

# Understanding Inequality in China

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## **UNDERSTANDING INEQUALITY IN CHINA**

**Abstract:** Drawing on past research, the author has set forth the following propositions: (1) inequality in China has been severely impacted by certain collective mechanisms, such as regions and work units; (2) traditional Chinese political ideology has promoted merit-based inequality, with merit being perceived as functional in improving the collective welfare for the masses; and (3) many Chinese people today regard inequality as an inevitable consequence of economic development. Thus, it seems unlikely that social inequality alone would lead to political and social unrest in today's China.

**Keywords:** attitude/ideology, China, economic development, inequality

## UNDERSTANDING INEQUALITY IN CHINA

### I . Introduction

The title of this paper requires a brief clarification. The word “understanding” means specifically a scholarly inquiry for knowledge, which is an end in itself. This paper is written free of value judgment, and it is not my intention to counsel the Chinese government or the civil audience on the issue of inequality. Inequality, in this paper, is approached as an empirical phenomenon rather than as a social problem. In other words, in these pages my intention does not go beyond a purely intellectual, apolitical understanding of inequality in China.

China today is undergoing a dramatic social transformation comparable to the Renaissance in early Europe or the Industrial Revolution in 18<sup>th</sup>-19<sup>th</sup> century Britain. Involving the largest population in the world today, the social changes have been unprecedentedly extensive in scale and far-reaching in their consequences. At an astoundingly rapid rate, many fundamental aspects of Chinese society have been changed irreversibly. As scholars, social scientists are fortunate to work in contemporary times and have the opportunity to observe, document, analyze, and understand these ongoing social changes in China.

The great Chinese social transformation can be summarized under four aspects: (1) Economic development. The national economy has not only experienced rapid expansion in volume (see below for data), but is also undergoing an institutional shift from central planning to a market economy. (2) Social changes. For example, many socialist social arrangements, such as state/*danwei*-controlled assignment of jobs and housing in urban

China, are no longer experienced by most urban residents today. (3) Demographic transition. Although it has attracted only limited attention in social science, China's demographic transition in recent decades created an important condition for the country's phenomenal economic growth. The rapid decline in mortality since the 1950s and the drop in fertility since the late 1970s have had far-reaching consequences for the nation. (4) Cultural changes. Through global contact, the Western way of life has gained increasingly more ground in China, whereas Chinese traditions have continued to wane over time. This, combined with varying sub-cultures in different social groups, has produced rich cultural dynamics in contemporary China. All of these changes have greatly influenced Chinese people's daily lives and work. Thus, economic inequality, another aspect of China's major social transformation, has been evolving against the backdrop of these broader changes.

An examination of data reveals clear trends for both economic growth and rising inequality in China over recent decades. First, Chinese economic output boomed since the 1980s, with an annualized growth rate for per-capita GDP, net of inflation, at 6.7% per year between 1978 and 2008 (Figure 1). Such massive, sustained, and rapid economic development was never seen before in world history. It overshadows the golden years of the American economy between 1860 and 1930, when the annual growth rate was 4% (*Measuring Worth* 2009). While unfolding more rapidly, today's Chinese economic expansion has also occurred on a much larger scale. At the same time, inequality has also been on the rise. The measurement of economic inequality in China is rather controversial in academia. There are concerns about data authenticity, reliability, and comparability with other countries. Whether or not the Gini coefficient provides valid assessment of inequality is also subject to debate, but it remains the most frequently used indicator (Wu 2009). The Gini coefficients in Figure 2 were computed using official data released by the Chinese government (Han 2004). Even so, a rising trend is clearly shown. In fact, no matter what

data and measures one uses, the dramatic increase in inequality over this period is indisputable.

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Figure 1 about Here

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Figure 2 about Here

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The key question is, How can we understand the emerging inequality in contemporary China? Some observers in journalism argue that economic inequality will lead to political and social instability in China. This possibility has raised popular concerns due to the seriousness of the consequences implied (See Wu 2009 for a detailed discussion).

In my view, there is no simple answer to our question, which is useful only in that it underlies an extensive research agenda. Above all, I believe we should not and cannot study inequality in total isolation from other aspects in Chinese society. Unlike in experimental sciences, where the aim of research is often to isolate confounding and contextual effects, we must try to understand China's inequality in perspective — that is, within the context of the country's history, culture, politics, and economy. With so much to be empirically assessed, my current understanding of the inequality in China is far from impeccable. Yet I dare to advance several tentative propositions.

First, China's inequality to a great extent is attributable to collective agencies such as geographic locations, household registration (*hukou*), work units, social networks, villages, kinship lineages, families, etc. In other words, much of the inequality exists not at the individual level but at the meso-collective level.

Second, the traditional Chinese political ideology endorses merit-based inequality. Merit here refers to administrative performance that is measured by the collective good. Leaders in Chinese society are often rewarded with various benefits and privileges for

maximizing the public good. That is, if the privileges enjoyed by the upper class bring about desirable outcomes for their subjects and others in society, such differential treatments are accepted and even encouraged in the Chinese meritocratic tradition.

Third, possibly due to propaganda and actual experiences in recent years, inequality is viewed by some Chinese as a necessary evil for the sake of development. The state propaganda organ has taken pains in driving home the idea that economic development requires some people to get rich sooner, and the resulting inequality is the price that has to be paid. As of now, many Chinese people may subscribe to this point of view, holding that inequality is an inevitable, albeit undesirable, outcome in a country's economic development.

I do not believe that the above three propositions have been adequately verified by empirical evidence. Still, I would like to convey how I came to gain partial confidence in them.

## **2 Three propositions relating to inequality in China**

### **2.1 *Collective Agency***

To understand inequality in China, we should take into consideration the national conditions and features of China. However, we should not overemphasize differences between China and other countries. Overemphasizing and totally denying such differences would be wrong in going to extremes. To be sure, China has its own unique characteristics, but many of them are only quantitatively, rather than qualitatively, different from those of other countries.

