

# China: Forty years of poverty reduction: what are the challenges ahead?

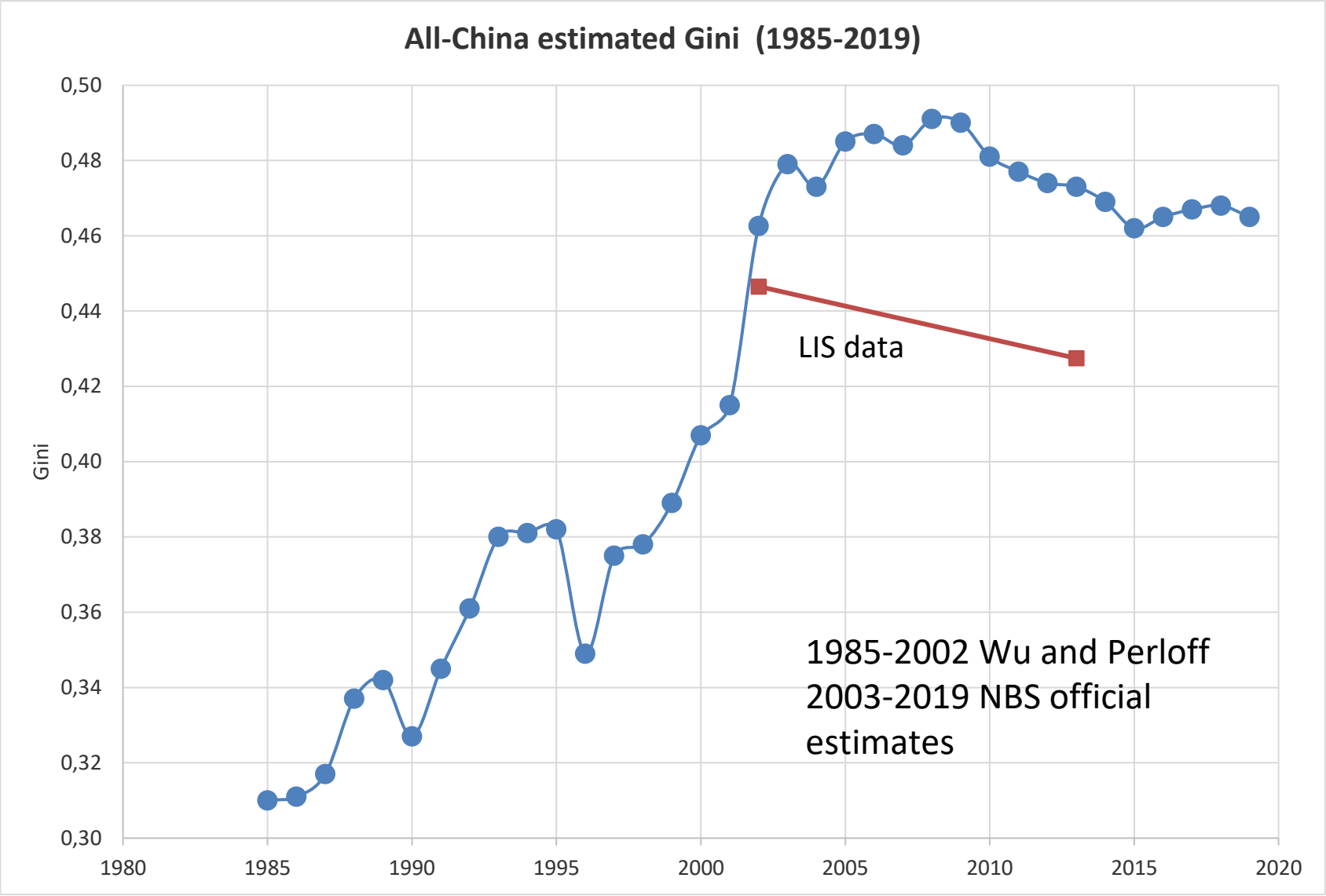
Kiel Institute for the World Economy

