

**RURAL-URBAN INEQUALITY AND EQUALITY OF OPPORTUNITY IN CHINA:
WHEN INEQUALITY IS DESIRABLE**

by

CYNTHIA LOK YEE WONG

B.S.Sc., The Chinese University of Hong Kong, 1994

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENT FOR THE DEGREE OF
MASTER OF ARTS IN ASIA PACIFIC POLICY STUDIES

in

THE FACULTY OF GRADUATE STUDIES

(Institute of Asian Research,
Master of Arts in Asia Pacific Policy Studies)

We accept this thesis as conforming
to the required standard

THE UNIVERSITY OF BRITISH COLUMBIA

© Cynthia Lok Yee Wong, 2003

In presenting this thesis in partial fulfilment of the requirements for an advanced degree at the University of British Columbia, I agree that the Library shall make it freely available for reference and study. I further agree that permission for extensive copying of this thesis for scholarly purposes may be granted by the head of my department or by his or her representatives. It is understood that copying or publication of this thesis for financial gain shall not be allowed without my written permission.

Institute of Asian Research

The University of British Columbia
Vancouver, Canada

September 24, 2003

**RURAL-URBAN INEQUALITY AND EQUALITY OF OPPORTUNITY
IN CHINA: WHEN INEQUALITY IS DESIRABLE**

ABSTRACT

This paper is a normative study of the rural-urban social and economic inequalities in China. It applies the equality of opportunity principle of distributive justice to the analysis of rural-urban inequalities. The paper argues that the equality of opportunity principle provides the necessary condition in order for inequality to be just, morally acceptable and tolerable. An analysis of the rural-urban social inequalities shows that inequality between the rural and urban people is excessive and intolerable because it is premised on unequal competitive and substantive opportunities in social mobility and unequal capabilities. The paper reaffirms the importance of a human-centered approach to development.

TABLE OF CONTENTS

Abstract	ii
Table of Contents	iii
Acknowledgements	iv
CHAPTER 1	Introduction 1
	1.1 Purpose of the study 3
	1.2 Significance of the study 4
	1.3 Structure of the paper 4
PART I	
CHAPTER 2	Review of literature on inequality in China 6
	2.1 General review 6
	2.2 Yardstick for inequality 8
CHAPTER 3	Changes in the resource allocation mechanism and distributive justice system 12
	3.1 Resource allocation mechanism and distributive justice system 12
	3.2 Resource allocation mechanism before the reform : Maoist egalitarianism 14
	3.3 Resource allocation mechanism after the reform: market competition and social mobility 15
	3.4 Criteria of the distributive justice principle 18
PART II	
CHAPTER 4	Equality of opportunity 21
	4.1 Conceptions of equality of opportunity 21
	4.2 Key components 23
	4.3 Meeting the criteria for distributive justice 27
Part III	
Chapter 5	Rural-urban inequality of opportunities: causes and dimensions 32
	5.1 Rural-urban inequality before the reform 32
	5.2 Rural-urban inequality after the reform 36
	5.3 Unequal opportunities 43
	5.4 Conclusions 50
Chapter 6	Policy implications and the significance of the equal opportunity principle for China 53
	6.1 Policy implications 53
	6.2 Significance of the equality of opportunity principle 58
	6.3 Conclusions 59
Bibliography	62

Acknowledgements

This study would not have been possible without the support of my family and friends. I thank my husband, Gordon, for his unfailing encouragement and patience. Special thanks goes to Mabel and Freda, who were never too busy to help dig out research materials, and Mom and Dad, who have, as always, been understanding and supportive. Words cannot express how grateful I am to and for having them.

I must thank Professor Pitman Potter, my supervisor, for his precious advice, and Professor Diana Lary and Professor Paul Evans for their invaluable comments on drafts of the paper.

Chapter 1 Introduction

Income inequality has drastically increased in China since the reforms began in 1978. The attitude of the government towards income inequality has changed from tolerance to intervention. Inequality fundamentally contradicts the socialist ideology of egalitarianism. Yet Deng Xiaoping's policy of uneven development gave legitimacy to inequality. The hope is that by letting some people get rich first, economic growth will be trickled down to benefit the poor. This implies that inequality should be tolerated for the sake of growth and development. Towards the mid-1990s, inequality rapidly increased and prompted a change in policy direction towards inequality. Former Premier Zhu Rongji acknowledged that rural-urban income disparity is "close to the international danger level".¹ Narrowing the regional gap of development and promoting regional economic coordination has thereby become a national priority.² This has driven heated discussion in the policy and academic fields on how to reduce inequality. However, there has been little discussion on the normative basis of inequality reduction.

China's transition from a centrally planned to a market economy entails not only changes in the economic and resource allocation mechanism, but also fundamental changes in the distributive justice norm and values. Market economy is intrinsically inegalitarian (Polanyi 1944). Inequality in a transitional economy is inevitable because resources are distributed increasingly on the basis of market

¹ John Gittings. "To Get Rich is Glorious, For Some," *The Guardian* 19 Mar. 2002.

² The regional development policy set forth in the Ninth Five-Year Plan (1996-2000) clearly deviates from that of the 1980s which focused on uneven regional development. Under the Ninth Five-Year Plan, narrowing the regional gap of development and promoting regional economic coordination constitutes one of the nine main objectives (State Council 1995: 9). The Plan's specific guidelines for regional development reflect prevailing criticisms of the uneven regional development policy and new models of regional development (Fan 1997).

competition which rewards merits and efforts. However, income inequality per se does not necessarily lead to intolerance. In China, the uneven distribution of income has brought about both positive and negative outcomes. It has dramatically improved incentives and productivity, and led to significant GDP growth and poverty reduction. Inequality has also threatened social stability as it has created underprivileged social classes and led to mass discontent and protests. What matters is therefore not the extent of inequality, but the kind of inequality. What is the normative standard that enables us to differentiate desirable from undesirable inequalities? What is a just distribution given China's economic institutions and the need for growth? When and on what basis should government intervene without harming incentives?

The above questions are important because a society's consensus on the principles of social and distributive justice form a significant part of the basis of legitimacy and stability of its political system. A blurred sense of justice reduces tolerance for inequality and threatens unity of the nation. There are countless instances in which real and perceived inequalities give rise to political conflicts (for example Indonesia, Latin America, and Rwanda).³ Besides, structural inequality not only affects economic development, but also reduce incentives to work and overall productivity.

China's transition to a market economy has given rise to a blurred sense of fairness and social justice in the society. Those who got rich using illegitimate means are admired as heroes. One such example is Lai Changxing, a peasant-turned-entrepreneur and a suspect wanted for the biggest corruption investigation in the

³ Christopher Cramer, "Economic Inequalities and Civil Conflict." Online. Centre for Development Policy and Research Discussion Paper No. 1501. University of London. 1 June 2003. This piece provides a detailed account of the relationship between economic inequalities and civil conflict in different countries.

Mainland history. He was praised for his superior abilities at amassing wealth by the people who visited one of his estates, Hunglou, in Xiamen.⁴ The government policies also demonstrate conflicting notions of distributive justice. One example is the partial relaxation of the household registration (hukou) system. Principles of distributive justice are needed to guide policy directions and to lead societal norms.

1.1 Purpose of the paper

This paper seeks to answer one main question: how much rural-urban inequality in China should be considered too much? To answer this question, this paper examines the changes of the resource allocation mechanism and the distributive justice principle. The purpose of the paper is three-folded: (a) it analyzes the social and institutional changes that have taken place after the reform with a view to find distributive justice principles that provide the basis for just, morally acceptable and tolerable inequality; (b) it analyzes the nature and causes of rural-urban economic and social inequalities vis-à-vis the distributive justice principles identified under item (a) above; and (c) it provides policy implications for dealing with rural-urban inequalities.

My arguments are four-folded. First, I argue that China needs distributive justice principles to guide policy directions. My second argument is that the equality of opportunity principle of distributive justice provides the necessary condition in order for inequality to be just, morally acceptable and tolerable. The third argument is that rural-urban inequality in China is excessive and intolerable because it is premised on unequal opportunities in social mobility and unequal capabilities between the rural and urban populations. The fourth argument is that the government should take

⁴ Lai's place, which was initially opened by the government to educate the public against corruption, had to be closed because it served the contrary effect on the public.

positive actions to level the playing field for rural and urban people and to ensure that their opportunities in social mobility and capabilities are equal.

1.2 Significance of the study

The literature on inequality in China is weak in normative research. This paper contributes to the literature by providing a normative basis of analysis of inequality and suggesting pragmatic policy directions. It reaffirms the intrinsic importance of social and human development in policy-making. It is hoped that this approach will complement the quantitative approaches to provide a comprehensive benchmark for regularizing inequalities.

1.3 Structure of the paper

The first part of the paper (Chapters 2–3) examines relevant previous literature and addresses two questions: Why are distributive justice principles needed for China? What should the principles consist of? Specifically, Chapter 2 begins with a general literature review on the inequality studies in China. This is followed by a review of the studies regarding distributive justice and tolerance for inequality. Chapter 3 examines the institutional changes in economic and distributive system in China after the reform and some of the distributive justice norms that are incongruent with these new institutions. The chapter ends with a suggested set of criteria for distributive justice principles to regulate inequality in China.

The second part of the paper (Chapter 4) expounds the equality of opportunity principle and how it satisfies the criteria of distributive justice principle set out in Chapter 3.

The third part of the paper (Chapters 5–6) applies the equality of opportunity principle to the analysis of rural-urban inequality and sets out the policy implications that arise from the analysis. Specifically, Chapter 5 examines the nature and causes of the rise in rural-urban inequalities after the reform. It then identifies the unequal opportunities that are inherit in the rural-urban relationship. Chapter 6 discusses the policy implications for tackling rural-urban inequalities in China.

PART I

CHAPTER 2 REVIEW OF LITERATURE ON INEQUALITY IN CHINA

This chapter begins with a general overview of the literature on inequality in China. This is followed by a review of the studies which address the question: When is inequality too much?

2.1 General review

There is a huge body of literature on inequality in China, which spans numerous disciplines ranging from economics and statistics, to sociology, political science, philosophy and geography. These studies are concerned with five main dimensions (rural-urban, intra-rural, intra-urban, sector, gender) and on five parameters (income, wealth, land, access to education, and access to social services). The methodologies used in the studies include quantitative research, qualitative analysis, and normative studies.

The ongoing debate are centered on four main lines of argument. There is little consensus on any of them. The first strand of debate is whether inequality has widened or narrowed since the introduction of market-oriented reforms. Some economic theories predict convergence (Hu, Wang and Kang 1995; Jian, Sachs and Fleisher 1996; Wu 1999). Many others predict divergence (Zhao and Li 1997; Rozelle 1996; Li, Zhao and Zhang 1998). Still others report mixed results (Tian 1998; Tsui 1996). This wide range of views reflects fundamental differences in the conception of the problem, definition of parameter, statistical methodology, paucity of

data, ideology and value judgments, and differences in understanding how the economy works. The general lack of comprehensive and reliable data, for example, has caused some researchers to conclude that the extent of inequality is generally underestimated (Li 2002). These factors of differences have made comparisons across studies and comparisons with other countries difficult and sometimes misleading. On the whole, the studies are mainly related to the empirical aspects. Less research are conducted on the theoretical aspects of inequality.

The second strand of research seeks to find the factors that have contributed to changes in inequality. Those who argue for convergence attribute the change to market forces (Jian, Sachs and Warner 1996). Those who argue for divergence attribute the change to various policy and institutional changes, including urban wage, in-kind subsidies to urban workers, fiscal decentralization, labour mobility restrictions, and welfare systems (Khan et al. 1993; West and Wong 1995; Coady and Wang 2000; Jackson, Liu and Song 1996). On the whole, fewer research investigate the equalizing effects of market reforms. Also, few research have been carried out on the effect of corruption and rent-seeking on inequality.

The third strand of research seeks to answer whether inequality is tolerable or excessive. These researches are concerned about the effect of disparities on national unity and stability. This group of research is small compared to those on other questions and mainly concentrates among researchers within China (Wang 1999). Those who think that inequality is excessive and unjust point to the emergence of corruption and rent-seeking, and the emergence of the underprivileged groups in society. They believe that poor regions are poor because investment in infrastructure, basic public services, and human capital is deficient. Others believe the inequalities

are temporary and will correct itself with further development. Some of the latter group of researchers suggest that inequality is the price to be paid for economic growth and development.