First, in China, the government plays a prominent role. This is true, compared to other countries, from the central to the local administration levels. Second, the interests of business enterprises and the government are in alliance. That is to say, enterprises

(business) and the government (politics) share mutual economic interests and maintain close relationships. This is not true in many other countries. Third, multi-layered paternalism is a long and well-established Chinese tradition. A member of Chinese society is imbedded in multiple layers of collectivity. . In ancient Greece, citizens were equal and were able to participate in politics directly, although not everyone was a citizen, and their society was small. In contrast, due to the vastness of the country, the societal role of a Chinese citizen begins in a relatively small location or *danwei*, which, in turn is included in a larger place or *danwei*. Administration in China is hierarchical and nested, not directed at individuals, who have no independent roles in their society. For example, membership and title (e.g., dean or director) in a *danwei* is important in China because Chinese society emphasizes commonalities within a collective unit. A member or leader of a *danwei* is not an independent individual who is free from the *danwei* to which he/she belongs. An individual's position in society would not be recognized if the person became separated from his or her *danwei*. In this respect, there are significant differences between Chinese and western societies. By the term "multiple layers," we thus mean many hierarchical layers. For example, in politics such layers include family and social network, *danwei*, basic-level government, and local government; in higher education, they include department, college, university, university of distinct rank (e.g., "211", "985" universities) and so on. These are all different layers. In brief, Chinese society is structured on multiple levels and nested hierarchically from the top down.

Thus, I do not believe that the Chinese economy is simply moving towards a market economy or, more specifically, an American-style market economy. It is naïve to assert that China is just another capitalist society like the U.S., or that even if it is not such a society today, it will become one tomorrow. I reject the prediction that China will establish a completely capitalistic economic and social system because as a sociologist I have discerned

some distinct characteristics of China in terms of social structure, traditional culture, and mutual interest relationships.

My 1996 paper in collaboration with Hannum pointed out that in China, the most influential factor for earned income is not individual attributes, but regional disparities. The influence of region can be very significant (Xie and Hannum 1996). Later, in another paper published in 2005 (Hauser and Xie 2005), we discovered that the influence of regional differences on determinants of earnings had increased. Wu and Treiman's (2004) research shows that household registration (*hukou*) status had a great influence on people's social statuses; that is, there is a large disparity between rural and urban *hukou* holders (Wu and Treiman 2004). These differences by region or *hukou* status cannot be attributed to personal endeavor and ability, since they are structural differences from which an individual has difficulty breaking away. In our recent paper (Xie and Wu 2008), Wu and I discussed the importance of *danwei* in contemporary China. We believe that even today *danwei* is still playing a significant role in affecting personal income, prestige, welfare, and social network. Feng Wang's recent book (Wang 2008) also supported this perspective.

Not long ago, *The Guardian* published an article (Vidal 2008) based on a study conducted by the United Nations, under the headline "Wealth Gap Creating a Social Time Bomb." Although it did not discuss China in depth, it referred to the country twice. The article first quoted research showing that Beijing is the most egalitarian place in the world, but then it claimed that there was severe inequality in China. Why would these two contradictory viewpoints coexist in the same article? Actually, they are not contradictory. The level of China's inequality is high, but a major part of it is interregional and intergroup inequality, such as the inequality between Beijing and other cities or between the agricultural population and the nonagricultural population. Within a city, for example Beijing, inequality among residents is lower than that in other metropolises such as New

York or London, although it may not be the lowest, as claimed in the article, in the world. Relatively speaking, many other cities have higher levels of inequality. Thus, these two seemingly contradictory viewpoints tell us that regional disparity accounts for a large part of inequality in China.

Based on official statistics, we can illustrate the importance of geographic region. From Figure 3, we can observe the prominence of regional variation in income. At the same time, the disparity between rural and urban areas is also large. The disparities shown in this statistical graph are in accordance with the public's general understanding: for example, the average per capita income in Guangdong or Shanghai is high, while low in western region such as Gansu; urban populations enjoy higher incomes than their rural counterparts. The magnitudes of these disparities are greater in China than in other countries (e.g., the U.S.).

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Figure 3 about Here

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Similar to region, work unit (*danwei*) is also a significant collective agency producing and maintaining inequality. As is widely known, before the economic reform, *danwei* determined almost every aspect of an individual's existence, including daily life, political life, work, economic condition, and so on. In those days, *danwei* (or *linong*, i.e., neighborhood) was responsible for distributing nearly all the ration coupons for such things as meat, grain, sugar, film, bathing, bicycles, and sewing machines. Besides, not only would a *danwei* approve members' marriages, it also provided housing for them. If a marriage was unhappy, the *danwei* was supposed to intervene and reconcile the couple. If someone caused trouble, others would first report it to the person's *danwei*, etc. Some observers argue that after the economic reform in 1978 the situation may have changed, that the system of *danwei* may have broken down, or no longer be important. In my view, these observations are incorrect and *danwei* continues to be essential in today's China. For example, when undergraduate

students fail to deal properly with their personal business, administrators of their departments, colleges, or universities are still held responsible.

In 1999, we conducted a survey in Shanghai, Wuhan and Xi'an. Through statistical analyses of the data, we found that *danwei* is the second major factor that determines people's incomes, second only to the factor of region and city location and outdistancing individual factors such as education level, experience, gender, cadre status, and so on (Xie and Wu 2008) (see Table 1). In China (especially in cities), a *danwei's* profitability has great influence on personal incomes (see Figure 4). For example, there is income inequality among university professors. Why do some of them enjoy a high salary while others do not?

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Table 1 about Here

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Figure 4 about Here

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To a large extent, inequality of professors' salaries can be attributed to universities' (*danweis'*) salary policies, as they affect professors' personal incomes directly. If measurable, one professor's contribution may be the same as another's, for example measured by courses taught or research conducted, but their salaries could be very different. That is to say, *danwei* exert a large influence on professors' incomes. By extension of this logic, it is not difficult to understand why the incomes of employees in different *danwei* are different, sometimes dramatically different, although they essentially do the same work. Even if we control some personal characteristics by statistical methods, for example years of education, *danwei* still plays a critical role in determining a worker's earned income and economic welfare. In short, *danwei* is an important factor for inequality and stratification in China. *Danwei* can actually be considered as a social boundary demarcating payment schemes, which vary by *danwei*. Some *danwei* possess more financial resources while others do not. Although one may still think that inequality resulting from

*danwei* is unfair, many find inequality by *danwei* acceptable. Because there is a boundary, not everyone can be a member of a certain *danwei*, so entering a good one is a crucial step in attaining social status.

