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China's widening economic fault lines

PETER CAI | 28 JUL 2014, 10:26 AM | 1
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Raghuram Rajan, the governor of Reserve Bank of India warns that one of the deep fractures in the world economy is widening inequality. In his widely acclaimed book, *Fault lines: How Hidden Fractures Still Threaten the World Economy*, he argues that the massive credit expansion in the US was politically motivated to assuage the concerns of rising inequality.

Income inequality has been climbing fast in the US. The top 1 per cent of households accounted for 8.9 per cent of total national income in 1976. A bit over three decades later, that proportion rose to 23.5 per cent in 2007. John Paulson, the famous hedge fund manager who betted against the US housing market, netted \$3.7 billion in 2007 -- 74,000 times bigger than the median household income.

If you think the problem is bad enough in the US, think again. China, a nominally socialist country, has overtaken the US in terms of income disparity.

China's Gini coefficient, a widely used gauge of inequality, rose from 0.3 in 1980 to 0.55 in 2010. A Gini coefficient is a measure of inequality, where a figure of 0 represents perfect equality while 1 indicates perfect inequality. A reading of 0.5 is regarded as 'severe inequality'.

Not only has China overtaken the US, the level of inequality in the world's second largest economy is also approaching that of highly inequitable Latin American countries like Brazil, Honduras and Mexico. China is now among the least equal 25 per cent of countries worldwide. Few Asian countries are in this group, according to the World Bank.

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A report published last Friday by Peking University and the Chinese Academy of Social Sciences further highlights this problem. According to the report, the top 1 per cent of households account for one third of total asset ownership in China. At the same time, the bottom 25 per cent of households only own 1 per cent of all assets in the country.

So what are the factors behind China's skyrocketing inequality?

China's widening inequality is not due to deterioration in income. If anything, income levels have been rising steadily in the country. Chinese migrant workers, who are usually

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from poor households in the countryside, have seen double-digit increases in their incomes recently.

However, the rising income inequality is due to the fact that income for rich groups is increasing much faster than poorer households. For example, income for the poorest 10 per cent increased 50 per cent between 2002 and 2007, according to the China Household Income Project, an international survey project that began in the 1980s to track income changes and poverty.

However, during the same period, income for China's top 20 per cent households nearly doubled. "As a consequence, the income gap between the richest and poorest deciles widened from 19:1 to 25:1, and national inequality increased," writes Terry Sicular in a report for the World Bank.

Another contributing factor to the income disparity is the proliferation of so-called 'grey income' for rich households. China's hidden household income totalled 6.2 trillion yuan (\$1.1 trillion) or 12 per cent of the country's GDP, according to a survey conducted by the National Economic Research Institute.

The survey finds that the income for richest households is much higher than the official figure. For example, the income for top 10 per cent is 3.2 times higher than official statistics. China's urban rich earn 21 times more than the rural poor, according to the same survey.

China's glaring rural and urban divide is also one of the most important contributing factors to the rising inequality. Researchers estimate that the rural and urban gap contributes to as much as 51 per cent of inequality in China.

The country operates a quasi-apartheid system where rural migrants are barred from moving from the countryside to cities on a permanent basis. This policy denies rural migrant workers many social benefits provided to urban residents such as health care and education. This partly contributes to the income disparity between rural and urban residents.

As highlighted by Rajan and leading Chinese policymakers, income inequality is one of several important fault lines that lead to economic and financial crisis. China's strong economic growth has for a long time masked the worst effects of social inequality, but considerably slower economic growth is likely to bring that deep tension to the surface.

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R. Ambrose Raven, July 28, 2014 15:28

Far too much attention is being directed to purely strategic issues. What is considerably more likely to happen is economic crisis not only in China and Japan, but globally. FYI we have in fact had one since 2008, but rendered invisible by the mainstream media focus on protecting the wealth and interests of the moneybags, which is the one real success of the post-GFC period.


Obviously given the obligatory lack of planning and refusal to apply fairness and common-sense in such things, economic crisis will have severe domestic impacts in both countries. While unlikely to happen simultaneously, it is equally unlikely that the impact would be sufficient to justify truly risky military or political ventures against the sufferer. Taiwan is however likely to be a strategic beneficiary of any Chinese crisis.

What both countries may then suddenly decide is that civilised norms of international law and good practice is in their interests.

Such a possibility has long been suppressed by the Imperial American contempt for civilised norms of international law and good practice. Even worse is the ability of the warmongers to avoid accountability for their crimes and policies. Imperial America's expeditions in Iraq and Afghanistan have so far - so far, they are the gift that keeps on giving - cost the US \$3 TRILLION! Yet that cost to ordinary Americans - never mind the many more victims - is an inconvenient truth rarely mentioned by a servile mainstream media.


Strong, practical support for the fair and peaceful resolution of international disputes is something we should be pressing far more strongly - that Western nations are often the rogue states is the reality, which we should oppose.

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