The fourth strand of debate asks what, if anything, should the Chinese government do to narrow the inequalities. Those who believe that inequality is the natural course of development suggest that government should do nothing about the inequalities insofar as there is no structural problems in the market. Those who believe that inequality is unjust and excessive argue for state intervention to reduce inequalities.

2.2 Yardstick for inequality

How much inequality is too much for China? The answer to this question depends on how inequality is understood. The economics perspective considers inequality in developing countries as related to development. Some economists consider inequality will assume the course of an invert-U curve as the country develops. They predict that inequality will eventually decrease as urbanization and industrialization even out the differences in growth between different regions of the country (Kuznets 1955; Williamson 1965). According to these views, inequality and development constitute a zero-sum game. The decision as to what a just distribution is therefore becomes a question of how much inequality the society is willing to bear for the sake of development. This question entails a choice among three developmental strategies: (a) to encourage the whole economy to grow at the fastest possible rate regardless of the consequences on regional gaps (Pareto optimality); (b) to refrain from intervening as long as poor regions are growing (Pareto improvement

or Kaldor-Hicks improvement); and (c) to assist poor regions to grow at rates higher than those of rich regions (Rawls criterion) (Wang 1999).

While all these theories are reasonable in their own right, they do not take into account the socio-economic structure of the society. The principles of distributive justice are normative values. They cannot exist in a vacuum. Instead, they have to be prescribed to a society taking into account the economic system and resource allocation mechanism. Distributive justice principles have to be commensurate with the socio-economic structure in order for a binding and coherent distributive justice norm to be established in a society.

Albert O. Hirschman (1973) was the first researcher to use the prospect of upward mobility to predict the level of inequality that is excessive for people. He dubbed this the “tunnel effect”:

“Suppose that I drive through a two-lane tunnel, both lanes going in the same direction, and run into a serious traffic jam. No car moves in either lane as far as I can see (which is not very far). I am in the left lane and feel dejected. After a while the cars in the right lane begin to move. Naturally my spirits lift considerably, for I know the jam has been broken and that my lane’s turn to move will surely come at any moment now. Even though I still sit still, I feel much better off than before because of the expectation that I shall soon be on the move” (p.545).

According to this analogy, tolerance for inequality hinges upon the expectation for upward (or downward) mobility. Expected opportunities for upward mobility and the

trickling-down effect of growth will increase tolerance and acceptability of present inequality. To continue the analogy:

“But suppose that the expectation is disappointed and only the right lane keeps moving: in that case I, along with my left lane cosufferers, shall suspect foul play, and many of us will at some point become quite furious and ready to correct manifest injustice by taking direct action (such as illegally crossing the double line separating the two lanes)” (p.545)

Tolerance for inequality expires upon the non-realization of expectation over time and the suspicion of foul play. At some point intolerance will arouse a sense of injustice and turn a person into an enemy of the established order.⁵ According to Hirschman, the criteria of upward mobility affects the span of tolerance. If the advantage is randomly distributed, people will be most tolerant. If income inequality is generated by some consensual basis such as efforts, knowledge and ability, personal natural endowment, or even luck, income inequality will not only not generate intolerance, but will instead increase efficiency and incentives. Lambert, Millimet, and Slottje (2003) confirmed this relationship. They found that countries which provide a more level playing field for their populations (i.e. allocating more resources

⁵ This breaking point may be related to the traditional Chinese belief and statecraft of Mandate of Heaven, or *tien ming*. The political theory of Mandate of Heaven asserts that Heaven, or *tien*, is primarily interested in the welfare of human beings. Rulers should assume the responsibility for the welfare of their people. If they rule justly, fairly, and wisely, Heaven mandates that certain rulers or dynasties remain in power. If rulers positively endanger the welfare of the people, then Heaven will withdraw the mandate from that ruler and passes it on to another person or family who is then required to revolt and overthrow the dynasty. The passing of the Mandate to another dynasty or political regime is made evident by the fortunes of war, revolution and the acts of nature such as natural disasters, plagues, or rain. The belief in Mandate of Heaven obligates rulers to consider the consequences of their actions on people's welfare and be vigilant in respect to themselves.

to public education and having higher adult literacy rate) and countries with high population growth rate are more tolerant of resulting inequality.

There are few studies on the tunnel effect in China. It is hard to tell whether tolerance is running out, although mass protests such as the Tiananmen Incident in 1989 clearly indicated the widespread discontent about the lack of distributive justice and access to social mobility, just as the driver who awaits in vain his turn to move in Hirschman's two-lane analogy. The implication from the tunnel analogy is that inequality is desirable when it is accompanied by social mobility and when it results from meritocratic-based resource allocation. Extending from this argument, we can predict that the tolerance for rural-urban inequality in China will decrease because social mobility was restricted, even though the reform has relaxed rural-urban mobility for some people.

CHAPTER 3 CHANGES IN THE RESOURCE ALLOCATION MECHANISM AND DISTRIBUTIVE JUSTICE SYSTEM

This chapter examines why distributive justice principles are needed to guide policy directions and to lead societal norms in China. It first examines the relationship between resource allocation mechanism and the distributive justice system. It then identifies the norms of distributive justice in China after the reform that are incongruent with the new institutions. It concludes with suggestions for the criteria of distributive justice principles that guides policy direction and societal norms for China.

3.1 Resource allocation mechanism and distributive justice system

Social and economic inequalities are always subject to evaluation from a normative position which is based on certain principles of distribute justice. Principles of distributive justice are standards against which distributions of resources and rewards, such as pay and promotion, are evaluated and judged to be fair and just (Fang and Chew 1998). The principles vary in numerous dimensions including what goods are subject to distribution (income, wealth, opportunities, etc.); the nature of the subjects of the distribution (natural persons, groups of persons, reference classes, etc.); and on what basis the goods should be distributed (equality, according to individual characteristics, according to free market transactions, etc.) (Lamont 2002).⁶

⁶ There are various conceptual approaches to distributive justice. The strict egalitarian approach advocates that all members of a society should have the same level of material goods and services. A basic assumption is that equality in material goods is the best way to give effect to the ideal that everyone is owed equal respect. One version of strict equality, proposed by Ackerman (1980), requires that all people should have the same wealth at some initial point. Another approach to distributive justice – J. Rawls' theory of justice – requires that "(1) Each person is to have an equal right to the

A society's consensus on the distributive justice system is important because it directly affects the legitimacy and stability of the political system. A blurred sense of justice threatens social stability and unity of the nation. A country's resource allocation mechanism is related to the legitimacy of its distributive justice system. A change in the former effects changes in the latter. In a transitional economy, a blurred sense of identification with the distributive justice system arises as the old mechanism of resource allocation is gradually eroded while the new institution is not well formed and often shows signs of inconsistencies with those parts of the old institution that remain intact. Kluegel and Mateju (1995: 230) found, from a survey of thirteen capitalist and post-Communist countries, that the legitimacy of the distributive justice system of post-Communist countries is lower than for capitalist countries. They suggest that this is because the distributive justice system in post-Communist countries is not fully crystallized as it is in the capitalist world.⁷ The distributive

most extensive total system of equal basic liberties compatible with a similar system of liberty for all. (2) Social and economic inequalities are to be arranged so that they are both: (a) attached to offices and positions open to all under conditions of fair equality of opportunity, and (b) to the greatest benefit of the least advantaged, consistent with the just savings principle" (1971: 302). (Rawls' distributive justice principle will be discussed further in Chapter 4.) An alternative approach – utilitarianism – requires that the majority chooses what will produce the greatest good for the greatest number of people. The utilitarian perspective considers every person to be counted as one without consideration of contents of individual interest. Distributive justice is done if the benefits exceed the costs as the resource distribution does the greatest good for the greatest number of people. Leading representatives of this doctrine include J.S. Mill and J. Bentham. Another approach to distributive justice, proposed by Dworkin, is related to "treatment as equals" or "equality of resources". Dworkin suggests a model of fair distribution in which every person is given the same purchasing power and uses it to bid, in a hypothetical auction, for resources that best fit that person's life plan, goals, and preferences. Before the hypothetical auction, people are unaware of their own natural endowments but are willing and able to insure against being naturally disadvantaged. Their payments create an insurance pool to compensate the less fortunate for their misfortune. (More on Dworkin in Chapter 4.) Yet another approach – libertarianism – requires only a level playing field of just exchanges, where just actions always result in just outcomes. According to the libertarian view, justice is not dependent on a particular distribution pattern, whether as a starting point, or as an outcome. F.A. Hayek and R. Nozick are leading advocates. Roemer (1996) and Sen (1992) both provide excellent discussion on the various approaches to distributive justice.

⁷ The study by Kluegel and Mateju (1995) found that in Western capitalist countries, there are well-formed but dualistic notions of distributive ideologies i.e. meritocracy and welfare-oriented egalitarianism. Depending on whether the society is classical capitalist (meritocracy) or welfare-

justice system of post-Communist countries neither meets the criteria of a meritocracy, nor that of a welfare state.

3.2 Resource allocation mechanism before the reform: Maoist egalitarianism

The egalitarian ideology of “worrying about inequality but not about scarcity” (buhuan gua er huan bujun) had long existed in China’s traditional culture. Under the Mao regime, the egalitarian ideal culminated into the state socialist system of resource allocation. The Maoist distribution system, in line with Marxist ideology, emphasized distribution according to cadre hierarchy and socialist ideology and equality of outcome. Each person contributes according to his quality and receives according to his need. High-ranking cadres were entitled to greater share of resources (Leung 1994). The rest shared equal allocation of ration goods. Work organizations were major institutions of redistribution. Employment was a life-long appointment. The remuneration system provided equal but relatively low wage allocated amount, irrespective of ability, efforts, and talents. Farm wages were determined by work points allocated by the communes, and did not reflect efforts. Income inequality was very low (the Gini coefficient was around 0.16 in the late 1970s) (Li 1995).

Social mobility was an object of attack under the Maoist regime. The Maoist policies crushed the link between “bourgeoisie” and education attainment, preventing “bourgeois” parents from passing their favored social status on to their children. The social structure and desirable positions such as managerial or professional jobs in the state sector or secure jobs in state factories were defined by the bureaucratic framework. Wage freezes and the rationing of both staples and scarce consumer

oriented capitalist, the two distributive ideologies assume either the dominant or the challenger role in the society and place checks on one another.

goods in cities diminished stratification. Individual competition was discouraged under the Maoist institutions of banned migration, lifetime employment, egalitarian wage structures, and job allocation by the party. The social wage administered and delivered at enterprise level gave employees access to an expected lifestyle (Child 1994; Soulsby and Clark 1995).

3.3 Resource allocation mechanism after the reform: market competition and social mobility

The transition in China has introduced new institutions. Two institutions, in particular, affect the resource allocation mechanism and the distributive justice system: market competition and social mobility.

3.3.1 Market competition

The transition saw the reintroduction of many policies that reward performance and labour enthusiasm at middle and lower ranks of the work force such as merit bonuses, demotions for poor performance, and examinations that have been abandoned in the Maoist era.⁸ The shift to markets opens up alternative sources of rewards such as returns to human capital and education that are not controlled by the redistributive state, and thereby reduces dependence on the state (Nee 1989, 1991). Some researchers found that there was already strong consensus and recognition among villagers that market incentives have been highly effective in motivating people (Nee and Sijin 1990: 8).

⁸ The principle of equal chances of social mobility has a long history in China as evident in the imperial institution of civil service examinations. The Chinese culture stresses individual achievement and upward mobility. These are best attained through formal education.