## **2.2 The Tradition of Merit-based Inequality**

As far as I can see, inequality has been part of Chinese culture since ancient times. This argument is based on my study of historical materials. Theoretical research about this is still preliminary (see Xie and Brown 2011). To discuss this, I would first put forward several important characteristics of ancient China. These characteristics are not my own ideas but rather represent consensus views among western scholars studying ancient China. Here I merely summarize them to suit my purpose.

First, the Chinese Empire was ideally united, meaning that there was only one emperor throughout the empire. Of course, unification (大一统) was the ideal condition, and exceptions were common, for example, during the period of the Three Kingdoms. But ideally, there was only one emperor as the ruler. The ideology of unification (大一统) has been dominant in China, which is quite different from the west.

Second, the Chinese Empire had a very large territory and a huge population, so that the great problem facing the Empire was administration. In an age without automobiles, highways, trains, cellphones, internet, and other modern communication and transportation technology, it would take several months for an official document or letter from the central government to reach a local government. With modern transportation and communication technology, it was very difficult to conduct efficient administration. This problem was also true in other places historically. However, the administration of the Chinese Empire – something very difficult to accomplish – was, in effect, accomplished. Today, the U.S. is a strong country with a large territory and a huge population. However, as is well known, the U.S. was developed under modern social conditions. The U.S. enjoyed dramatic speed of

industrialization and mechanization in the late 19<sup>th</sup> century and began to build railways and automobiles. It stepped into the ranks of the developed countries in around the 1930s.

Going through two world wars, the federal government of the U.S. became stronger and stronger, with more resources and power over time. Yet, it was extraordinary, and puzzling, that the ancient Chinese Empire with a very large territory could be governed for so many years without any fundamental change to its basic administrative model.

Third, the bureaucratic system for Chinese civil officials is unique. Although the succession of dynasties depended on the military, the administration of the Chinese Empire depended on the civil bureaucrats over its long history. This is different from other ancient empires (e.g., the Roman Empire). In Chinese history, scholars or literati could become officials, and even high-level ones. Even today, Chinese people expect their children to study hard so as to start a successful career. A Confucian saying states, “a good scholar can become an official.” This is a unique cultural product. Compared with other countries, Chinese bureaucracy had an earlier origin and greater scale.

Fourth, except for the emperor, the aristocratic and privileged classes were not stable. For example, among the seigniors of the early Qing Dynasty, Wu Sangui, the Pingxi Seignior (平西王) had not remained in power for one generation before he was repressed by the central government. In fact, the emperor did not want the inheritance of the aristocratic and privileged class. Except for the emperor himself, no important official positions were inherited in Chinese history. In contrast, in medieval Europe, official posts could be passed on from one generation to the next. In European history, an aristocratic title was generally passed on to the eldest son, so that the family would maintain wealth and puissance. This, however, was not the case in China, for several reasons. First, except for the emperor (and very few other posts), the official positions were non-inheritable. Second, the rich usually had many wives or concubines and thus produced many sons, and the sons would then

divide the family wealth equally. In this way, no matter how powerful the family was, their wealth and puissance would soon be divided up, and there was not much left for direct inheritance after about three generations. That is to say, one could not count on inheritance to be wealthy in Chinese history (see Ho 1954). Instead of direct inheritance, a standard way of passing on family advantage was to invest in as much as possible in sons so that they would be able to make money in the future. It did not even matter if a young boy had no wealthy father. If the family supported his studies, he could enter officialdom and then get promotion and wealth. Therefore, in terms of culture, Chinese society emphasized social mobility, and at least some long-range social mobility did occur (see Ho 1964), whereas in the West, aristocrats and plebeians were separated into distinct categories. As a result, from the Qin Dynasty or even earlier, from the Warring States onward, feudalism disappeared. Feudalism is characterized by heritability of social status and a rigid system of power division, not social mobility or centralized power.

Fifth, in the political system of imperial China, ideology played an important role. Since the Western Han, there has not been any fundamental change in the Chinese political system, its core being the ideology based on the doctrines of Confucius and Mencius. I even see the present-day Chinese government nowadays as carrying on the tradition of the Chinese Empire in the last two millenniums. To take it one step further, the current political system in contemporary China is, to some degree, a legacy of the two-thousand-year-old Chinese culture.

Max Weber was a German who had never been to China, nor did he understand the Chinese language, but he was an excellent sociologist with his famous book, *Economy and Society* (Weber, [1921] 1978). He also wrote a book on the Chinese bureaucracy (Weber 1951). Although mainly based on second-hand materials, Weber analyzed the Chinese situation thoroughly and thoughtfully (see Zhao 2006). In his books, he raised two

questions about traditional bureaucracy in imperial China. First, while it seems reasonable to select officials by exams, why were the candidates tested for knowledge of impractical classics rather than administration skills, such as accounting or management? Weber did not understand why the things being tested were not directly related to the work officials were supposed to perform. Actually this is still the case nowadays. Appointments at government posts require academic degrees, and it is an advantage to have a degree in science or engineering, even though positions rarely require one to use scientific/engineering knowledge. In such a case, an emphasis on mathematical and scientific abilities also seems weird. This is Weber's first question, and he thought it was a waste because the knowledge tested was not practical. His second question is that the tenure in office of an appointed local administrator was brief, say, for three years. He thought this practice was inefficient. In order to work, administrators should learn about the local situation and customs and get along well with the local subordinates and the local population. Just when they became familiar with their situations, however, they were transferred to another place. Therefore, Weber concluded that the Chinese bureaucracy was indeed inefficient. However, he did not understand that efficiency was not the most important objective for a regime or dynasty. Inefficient as it was, the empire still belonged to the imperial family. What good was high efficiency if the empire was disrupted and fell into the hands of others? From this perspective, I argue that the ancient Chinese bureaucracy was successful because it solved the big problem of administration. Other than this system, we can hardly think off any other methods of governing such a big empire under actual conditions at that time.

