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Inequality of Opportunities in Income and Wealth – Experiences from Peoples Republic of China 2002 and 2013

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There are now many papers that tries to establish to what degree inequality in the distribution of income can be attributed to inequalities in opportunities vs inequalities in efforts / choice (and luck). This is important, as there is less motivation to counteract inequality in income that is due to for example efforts. However, the situation is the opposite if inequality in income is largely due to inequalities in opportunities.

It is well known that inequality in income in China is nowadays higher than some decades ago, although since some years is the trend towards more inequality not as clear as previously. Parallel to this has the distribution of household wealth in China moved from being rather equal to become more unequal.

Today there are only a few previous studies of inequalities in opportunities in China and with this paper we aim to contribute to the literature. Using data from the Chinese Household income Project (CHIP) 2002 and 2013 we study inequality of opportunities in income and inequality of opportunities in wealth. We study not only inequality in opportunities seen over China as a whole, but also separately for people who grew up in rural China and for those who grew up in urban China. The study is about adult persons and we focus on log household income per capita and log household wealth per capita respectively. We estimate regression equations using data for each of the years 2002 and 2013.

At this stage of the research process, several interesting results have been obtained: We report that as much as around 2 / 3 of income inequality in China as a whole in 2002 measured by the Gini coefficient was due to inequality in opportunities. The proportion was of the same size in 2013. Those results means we are confirming results by Zhang and Erikson (2010) who studied log personal income using CHNS for the period 1989 to 2007. The results also explains the large interest in the distribution of income in China. It means that China's comparatively large income inequality are more due to the opportunity inequality than due to efforts and can therefore be

claimed to be unjust. The proportion of wealth inequality in China due to inequality in opportunities was as measured by the Gini coefficient slightly under 50 percent in 2002, but had increased to over 50 percent, of a more unequal wealth distribution in 2013.

We have also investigated how inequality of opportunity and age are related. The results indicate that among people who were born with urban hukou the degree of opportunity inequality increase with age. In contrast for the people who were born with rural hukou (or grew up in rural area), opportunity inequality in income does not change much with age. This same patterns were found in 2002 and in 2013. The relationship between opportunity inequality of wealth and age is similar to the relationship between opportunity inequality of income and age. Furthermore, in each age group, is the opportunity inequality of wealth higher than the opportunity inequality of income.

Very much of inequality of opportunities is due to spatial differences. What matters very much is if a person grew up in the privileged urban location, not in a rural location. Furthermore, in which region of China a person grew up matters. Still characteristics of the household in which one grew up has a large influence on income and wealth as adult, especially the occupation of parents. According to the result of Shaply decomposition, mother's occupation has a little higher influence than the father's education.

Consider persons who grew up in urban areas. Actually, in this case most of inequality in wealth as measured by the Gini coefficient can be attributed to inequality of opportunities, and the proportion is slightly lower than half for inequality in income. Corresponding proportions among those who grew up in rural China are lower, but still amount to around one third. Why is the proportion due to circumstances lower among people who grew up in rural areas? One answer is probably that one road to higher income has been migration, and opportunities to migrate has not varied very much across rural inhabitants.

References

Zhang, and Erikson (2010) "Inequality of Opportunities and Income Inequality in Nine Chinese Provinces, 1989 – 2006", *China Economic Review*, 607 – 616.