China's transition to a market economy is, however, far from perfect. The transitional institutions are often weak and incongruent with the old institutions. The incumbents and vested interests continue to be influential in the distributive mechanism during the transformation process (Bian and Logan 1996; Walder 1995). The persistence of the positional power and advantage enjoyed by the incumbents enable them to use their positional power and privileged access to decision-making processes to influence state policies and governmental regulations in favour of their interests. Because marketization is not accompanied by the political reform of cadre's special privileges and power or reform of the legal system, marketization provides the chance for rent-seeking by officials who hold absolute powers. This hinders fair competitions. Rent-seeking was particularly rampant upon the introduction of three market institutions: the dual-price system in the 1980s; state-owned enterprise reform in the mid-1980s; and the introduction of the stock market in the 1990s (Wang 1999).⁹ These new distributive institutions provided the opportunity for officials to abuse their bureaucratic power and privileges for private gains from inside and outside China. Not only is the strive for money ubiquitous, the strive for money using corrupt means is also rampant. The widespread corruption problem has aroused mass discontent in China. It fueled the protests that culminated in the Tianamen Square in 1989.

The incongruence of the emergent market institution and incumbent interests lies in the sources of resource allocation. The former rewards competence and merits,

⁹ In the 1980s, some state and collective managers who controlled the allocation of in-plan goods diverted them from the plan and resold them at higher market price to enrich themselves (Wang 1999; White 1998). Li (2002) estimated that approximately one-third of all in-plan industrial output had been diverted between 1987 and 1989. Since the mid-1980s, some officials have abused their power in the newly introduced contract-bidding procedures of state-owned enterprise projects by domestic and overseas companies to enrich themselves. In the 1990s, the introduction of the stock market has provided the opportunity for price manipulation, illicit use of funds for stock speculation and corruption in the financial market. These rent-seeking behaviours have resulted in the emergence of individuals and families who possess tens and hundreds of millions of yuan.

The latter rewards power and personal connections. The coexistence of these two divergent distributive forces results in a blurred norm of distributive justice and a lack of a clear consensus on the distributive justice system. What the society needs are binding distributive justice principles that legitimize the link between efforts and rewards and set the conditions for fair market competition, while providing a sense of equity and justice and a larger purpose of national growth.

3.3.2 Social mobility

The second institution that has emerged after the reform is social mobility. The expansion of markets has opened up new avenues of social mobility. The link between personal efforts and social mobility has been established. The remuneration system and promotion or demotion at work is increasingly based on performance and competence. For state organizations, the change from life-time employment terms to contract-based appointment for some thirty million employees is expected to be completed within two to three years' time.¹⁰ A new stratification order based on meritocracy has emerged after the reform.

Although channels of social mobility have emerged after the reform, sectors of the economy remain cut off from the new stratification order. One such group is the rural migrants. Although physical mobility to cities is permitted, rural migrants who are in the cities occupy a distinct lower-strata because of their household status. In part owing to the resilient stratification between rural and urban populations, there have been increasing political activism in rural areas.¹¹ Another such group is the

¹⁰ "Jigou pinyongzhi sanqian ren chou chulu (Enterprise employment system made 30 million people worry about the future)." *Singtao Daily*. 11 July 2003.

¹¹ "Nongmin kaishi youzuzhi kangzheng jiceng zhengfu" (Peasants start organized resistance against local administration). June 5, 2003. *Singtao Daily*.

unemployed and underemployed workers. There remain some 150 million agricultural workers who are grossly underemployed and should shift out of agriculture. But there is no apparent outlet for their services because of the lack of jobs that match their qualifications. The large numbers of rural people who have been put to the bottom-rung of the social ladder with little hope for social mobility provide a base of discontent that fuels frequent demonstrations, presentations of petitions and appeals, and labour strikes. Incidences of such petitions and strikes by workers in enterprises in cities have become increasingly numerous (White 2000).

The norms of the new stratification order system are not clear. While channels for upward and downward mobility are open, some people have no access to these channels. China now faces the challenge of producing a persuasive and binding ideology to bind policy directions and to unite people's hearts. It needs a distributive justice principle that stipulates fair conditions for competition for upward social mobility along the new stratification order. The distributive justice norm has to provide the condition which allows free social mobility unobstructed by irrelevant personal characteristics such as household status and birth origin.

3.4 Criteria of the distributive justice principle

The distributive justice norm in post-reform China is far from clear. Before the reform, the standard of distributive justice was prevailed by Marxist egalitarianism i.e. from each according to his own ability and to each according to his need. Since the reform has begun, parts of the old distributive justice system become mixed with new distributive mechanisms. Although individual merits and efforts are becoming increasingly important in determining social and economic status, the incumbent

powers remain pervasive in distorting outcomes of competitions and birth origin remains salient in determining one's social and economic status. It is no longer clear what constitutes the distributive justice norm. It is not clear how China's "market economy with socialist characteristics" is to be translated in terms of distributive justice principles and norms and how it differs from that of a classical capitalist market economy.¹² What is certain is that the state socialist redistribution system is gradually being replaced by the market resources allocation mechanism.

The society needs distributive justice principles that bind the state and society in policy-making and societal norm respectively. The principles should be able to differentiate desirable disequalizing factors from the undesirable disequalizing factors. What then should be the criteria of such principles? Drawing on the above analysis, the principles should satisfy all the following four conditions -

- (a) To provide the necessary conditions and justifications for unequal outcomes while upholding social and distributive justice;
- (b) To stipulate fair conditions for market competition and interpersonal comparability;
- (c) To promote incentives, growth and development; and
- (d) To provide the conditions for people to improve their status in the hierarchy.

The principles of distributive justice should allow unequal outcomes to be resulted from personal efforts and merits in order that the principles can be

¹² Of course, according to Marx, capitalism is one interim stage towards the attainment of socialism.

commensurate with the economic and social context of China i.e. the market institution and distributive mechanism. At the same time, the principles should enable a just distribution of resources by setting out conditions under which market competitions between individuals and groups take place. The basis and procedures of these competitions and comparison have to be, and seen to be, fair. In line with the transition to market economy and the merit-based reward system, the distributive justice principles also have to encourage and promote individual and societal growth and development. In view of the increased social mobility in the society, the distributive justice principles should stipulate the conditions under which personal improvement and advancement up the social ladder are just.

PART II

CHAPTER 4 EQUALITY OF OPPORTUNITY

This chapter expounds the equality of opportunity principle and its components. It ends with an analysis on how the principle satisfies the criteria of distributive justice principles set out in Chapter 3.

4.1 Conceptions of equality of opportunity

4.1.1 Competitive equality of opportunity

Equality of opportunity has two levels of meaning. In the restrictive sense, equality of opportunity simply spells out the concept of equality before the law and freedom to pursue one's private interest or vocation without arbitrary restrictions based on irrelevant personal characteristics (Arneson 2002b). In the policy literature, it is defined as the equal availability of some particular means, or with reference to equal applicability (or equal non-applicability) of some specific barriers or constraints. In business, equal opportunity means nondiscrimination and is best expressed in the phrase "career open to talents". It requires public opportunities to be open to persons on the basis of merits, talent, performance, and achievement, but not birth, nationality, colour, religion, sex or any other characteristics that are irrelevant to the positions. The equality of opportunity principle requires that the structure of authority and reward in a society should be based upon principles of efficiency and fairness. This notion is essentially a principle for competitions ("competitive equality of

opportunity” hereafter). It ensures that the most competent persons wins (Green 1988). The implementation of equal opportunity not only requires legal enactments, but an orientation of the hearts and minds of members of society.

The competitive equality of opportunity principle is a widely recognized moral principle in developed countries, many of which underpinned the principle with legislation governing firms, universities, and government as employer. This notion of equality of opportunity, however, does not ensure justice in a comprehensive manner because a competition that is nondiscriminatory can still be morally unacceptable if the eligibility for the competition requires pre-requisite attainment of certain skills and qualifications that are only accessible by certain groups of people.

4.1.2 Substantive equality of opportunity

The broader conception of equality of opportunity addresses the issue of injustice that is left unanswered by the competitive equality of opportunity principle. It requires all people to have genuine opportunity to acquire the pre-requisite skills necessary to succeed in competitions, so that no class or group of people, say the rich, are privileged in attaining those pre-requisite skills necessary for competition. In other words, every participant should be given an equal capability to compete (we shall call this notion “substantive equality of opportunity” hereafter). Substantive equal opportunity requires positive actions to enable persons to develop the qualifications needed to compete for the social positions (Roemer 1998:1). This conception of equality of opportunity is a much stronger and more stringent requirement than the nondiscrimination principle. It recognizes that one’s social starting place – the social class and type of family one is born into – exerts a profound

and pervasive influence upon one's opportunities throughout life, even though one is in no way responsible for one's social starting point any more than for one's natural endowment.

4.2 Key components of the equality of opportunity ideal

The notion of substantive equality of opportunity is a common feature in the theories of distributive justice by John Rawls, Amartya Sen, and Ronald Dworkin. These theories suggest that, because of individual differences in natural endowment and circumstances and preferences, what should be equalized is not the final outcome of distribution, but the means (or opportunities) to achieving the ends. They believe in the equalization of some kind of wherewithal that all people need to create meaningful and successful lives for themselves. They differ in part in what constitutes the means to be equalized (or the equalisandum).

Rawls (1971) proposes to equalize "primary goods". "Primary goods" are a fully adequate scheme of equal basic rights and liberties to which each person should have an equal claim. Inequalities are permitted provided, first and foremost, that the fair value of these primary goods are not compromised, and, secondly, subject to two conditions: (a) the inequalities are attached to positions and offices that are open to all under conditions of "fair equality of opportunity"; and (b) the inequalities are to the greatest benefit of the least advantaged members of the society (1971: 302). Rawls' "fair equality of opportunity" requires any individuals who have the same native talent and the same ambition to have the same prospects of succession in competitions that determine who gets positions that generate superior benefits for their occupants (2001: section 13). It also obligates society to expand the opportunities or positions

for which its disadvantaged citizens can qualify. Education and other means are used to adjust for disadvantages of social location (1971: 73).

Sen (1980, 1985) suggests to equalize “capabilities to function”. Capabilities are the “real opportunity” to “accomplish what we value” (1992: 7). In order to equalize capabilities to function, society must compensate for the unequal capabilities to convert instrumental goods, such as income and wealth, into functionings and to eliminate barriers to freedom to function such as poverty and discrimination (Sen calls this positive and effective freedom). Functionings consist of various doings and beings, such as working, being well nourished, being free of disease, and also more subjective states such as being happy and having self-respect (1992). A person’s state can be described as a vector of functionings. The vector of functionings actually chosen is the responsibility of the individual.

Dworkin (1981a, 1981b) seeks to equalize the impact of innate abilities and natural endowments on the distribution of goods. The main aim is to remove the factors not under control of individuals and to allow influence only of such factors that are under personal control and choices. Dworkin proposes a hypothetical compensation scheme in which he supposes that people do not know their own natural endowments and are to bid for insurance against inadequate talents or mental or physical handicap. The amount invested for insurance would go to the common fund from which those who turn to be handicapped or insufficiently talented would be supported.

The position of the substantive opportunity- egalitarians is situated in between competitive equality of opportunity and the equality of welfare or utility (Arneson 2002b; Peragine 1999). While it would go beyond the purpose of this paper to

compare and contrast in detail each of the related distributive justice theories, it suffices for the purpose of the paper to examine the common threads of the principle of substantive equality of opportunity. Broadly speaking, it consists of four essential elements.

4.2.1 Equality of means to ends

One feature that distinguishes the equality of opportunity theorists with theories of distributive justice that advocate equality of welfare or utility is that substantive equality of opportunity requires the equalization of the means to the ends, rather than the ends itself. In other words, justice does not require equal outcomes or equal degree of success in the realization of life plans. It only requires equalization of what is needed to produce welfare and to create meaningful and successful lives for themselves. The object of equalization (equalisandum) is the effect of given obstacles upon all relevant agents in pursuit of equivalent sets of opportunities. To increase opportunity is to diminish the impact of obstacles upon an agent's freedom. This incurs not simply an absence of negative intrusion into liberty, but is fulfilled in a positive action.

4.2.2 Level playing field

The equality of opportunity principle requires that the society provide a level playing field on which competition for positions in the social hierarchy will eventually take place (Roemer 1995, 1998). The playing field is level when social circumstances over which individuals have no control are equalized, so that individuals can reasonably be held responsible for their choices that determine their

eventual places in the social hierarchy. The substantive equality of opportunity principle calls for the compensation of those disadvantaged by uncontrolled circumstances. It obligates society to enhance its disadvantaged citizens' qualifications for positions that are open to the most qualified. It requires that society find a distribution of social resources which renders persons equal in advantage insofar as they face similar circumstances (Arneson 2002b). This condition might be claimed to be sufficient and necessary for just distribution.

