru fenpei yanjiu* [Studies on income distribution in China] (Beijing: Zhongguo Shehui Kexue Chubanshe, 1994); Zhao Renwei, Li Shi, et al., eds., *Zhongguo jumin shouru fenpei zaiyanjiu* [Studies on income distribution in China] (Beijing: Zhongguo Caizheng Jingji Chubanshe, 1999).

⁴ The State Statistical Bureau makes it a rule not to publish the sample data of systematically conducted surveys, but it naturally hands over data from surveys commissioned by an external body. For example, the sample data obtained in a joint study by the Chinese Academy of Social Sciences and the World Bank in 1984 was made available overseas. See William A. Byrd and Lin Qingsong, *China's Rural Industry: Structure, Development, and Reform* (Oxford: Oxford University Press, 1999).

⁵ The reviewer uses, as appropriate, major findings that are included in the Chinese version (Zhao, Li, et al., eds., *Fenpei zaiyanjiu*) of the research results based on the same data set but not covered by this book.

⁶ Zhao, Li, et al., eds., *Fenpei zaiyanjiu*, pp. 28–29.

(3) Causes of inequality in urban areas: The increase in inequality in urban household income stemmed primarily from inequality in wage earnings, and wider inequality in the rental value of owned housing and housing subsidies (p. 126). First, the distribution factor for human capital (education and experiences) increased remarkably in tandem with the growing shift to a market-based economy. Second, the growth and expansion of nonstate sectors induced an increase in income inequality in urban areas, because the levels of wages in nonstate sectors are relatively high and wage inequality is also large (p. 37, p. 108). Third, enterprise reform in China altered the mechanism of income distribution within enterprises, generating increasing income inequality among employees. The increase in joblessness and laid-off workers that appeared in the process of China's introduction of the modern enterprise system also accelerated the expansion of income inequality (p. 198). Fourth, in the course of housing reform, inequality in the distribution of public housing led to the acquisition of more housing by the high-income group.⁷

(4) Causes of regional inequality: In rural areas, there has long been income inequality due to regional differences in natural and weather conditions. However, since the introduction of reform, the differing degree of development in nonagricultural sectors helped to further expand regional inequality in rural areas (Chapter 9). By contrast, regional inequality in urban areas is an entirely new problem. The trend of rising inequality in recent years primarily stemmed from regional inequality in wages, particularly bonuses and allowances (Chapter 6).

(5) Relationship between poverty and inequality: The income of the rural poor population grew, and inequality in income among them narrowed. By contrast, income declined for the urban poor population, with income inequality among them widening. The incidence of poverty depends primarily on the pace of increase in income and the pace of change in income inequality. Increasing income has the effect of lowering the incidence of poverty, while the increase in income inequality has the effect of increasing it. The latter is more conspicuous in rural areas.⁸

(6) Rural labor mobility and inequality: In association with the broadening of the labor market, there were sharp increases in movements of labor from rural areas to urban areas and from inland regions to coastal regions. As a consequence, the ratio of remittances from migrant workers to total rural household income rose, while labor productivity increased as a result of the decline in surplus labor. However, it is not necessarily appropriate to generalize the influence of remittances from migrant workers on rural household income. While an increase may contribute to narrowing inequality in income in better-off rural areas, it may raise inequality in income in poorer rural areas. This is because migrant workers come primarily from poor households in the former, and from households with middle or higher income in the latter (Chapter 13).

As described earlier, the strongest feature of this book is its dynamic grasp of the reality of income inequality through the robust use of the proprietary sample data and the quantitative analysis of the mechanisms that generates inequality. In China, the State Statistical Bureau has conducted detailed annual surveys of over 40,000 urban households and over 70,000 rural households, surveying income and spending. While the results of these surveys are

⁷ Ibid., pp. 94–96.

⁸ Chapter 14; Zhao, Li, et al., eds., *Fenpei zaiyanjiu*, pp. 19–20.

made public for the entire country and for each province, it is nearly impossible to gain access to the individual sample data. Moreover, the tabulation results are released separately for urban areas and rural areas, and the components of income often deviate from internationally recognized standards. For example, the household surveys of the State Statistical Bureau do not cover rental income from owned housing or urban housing subsidies. This made necessary the development of proprietary sample data to shed light on issues deemed important in studies on income distribution, such as the reality of inequality in income across the country, factor analysis of inequality, and international comparisons of inequality. This book overcame this challenge superbly.