Why did the governance of China require bureaucracy? Let us suppose that a local aristocrat established his power. How could the emperor guarantee his absolute obedience to the central government? How could he make the aristocrat dispatch troops and hand in

money during wartime? How could the emperor ensure his subordinate's collaboration in infrastructure projects such as digging a canal or building the city wall? The emperor could only rely on his appointed administrators to go to local places and govern. Of course, for the actual task of administration, the administrators used their own discretion, since the emperor was too far away to report to and had no idea of the actual situations. Hence, the situation a local administrator faced in a centralized empire would be substantially different from that of an aristocrat under feudalism. On the one hand, local administrators were appointed and controlled by the central government, and their further promotion would also be decided by the central government. On the other hand, the local administrators had to work for the best interests of the local people in order to be promoted (Xie and Brown 2011). Chinese bureaucracy was a useful innovation for the ancient emperor and was an important method of maintaining the empire's stability. From ancient times to the present day, Chinese territory has been so vast that most emperors realized that it would be impossible to govern by military power. Military power was seen as a double-edged sword. Without sufficient power, the military could not be effective. With too much power, the military could rebel. So the emperors were rational in relying on scholars, who might be inefficient and pedantic, but not rebellious, rather than on the dangerous military.

How was the Chinese Empire governed? It was not through the use of military power but doctrines of Confucius and Mencius. The doctrines of Confucius and Mencius were indispensable administrative tools for ancient Chinese emperors. Without them, the bureaucracy would not exist, and the long-term centralized empire would not last in Chinese history. It is interesting that the key point of Confucius and Mencius doctrines is benevolent governance (仁政). That is to say, the person bestowed with power should work for the public good. This ideology attracts popular support. For instance, Mencius put it, "The people are of supreme importance; the altars to the gods of earth and grain come next;

last comes the ruler" (*Mencius*, tr. Lau, p. 68). This passage actually attributed the ultimate purpose of imperial power to the service to the people. However, Mencius believed that in order to serve the people, inequality was justified, "It is an objective and natural fact that all things are different from one another" (*Mencius* 孟子:卷五滕文公上). Put in the words of modern economics, some level of inequality across persons is a kind of complementary relationship that benefits everyone, while absolute equality will lead to widespread poverty of the entire society. So Mencius said, "If everyone must make everything he uses, the Empire will be led along the path of incessant toil. Hence it is said, 'There are those who use their minds and there are those who use their muscles. The former rule; the latter are ruled. Those who rule are supported by those who are ruled.' This is a principle accepted by the whole Empire" (《孟子:卷五滕文公上》). He argued that absolute equality requiring everyone to do the farm work would not work and would trap everyone into poverty. There are differences among people. Those who are smart should take up intellectual work and those who are not smart but strong should participate in manual labor. This is the division of work in society. In China, many people have heard and approved of the statement that "There are those who use their minds and there are those who use their muscles. The former rule; the latter are ruled." This statement also helps us to understand inequality. In Mencius's view, capable persons should enjoy their privilege and govern others, while incapable persons should exert their physical strength and do subordinate work for others. This is a cooperative relationship accepted by all, even the poor.

Why would the poor also support inequality? There are two reasons in the historical context of China. First, as stated above, the rich enjoyed the privilege of acting on behalf of the public, including the poor. As a result, the poor were not absolute losers in this arrangement, since the division of labor benefited everyone. This is an ideology termed "paternalism," which is still prevalent in China today. Second, recall that at least

theoretically speaking, privilege and wealth resulted not merely from destiny but from the individual's performance and abilities. An incapable person today might become capable tomorrow, or he could raise his son to be capable. Again, although his son might be incapable, his grandson could be raised to be capable — there was always some hope. Hence, Chinese culture encouraged people to look forward. Rather than complaining about current conditions, it is better to look to the future, not only one's own future, but also that of the next generation. That is to say, Chinese culture tends to push people to chase their future dreams at the expense of present interests and pleasures. This appealing idea suggests that it does not matter if an individual's current condition is not ideal because he or she can count on the next generation. This is how social mobility works, bringing opportunities to everyone.

There is a picture-story book telling the stories of Ouyang Xiu. Such story books are popular in China, and most of them tell stories of successful celebrities in history. Teachers and parents narrate these stories to motivate children: no matter how poor a person may be, if he is diligent, he can get anything except the imperial throne. As long as the person studies well, he can earn high official titles, just as Ouyang Xiu became the Minister of Defense (兵部尚书). Moreover, the ideal image of a scholar goes beyond being merely a good scholar to being a good administrator (“father and mother” of the people). Why did the public have such expectations for administrators? This is because traditional political ideology in China emphasized benevolent governance (i.e., 仁政). We know that because the decisions of administrators were relatively independent and autonomous, it is understandable why the selection criteria of administrators were not about administration or management skills, but about virtues. Yet, it was not easy to know whether a person was virtuous or not. Many methods for measuring an individual's qualities were implemented. Criteria included whether he was filial, whether he respected his superiors, whether he obeyed rules, and so

on. During the Han Dynasty, “Filial and Incorrupt” (*xiaolian*) was the primary criterion in the Recommendation System of recruitment 察举制, and was considered the most fundamental virtue of humans in Confucianism. The Analects says, “A filial and fraternal person will hardly offend the superior” (《论语:学而第一》). After the Sui Dynasty, a person's knowledge of the classics became the main criterion in evaluating his virtues. For those who valued this criterion, familiarity with the classics could reveal one's basic qualities: intelligence, obedience, respect for the teacher, self-discipline and so on. It is similar to the emphasis on mathematics and scientific knowledge for appointments of administrators in today's China. Although mathematics and scientific knowledge are not really needed in administrative work itself, persons who make the appointments can obtain information through a candidate's education in math and science concerning whether or not the person is intelligent, obedient, hardworking, and aggressive. It is more a test of virtues and qualities than of one's knowledge.

As we discussed before, the Chinese Empire possessed a vast territory, such that most appointed administrators were assigned to places far from the central capital. Administrators were given autonomous authority over the regions they governed. For such a position, it was a person's virtue, not his practical skills, that determined if he was a good administrator—“‘father and mother’ of the people.” Officials, especially local administrators, accepted dual accountability, being beholden to both the superiors and subordinates. Their work was, to a large extent, autonomous. Since the emperor was too far away to control them, the administrators could make decisions by themselves and report back only after decision-making and implementation. What gave ultimate legitimacy to the imperial power? Influenced by the doctrines of Confucius and Mencius, officials believed it was the Mandate of Heaven. Thus, middle-level officials should assist the emperor in realizing the mandate. As a result of believing in the mandate, they were working for the local population, i.e. to

provide for their material needs. Thus, it was often recorded in ancient books that middle-level officials sometimes disobeyed their superiors' commands because they believed they should respond to their higher obligation as the "father and mother' of the people," an obligation in accordance with the emperor's Mandate of Heaven.