4.2.3 Personal responsibility

The substantive equality of opportunity principle recognizes that people's actions are determined by circumstances by their own free volition, in addition to circumstances beyond their control (such as family socio-economic status, innately different endowments as well as diversities of family status, and personal differences). Provided that there is a level playing field i.e. the effect of circumstances that are beyond individual's control are equalized, individuals are held responsible for transforming opportunities (the equalisandum) into a successful life. This feature is most important and distinguishes the substantive equal opportunity principle from most other distributive justice principles. By holding individual responsible for their actions, human agency and freedom is enabled and protected.

4.2.4 Permissibility of inequality

The equal opportunity principle is not as pervasive as the egalitarian theories that require equality of income or outcome. Instead of equalizing preferences, the equality of opportunity approaches equalizes real opportunities to achieve or receive a

good, to the extent that it is aspired to. The substantive equality of opportunity principle permits unequal social and economic outcomes insofar as they are resulted from circumstances and traits regarding which the person should be held responsible (i.e. what set of opportunities to choose and how to transform the opportunities into welfare and success).¹³ Provided the opportunities are equalized for all people, individual's values, preferences and perspectives, volition, liberty, autonomy, agency individual choices and traits (such as efforts) are allowed to set in and act on the opportunities to dictate the final outcome.

4.3 Meeting the criteria for distributive justice in China

The equality of opportunity principle (both competitive and substantive) provides the condition for distributive justice in China. To judge against the four criteria set out in Chapter 3 -

Criteria 1: The distributive justice principles should provide the necessary conditions and justifications for unequal outcomes while upholding social justice.

The equality of opportunity principle provides conditions for unequal outcomes that uphold social justice. Because the substantive equality of opportunity principle requires the equalization of the effect of circumstances that are beyond the control of individuals, unequal outcomes reflect only the result of personal choices and traits that individuals are held responsible for. As such, the resource distribution

¹³ As explained in section 4.3 above, Rawls' distributive justice theory permits inequality provided certain conditions are met. Sen's distributive justice system allows unequal outcomes so long as they represent individuals' choices of vectors of functionings. According to Dworkin, inequality of outcome in a society is just so long as it is the result of personal choice and control and individuals are insured against inadequate innate abilities and talents.

that is resulted from an opportunity-egalitarian mechanism of distribution better reflects personal worthiness and choice and upholds social justice.

Take the example of a factory worker and a factory manager. The equality of opportunity principle requires that the social and economic status difference between a factory worker and a factory manager should ideally reflect differences in personal efforts and choice, not inherited or birth origin. Access to the manager position should be open to all who are qualified and be determined under a competitive process. The factory worker happens to be in his or her position (not the manager's position) not because he or she holds an agricultural hukou or did not have access to education in order to qualify for the manager position, but because he or she has chosen not to attain the qualification to compete for the position of a factory manager or simply loses out during the competitive recruitment process. With further experience and education, the worker could well be able to take up the position of the factory manager.

Criteria 2: The distributive justice principles should stipulate fair conditions for market competitions and interpersonal comparability.

The equality of opportunity principle provides fair conditions for market competitions. Under the competitive equality of opportunity principle, admission to the different levels of the hierarchy is to be determined by some form of competitive process that involves objective tests of competence and is similarly and equally applicable upon all competitors for scarce resources. Individuals are tested and compared on the basis of personal efforts and performance. These are traits that persons are held responsible according to the substantive equality of opportunity

principle. Traits that are outside the scope of personal responsibility, such as gender, age, and colour, are not factors to be considered and compared in the market competitions. This ensures that the same relevant rules apply to all people. To ensure that all people have genuinely equal chances of success in market competitions, the substantive equality of opportunity principle requires that individuals have equal opportunity in acquiring the skills and capabilities that are needed for competitions in the market.

Using the example of the factory worker and manager, the equality of opportunity principle would require that recruitment and promotion be determined through competitive processes that gauge and compare individual abilities and efforts such as aptitude tests (for recruitment) and appraisal reports (for promotion), and not be determined by traits that are irrelevant to the employment at the factory.

Criteria 3: The distributive justice principles should promote incentives, growth and development.

The competitive equality of opportunity principle promotes incentives by forging a direct relationship between personal efforts and rewards. Those who wish to attain higher positions in the social hierarchy are encouraged to strive and work hard. This promotes overall efficiency and growth of the factory. By requiring that admission to positions in the hierarchy to be based on competence, it ensures that only the most competent persons are placed to the positions in the hierarchy and that resources are allocated to those most competent to manage them on grounds of efficiency. The substantive equality of opportunity is beneficial to economic

development as it obligates society to expand the opportunities or positions for which its disadvantaged citizens can qualify, thereby tapping into underused resources.

Equality and efficiency are considered to be opposing ideals in most other distributive justice theories, in particular theories proposing equality of welfare or utility, as well as in classical economics (Kuznets 1955; Williamson 1965). According to these perspectives, equality has to be sacrificed in order to achieve efficiency and vice versa. The equality of opportunity principle enables equality and efficiency to coexist. It provides the condition where both equality and efficiency can be promoted and safeguarded.

In the example of the factory, equality of opportunity ensures that the best able and qualified persons command the highest positions in the factory. By directly linking performance to reward, workers of the factory are encouraged to aspire to attaining higher positions in the factory by working hard and improving their qualifications through education. This improves overall productivity and efficiency.

Criteria 4: The distributive justice principles should provide conditions for people to improve their status in the social hierarchy.

Under the equality of opportunity principle, all people are given equal access to channels for social mobility. A society that conforms to the equality of opportunity principle is open because the channels for upward and downward social mobility are open to all persons on the basis of competitive equality of opportunity. All people are given genuine opportunity to these competitions because they have equal opportunities to acquire the skills and qualifications required by the competitions. The equality of opportunity principle thereby ensures the social hierarchy and the

process that assigns individuals to positions in the social hierarchy is morally acceptable.

In the example of the factory, objective tests of competence required under the equality of opportunity principle provide the channels for factory workers to climb up the factory hierarchy to become factory manager. Provided that a worker meets the qualifications for the post of manager, such as having a certain number of years of work experience and having attained a certain level of education, he or she may apply to become the factory manager when the job vacancy arises.

PART III

CHAPTER 5 RURAL-URBAN INEQUALITY OF OPPORTUNITIES:

CAUSES AND DIMENSIONS

This chapter explores how the equality of opportunity principle of distributive justice is applied to the analysis of rural-urban inequalities in China. It begins with an analysis on rural-urban inequalities during the Maoist era. The second section examines the causes of increase in rural-urban inequality after the reform. The third section identifies the dimensions of rural-urban inequalities and analyzes how these inequalities are related to unequal opportunities.

5.1 Rural-urban inequality before the reform

5.1.1 General equality

Pre-reform China was in general egalitarian, as suggested by the overall Gini coefficient. Between 1956 and 1978, the Gini coefficients of income distribution were lower than those in most other countries. In the urban areas, the Gini coefficient was below 0.20, while in the rural areas it was estimated as between 0.21 and 0.24. In many developing countries, urban Ginis were between 0.37 and 0.43 and rural Ginis between 0.34 and 0.40 (Zhao 2001). China as a whole and intra-urban income disparity compared favourably with other developing countries as well as other Communist states.

The modest level of equality before the reform was attributable to two factors. First, the principles of social equity and egalitarianism were seen as important objectives of socialism during the Maoist era and were among the considerations for many institutions. Centrally planned allocation helped to resist the growth of inequality through redistributing resources from richer to poorer provinces (Riskin 2001). Besides, the socialist public ownership of the means of production and the ideological bias against sideline activities made it impossible for people to have substantial property income. Second, historically, the range of wages and salaries within economic sectors had been highly restricted. Income differentials within rural villages were also small. Few people in the community got distinctly richer than the rest. Those who did were either government cadres or those engaged in illegal means of soliciting wealth (Nolan 1988).

5.1.2 Rural-urban disparity

Despite general equality, inequalities existed in the Maoist era mainly in the form of rural-urban inequality. As of 1977, the ratio between urban and rural income ranged from about 3:1 to about 2.5:1 (Parish 1981). These ratios were already higher than in other low-income countries in Asia (where the average ratio was 1.5) and also higher than in middle-income countries (average 2.2) (World Bank 1983: 83-92).

Considering the vastness of China's territory (9.6 million square kilometers and the third-largest country in the world) and high proportion of arid, high altitude uncultivable land, disparity in the level of development seems only natural.¹⁴ Like other developing countries, the rural-urban income gap was caused by a dual

¹⁴ Only one-tenth of China is considered cultivable (Kirkby and Cannon 1989).

economic structure i.e. the coexistence of a modern industrial sector and a traditional agricultural sector. What is peculiar about the big rural-urban gap in China is that it was accentuated and institutionalized by two major policies of the People's Republic of China (PRC).

Industrialization policy. The first of such institutions was the industrialization policy. Since its establishment, the Communist government has prioritized urban development over rural development, industry over agriculture, commerce and services. The Chinese Communist Party, like its Soviet counterpart, believed that rapid industrialization with a focus on heavy industry was key to building a strong and rich nation. State resources and investments were concentrated in the cities and industry respectively. Rural surplus and products were extracted and channeled into urban industry and the military. The state assigned low purchasing prices for agricultural products so that funds can be accumulated for industrialization. The cost of basic consumer items, measured in quantities of grain, was much higher for China's peasants than for those in other east Asian countries, even for the same brands of consumer items (Riskin 1987).

As part of the industrial policy, primary goods and agricultural products are priced substantially lower than finished goods and industrial products. This "scissors gap" in prices was designed to benefit coastal provinces at the expense of inland provinces – coastal provinces sell high-priced goods to and obtain low-priced goods from inland provinces; the latter on the other hand produce low-priced goods but have to purchase goods from the former at high prices (Lardy 1983; Riskin 1987).

Household registration (hukou) system. The second policy that has widened the rural-urban gap is the household registration (hukou) system. This was formally

implemented in 1958.¹⁵ Although the official interpretation for the setting up of the hukou system does not explicitly aim to block any rural-urban migration,¹⁶ many scholars believe that it serves as part of the heavy-industry oriented development strategy to safeguard the welfare of the urban population (Chan and Li 1998; Zhang 1988). The hukou classification system is based on two criteria: one's presumed permanent residence (urban or countryside) and the type of hukou registration (agricultural or non-agricultural). The first criteria determines one's rights for social and economic activities in a specified locality. The second criteria determines one's social and economic entitlement to get the state-subsidized grain and other privileges such as employment opportunities, wages, and housing.

Urban householders were guaranteed certain supplies of daily necessities, including food grains, edible oils, and cloth. They were also entitled to state-provided education, employment, medical services, and old age pensions. Urban householders were assigned work with fixed wages plus benefits after their graduation from school. This included housing assigned by their work units. These basic benefits protected urban residents' living standards and offered some upward mobility and opportunities for advancement. Rural localities on the contrary were required to be self-sufficient in feeding, housing, and employing themselves. (Chan and Li 1998)

The designation of hukou registration place and status for a person is inherited from that one's mother. Change of the hukou registration is not easily granted, in particular in case of rural-urban migration. (Chan and Li 1998) The rural or urban

¹⁵ The hukou system was established in cities in China in 1951 and extended to the rural areas in 1955. The system was formalized as a permanent system in 1958. (Chan and Li 1998)

¹⁶ The official interpretation is that the hukou system serves for the consolidation of socialist system, public interests, and for the overall state administration (Luo Rui Qing (the former head of the Ministry of Public Security), "Guanyu zhonghua renmin gongheguo hukou dengji tiaoli caoan de shuoming" (Interpreting the regulations on household registration in the People's Republic of China), People's Daily, January 9, 1958).

status is inherited and there was no legal way to change one's hukou status except under exceptional circumstances.¹⁷ People who wish to temporarily visit the city have to apply for temporary residence status which is valid for a maximum of three months.¹⁸ A hukou status almost determine one's living standards and life chances and restricted one's prospect of social mobility.

