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Can China defeat three stubborn modern inequalities?

‘Socialism with Chinese characteristics’ is replicating US inequalities. There are three types — and some are more difficult to tackle than others

Recent domestic policy changes by the Chinese government have attracted worldwide attention. ‘Common prosperity’ has rejoined ‘the great rejuvenations’ as the key Communist Party directing motto.

Many explanations have been advanced for these changes: from controlling finance and Big Tech politically to avoiding a financial meltdown akin to that in the United States in 2008; from the desire of the party general secretary, Xi Jinping, to alter China’s course — prior to his, perhaps formal, re-election as head of the party — to profound readjustment towards a more equitable society.

‘Common prosperity’ indeed highlights the importance of inequality and the desire to control it. (Incidentally, it replicates the World Bank slogan, adopted some ten years ago, of ‘shared prosperity’.) High inequality has been considered for at least the past two decades a serious problem in China.

Gini coefficient

Measured by the Gini coefficient (from zero for an equal society to 1 for an infinitely unequal one), China’s overall income inequality, with an official Gini of .47, is significantly greater than that for the US (around .41) or the average across the Organisation for Economic Co-operation and Development (around .35). Moreover, if one looks at any aspect of inequality in China — the rural-urban gap, wage gaps between private- and state-sector workers or the gender gap — inequality is higher than several decades ago.

The rural-urban gap is going to be lowered

Some of this inequality can, at least in principle, be reduced and the Chinese government has

through the recent relaxation of the hukou (urban residence permit) system.

been doing this. Inter-provincial inequality — more exactly, that between the prosperous maritime provinces and the central and western regions — was reduced thanks to massive government investments in less-developed provinces, including the impressive express-train network which now connects practically the whole country.

The rural-urban gap is going to be lowered through the recent relaxation of the *hukou* (urban residence permit) system. Provinces are now empowered to decide whether to implement it or not. It will legalise millions of *de facto* urban residents and bring more rural people into the cities.

Systemic inequalities

But there are three types of inequality — very similar to those faced by the US — which are systemic to all modern capitalist societies and much more difficult to control. They are the concentration of ownership of private assets (capital), creation of an elite rich in capital *and* labour incomes, and inter-generational transmission of advantage.

The share of capital in gross domestic product has been rising in all advanced economies for several decades but also more recently in the emerging economies, including China. This increases disproportionately the incomes of the rich, who tend to hold much more property than the middle class and the poor.

This is obvious in the US, where the top 10 per cent of the population received in 2019 60 per cent of the income from capital. The situation is similar in China: the latest available, 2013 data show that the top income decile received 45 per cent of all capital income. That percentage has probably increased since.

This is unlikely to be overturned, as automation and robotics further displace labour and increase the share accruing to capital. The only solution is a much more equal distribution of private capital, perhaps through high taxation or worker shareholding — but there is no perceptible move in that direction in China or the West.

The second systemic inequality is 'homoploutia'. This was first 'diagnosed' in the US, where up to one third of those in the top income decile are at the same time rich capitalists and very well paid workers. They may be highly-paid chief executives, financial analysts or doctors

who have built sufficient capital out of savings from their high salaries, or people who inherited lots of assets, went to the best schools and secured high-paying jobs — or both.

A recent paper finds that individual social mobility in China is thus almost as low as in the US.

They are different from the old-fashioned capitalists, whose sole, albeit high, income stemmed from assets. They do represent a new elite, invulnerable to crises, as they have plenty of 'human' as well as financial capital. And they are observable, for the first time, in China: the elite at the top is hard-working but also capital-rich. As in the US, one third of those in the top income decile are also among the richest capitalists and richest workers.

Sifting the rich

Such an elite is able, and tends, to transmit its numerous advantages — of wealth, education, and social connections — to its offspring. A recent paper finds that individual social mobility in China is thus almost as low as in the US. The enabling environment for such elite projection over time is the expensive and ultra-competitive educational system.

In the US, the high cost of education — beginning with private nursery schools and ending with USD 70,000 yearly tuitions — successfully sifts out all but the children of the rich. In China, university education is often similarly expensive, relative to the average wage. And costs are further increased by expensive tutoring schools which prepare students to do well in their examinations — to succeed one needs to have enough money to hire multiple tutors.

The Chinese government's recent ban on for-profit tutoring aims to eliminate that inequality. But it is doubtful how successful it will be. Rich parents will move to private, individualised tutoring and inequalities may even be exacerbated.

The issue in China is the highly rivalrous education system, linked with parental wealth, which decides the (very young) child's future 50 years ahead, via their comparative performance in rote tests. It perpetuates inequality and squanders talent as it breeds indifference and resignation among the less successful — since decisions made years earlier determine their entire life.

This type of inequality is at the origin of the urban malaise of young people in China, and elsewhere.

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