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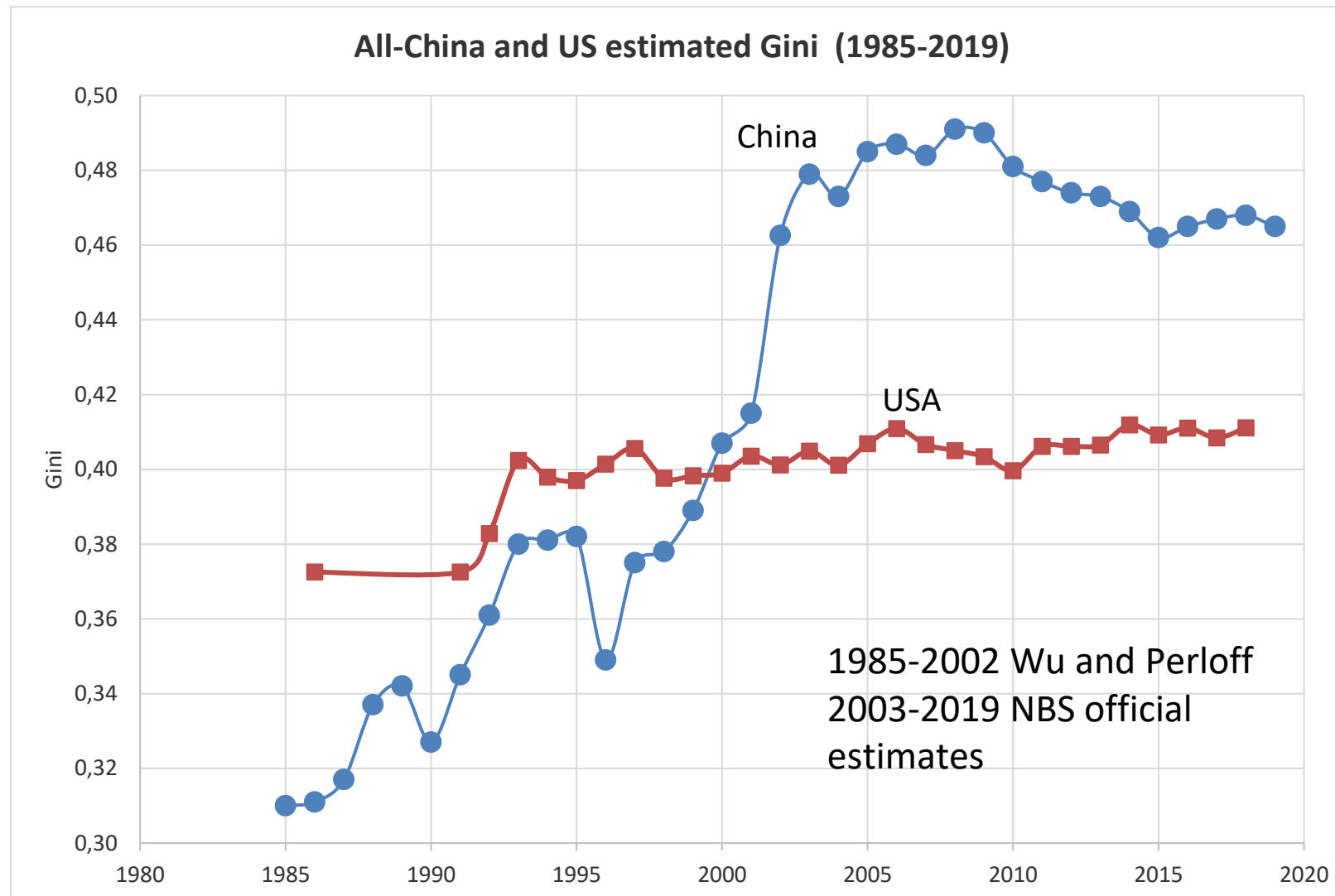
Branko Milanovic

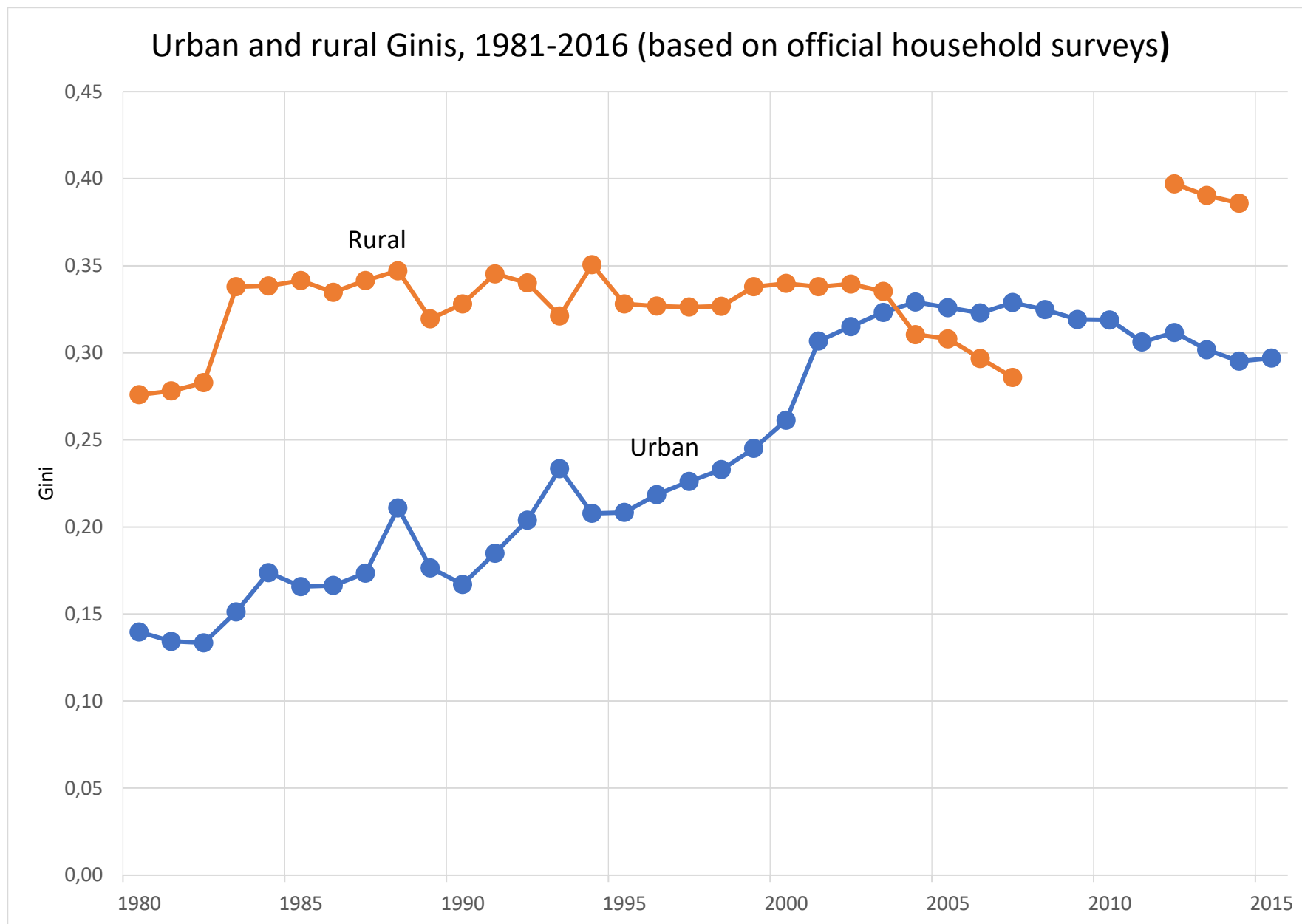
How unequal is China?