By keeping the rural population out of urban areas, the hukou system enabled the state to maintain handsome industrial profits in industry and keep down the urban welfare burden. The state could thereby channel the monopoly profits of the industry into the carrying out of ambitious industrialization programs (Chan 1996). In any case, the effect of the hukou system was little felt before the reform as the people were bounded in egalitarian ideology and similar standards of living. The full force of the hukou system only reveals itself after the reform.

5.2 Rural-urban inequality after the reform

Since the reform began in 1978, rural-urban inequality rose rapidly. According to Chinese official statistics, the Gini coefficient rose from a low level of 0.33 in 1980 to 0.4 in 1994, and further rose to 0.46 in 2000. China's income inequality is acute by international standards. China has surpassed India and Ethiopia in terms of income inequality and is among those countries with most unequal distribution in the world (United Nations Human Development Report 2003).

¹⁷ Persons who were reckoned for their exceptional circumstances include rural residents who are recruited by urban industries, people admitted to universities, and those with official reasons to move.

¹⁸ The Public Security Bureau maintains very strict monitoring of temporary residents in the cities. Proof of identity is required for booking onto a train or into a hotel. The ration card system for food allocation and the unavailability of goods in the market made it impossible for people to move away from their registered place for long (Ferdinand: 480-481).

Rural-urban income inequality is the main cause of China's income inequality. China's urban-rural differential is the highest in the world, according to the database provided by the International Labour Organization. The ratio of per capita disposable income in rural areas to the net per capita income in urban areas has increased from 1:2.5 in 1998 to 1:2.8 in 2000. Few countries have a ratio of more than 1:1.6 (Johnson 2001). Almost all poor people are concentrated in the rural areas, while almost all rich people are urban householders. During the early 1990s, rural residents accounted for 99.58 percent of the poorest 10 percent of the total population; urban residents accounted for 88.12 percent of the richest 10 percent of the total population.¹⁹ The current inequality status of China is commonly described in the Chinese literature as the 'Matthew effect' (*matai xiaoying*) cited from the Bible – those who have plenty will be given more; and those who have little will be stripped of what they already have (Fan 1997).

The increase in rural-urban inequality after the reform can be attributed to six factors: economic growth; uneven development policy; relaxed residential and job mobility; fiscal decentralization; sectoral wage difference; and corruption.

5.2.1 Economic growth

The widening rural-urban income gap results from uneven growth rates and spans. Although both the rural and urban areas have experienced dramatic economic growth after the reform, the gap widened as rural growth stagnated in the 1990s while urban growth continued into and after the 1990s. The initial rural growth caused by the dismantling of the collective farm system and the introduction of the dual-price

¹⁹ *Xin zhongguo wushinian tungji jiliao huibian* (Contemporary China Fifty Years of Statistics), pp.137-138, Zhongguo tungji chubanshe (China Statistics Publishing Company), 1999.

system in the agricultural sector at the start of the reform reduced rural-urban income disparity from 1:2.4 in 1978 to 1:1.7 in 1983.²⁰ The increase in rural income reflects the utilization of the latent productivity that was restrained and distorted under the planned economy. Once this productive force was exhausted and coupled with the slowing down of township and village enterprises (TVEs) growth towards the mid-1990s, rural income growth stagnated.²¹ At the other end, urban economic growth continued to increase as the opening up of the coastal regions brought about a concentration of foreign investment in the coastal cities. Provinces such as Jiangsu, Zhejiang, Shandong, and Guangdong, account for two-thirds of industrial output and over 95 percent of the foreign investment flooding into the country. Since the start of the economic reform process, average incomes in coastal areas has risen at over 2.5 percent per annum faster than in inland provinces in the 1980s. By 2000, rural-urban income disparity increased to 1:2.8.

5.2.2 Uneven development policy

Deng's uneven development policy and the pursuit of regionalization essentially promoted inequality. Deng's development strategy was that some coastal regions should get rich first so that economic growth could spillover from the more developed coastal regions and stimulate the prosperity of the country as a whole (State Council 1986). Under the guiding principle of "comparative advantage",

²⁰ The dismantling of the collective farm system and the introduction of the dual-track price system in the agricultural sector greatly improved agricultural productivity, incentives, and efficiency as farmers can sell crops in excess of state quota at market price. The labour and capital that were freed up spilt over to the township and village enterprises (TVEs) and resulted in rapid increase in rural income.

²¹ The fierce competition caused by increasing marketization restricted TVEs' growth. Competition for TVEs became even harder after the government made macro-economic adjustments and introduced financial, tax, stock market, loan, foreign exchange measures in 1993. Together with the Asian financial crisis in 1997, TVEs had to engage in ownership-based reforms and modifications before growth could pick up again.

efficiency and pragmatism was prioritized over equity. The coastal areas became the leaders in the “opening up” and overall economic reform.

To promote regional differentiation in development, the government accorded highly preferential tax rates and investment authority to the Special Economic Zones and high technology development zones in the coastal area. Preferential foreign exchange retention rates were also granted to the Special Economic Zones (100 percent) and some coastal provinces (50 percent for Guangdong and Fujian), while the inland provinces were permitted to retain only 25 percent of their foreign exchange earnings.²² Resources continued to be extracted from rural areas to fund economic development. A 1993 research found that rural income on average was reduced by 4 percent as a result of the tax-plus-subsidies system. Urban income, on the other hand, was raised by about 39 percent (Griffin and Zhao 1993). As at 1997, rural residents were subject to as many as 55 different fees. Although the state has limited such fees to five percent of rural incomes, some local governments take as much as 50 percent of rural household incomes in fees and taxes.²³

Regional development and inequality reflects unequal opportunities among regions. During the 1990s, some regions, particularly some coastal areas such as southern Jiangsu, recorded dramatic growth while some interior areas were lagging far behind. Regions battled for resources using illegal administrative and even military measures to protect their local markets and restrict interregional resource flows (Wei 2000).

²² Jae Ho Chung. “Regional Disparities, Policy Choices and State Capacity in China,” China Perspectives No.31, September-October 2000.

²³ David Zweig. “Managing Rural Conflict in China: Can new political institutions cope with unrest in the countryside?,” Asian Wall Street Journal. October 9, 2000.

5.2.3 Decentralization and local self-sufficiency policy

Under fiscal decentralization, the central government's function in the former revenue-sharing system that contributed to education, health and infrastructure development of the poor interior provinces has been greatly weakened. Access to education and medical services has turned into goods to be competed for in the market. Poorer localities are left hard-pressed to provide for the basic social spending needs of their regions. The rich localities, on the other hand, are able to spend more on health and education than poorer ones. The decentralization of fiscal system to individual provinces has exacerbated differences in human welfare performance as well as the rural-urban income gap. The policy transforms income inequalities into inequalities in social and human development aspects (this will be elaborated in section 5.3).

5.2.4 Relaxation of the hukou system

During the 1980s, restrictions on migration became gradually relaxed. Restrictions on the hiring of workers in the countryside and the setting up of businesses by rural people in designated towns were lifted. Some cities allow rural people who have found stable jobs to change their residence status to become urban residents.²⁴ Some local governments offer urban hukou for purchase. Many rural people moved to urban areas hoping to look for work and better living standards.²⁵ The annual quota for conversions of agricultural hukou status has been raised to 2 per thousand of the non-agricultural population (Chan 1996). The number of persons who have permanently changed status remain small and the people who are able to

²⁴ Lu Xueyi (ed.). *Dangdai zhongguo shehuihua jizheng yanjiu baogao* (Contemporary Chinese Social Stratification Study Report), Shehui kexue wenxian chubanshe, p.176.

²⁵ According to "Hukou Reforms Bear Fruit." Online. Eastday.com 7 Dec 2002, by early 1994, altogether 3 million urban resident household registration books had been sold to peasants, generating a revenue of RMB 25 billion yuan.

change their hukou status are essentially the intellectuals, newly rich peasants, and cadres.²⁶ Most migrant peasants to the cities are not eligible or cannot afford to convert their household status and have to retain their formal rural affiliations. This means that they are still not entitled to state welfare benefits available to the average urban person.

The net effect of rural-urban migration on inequality is not clear as most of the incomes of the rural-migrants are not reported (many of them are related to the informal sector) and therefore not included in the statistics. Generally speaking, two opposing forces are at play. On the one hand, rural-urban migration raises the intra-urban income inequality because rural-migrants are those who take up low-paying jobs as domestic workers, construction workers or trash collectors. This tends to reduce the urban average income. Also, because of their remittances to rural areas, rural average income is increased. For these reasons, the overall rural-urban inequality tends to increase. On the other hand, the permanent household status conversion channels tend to widen the rural-urban gap because they are accessible mainly to intellectuals, cadres, and the newly rich peasants. This drains away talents and resources from the rural areas and bring down the average rural income, which thereby raised the rural-urban disparity. (Lipton 1980; Adams 1992)

5.2.5 Sectoral wage difference

On one side of the rural-urban dualism, the modern urban sector is rapidly expanding. Those working in the modern urban sectors receive income equal to their marginal revenue product and the pay is likely to increase because of China's

²⁶ According to statistics from the Ministry of Personnel, 18,000 rural residents have changed into urban households since 1996.

integration to the world. The wages of urban government employees has almost doubled since the reform. On the other side, the agricultural rural sector has a huge number of surplus workers estimated at 150 million people. Although farmers can sell their products in the market, farmer's income has remained low at subsistence level and even dropped in some areas. The challenge in adjusting agricultural prices is that the prices cannot go up at a time when supply exceeds demand. As at March 2002, China has 250 million tons of grain reserves.²⁷ This problem will aggregate as farm products from the United States flow into China in large quantities under the WTO framework.

5.2.6 Corruption

Towards the 1990s, new classes of professionals and millionaires emerged in China. These new social classes, such as private entrepreneurs, managers, and staff in foreign-funded firms and film stars, emerge with increasing economic and political influence and wealth. Some of them got rich through connections with senior government officials and corrupt means, and snowballed their wealth through continuous corruption and tax evasion. This has seriously distorted income distribution and aggravated inequality because the rich, who are supposed to be most able to contribute to national finance and development, avoids their share. As these new classes are mostly based in urban areas, the rural-urban income gap is widened.

²⁷ "Chinese Premier Meets the Press". Online. [Zhonghuameng](#). 12 Dec. 2002.

5.3 Unequal opportunities

Inequality of opportunities between rural and urban people manifests itself at two levels. On the individual capability level, rural people are disadvantaged in getting equal access to education and health care. This put them in a disadvantaged position in market competitions. The unequal social opportunities work in a vicious cycle to reinforce economic inequality. On the competition level, rural and urban people are subject to different rules in market competitions, unequal prospect of social mobility and employment opportunities. Three dimensions of unequal opportunities between rural and urban populations are identified in the following sub-sections.

5.3.1 Unequal opportunities in education

The rural-urban gap in education was large before the reform. The gap has widened after the reform. According to official figures, rural to urban ratios for spending show a rate of 1:1.66 for primary education and 1:1.67 for junior middle school level. Urban people receive an average of 9.6 years of education, about 4.1 years more than rural people (Knight and Li 1993). As of 2000, rural illiteracy was 16.9 percent, more than twice the urban illiteracy rate (8.27 percent). Majority of the rural population achieved no more than primary secondary education (94.82 percent) while only 5.18 percent attained senior secondary education level or above. In urban areas, nearly one third of the urban population (30.15 percent) attained senior secondary education level or above. This includes 7.97 percent who attained tertiary education level. Rural residents who have attained tertiary education level amount to

only 0.29 percent.²⁸ Indeed, most tertiary education institutions are located in urban areas. According to 1999 China Statistics Yearbook, there were a total of 13,948 senior secondary schools, of which only 2,721 were located in rural areas, while 5,331 were located in urban areas, another 5,896 were located in towns.

The gap is, to a large extent, the result of fiscal and administrative decentralization in educational provision and the withdrawal of subsidies and direct state services. Since the mid-1980s, educational finance has been decentralized to respective levels of government. Funding for individual schools and universities thereby came to be determined by a locality's economic strength and revenue-raising capabilities. As the gap in financial conditions between rural and urban local governments increases, the gap in education provisions widens. As a result, educational services and quality deteriorated in quantity and quality in poor communities, while richer localities purchase quality educational services in the private sector which can equip schools with more and better facilities and employ better qualified teachers (Griffin and Zhao 1993: 290).