Historically, officials at and above the county level were appointed by the imperial court so that their power came from the central government. Yet, the duty of a county administrator was mainly to serve the local population. This creates a situation for potential conflicts, which call for a balance. Execution of superiors' commands may incur a real cost to the interest of the local population. Thus, middle-level officials were always caught in this situation of dual accountability. I believe this inevitably resulted in the common phenomenon of officials concealing some truths from both from their superiors and their subordinates. Administrators cannot disclose complete information to either side. This phenomenon was a consequence of the Chinese social structure. Officials sometimes could not tell the truth, or they would risk losing their positions. The primary reason for the Great Famine (1959-1961) was that this balance was broken—the officials were only responsible to their superiors, not to their subordinates. The mutually-constrained bureaucratic system had a history of two thousand years in China. In it, administrators did not have much freedom, as they were squeezed by their responsibilities to both their superior and their subordinates. However, officialdom was and still is, attractive to many people in China. Unfortunately, the Chinese bureaucratic structure makes it necessary that many well-meaning officials lie. How to solve the problem? Superiors know that subordinate officials lie, so they design many regulations by which to supervise subordinates. However, "whenever there is a rule, there is a way to get around it." Subordinates continually find ways to resist regulation and supervision. The cycles of deception-regulation never end,

making administrative procedures more and more complex and cumbersome, and bureaucracy inefficient.

In the traditional Chinese bureaucracy, an important criterion for evaluating officials was their achievement -- how well they assisted the emperor in realizing the Mandate of Heaven. To put it more concretely, the criterion was how well the local population under their governance lived. The central government did not care about what officials actually did in their positions. The officials were regarded as good as long as the jurisdiction governed was prosperous, peaceful, and problem-free. Conversely, when problems occurred, even those due to natural causes, officials were to blame, no matter how well they performed or how diligently they worked. If the conditions were good, people would praise the administrator. If there were no natural disasters for years, it would be contributed to Heaven's appreciation for the administrator. So the notion of achievement was important even in ancient times. The emphasis on an official's achievement nowadays is a resurgence of an old practice in the Chinese Empire.

In 2007, we conducted a survey in Gansu, an impoverished and faraway province. We asked the respondents: what are the most important factors that affect your own economic wellbeing? We provided them with five choices: central government, local government, *danwei*, family and individual (see Table 2). Although living in remote areas, nearly half of the Gansu respondents chose the central government as their first choice, meaning that they believed the central government was the most important factor determining their economic wellbeing. The second most important factor given by the respondents was the local government. Relatively speaking, personal factors were secondary compared with governments. This illustrates the fact mentioned above that the public hold very high expectations for the officials and governments regarding their wellbeing in Chinese culture.

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Table 2 about Here

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We mentioned that a good administrator, as the “father and mother” of the people, sometimes would protect local interests instead of yielding to his superiors. Then how did the local population encourage administrators to behave in local interests? As we know, appointed administrators were never native, which meant they had no intimate relationships or kinship with local people. A special method of encouraging local accountability was used in ancient China: people erected stele monuments (and even built temples and shrines) to record officials’ contributions, such as initiating the construction of roads and bridges, defeating bandits, and so on. In the eulogies on stele inscriptions, administrators’ achievements were praised extravagantly. People in the district could see these steles by the wayside, before a bridge, or within shrines. Officials were also happy to see them. Steles were erected not only for dead administrators, but also for those who were alive. As a reflection of public opinion, steles helped officials to secure promotions (Xie and Brown, 2011). In short, although ancient China did not enjoy democracy, local groups utilized reputational mechanisms to influence administrators to serve their interests. On the one hand, this satisfied administrators’ inner desire for promotion; on the other hand, it motivated them to conduct themselves in ways that would benefit the local population.

### ***2.3 Inequality as a By-product of Chinese Economic Development***

Around thirty years ago, the Chinese government popularized the idea that economic growth makes it necessary that a small number of people be rich first. Of course, such propaganda was intended to persuade the public to accept inequality as a cost of economic development. In my view, a large number of Chinese approve of the idea that inequality is a necessary by-product of Chinese economic development.

We first put forward a hypothesis called “Societal Projection” (Xie and Wang 2009). The premise of this hypothesis is that the general public do not know much about social conditions in other countries, since most have never traveled abroad, and even those who

have traveled abroad have only had a cursory glance at the foreign countries they visited. To understand a society in depth is not easy, and ordinary Chinese are no exception in not knowing the level of inequality and other features of foreign countries. However, they may have rough ideas about the developmental level of the different countries, based on information transmitted through popular media. When asked about the level of inequality in other countries, they present their understanding, which is mostly subjective imagination. In our survey, respondents could tell the level of development when asked about which country was developed and which one was not. However, when asked about the level of inequality, although they do not know the actual answers, they would make up answers based on their own imagination.

These data come from our survey in six provinces (Beijing, Hebei, Qinghai, Hubei, Sichuan, and Guangdong) in 2006 with nearly 5000 respondents (Xie and Wang 2009). The interviewer asked the respondent to rate the level of development in five countries using a scale from zero to ten: China, Japan, Brazil, United States, and Pakistan, with 10 representing the most developed and 0 representing the least developed country. The respondents were also asked to rate the level of inequality for the same five countries on a 0-10 scale, with 10 representing the most unequal and 0 representing the least unequal country. Actually, there have been statistical indicators from social science research that measure comparative levels of development and inequality across countries, which are reported by the United Nations (UN). Table 3 shows the comparison between the statistical results from our survey and the objective indicators. The UN ratings of the level of development are in the first column, and the respondents' average ratings are in the second one. Our respondents rated the U.S. far ahead of the rest, with the score of 9.19, and Japan is the next. Here, the statistical results of our survey closely resemble the UN ratings, except for an underestimation by our respondents of the level of development in Japan. However,

the relative pattern holds true, with the U.S. and Japan ahead of other countries. Next to them are China and Brazil, and these two countries are close in their ratings for both the respondents' ratings and the UN ratings. At the bottom is Pakistan, which is also in accordance with the UN ratings. Of course, statistical error is inevitable in survey data.

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Table 3 about Here

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Before I explain the rating results on inequality from the survey, let me describe the actual condition of inequality in these countries. Among the large countries, the most unequal one is Brazil, partly due to its low level of educational attainment. Also, Brazil has an internationalized economy, so returns to education are high, which increases social inequality. In addition, with its large size, Brazil suffers from regional disparity. Between China and the U.S., inequality is higher in the former than in the latter. Pakistan has a low level of inequality, and Japan has the lowest inequality in the group.