# All-China

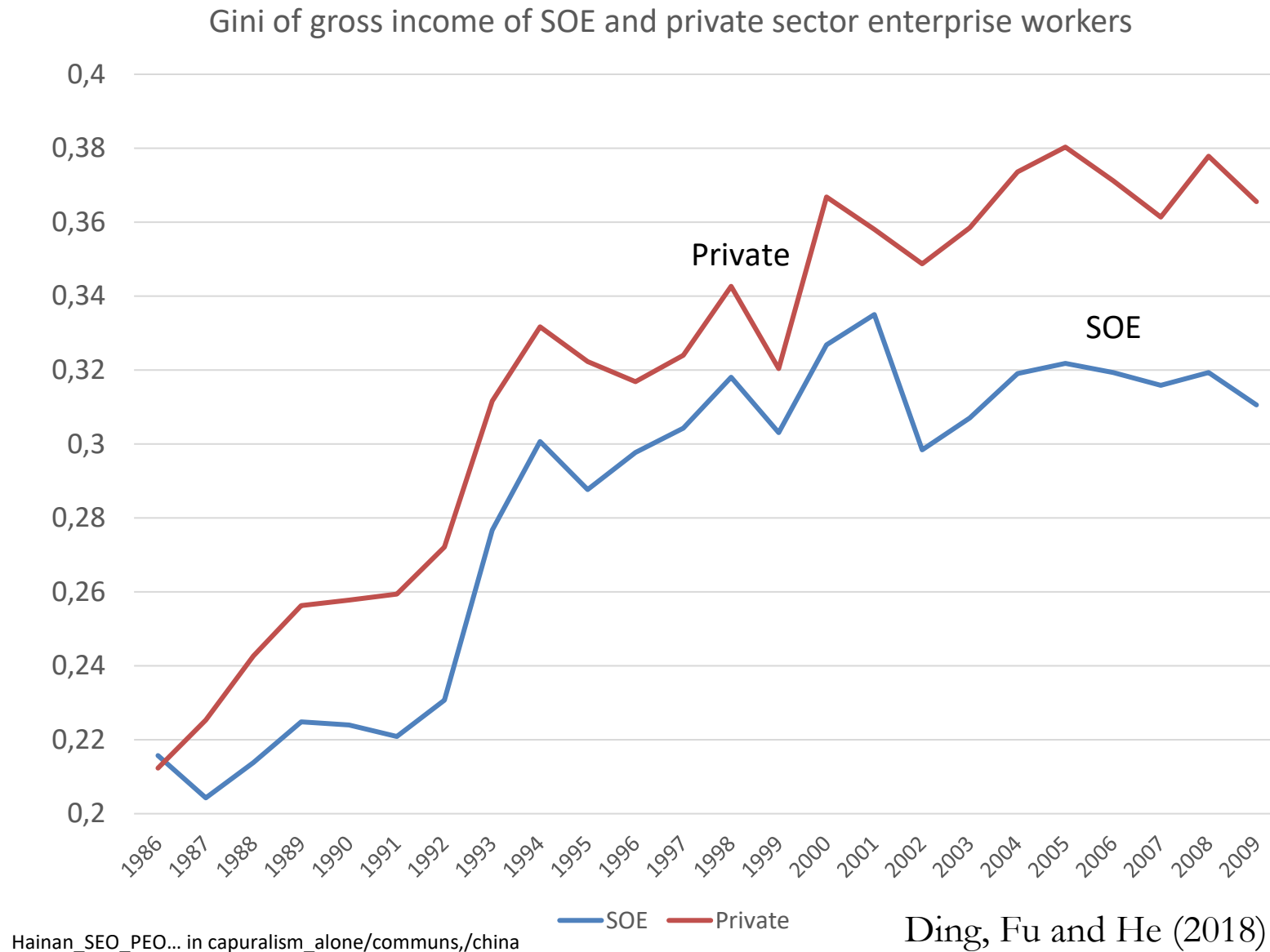


# Inequality in China and the United States, 1985-2019



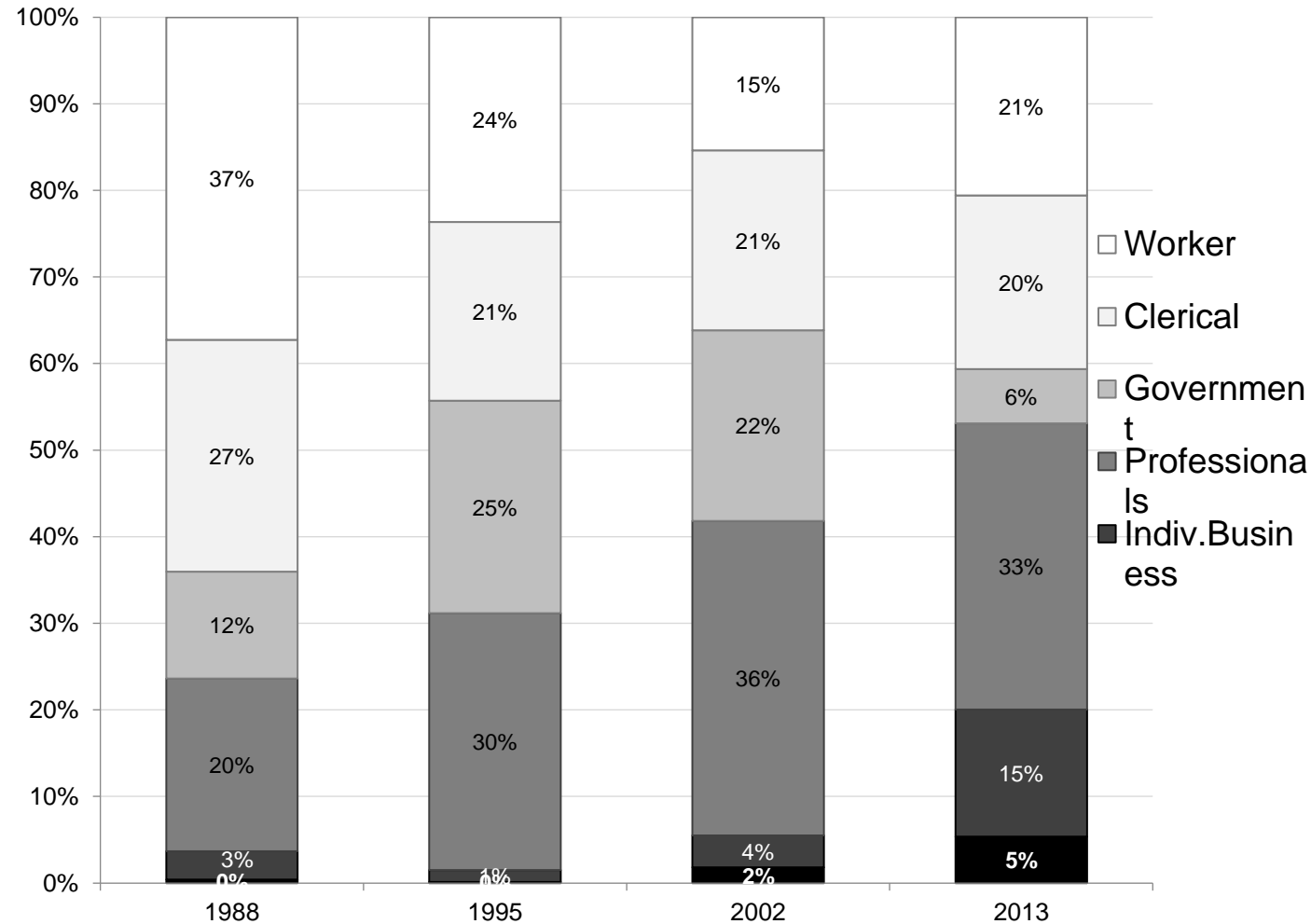


# China: Greater wage inequality in the private sector