Although rural and urban areas are subject to the same rules of competitive opportunity (i.e. decentralization and self-sufficiency in education financing and admission to higher education on the basis of academic competition), justice is not done to the rural residents for three reasons. First, the rural governments have systematically less financial resources to provide for education funds than their urban counterparts. The gap in financial resources is the result of the Maoist industrial policy and Deng's uneven development strategy, both of which were bias against

²⁸ Cai Fang (ed.) *Erqian nian zhongguo renkou wenti baogao* (2000 China population problem report), Shui keshe wenxian chubanshe, p.44.

rural development. Rural localities have not been given the same opportunity to obtain financial resources.

Second, the private and social rates of return to education is lower in the rural sector. Despite relaxed residential and job mobility, rural migrants remain discriminated on the basis of their hukou status when seeking jobs and public services. What is more, the new set of material incentives under the reform has made it economically more attractive for children in the countryside to begin earning income rather than seek additional education. Lower return to education gives rural people less incentive to attain high educational level and culminate in a decline in enrolment rates in lower middle school and, especially, in upper middle school. The unequal rates of return to education could have diminished with time as rural-urban migration evens out the difference. However, social status is imprinted by household status and could not be removed easily with migration or education. In an increasingly market guided economy, low returns to education leads to a misallocation of labour and weak incentives to acquire the skills and education needed in a technologically progressive society.

Third, low educational attainment works in a vicious cycle with population growth and income inequality. Less educated persons tend to have higher birth rate at an earlier age (Griffin and Zhao 1993: 285). The growth in population in turn affects the quality of education. Furthermore, the income differences between urban workers and rural workers may lead to educational disparities based on families' socio-economic backgrounds. Parents who are poor are less able to provide decent education to their children. This in turn leads to lower attainment of education. Besides, illiteracy in rural areas hinders the use and spread of technology and

knowledge in agricultural production which in turn affects agricultural productivity and income, and reduces social opportunities in the society (Sen and Dreze 1995: 40)

5.3.2 Unequal opportunities in health care

The disparity in government health-care spending between rural and urban areas is large. Urban per capita consumption on health and medicine was 2.18 times that in rural areas in 1985. By 1997, this ratio had increased to 2.88 times. About 60 percent of public health spending is disbursed for 15 percent of the population who live in cities. In 1993, only four percent of spending covered the needs of the poorest quarter of the rural population.²⁹ The rural population covered by health care declined drastically from 85 percent in 1975 to 10 percent in 1993. Since then, the situation has continued to decline: where 12.8 percent of rural people had health insurance of some form in 1993, by 1998 the rate had fallen to 9.5 percent.³⁰ The number of rural people who have been excluded from health insurance since the reforms amounted to 700 million (World Bank 1997). According to the Statistical Yearbook of China, life expectancy in urban areas like Shanghai, Beijing and Guangdong is 75.2 years, 73.6 years and 73 years respectively. This contrasts with Anhui, Hebei and Sichuan where the life expectancies are 69.8 years, 71.8 years and 67.1 years respectively.

The medical care services for rural areas deteriorated after the reform. The institutions that were in place during the Maoist era to provide comprehensive medical services and outreach preventive and curative services to the poorest of rural inhabitants, namely the cooperative medical system and the barefoot doctors, have

²⁹ Charlotte Chaillez. "The collapse of the rural health system." *China Perspectives* No.18, July-August 1998.

³⁰ Li Yuanli and William C. Hsiao. "China's Poor and Poor Policies: The Case of Rural Health Insurance," paper presented at the conference on Financial Sector Reform in China, September 11-13, 2001.

tremendously declined as the communal production system was dismantled. At the same time, the fiscal decentralization has further added to the rural people's financial burden. Since the reforms, health-care responsibility was decentralized from the central government to local governments, local communities, individuals and the market. The role and capacity of the state and state enterprises in health care service declined and is replaced by the operation of the market. Policies became increasingly commercialized. User fee-oriented policies such as cost-recovery measures and profit-making incentives are introduced. These policies have created problems of access, equity, efficiency, and costs. The result is that only wealthy people are able to buy quality services from the market while the poor are left with insufficient health-care services, deferral of care, and untreated illness. Because the state is providing less subsidy to hospitals, the latter are given a greater degree of autonomy in charging excessive fees. To generate additional revenue, the hospitals increased the quantity of profitable services such as high-tech equipment and expensive drugs, and tend to unnecessarily over-prescribe expensive medicine to those able to pay (Mok 2000). Those who have limited economic means are discriminated against for normal health-care support.

As in educational services, the Chinese government has placed the provision of medical services under the mechanism of the market competition. This is not fair because the basis for achieving the "qualification" to compete, i.e. financial resources, is the result of biased development strategies. What is more important, unequal health care provisions aggravates the rural-urban inequalities and systematically place rural people in a disadvantaged position. Unequal medical services provision affects rural residents' well being and limit their capability to engage in market competitions.

5.3.3 Unequal opportunities in employment and social mobility

The relaxation of migration restrictions in the post-Mao era restored some mobility to the peasantry. It has fueled the expectation for a social mobility and better life for many people in China. However, the partial nature of the relaxation put the rural people in worse position than in the Maoist era. Although they are allowed to compete for positions in the cities, the chances of success are systematically restricted by their rural status and their comparative disadvantage in capability or “qualification” to compete. The rural people in the cities are excluded from state welfare net and support system, despite rural immigrants make up a crucial part of the urban labour force. Their ambiguous residency status are often exploited by employers, including the state. They are made to work longer hours but given less pay in the informal economy. There are currently about 3.2 million floating population in the capital.³¹

The opportunity for a migrant worker to move up the social ladder is bleak. Holders of rural household in itself represent a social strata at the bottom of the urban socioeconomic structure. Migrants without urban hukou are regarded as peasants no matter how long they have been in the cities. Marriages between the two strata are uncommon although it is permissible under the law. Most state-run public services, such as day-care centers, schools and clinics, are not open to children of migrants who are married to a person with a different hukou. The few urban schools that accept migrant children charge extremely high extra fees.

³¹ “Hukou Reforms Bear Fruit.” December 2002. Online. [Eastday.com](http://www.eastday.com).

Education, occupation and income are the three constituent elements of socio-economic status in modern societies. While these elements have been eroded heavily during the Maoist era, the reform has restored socio-economic status consistency for some people in China – higher education increases a person's chance for securing better occupation; higher education and higher occupational status together better predict higher income today. Yet, these relationships do not apply to holders of rural hukou, which constitute majority of the rural population. A large segment of the labour market, namely rural householders within the cities and those who remain in rural areas, demonstrates high socio-economic status inconsistency because they are subject to discriminatory rules of competition that are based on one's birth-ascribed status. Education does not provide objective channels for upward mobility and life chances for them. Solinger (1993) described this succinctly, "the hukou system absolutely determined not just where a person could live but along with that the person's entire life chances – his or her social rank, wage, welfare, food rations, and housing." Since education and efforts do not work as an effective avenue for upward mobility, it is of no wonder that some people resolve to earning quick money through corruption, robbery and other vices.

Spatially-based resource allocation criteria is no longer suitable in a transition market economy where resource allocation mechanism has shifted from a "need principle" to the "market principle". It is incongruent with the meritocratic criteria (such as competence and performance) and distributive justice principles implicit in a market economy. It is also inefficient as it places constraint on market forces and labour mobility.

Restricted social mobility has caused China's urbanization process to lag substantially behind the world standard (Chang 2002). In developed countries, urban residents account for more than 70 percent of the population. The figure in China is only 37.7 despite the country's rapid progress in the past two decades.³² Urbanization is an important source of growth of the middle-class. A mature population of middle-income earners is very important to China's development because most middle-income earners advocate stability and have considerable purchasing power. China's middle-income earners now account for about 18 percent of the population, compared to 40 percent in Western countries. The urbanization process in China is expected to accelerate since the residence registration system is being relaxed.³³ One problem with urbanization in China is that there are not enough jobs in the cities for the unemployed, especially with the closing down of state-owned enterprises. The gist of the problem is that there is a general mismatch of job availability and unemployed workers. To solve this problem, it is imperative to turn the underused talents in the rural areas into productive factors that can contribute to the market needs. The rural labour force is now severely underutilized. With some 60 percent of the whole population, China rural economy contributes only 20 percent to the total GDP.

5.4 Conclusions

Before the reform, the regime of social development was already dualistic. The Maoist industrialization policy created a hierarchy of regions and sectors. The public urban sector received significantly more comprehensive and better social services and in-kind subsidies than the rural sector. Although the rural people were

³² "Blueprint for an Overall Xiaokang Society in China." Online. *China Daily* 3 Dec. 2002.

³³ Some people estimate that the ratio of urban residents to China's population is very likely to reach 55 percent by 2020.

not provided with the same level of social services, the agricultural collective system and the rationing system provided all basic necessities to the rural people. Egalitarianism was also dualistic in the sense that central planning and central allocation of resources ensured equality within the rural and urban sectors and achieved overall improvement in human and social development. People of the two sub-systems are equal within their own sub-systems in terms of income, social services, and living standards. Inequality between the rural and urban sectors were less a cause of worry then because the hukou system was stringently administered to separate the two socio-economic sub-systems in such a way that physical and social mobility was nonexistent.

The relaxation of the hukou system after the reform has broken the dualism. Despite the possibility of mobility, socio-economic opportunities between rural and urban people remain unequal. Rural migrants are subject to differential competitive rules and treatment in terms of wages, employment conditions, public service provisions, and social status. Even when the same policy of self-sufficiency are applied to rural and urban regions, there remains to be unequal opportunities between rural and urban populations in terms of access to education and health care because the self-sufficiency policy is premised on the unequal financial conditions between the rural and urban sectors. Unequal access to essential provisions such as education and health care causes unequal chances of success in market competitions for resources between rural and urban people.

China's rural-urban inequality is excessive and intolerable because it reflects not only differences in natural abilities and endowments, but also structural inequality of opportunities between the rural and urban populations. The marketization and the

regressive social policies processes have aggravated inequality in China by translating income inequality into inequalities in social service provisions, thereby placing further burden of the transition on rural people.

CHAPTER 6 POLICY IMPLICATIONS AND THE SIGNIFICANCE OF THE EQUAL OPPORTUNITY PRINCIPLE FOR CHINA

This chapter discusses the policy implications arising from the analysis of unequal opportunities between rural and urban China. It discusses the significance of the equal opportunity approach for China before concluding the paper with suggestions for future research.

6.1 Policy implications

Equality of opportunity requires that all people be given opportunities to develop capabilities that are necessary for survival and competition in the market guided economy. It also seeks to prevent uncontrolled circumstances from interfering with the attainment of the capabilities. Applying this principle to rural-urban inequalities, we come up with the following six policy recommendations.

6.1.1 Scope of marketization

First of all, the Chinese government should adjust the scope of marketization. The government has within a short period of time after the reform introduced market mechanisms to the provision of education and medical services, turning these essential services to goods to be bought in the market. As discussed in Chapter 5, education and medical services provisions cannot be left to the forces of the market when rural people systematically lacks the financial resources to enable them to compete for services on equal terms with their urban counterpart. Unequal opportunities in access to education and medical services affect not only the capability

of rural people, but also their prospect of social mobility. The importance of intervention by government of emergent market economies has been stressed by a number of scholars (Polanyi 1944, 1957; Sen 1999; Nee 1989).

The government should take an active role in regulating rural-urban economic and social inequalities, in particular those that will affect people's capabilities and life chances. It should restrict the scope of marketization to areas to the extent that the provision of essential education and health services provisions are not compromised. Even in capitalist market economies such as the United States, Britain, Germany, Japan and France, essential services such as education is not left to the forces of the market.³⁴

6.1.2 Abolition of household registration system

The household registration system should be outright abolished. As discussed in Chapter 5, the system is no longer commensurate with the economic development of the country and hinders urbanization. What is most important, the hukou system fundamentally violates the competitive and substantive equality of opportunity principle. It provides the basis for the imposition of discriminatory rules in employment on rural people and affects their social mobility.