How, then, did the respondents form their rating opinions on the level of inequality in our survey? A general analysis of the subjective ratings shows that the respondents believed that inequality is higher in the United States than in China. They considered the level of inequality high in Japan but the lowest in Pakistan (see Table 3). It is worth noting that the respondents rated the level of inequality in Brazil as low, which contradicts the ratings provided by the UN. As described above, the respondents were able to accurately rate the levels of development in these countries, but they were not knowledgeable of the levels of inequality in these countries. So their inequality ratings were inconsistent with the objective indicators. However, we can ask why these ordinary Chinese rated inequality this way in further analyses of the data.

China is undergoing dramatic transformations, including a transformation from being underdeveloped to being relatively developed economically, and from being relatively equal to being unequal in the distribution of income. Before the economic reform, people were

relatively poor but equal. Nowadays, as China has become more developed, inequality has also risen. Perhaps some Chinese believe that the current status of the U.S. is China's future. They believe that at such a high level of inequality China is only half way through development. If China ever catches up with the U.S., it will experience even more inequality. Because the U.S. is more developed than China, they believe the U.S. to be more unequal. We also asked in the survey whether developed countries have higher levels of inequality than underdeveloped ones, and most of the respondents agreed that they do.

We then conducted a statistical analysis of the response patterns to development ratings after rank-ordering the numerical responses, that is, stating which country is the most developed, which one is the second most developed and so on (see Table 4). In the first prevalent pattern, the U.S. is at the top, followed by Japan, Brazil, China and Pakistan. 34.11% of the respondents chose this response pattern. The second pattern exchanged the ranks of Brazil and China and was chosen by 33.96% of the respondents. The third pattern is, in descending order, Japan, the U.S., Brazil, China and Pakistan, but only 2.18% of the respondents chose this one. The fourth pattern is similar to pattern 3 but with the ranks of Brazil and China switched. Of all the respondents, 71.62% fall into these four patterns. Other rank-ordered combinations are irregular and uninterpretable, which can be viewed as measurement errors. With these data, we hope to investigate the relationship between the response patterns to inequality ratings and response patterns to development ratings (see Table 5). Our analysis reveals that they are significantly associated. There is a positive correspondence between responses to the inequality scale and the same person's responses to the development scale (see lines 1-4 of Table 5). There is also a negative correspondence pattern showing that some respondents' inequality ratings correspond exactly to the opposite pattern to their development ratings for the same countries. For example, if respondents ranked the development levels as U.S., Japan, Brazil, China and Pakistan from

high to low, they ranked the inequality levels in the opposite direction as Pakistan, China, Brazil, Japan and the U.S. from high to low (see lines 6-9 of Table 5).

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Table 4 about Here

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Table 5 about Here

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In brief, we discovered that the Chinese respondents' ratings of levels of development for the five different countries closely resembled the ratings given by the United Nations with a slight underrating for Japan and Brazil, particularly for Japan. However, the respondents' ratings of inequality levels in the five countries were not at all in accordance with the inequality statistics reported by the UN. We found that quite a number of the respondents seem to have derived their ratings of inequality from their ratings of development. How do they view the relationship between economic development and social inequality? Some see a positive relationship, but others see a negative one. In China's own experience in its recent history, development and inequality have risen together. That is to say, increases in economic growth and social inequality have been simultaneous. Thus, the prevalent opinion among the respondents was a positive correlation between the two. The result reflects the recent experience of China and the government's propaganda. This result also supports the argument that, to many Chinese, inequality is a necessary price for economic development.

### **3 Conclusion**

I set forth three propositions or opinions in this paper. Firstly, collective agencies are largely accountable for inequality in China. Due to the existence of collective agencies as a mechanism that generates inequality, the boundary of inequality is structural rather than personal. Also, the visibility of inequality is diminished in daily life, which helps to lessen social resentment in the general population. Second, in terms of ideology, although there is a strong moral imperative for equality in China (Wu, 2009), Chinese traditional culture is

actually tolerant of inequality. Of course, in my view, people's acceptance of inequality is conditional on the proposition that inequality should bring welfare to the general public and that there is the possibility for them to move up in social status through individual efforts. Influenced by Chinese traditional culture, many Chinese today find inequality acceptable. Third, some Chinese believe that economic growth itself leads to inequality: since development is what they want, inequality is an inevitable byproduct of improving everyone's living condition. Therefore, those unsatisfied with inequality can also tolerate inequality in China passively and reluctantly. Based on these three considerations, I conjecture that the problem of inequality itself alone will not cause social instability for the near future in China. That is to say, although inequality in China is increasing, its threat might be exaggerated. In my view, there are certain mechanisms (e.g. politics, culture, public opinion, family, social network and so on) moderating social problems created by inequality. Finally, it worth emphasizing that my tentative conclusion is free from any political implication. It is simply my understanding of inequality in China.

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**Table 1: Percent Variance Explained in Logged Earnings**

Viable	DF	R2	$\Delta R^2$ (1)
City	2	17.47***	19.12***
Education Level	5	7.82***	4.46***
Working Years+ Working Years <sup>2</sup>	2	0.23	0.05
Gender	1	4.78***	3.05***
Cadre Status	1	3.08***	0.63***
Working Sector	3	3.54***	1.8***
Profitability of <i>danwei</i> (linear)	1	12.52***	9.3***
Profitability of <i>danwei</i> (dummies)	4	12.89***	

Notes: \* $p \leq 0.05$ ; \*\* $p \leq 0.01$ ; \*\*\* $p \leq 0.001$ . Based on F test.

$R^2(1)$  refers to the incremental  $R^2$  after the inclusion of Danwei's financial situation (linear).

Source: Xie and Wu (2008), based on a survey in Shanghai, Wuhan and Xi'an in 1999.

**Table 2: Attitudes of Residents in Remote Areas on Factors Effecting Personal Economic Welfare Situation (n=633)**

	First %	Second %
Central Government	41.61	12.03
Local (City/County) Government	8.54	31.33
Danwei or Village Committee	8.23	12.82
Family Factors	21.33	18.8
Individual Factors	20.38	25.28

Note: "Now, please consider your economic welfare condition in general. There are many factors influencing an individual's economic welfare. In your viewpoint and according to your considerations, please rank the following five factors in terms of their importance. (which do you think is the 'most important', which do you think is the 'second important' and so on.)"