than SOEs



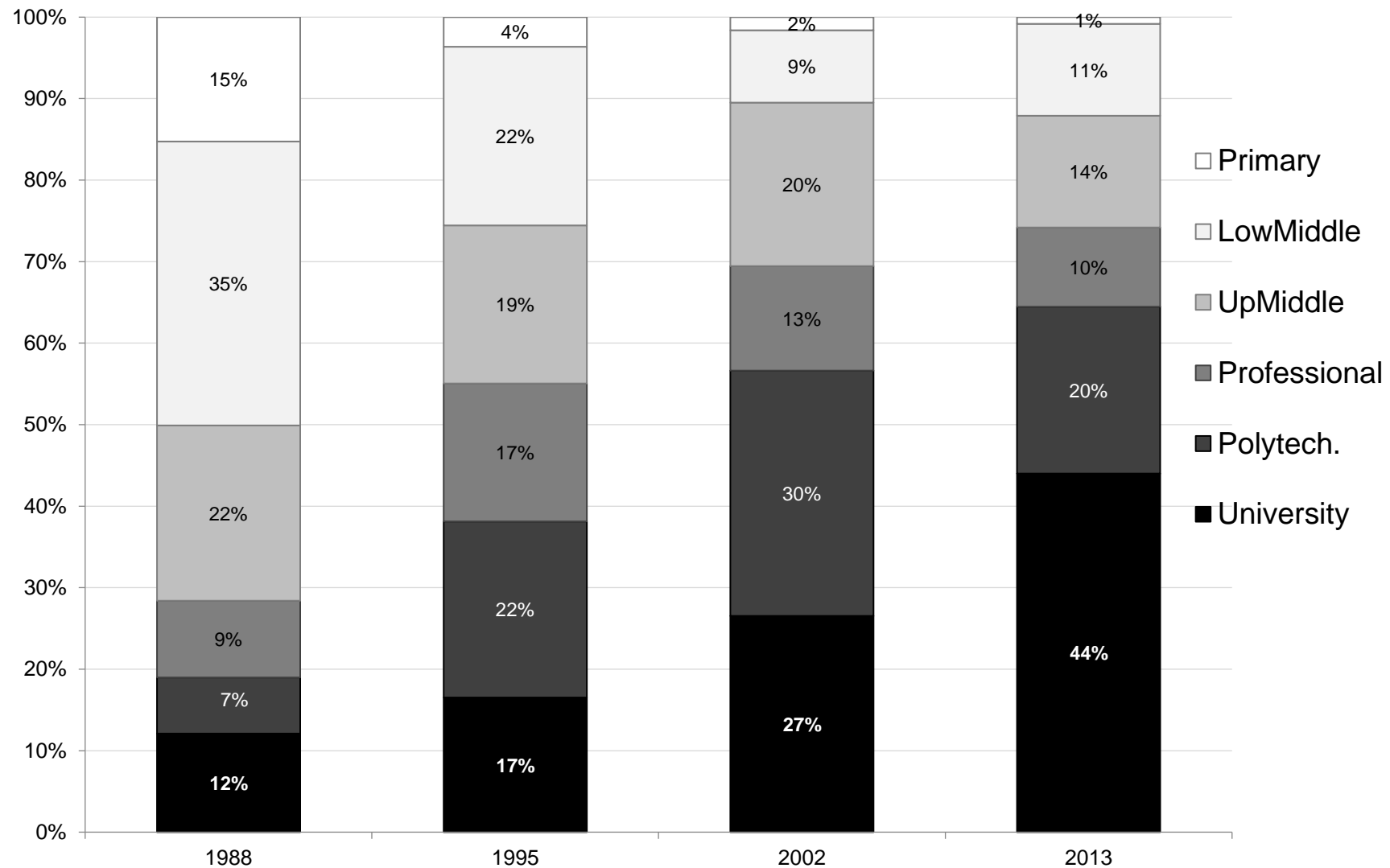
Elite change

## *Embourgeoisement of China*: the composition of the top 5% from $\frac{3}{4}$ government and SOEs to 50+% businessmen and professionals