The abolition of the hukou system will facilitate residential, job, and social mobility of rural people. Market opportunities will not only help to correct inequalities, they will also facilitate the integration of the rural and urban labour markets and equalize the returns to education. This will in turn increase rural people's incentives to acquire the skills and education needed in a technologically

³⁴ These countries make education compulsory and free for specified number of years (12 years for Germany, 11 years for Britain, 10 years each for the United States and France, and 9 years for Japan).

progressive society and in a market guided economy. Also, rural people will no longer have to bear excessive costs for public services in urban areas. This reduces the costs of staying in cities and put rural migrants on more equal competitive terms with their urban counterparts. It will help to release the mass of unemployed rural labour force and expedite the urbanization process.

Lifting the restriction on migration will not result in the “flooding” of cities by rural people, as some people argue. This is because the high living expenses in the cities will deter those who are not able to afford the costs of city living as well as those who fail to find a job from staying in the city.

6.1.3 Attainment of basic capabilities

The government should designate a vector of basic opportunities, or life chances, such as compulsory schooling up to a certain level and an equitable access to health care services on the basis of need, across which all citizens are to be provided with. The United Nations Human Development Report 2003, for example, defines human development as comprising longevity, education, and living standard. The aim is to equip individuals with skills and capabilities that are considered by the society to be essential for attainment of goals in the society. It is also to protect human development and to prevent an individual’s financial and familial circumstances from hindering his or her opportunities and capabilities.

For each of these opportunities, the government should set the standard to mark the level where the playing field should be leveled and where personal responsibility should begin. In education, this means that education should be made

compulsory and free for up to a “basic” level to be defined by society.³⁵ Access to education beyond the certain “basic” level should be funded by the individual. This demarcation however needs not be rigid. For those who wish to pursue higher education but are not able to pay for it, the government should provide grants and loans schemes. As for medical service, basic medical services should be subsidized by government and provided on a need basis. Special financial assistance on a grant or loan basis should be provided for those who need advanced medical services but are unable to pay.

The Chinese government has demonstrated increasing awareness of the importance of human development and sustainable development. Vice-premier Li Lanqing urged leading officials at all levels during an annual meeting of the National People’s Congress in March 2002 to strengthen the leadership and administration of rural compulsory education and establish a mechanism to ensure funding for developing the sector so as to guarantee investment in this sector and the payment of the teachers’ salaries.³⁶ The government has also recently publicized the “Program of Action for Sustainable Development in China in the Early 21st Century” which includes the adoption of a human-centred approach to development and the building of a health and medical care system that is commensurate with China’s level of economic development.³⁷ These are all progresses towards the right direction in terms of equality of opportunity. The challenge now lies in whether these endeavours

³⁵ China has established the Law on Nine-Year Compulsory Education in 1986. However, the implementation timetable and level of attainment was only compulsory for urban and coastal areas. No timetable or years of compulsory education were imposed on the rural population so as “to tailor to local conditions and economic development”.

³⁶ “Vice-Premier on Reform of Compulsory Education in Rural Areas”. March 12, 2002. People’s Daily. Online.

³⁷ “China Publicizes Program of Action for Sustainable Development”. July 26, 2003. Xinhua News Agency. Online.

can sustain through possible changes and fluctuations in leadership, economic condition, and the political system.

6.1.4 Anti-discrimination laws

The government should ensure that the mechanisms which assign people to positions in the social hierarchy be premised on the principle of equality of opportunity. To do so, the government should legislate to make it illegal for schools and businesses to discriminate candidates for positions on the basis of household origin, sex, age and other irrelevant criteria. This will protect the meritocratic competitive institution and the integrity of the distributive justice system. As labour markets operate more efficiently, coupled with the abolition of the household registration system, rural-urban inequalities will diminish and internal migration will gradually erode spatial income differentials.

6.1.5 Integrative policy approach

The government should adopt an integrative approach to tackling the inequality problem. Rural-urban inequality is not only an economic problem. The earlier discussions in this paper has demonstrated that inequality in income contributes to social inequalities in education and medical care. On the other hand, social inequalities can widen income inequality. The most effective way of tackling inequality is therefore to integrate income inequality issues and related policies with the other policies of rural development such as the hukou system, poverty alleviation policies and health and education policy.

6.2 Significance of the equality of opportunity principle

To enable a coherent distributive justice system, it is crucial that the equality of opportunity principle is binding in policy-making. Policies that are made on the basis of the equality of opportunity principle are different from current policy directions in three aspects.

Efficiency versus equality. The equal opportunity principle enables the differentiation of desirable and undesirable inequality. It enables the coexistence of efficiency and equality in policy-making. Development should therefore no longer be used by policy makers as an excuse for discrimination. Inequality that reflects unequal opportunities should not be tolerated.

Sustainability. Policies made under the principle of equal opportunity sustain tolerance for inequality because unequal reward is used as motivation and incentives for climbing up the social ladder. Inequality that is premised on the equality of opportunity principle provides the channel for and gives a sense of hope to the rural people to break rigid social class.

Human-centered approach. Policies made on the basis of the equal opportunity principle adopts a comprehensive definition of development. Instead of equating GDP growth with national development, these policies consider that national development include human development of basic capabilities such as education and medical care. They recognize that economic progress cannot sustain in the absence of a sound social structure in education and health. Human welfare must be respected and protected in its own right, not because human capital are inputs to the production process. A piecemeal, one-dimensional development is at best transitory. The recent outbreak of the Severe Acute Respiratory Syndrome (SARS) in China is one of the

many incidents that speaks of the importance of the human-centered approach to development.

Some people argue that equal opportunity may not be necessary for rural and urban populations afterall because socioeconomic dualism is common in many developing societies, reflecting the different paces of technological development in different locales and sectors. They argue that the rich-poor gap per se is not important. What is important instead is that the poor is not getting enough. This argument implies that we should be satisfied with rural-urban inequality as is because the situation of the rural poor has significantly improved and the number of persons in absolute poverty has greatly decreased. The problem with this perspective is that the definition of sufficiency is a subjective concept and the approach does not provide a clear criteria for inequality. Besides, this approach does not address the rural people's systematic disadvantage in achieving social mobility in the market economy. In an age of commercialization and globalization, it is no longer sufficient for the rural people to merely have improvements in living standards. China has been moving from labour-intensive to technology-intensive exports: telecommunications equipment and computers now account for a quarter of its exports. In an age where knowledge has become a commodity, the disparity in education between rural and urban areas has magnified polarizing effects. It is imperative that the rural population be equipped with equal capability to meet the new challenge.

6.3 Conclusions

Rural-urban income gap is the result of historical, cultural, economic, and institutional factors. However, instead of adjusting to compensate for the effects of

increased wage inequality, the reform policies of marketization have highlighted and translated pre-reform rural-urban income inequality into inequalities in access to education and medical care. Social inequalities mean unequal opportunities in market competition. This works in a vicious cycle to further disadvantage the rural population. Thus while inequality was bound to grow in the context of market-oriented economic reforms, the rural population is made to bear disproportionate levels of the burden of transition.

Inequality of outcome is the inevitable result of competitions in a market economy. What is important is that the evaluation of inequality is based on some distributive justice criteria that is commensurate with the resource allocation system and morally accepted by the society. Because of the partial nature of the reform, there lacks a convincing and binding distributive justice principle. This paper has demonstrated that the equality of opportunity principle provides necessary criteria for rural-urban inequality that may be sustainable and tolerable, while having regard to the need for economic development.

There are few studies on the distributive justice system in China. This paper is an attempt to fill the void. Further normative and empirical studies need to be done on the prevailing distributive justice system and norm in China, the legitimacy of the resource allocation mechanism and how culture affects and interacts with the existing distributive justice system. Also, intergenerational mobility studies of China are rare. This is in part caused by the political purgation of social class in the Maoist era. More research on post-Mao intergenerational mobility is needed.

This paper has applied the equal opportunity principle of distributive justice to analyze rural-urban inequalities in China. Using a single principle of distributive

justice may risk over-simplifying the complicated subject of inequality. But should this approach point to a succinct direction for policy priorities and societal norm, then the aim of the paper is achieved.

BIBLIOGRAPHY

- Ackerman, Bruce. Social Justice and the Liberal State. New Haven: Yale University Press, 1980.
- Adams, Richard H. "The Effects of Migration and Remittances on Inequality on Rural Pakistan." The Pakistan Development Review 31 (winter 1992): 1189-1206.
- Arneson, Richard. "Equality of opportunity of welfare" Philosophical Studies 56 (1989): 77-93.
- Arneson, Richard. "Egalitarianism". In Edward N. Zalta (ed.), The Stanford Encyclopedia of Philosophy. (Fall 2002). Online. Stanford. 2002a.
- Arneson, Richard. "Equality of Opportunity". In Edward N. Zalta (ed.), The Stanford Encyclopedia of Philosophy. (Winter 2002). Online. Stanford. 2002b.
- Arrighi, Giovanni, et al. "Industrial Convergence, Globalization, and the Persistence of the North-South Divide". John Hopkins University, 2002.
- Balke, Nathan S. and Daniel J. Slottje. "A Macroeconometric Model of Income Inequality in the United States." In Jeffrey H. Bergstrand et al (eds.), The Changing Distribution of Income in an Open US Economy, Amsterdam: North Holland, 1994.
- Beckley, Harlan. "Capability as Opportunity: How Amartya Sen Revises Equal Opportunity." Journal of Religious Ethics. 30.1 (2002): 107-135.
- Bergstrom, Villy. *Government and Growth*, Oxford: Clarendon Press, 1997.
- Bian, Yanjie, and John R. Logan. "Market Transition and the Persistence of Power: The Changing Stratification System of Urban China." American Sociological Review, 61(1996): 739-758.

- Bigsten, Arne, and Jorgen Levin. "Growth, Income Distribution, and Poverty: A Review." Working Paper in Economics No. 32. Goteberg University, November 2000.
- Buchanan, Allen. Ethics, Efficiency, and the Market. USA: Rowman and Allanheld, 1985.
- Cai, Fang (ed.). Erqian Nian Zhongguo Renkou Wenti Baogao (2000 China population problem report). Shui keshewenxun chubanse, 2000.
- Carens, Joseph. Equality, Moral Incentives and the Market. Chicago: Chicago University Press, 1981.
- Chakravorty, Sanjoy. "Equity and the Big City", Economic Geography. 70.1 (Jan. 1994).
- Chan, Kam Wing. "Post-Mao China: A Two-Class Urban Society in the Making". International Journal of Urban and Regional Research. 20.1 (1996): 134.
- Chan, Kam Wing and Li Zhang. "The Hukou System and Rural-Urban Migration in China: Processes and Changes." University of Washington. Online. 1998.
- Chang, Gene H. "The cause and cure of China's widening income disparity". China Economic Review 13(2002): 335-340.
- Child, J. Management in China During the Age of Reform. Cambridge: Cambridge University Press, 1994.
- Coady, David and Limin Wang. "Equity, efficiency, and labour-market reforms in urban China: the impact of bonus wages on the distribution of earnings." China Economic Review 11(2000): 213-231.
- Cohen, G.A. "On the currency of egalitarian justice." Ethics 99 (1989): 906-944.

- Davis, Deborah S. "Inequality and Stratification in the Nineties." China Review. Online. The Chinese University of Hong Kong. Issue 1995.
- Dworkin, R. "What is equality? Part 1: Equality of welfare." Philosophy and Public Affairs 10(1981a): 185-246, 1981a.
- . "What is equality? Part 2: Equality of resources." Philosophy and Public Affairs 10(1981b): 288-345, 1981b.
- Green, S. J. D. "Is equality of opportunity a false ideal for society?" The British Journal of Sociology. 39.1 (March 1988).
- Economic and Social Commission for Asia and the Pacific. Reducing Disparities: Balanced Development of Urban and Rural Areas and Regions within the Countries of Asia and the Pacific. New York: United Nations, 2001.
- Fan, Cindy C. "Uneven Development and Beyond: Regional Development Theory in Post-Mao China." International Journal of Urban and Regional Research. 21.4 (1997): 620-639.
- Fang, Yongqing and Irene Chew. "Factors Affecting Distributive Decisions: An Empirical Study". Online. Nanyang Technological University, Singapore. 1998.
- Ferdinand, Peter. "Social Change and the Chinese Communist Party: Domestic Problems of Rule." Journal of International Affairs 29.2 (1996).
- Glassman, Ronald M. China in Transition: Communism, Capitalism, and Democracy. Praeger, 1991.
- Goodman, S.G. David (ed.). China's Regional Development. New York: Routledge, 1989.
- Griffin, Keith, and Zhao Renwei (eds.) The Distribution of Income in China. USA: St Martin's Press, 1993.