**Table 3: Respondents' Ratings of Five Countries on Levels of Development and Inequality, in Comparison to UN Ratings.**

Country	UN Rating of Development (0-1)	Average Rating of Development (0-10)	UN Rating of Inequality (Gini, 0-1)	Average Rating of Inequality (0-10)
China	0.768	5.56	0.447	6.25
Japan	0.949	7.79	0.249	5.92
Brazil	0.792	5.49	0.580	5.47
U.S.	0.948	9.19	0.408	6.81
Pakistan	0.539	3.80	0.306	5.07

Source: Xie and Wang (2009).

**Table 4: Main Response Patterns of Development Rating**

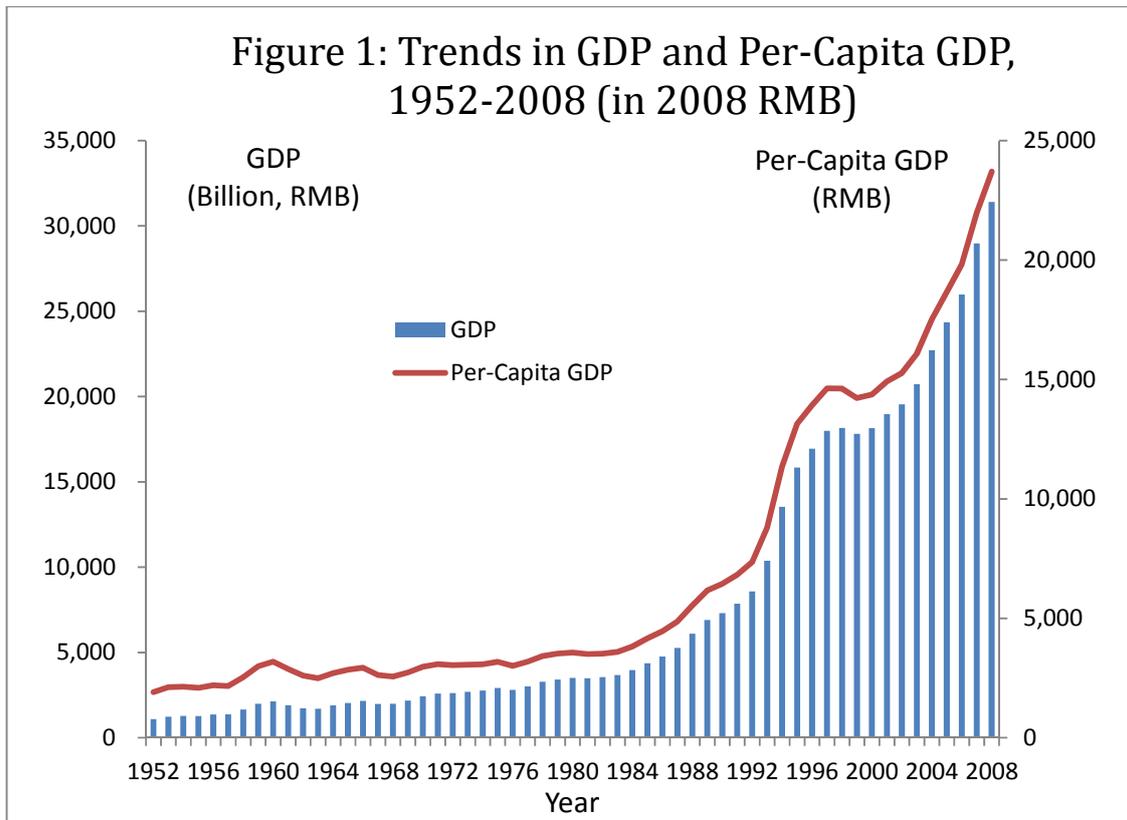
Pattern Number	Description of Ranking Order	Percentage	Cumulative Percentage
1	US $\cong$ Japan $\cong$ Brazil $\cong$ China $\cong$ Pakistan	34.11	34.11
2	US $\cong$ Japan $\cong$ China $\cong$ Brazil $\cong$ Pakistan	33.96	68.07
3	Japan $\cong$ US $\cong$ Brazil $\cong$ China $\cong$ Pakistan	2.18	70.25
4	Japan $\cong$ US $\cong$ China $\cong$ Brazil $\cong$ Pakistan	1.37	71.62
5	All 116 Remaining Other Combinations	28.38	100.00

Source: Xie and Wang (2009).