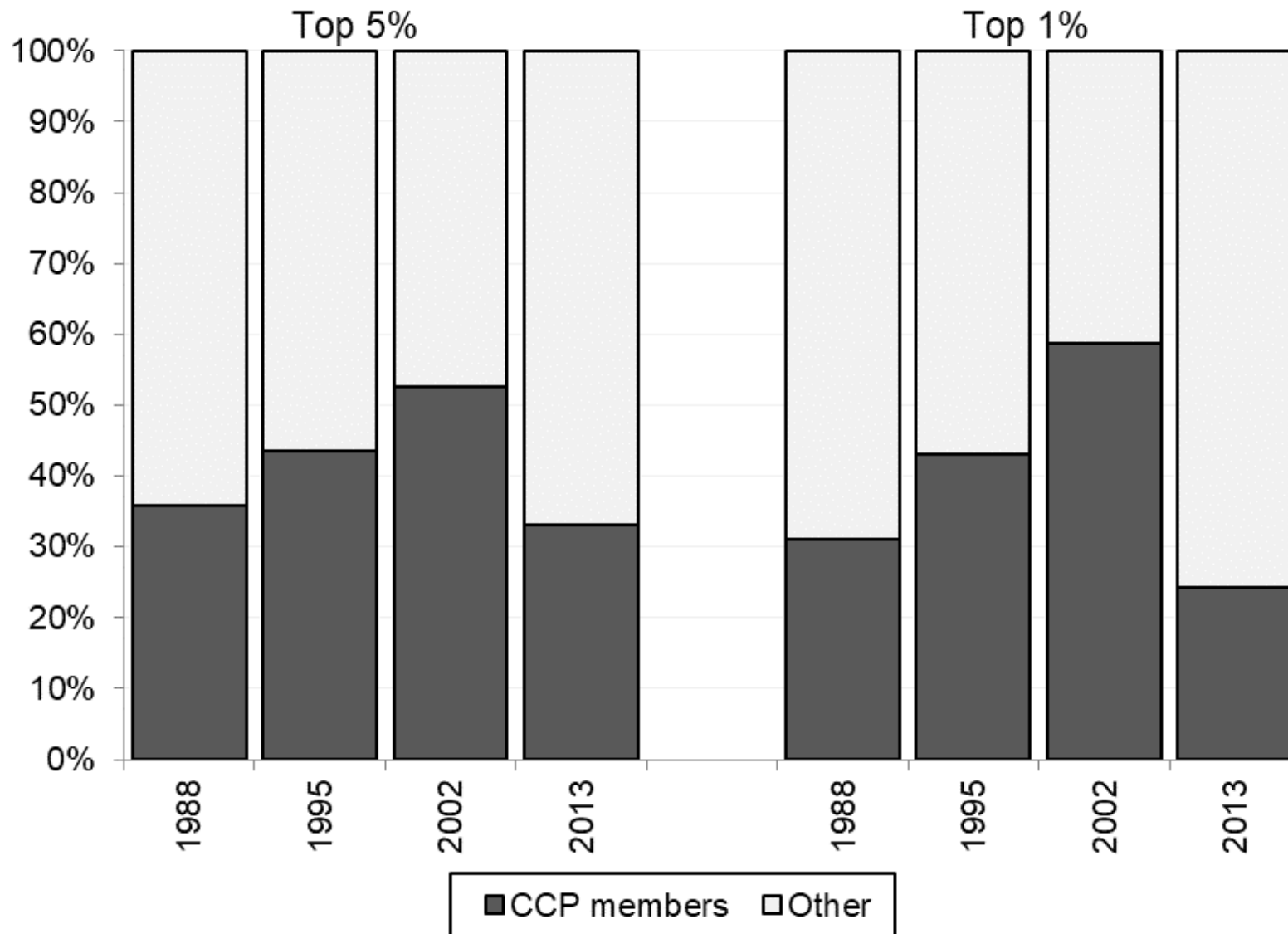




# Educational composition of the elite



# The share of CPC members among the elite



1988-2002

Increasing share of CPC in the elite:

Exceeded one-half in the top 5%

Reached 60% in the top 1%

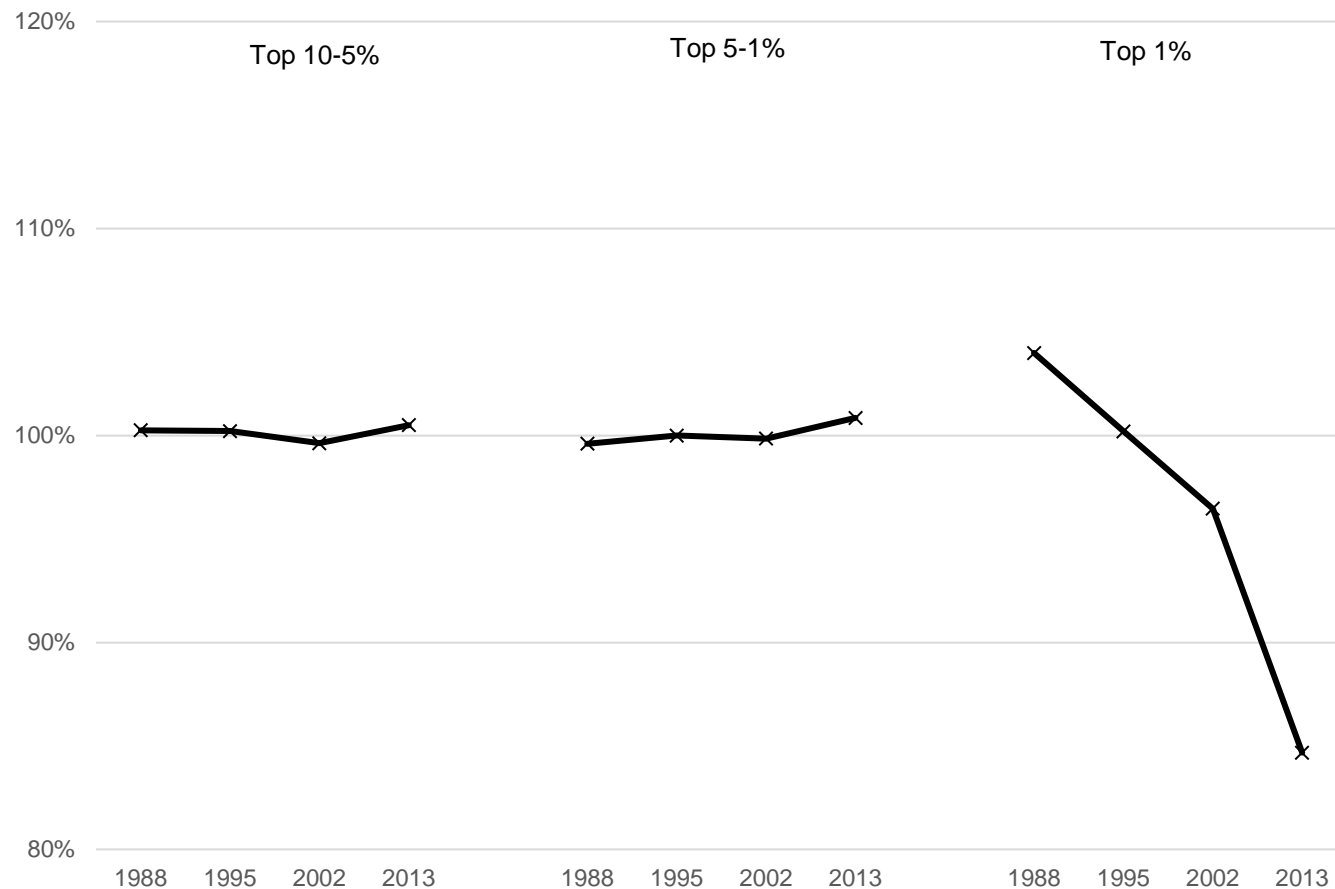
2013

Decreasing share of CPC in the elite:

One third in the top 5%

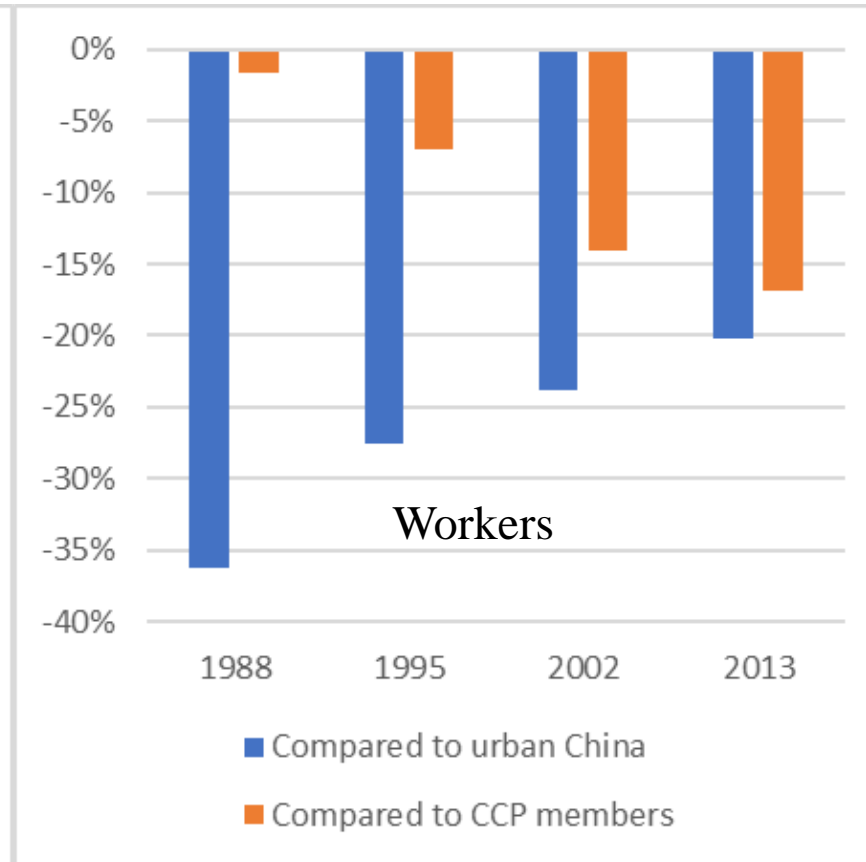
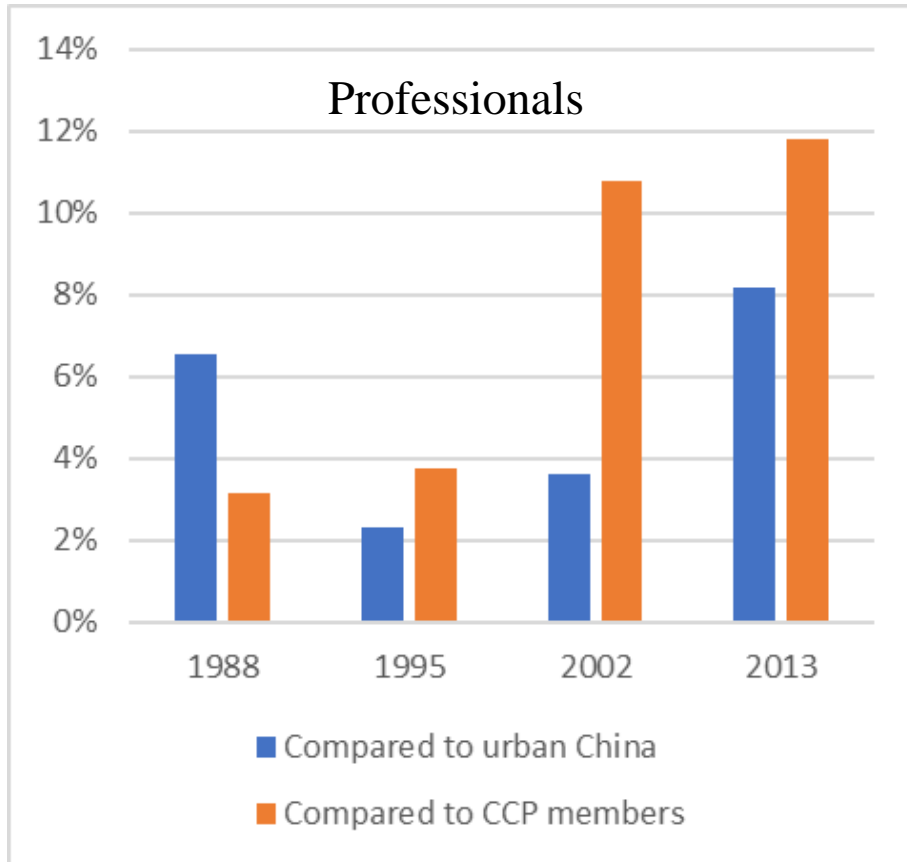
Less than a quarter in the top 1%