This book provides a wealth of interpretations concerning the causes of inequality in income distribution in China in the period of reform and opening. The Kuznets hypothesis is a widely used tool for explaining the relationship between inequality in income and economic development. However, in China, where economic development and the transformation of the economic system are proceeding simultaneously, income inequality must have been influenced by reform toward a market-based economy and other policy changes. This book, on the basis of information obtained from the elaborately designed samples, examined the causes of income inequality from various angles. In other words, the book carried out an empirical analysis of factors stemming from economic development (structural changes in the rural economy), factors ascribable to the strengthening of the function of the market mechanism (the rise in the distribution factor for human capital, the increase in income inequality at nonstate enterprises, and the increase in inequality at state-owned enterprises in association with the introduction of the modern enterprise system), factors traced to the remnants of institutional discrimination (the segmentation of the labor market resulting from the *hukou* [universal household registration] system and tight regulations on the employment system), and factors stemming from policy changes, such as price support for agricultural products.

Another feature of this book is its successful analysis of income inequality for China as a whole through the full use of extensive sample data. The quantitative analysis of contributions to national inequality made by income inequality between urban and rural areas, within urban areas and rural areas, between and within regions, and between and within various groups, is of particular significance in mapping out appropriate policy responses to inequality. The book achieved a dramatic advance in analytical research on income inequality compared to what has so far been carried out, on the basis of tabulated data.

The book is the crystallization of joint studies by researchers from China, the United States, Britain, and other countries. The accumulation of micro-data developed independently can contribute to a deepening of international understanding about income distribution in China. For example, there have now been a string of publications on academic research done on the basis of the data set from the joint studies, including the studies by Khan and Riskin (2001), Knight and Song (1999), and McKinley (1995).⁹ What should be emphasized here is that not only did the joint studies remarkably upgrade the level of research in this par-

⁹ Azizur Rahman Khan and Carl Riskin, *Inequality and Poverty in China in the Age of Globalization* (Oxford: Oxford University Press, 2001); John Knight and Lina Song, *The Rural-Urban Divide: Economic Disparities and Interactions in China* (Oxford: Oxford University Press, 1999); Terry McKinley, *The Distribution of Wealth in Rural China* (Armonk, N.Y.: M. E. Sharpe, 1996).

ticular sector in China, but also that most of the results of the joint studies are beginning to have an impact on distribution policy decisions by China's policymakers. These developments were made possible by the fact that the various quarters involved in the joint studies retained a common awareness of the problems. These joint studies are ideal among international joint studies in terms of the sharing of the awareness of problems and basic information, as well as the feedback of the research results to policymaking.¹⁰ It is this reviewer's view that participants in the many so-called international joint research projects that are usually devoted entirely to the collection of information on China should try to emulate this success.

It would be no exaggeration to say that the book is close to faultlessness, from the designation of research themes and analytical methods to investigations of the facts and interpretation of the research results. But if I am allowed to venture some comments on some potential problems in the studies, the following points can be cited.

As the authors themselves recognize, the household samples selected for the survey may not necessarily accurately reflect the whole. Since the samples did not cover the poorest rural households or the new superrich in urban areas, the income inequality based on the survey data was underestimated; the true state of inequality in income is more serious than the survey results indicate. On the other hand, inequality in income distribution was overestimated to the extent that the survey did not include rural migrant labor as samples. These migrants work in urban areas. Their incomes are smaller than those of urban residents, but larger than those of rural agricultural households in their native places. If rural migrant workers were covered by the analysis, income inequality within urban or within rural areas would be larger, but the urban-rural income disparity would be smaller (p. 7).

The average number of members per household (at 3.27 people) in the survey was far smaller than the national average (at 4.03 people in the national census). This led some observers to point out that the data set used for the survey had limits in representing the trend of the entire country. Granted that many of the empirical analyses of the book focus on the mechanisms behind income inequality rather than on the absolute level of inequality, it may still require us to bear these facts in mind in examining the results of the analysis and conclusions of the book.

(Yan Shanping)

¹⁰ Zhao et al., eds., *Fenpei yanjiu*; Zhao, Li, et al., eds., *Fenpei zaiyanjiu*.