**Table 5: Main Response Patterns of Inequality Rating by Response Patterns to Development Rating**

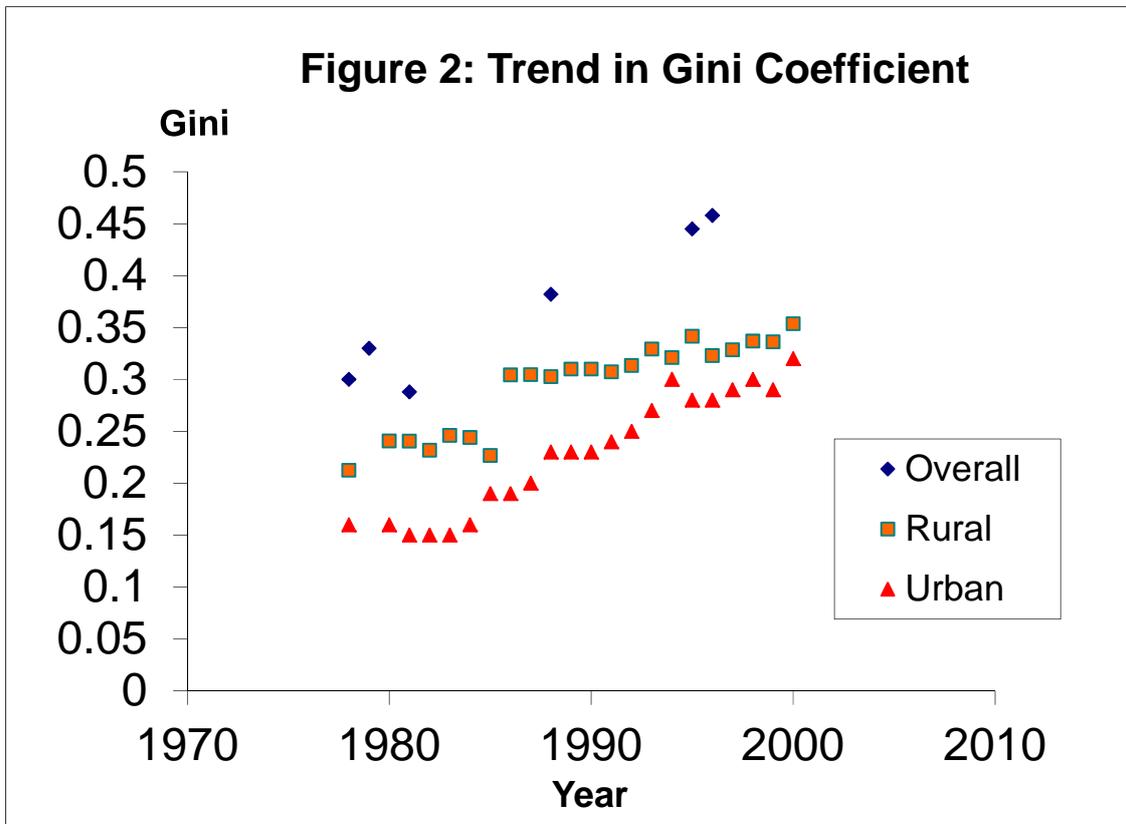
No.	Inequality Response Pattern	Response Pattern to Development Rating					Total	
		Description	1	2	3	4		5
<b>1</b>	US $\cong$ Japan $\cong$ Brazil $\cong$ China $\cong$ Pakistan		25.58	8.32	6.67	3.03	8.42	14.13
<b>2</b>	US $\cong$ Japan $\cong$ China $\cong$ Brazil $\cong$ Pakistan		7.43	31.31	4.76	16.67	9.96	16.33
<b>3</b>	Japan $\cong$ US $\cong$ Brazil $\cong$ China $\cong$ Pakistan		0.43	0.67	8.57	3.03	0.29	0.69
<b>4</b>	Japan $\cong$ US $\cong$ China $\cong$ Brazil $\cong$ Pakistan		0.30	0.61	11.43	4.55	0.44	0.50
<b>6</b>	Reverse of Pattern 1		12.61	3.55	0.00	0.00	3.51	6.75
<b>7</b>	Reverse of Pattern 2		3.59	10.28	5.71	4.55	2.20	5.53
<b>8</b>	Reverse of Pattern 3		1.64	0.49	12.38	3.03	0.44	1.16
<b>9</b>	Reverse of Pattern 4		0.61	0.61	0.00	9.09	0.37	0.64
<b>10</b>	All 112 Remaining Combinations		47.81	44.16	50.48	56.06	74.38	54.28

Source: Xie and Wang (2009).

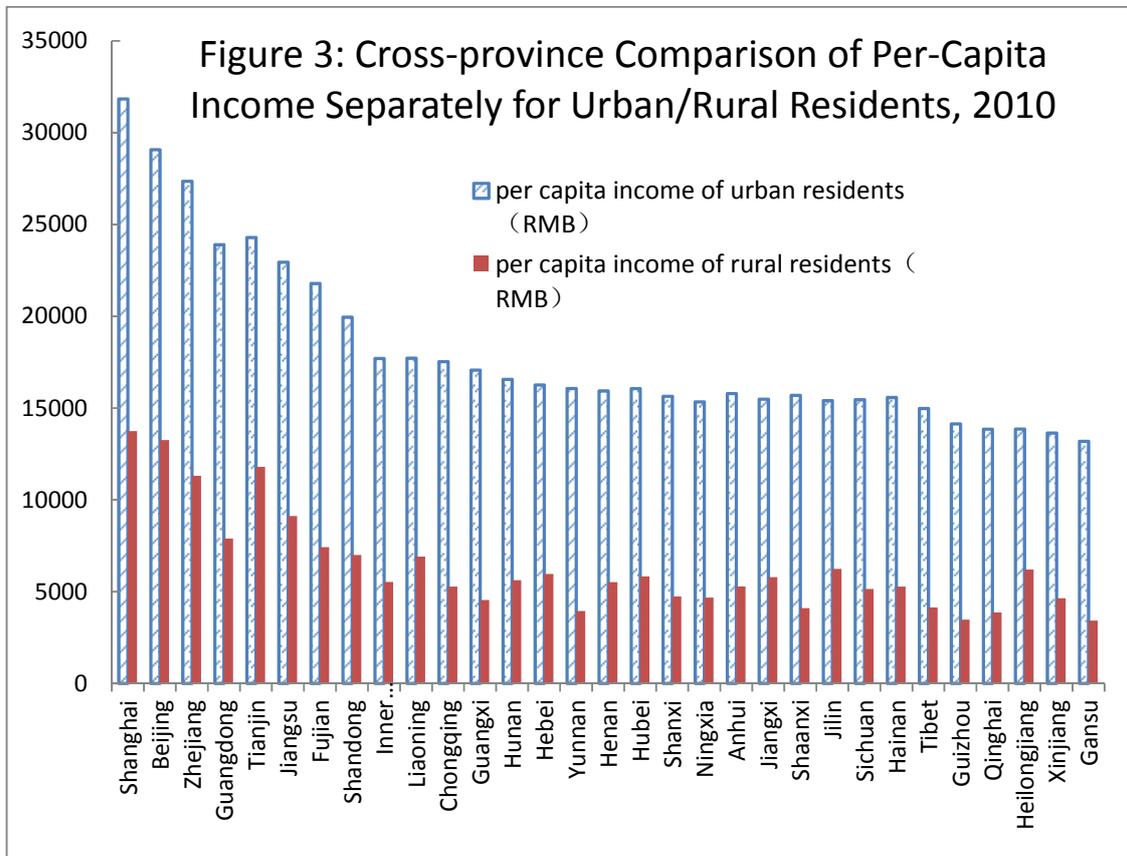


Source: National Bureau of Statistics (2010a, 2010b).

Note: Adjustment has been done for the data of 2005-2008, on the basis of the 2nd Economic Census.



Source: Han (2004).



Source: China Statistical Information Network (2011).

**Figure 4: Earnings Differentials by *Danwei* Profitability**

