

# Preface

Since the system reform and open-door policy, the income inequality of Chinese residents has continuously grown, and as a result income distribution has remained one of the most heated issues in both the academic community and government departments concerned. Small wonder that it has also become an important and challenging topic in the field of economic studies. I myself have been in this field for a long time, and fortunately made some contribution, if I may say so. Dr. Zhou Yunbo, when he was a PhD candidate under my supervision, assisted me greatly with my research. He graduated as an associate professor of Economics in Nankai University. His book *Empirical Analysis of Income Inequality among Chinese Residents*, coauthored by Qin Yan and Ruhul Salim, is built on his research report of the Youth Project of National Social Sciences Foundation, which he took charge of. As his supervisor, I am glad to provide the preface for this book in order to congratulate the three scholars and warmly recommend it to readers as well.

This book provides a detailed measurement and precise analysis of income inequality among China's urban, rural, and total residents, including their status quo, drivers, and dynamics, using large sets of the most upgraded statistical data and household survey data. As a monograph specialized in Chinese income inequality, the book investigates the requisite properties of indices for measuring income inequality, some new indices, new methods for estimating the Gini Coefficient, and methods of judging polarization. One of the values of the study is that, after giving a detailed introduction of several income inequality decomposition methods, it applies them to analyze the household survey data of Shandong Province and Tianjin, and to examine the main factors that impact the income inequality of urban and rural residents. I am glad to say the book is a novel study with new conclusions and using new data. Furthermore, the new methods of analyzing income inequality introduced here may serve as a valuable reference work for other scholars in this field.

In regard to theory, the book once again reinforces some significant claims in my previous studies on income inequality. In the late 1980s, I proposed the inverted-U hypothesis on the relation between economic growth and income inequality under

public ownership economy (Chen Zongsheng 1991). My premise of public ownership is quite at odds with the inverted-U hypothesis under private ownership economy put forward by Kutznets and was therefore named Chen's Inverted Theory by my peers at home and abroad. In the follow-up research, by looking into the impact of system reform on income inequality, I developed the echelon inverted-U curve and put it into empirical tests using data on Chinese urban and rural income inequality (Chen Zongsheng 1994; Chen Zongsheng and Zhou Yunbo 2001c, 2002). This monograph, focusing on new economic data from recent years, again proves that at present, the income inequality of Chinese urban, rural, and total residents is steadily increasing, as demonstrated in the first half of the inverted-U curve of the public ownership economy.

In other aspects, the book also continues and improves my previous studies. To cite but one example, I made systematic measurements of the impact of the abnormal and illegal rent-seeking income on Chinese residents' income inequality, such as tax dodging and avoidance on the part of self-employed and private business, corruption income of the Party and government officials, personal income transferred from group spending, and smuggling and fraud (Chen Zongsheng 1991). Due to scarce data and methods, presenting an exact description of how much the abnormal and illegal rent-seeking income has influenced Chinese residents' income inequality poses a great challenge. What I did in the 1980s was a tentative quantitative measurement and based on much guess and assumption, including estimating the size of various abnormal incomes, and their impact on residents' income inequality. In the beginning of the new century, in a book I coauthored with Dr. Zhou Yunbo, we measured in great detail various abnormal and illegal rent-seeking incomes from 1988 to 1999, and their impact on the income inequality of urban, rural, and total residents. Now, the three scholars continue my study by measuring their impact on residents' income inequality since the new century. Their study proves that, by and large, the impact of rent-seeking incomes on income inequality is being weakened. This is in accordance with the trend of Chinese economic system reform.

In certain regards, the book is a good supplement to previous studies on income distribution. For one, with respect to the theoretical analysis of the inverted-U hypothesis, many studies borrowed the dual-economic theory to construct the urban-rural two-sector model and prove this hypothesis with regard to urbanization. However, given the urban-rural gap, the impact of population transfer from rural areas to urban areas on income inequality is an inverted-U trajectory of increasing followed by decreasing, an opinion held by quite a few scholars including me (Anand 1983; Chen Zongsheng 1991, 1999). And for this purpose I even offered detailed mathematical proof, which of course needs improvement. I am glad to see that the three scholars of the book do so by giving stricter mathematical proof and simulation tests using projected data. Take another example. Concerning the factors behind the birth and development of rent-seeking income in the transitional economy, Dr. Zhou and I once assumed that the fundamental factor was the institutional defects (Chen Zongsheng and Zhou Yunbo 2000, 2002), but this book offers more explanations, suggesting that institutional defects are the

objective factor and the increasing motive for speculation of economic individuals because of the imbalance and instability in the transitional economy is the subjective factor. They believe the boom of contemporary rent-seeking activities is a result of many factors combined. Perhaps, their explanations sound more complete.

Of course there are some conclusions I do not quite agree with. For one, the authors, after examining the impact of urbanization, conclude that income inequality of the total residents is on the decline. I feel uneasy about the exactness and completeness of the data they used, though the conclusion supports my inverted-U hypothesis of public economy. Even if the data are acceptable, whether the dynamics are sustainable or not still remains questionable. Chinese economic growth as a whole is at the stage of mid-level income and below, a stage which sees constantly widening income inequality as proved across countries. Moreover, conclusive empirical data show that the urban and rural income inequality throughout the country is steadily growing. So we have every reason to believe that the emergence of the inverted-U phenomenon is local and temporary. No doubt, whether they are right or not needs to be tested by the practice of Chinese economic reform and development.

After reading the book, I am glad to find that the three authors have devoted much time and energy to the study and filled in some gaps in this field. Though there remains space for improvement and further tests, the book promotes a rigorous scholarly attitude and persistence in economic studies. I highly recommend it to readers, as it is a scholarly reading of high quality about Chinese income inequality.

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