- Hirschman A. O. "The Changing Tolerance for Income Inequality in the course of Economic Development," Quarterly Journal of Economics 87 (1973): 544-566.
- . The Strategy of Economic Development. New Haven: Yale University Press.
- Hu, Angang, Wang, C and Kang, X. Regional Disparities in China. Shenyang: Liaoning People's Press, 1995.
- Human Rights in China. "Institutionalized Exclusion: the tenuous legal status of internal migrants in China's major cities", A Report by Human Rights in China, November 2002.
- Hussain, Athar, Peter Lanjouw, and Nicholas Stern. "Income inequalities in China: Evidence from Household Survey Data." World Development 22.12 (1994): 1947-57.
- Jackson, Sukhan, Liu Xili and Song Jinduo. "Socio-economic reforms in China's rural health sector: Economic behaviour and incentives of village doctors," International Journal of Social Economics. 23(1996): 410-420.
- Jian, T., Jeffrey, Sachs D. and Warner, A. M., "Trends in Regional Inequality in China." China Economic Review. Spring 1996: 1-21.
- Johnson, D.G. Presentation at Beijing University, China. The international data cited by Johnson were from publications of International Labour Organization, April 2001.
- Kirkby, Richard and Terry Cannon. "Introduction" in David S.G. Goodman (ed.) China's Regional Development. New York: Routledge, 1989.
- Kluegel, James and Petr Mateju. "Egalitarian vs. Inegalitarian Principles of Distributive Justice." In James Kluegel, David Mason and Bernd Wegener

- (eds.). Social Justice and Political Change: Public Opinion in Capitalist and Post-Communist States. New York: Walter de Gruyter, 1995.
- Knight, John and Li Shi, "The Determinants of Educational Attainment" In Keith Griffin and Zhao Renwei, eds. The Distribution of Income in China. New York: St. Martin's Press, 1993.
- Kuznets, Simon. "Economic Growth and Income Inequality," The American Economic Review, 45(1955): 1-28.
- Lal, Deepak and H. Mynt. The Political Economy of Poverty, Equity, and Growth: A Comparative Study. Oxford: Clarendon Press, 1996.
- Lardy, Nicholas R. Agriculture in China's Modern Economic Development. UK: Cambridge University Press. 1983.
- Lambert, Peter J., Daniel L. Millimet, Daniel Slottje. "Inequality aversion and the natural rate of subjective inequality." Journal of Public Economics 87 (2003): 1061-1090.
- Lamont, Julian. "Distributive Justice". In Edward N. Zalta (ed.). The Stanford Encyclopedia of Philosophy. Online. Stanford. Fall 2002.
- Levy, Amnon and Joao Ricardo Faria (ed.). Economic Growth, Inequality and Migration. UK: Edward Elgar, 2002.
- Lecaillon, J., Paukert, F, Morrisson, C and Germidis, D. Income distribution and economic development. Geneva: International Labour Office, 1984.
- Leung, J.C.B. "Dismantling the 'Iron Rice Bowl': Welfare Reform in the People's Republic of China." Journal of Social Policy. 23(3)(1994): 341-361.
- Li, Ku-wai. Capitalist Development and Economism in East Asia. New York: Routledge, 2002.

- Li, Peilin. "Institutional Innovation and Interest Allocation under China's Reform."
In Lu, X.Y. and Li P.L. (eds). Zhongguo Xinsiqi Shehui Fazhang Baogao
(Report of the Social Development in New China). Liaoning Renmin
Chubanshe, Shenyang, 1995.
- Li, Shi. "Zhongguo geren shouruefenpei yanjiu huigu yujianwang" (Review and
Forecast of China's Personal Income Distribution). Online. The Chinese
University of Hong Kong. 23 May 2003.
- Li, Shi, Zhao, R. and Zhang, P. "China's Economic Transition and the Change in
Income Distribution." Economic Research Journal. April 1998: 42-52.
- Li, Wei. "Measuring Corruption under China's Dual-Track System". Online.
University of Virginia. October 2002.
- Lin, Justin Yifu and Yang Yao. "Chinese Rural Industrialization in the Context of the
East Asian Miracle" In Joseph E. Stiglitz and Shahid Yusuf (eds.) Rethinking
the East Asian Miracle. A copublication of the World Bank and Oxford
University Press, 2001.
- Lipton, Michael. "Migration from Rural Areas of Poor Countries: The Impact on
Rural Productivity and Income Distribution." World Development 8 (1980):1-
24.
- Lydall, H. Income distribution during the process of development. Geneva:
International Labour Office, 1977.
- Ma, Guonan. "Income distribution in the 1980s" in David S.G. Goodman and
Beverly Hooper (eds.) China's Quiet Revolution. New York: St. Martin's Press,
1994.
- Mills, James S. Utilitarianism. Indianapolis: Bobbs-Merrill, 1971.

- Mok, Ka-ho. Social and Political Development in Post-Reform China. London: Macmillan Press, 2000.
- Nee, Victor. "Peasants Entrepreneurship and the Politics of Regulation in China." In V. Nee and D. Start (eds.). Remaking the Economic Institutions of Socialism: China and Eastern Europe. Stanford: Stanford University Press, 1989.
- . "Social Inequalities in Reforming State Socialism: Between Redistribution and Markets in China." American Sociological Review 56 (1991): 267-282.
- Nee, Victor and Sijin Su. "Institutional Change and Economic Growth in China: The View from the Villages." The Journal of Asian Studies 49(1990): 3-25.
- Nielsen, Kai. "Radical Egalitarian Justice: Justice as Equality." Social Theory and Practice (1979).
- Parish, William L. "Egalitarianism in the Chinese Society." Problems of Communism, 1981.
- Peragine, Vitorocco. "The Distribution and Redistribution of Opportunity", Journal of Economics Survey 13.1 (1999): 37-65.
- Peter Nolan. The Political Economy of Collective Farms. Boulder: Westview Press, 1988.
- Piketty, T. "Social mobility and redistributive politics." Quarterly Journal of Economics 110 (1995): 551-83.
- Polanyi, Karl. The Great Transformation. New York: Farrar & Rinehart, 1944.
- . "The economy as instituted process." In K. Polanyi, C. Arensberg and H. Pearson (eds.). Trade and Markets in Archaic Societies, Glencoe (1957): 243-69.
- Rawls, John. A Theory of Justice. Harvard, MA: Harvard University Press, 1971.

- . Justice as Fairness: A Restatement. Erin Kelly (ed.). Cambridge: Harvard University Press, 2001.
- Riskin, C. China's political economy: the quest for development since 1949. Oxford: Oxford University Press, 1987.
- Riskin, Carl, Zhao Renwei and Li Shi (eds.) China's Retreat from Equality: Income distribution and economic transition. New York: Armonk, 2001.
- Roemer, John E. "Equality of talents." Economics and Philosophy 1 (1995): 151-181. Reprinted in Roemer (1994).
- . Theories of Distributive Justice. Harvard University Press, 1996.
- . Equality of Opportunity. London: Harvard University Press, 1998.
- Rozelle, S. "Stagnation without Equity: Patterns of Growth and Inequality in China's Rural Economy." China Journal May 1996: 63-92.
- Solinger, Dorothy J. "Globalization and the Paradox of Participation: the Chinese Case." Global Governance. 7.2 (Apr.-Jun. 2001).
- Sen, Amartya. "Equality of what?" In S. McMurrin (ed.). The Tanner Lectures on Human Values. Vol.1. Salt Lake City: University of Utah Press, 1980.
- . Commodities and Capabilities. Amsterdam: North-Holland, 1985.
- . Development as Freedom. Oxford: Oxford University Press, 1999.
- . Inequality Reexamined. Harvard University Press, 1992.
- . On Ethics and Economics. Oxford: Blackwell, 1987.
- Sen, Amartya and Jean Dreze. India: Economic Development and Social Opportunity. Oxford: Oxford University Press, 1995.

Soulsby, A. and Clark, E. "Privatization and the Restructuring of Enterprise Social and Welfare Assets in the Czech Republic." Industrial Relations Journal 26.2 (1995): 97-109.

State Council. *Zhonghua renmin gongheguo guomin jingji he shehui fazhan diqi wunian jihua 1986-1990* (The Seven Five-Year Plan for National Economic and Social Developments in the People's Republic of China 1986-1990). Beijing: People's Press, 1986.

State Council. *Zhongguo zhongyang guanyu zhiding guomin jingji he shehui fazhan "jiu wu" jihua he 2010 nian yuanjing mubiao di jianyi* (Proposal of the Central Committee of the Communist Party of China for formulation of the Ninth Five-Year Plan for national economic and social development and long-term target for the year 2010). In *Zhongguo gongchandang dishisijie zhongyang weiyuanhui diwuci quanti huiyi wenjian* (Document of the Fifth Plenum of the 14th Central Committee of the Chinese Communist Party). People's Publishing House, Beijing, 1995.

Tian, X. "Uneven Regional Growth in Post-1978 China." Mimeo. Canberra: Australian National University, 1998.

Tsui, K. "Economic Reform and Interprovincial Inequalities in China" Journal of Development Economics. August 1996: 353-368.

United Nations. Reducing Disparities. New York: United Nations, 2001.

---. United Nations Human Development Report 2003. Online. United Nations. 22 July 2003.

United Nations. United Nations Development Programme: The China Human Development Report. 1999.

- Walder, Andrew G. "Local Governments as Industrial Firms: An Organizational Analysis of China's Transitional Economy" American Journal of Sociology 101 (1995): 263-301.
- . "China social change in post-revolution China. Annual Review of Sociology 15 (1989): 405-424.
- Wang Peng Lin. "Gaige Yu Shehuigongzheng" (Reform and Social Justice). Dangdai Zhongguo Yanjiu (Contemporary China Research). 65.2 (1999).
- Wang Shaoguang and Hu Angang. The Political Economy of Uneven Development: The Case of China. Asia and the Pacific, 1999.
- Watkins, Kevin. Economic Growth with Equity: Lessons from East Asia. Oxfam Publication, 1998.
- Wei, Yehua Dennis. Regional Development in China. London: Routledge, 2000.
- West, Loraine A. and Christine P.W. Wong. "Fiscal Decentralization and Growing Regional Disparities in Rural China: Some Evidence in the Provision of Social Services." Oxford Review of Economic Policy 11.4 (1995): 69-83.
- White, Lynn T. Unstately Power. New York: M.E. Sharpe Inc., 1998.
- White, Tyrene (ed.) China Briefing 2000: The Continuing Transformation. New York: Armonk, 2000.
- Williamson, J.G. "Regional inequality and the process of national development." Economic Development and Cultural Change 13 (1965): 3-45.
- World Bank. China: The Development of Socialist Economy, 1983.
- . China 2020: Sharing Rising Incomes: Disparities in China, 1997.

- Wu, Y. "Income Disparity and Convergence in China's Regional Economies." Paper presented at the Annual Meeting of the Association for Chinese Economic Studies (Australia). University of Melbourne, Australia, July 15-26 1999.
- Yang, Dennis T. "Urban-Biased Policies and Rising Income Inequality in China." American Economic Review. 89.2 (May 1999).
- Zhang Qingwu. "Basic facts on the household registration system." Chinese Economic Studies, 22.1 (1988).
- Zhao, Renwei. "Increasing income inequality and its causes." In Carl Riskin et al. China's Retreat from Equality: Income Distribution and Economic Transition. M.E. Sharpe, 2001.
- Zhao, R. and Li, S. "Increasing Income Inequality and Its Causes in China." Economic Research Journal September 1997: 19-28.
- Zhongguo Tungji Niankan (China Statistics Yearbook). Zhongguo Tungji Yanjiu Chubanshe (China Statistics Research Publishing Company), 1999.