# Income of CPC members of the elite groups: compared to the average income of all elite members



CPC members who are very rich are in 2013 fewer in numbers (their participation in the top groups is less); they are also, at the very top, less rich relative to their non-Party peers except if they combine CPC membership with private sector ownership.

# CPC membership and social class II



Blue: CPC compared to urban China

Orange: CPC elite (those in the top 5%) compared to overall CPC

Professionals: increasing over-representation in both channels

Workers: decreasing under-representation compared to urban China; increasing under-representation in CPC elite

# Autonomy of the state & “common prosperity”

- Autonomy of the state (as opposed to the state being controlled by merchant/capitalist interests) has a long history in China.
- The argument was made historically by Jacques Gernet (for Song China), Hi-fung Hung (for Qing China), Giovanni Arrighi, Kenneth Pomeranz (for the long term), Francis Fukuyama (“precocious state formation”)
- “The Chinese merchant class never achieved autonomy, the privileges of big merchants were not obtained through struggle, but were granted drop-by-drop by the state. The way to express his demands remains for the merchant...the petition, a timid request humbly addressed to the authorities” (Etienne Balasz, *Les villes chinoises*).
- Recent moves to (1) control platforms & financial monopolies, (2) ban for-profit tutoring and (3) squeeze companies producing Internet games, may be all seen in this light: **autonomy of the state**.

# Inequality and the autonomy of the state

- They can be also seen as a “long NEP”, going back to Lenin’s New Economic Policy and statements by Deng Xiaoping re. the need for the state (and thus CPC) to keep the dominant role.
- “Liberalization of capital must be put under control”
- “One of the greatest advantages of socialist nations is that, as long as something has been decided and a resolution had been made, it can be carried out immediately...in this respect, our efficiency is greater...it is our strength and we must retain this advantage” (Zhao Ziyang, *Prisoner of the State*, quoting Deng, p. 252).
- But they are also a way to reduce inequality which is one of the explicit policy goals introduced by Xi Jinping.

# Not an exceptional situation

- The situation in China is not that different from that in the US: The US Justice Dept has a long-standing anti-monopoly case against Google and Facebook; US educational system is (like Chinese) hyper-competitive and a way for the elite to transmit privileges across generations.
- => So the problems are similar, but the autonomy of the state allows China to react to them more decisively. “More decisively” does not necessarily guarantee that it will be done more effectively.

# Scorecard

	China	US
Anti-monopolies	Yes: Ant, Tencent (Summer 2021)	Yes: Dept of Justice vs Google & Facebook
Education	Yes: End tutoring for-profit schools	Nothing
Political corruption	Anti-corruption policy (but probably w/ political exceptions)	Some: anti-discrimination (race, gender)
Capital concentration	Nothing	Possible tax increase on K gains; greater limits on personal trusts