

# **A Decade of Rising Poverty in Urban China: Who Are More Likely to Fall Under?**

(Extended abstract)

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## **Introduction**

Rising inequality has been one of the most profound social consequences during China's dual transitions from an agrarian and socialist planned economy to an industrial and market based economy. In the last two and half decades, along with spectacular economic growth that has increased the standard of living of the Chinese population and moved hundreds of millions people out of absolute poverty, new economic and social inequality and polarization have also emerged. Once considered one of the most egalitarian societies on earth, China has now joined the ranks of the most unequal societies in the world. In slightly over a decade's time, income inequality measured by Gini coefficient nearly doubled, from about 0.2 in the mid 1980s to 0.4 by the late 1990s. Much of the rising inequality can be attributed to the enlarging gaps between China's urban and rural populations and to the gaps among Chinese provinces and cities. Within each of China's sectors, however, inequality and poverty have also risen.

This paper examines the trend and underlying patterns of rising inequality and poverty in China's urban areas. We ask and then attempt to answer the question of "who are more likely to fall under the poverty line."

## **Three Hypotheses/Interpretations**

Poverty is an outcome of complex, multi-causal, social and economic processes. Among the explanations for the existence of poverty generally offered, three are commonly seen. These three hypotheses each focuses on a particular set of factors: an individual's personal characteristics, one's position in the social and economic configurations of the society, and one's household demographic composition. In our study, we attempt to understand the patterns of poverty in urban China by examining evidence for these three alternative hypotheses or interpretations.

The first of these three hypotheses assigns the responsibility of falling under poverty primarily to the individuals. An individual is poor, according to this interpretation, mainly because the individual lacks the ability, physical or mental, to garner a good income in the society. The person could be new to the job market, without much experience, too old and weak to work long hours, or without much formal education, otherwise also known as human capital. Such individualistic characteristics make one more vulnerable than others with higher abilities and therefore more likely to fall under the poverty line. Along with China's move toward a market economy that is supposed to reward human capital more than under a state socialist planned economy, such a

hypothesis also implies that over time a greater effect of the individualistic characteristics on poverty to be seen.

The second hypothesis or interpretation of an individual's economic failure gives more weight to the structural factors that define the arena of an individual's actions and that constrain an individual's abilities. Such an interpretation believes that not only in no society is inequality primarily a product of individual volition and actions, it also highlights the fact that the structural forces are especially salient in a transition society. Establishing a market-based economy is only a relatively recent phenomenon in China. At the beginning of the 1990s, for example, the overwhelming majority of the urban Chinese labor force (70 percent) were still working in the state-owned work organizations, an employment decision not made by the individuals themselves. It was during the 1990s that non-state employment increased rapidly, and at the same time, a major economic reform measure in the late 1990s resulted in a large-scale lay off and forced early retirement of many Chinese urban workers (urban employment in the state-owned sector declined to 54 percent by 2000). Following this structural hypothesis, one would expect that not only are structural factors important in understanding poverty in urban China, the importance of the structural factors should also increase as China's reforms proceeded.

The third hypothesis adds another important dimension to the understanding of poverty. While not in dispute with the first two hypotheses above, this hypothesis or interpretation focuses on the role of the demographic or household life cycle factors in affecting poverty outcomes. The argument is based on the observation that most individuals live in households, and households are composed of net producers -- those whose income exceeds consumption -- and net consumers -- those who consumes more than he or she earns. Whether an individual falls under poverty could in part be affected by the household demographic composition at a particular time of the household life cycle. Households with more net consumers than net producers, regardless of a particular member's personal characteristics and structural positions, may still end up with a low per capita income for its members and therefore falling under poverty.

## **Data and Methods**

To understand urban poverty in China, we test the above hypotheses with data from China's Urban Household Income and Expenditure Survey. Conducted by China's National Bureau of Statistics, this survey is the most authoritative longitudinal household survey in existence in China. We use data for three selected Chinese provinces that are made available to us, and choose three time points, 1992, 1996, and 2001 to study the changing poverty patterns in the decade of the 1990s in urban China. The three provinces have a combined sample size of over 8,000 individuals for each time point, residing in approximately 3,000 households.

Among the various measures commonly used in poverty studies, we use one that measures the degree of relative poverty. Individuals with per capita household income falling below 50 percent of the median income in a particular province and at a particular

time point are classified as belonging to the poverty group. We use logistic regression with generalized estimation equations (GEE) to examine the likelihood of an individual falling under the poverty line, controlling for intra-household correlation among members of the same household. We take a household perspective, using the characteristics of the household head to approximate individual level characteristics and an individual's structural positions, and use different measures of household demographic compositions.

## **Preliminary Results**

Rising income inequality in urban China in the 1990s was clearly accompanied by a rising trend of social and economic polarization. During the decade of the 1990s, prevalence of poverty more than doubled, from 4.5 percent in 1992, to 7.7 in 1996, and to 11.8 in 2001. Such an increase outpaced the overall change in income inequality and suggests increasing economic polarization. Between 1992 and 2000 the Gini coefficient of per capita household income for the same population only rose 25 percent, from 0.28 to 0.35.

Our initial bi-variate analyses confirm many of the general speculations about the causes of poverty. Occurrence of poverty in urban China for all three time points is higher among households with older aged and less educated household heads, and among households with more children and elderly living in them. We also observe significant differences in poverty occurrence among household whose heads belonged to different ownership types and worked in different industries.

Our multivariate analyses allow us to test the relative importance of the three different hypotheses stated above. The preliminary results suggest that the household head's education and household demographic composition are the two most important factors throughout our study period, whereas unemployment and measures of structural factors (ownership type, industry, and occupation) showed a more prominent role near the end of the 1990s, when radical urban economic reform measures were put into place. Over the decade, the importance of the household's head's education in affecting the likelihood of poverty also increased. In addition, we find an interesting fact that individuals in female-headed households in our samples (accounting for roughly 40 percent of all households) are less likely to fall under the poverty line, controlling for all other factors. We plan to examine the reasons for this and other findings in our further analyses.