



China's Urban-Rural Gap: An Analysis Based on Capability

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Abstract

The current urban-rural gap in China is caused by several factors and embodied in various respects. This paper analyzes the relevant factors from the perspective of capability, including income, education, health, employment opportunity and social security. Only by improving the capability of the rural residents, can the problem of the ever-widening gap between urban and rural areas be really solved.

Keywords: Urban-rural gap, Capability

1. Introduction

The research of the current urban-rural gap in China is mainly from the perspective of income gap. The income gap is a significant indicator and can be easily measured, but the income gap is a result rather than a reason, it is also caused by many other factors. Therefore, the gap between urban and rural areas should be analyzed from a deeper perspective of more realistic interpretation, which is just the main purpose of this paper. This paper attempts to analyze China's urban-rural gap from the perspective of capability.

The concept of capability was put forward by Amartya Sen, the 1998 Nobel laureate in economics, in his interpretation of welfare, equality and poverty. In Sen's view, a person's "capability" refers to the alternative combinations of functionings that are feasible for him to achieve. Capability is thus a kind of freedom: the substantive freedom to achieve alternative functioning combinations (or, less formally put, the freedom to achieve various life styles) (Sen, 1999, p.75). Sen regarded capability as the substantive freedom to choose a life one has a reason to value. According to Sen's explanation, poverty must be seen as a deprivation of basic capability rather than just the lower income, income shortage is only a strong induced condition of causing poverty. On the basis of Sen's theory, this paper explains China's current urban-rural gap from the capability discrepancies of obtaining income and other substantive values.

2. The key indicators included in capability

The concept of capability is broader than income or wealth. Of course, it includes the ability to earn income. By comparing with the substantive freedom represented by capability, income stands for a tool of freedom; it plays an important role as a tool to reach the substantive freedom. Under the condition of market economy, most goods and services can be obtained only by paying price, and obtaining income is an effective way to pay price. For most people, work is a steady means to make income; work is also of special significance for the poverty group: it can help them escape from poverty. Although leisure has its value, in the case of lacking income and employment opportunity, the utility of leisure may be negative because of the relative excess. Excessive leisure can even become a psychological burden to the poor. Employment opportunity refers to a person who has the ability to work can be employed when he or she is willing to work, otherwise his or her right to work is being deprived. Sen himself considered unemployment as capability deprivation, unemployment has many far-reaching effects other than loss of income, including psychological harm, loss of work motivation, skill and self-confidence, increase in ailments and morbidity (and even mortality rates), disruption of family relations and social life, hardening of social exclusion and accentuation of racial tensions and gender asymmetries (1999, pp.94-95). Employment opportunities have substantive significance for one person's capability. Thus, income and employment opportunities are indicators included in capability.

Health and decent life is a substantive freedom, the pursuit of such a lifestyle means a person's capability. The essence of human capital, which is mainly constituted of health and education, is an intrinsic value which is owned by a person. Its value lies in improving one's ability to achieve substantive freedom. One of the important contributions of neoclassical growth theory to economic analysis is the introduction of the concept of human capital and gradually extending its connotation from knowledge, skills to health. The relevant experience studies also indicated that knowledge, skills and health have a strong tool value for economic growth, improving labor productivity, increasing personal income and expanding economic participation. Obviously, health and education have not only intrinsic value but also strong tool value to a person's capability.

Social security is also considered as an aspect of capability in this paper. In the modern society, the traditional family security function is gradually weakened or converted. So social security is a risk prevention mechanism provided for the individuals by the society. To avoid absolute poverty, social security should provide a baseline protection of survival for the residents, and provide the residents with some of the most basic needs for a decent standard life on condition that social and economic development reaches a certain extent. The meaning of social security is not only a baseline protection, it also lies in offering a buffer to the losers in the market competition so that the losers can not completely lose their ability to compete, and providing opportunities for them to adjust, restore and develop their capability.

In the following of this paper, we analyze China's urban-rural gap from five aspects: income, education, health, employment opportunity and social security. All of these factors are highly relevant to capability. A function form of capability can be expressed as: $C=F(I, E_m, E_u, H, S)$

3. The specific analysis of the gap between urban and rural areas

3.1 Analysis of income gap

According to an income distribution survey carried out by the Institute of Economics of the Chinese Academy of Social Sciences, from 1995 to 2002, the contribution rate of the income gap between urban and rural areas to the overall income gap raised from 36% to 43% (Li & Yue, 2004, pp.30-38). Other relevant researches also showed that the income gap between urban and rural areas was the greatest influential factor to the overall income gap in China (World Bank, 1997, Li & Gustafsson, 2001, p.66, Chen & Zhou, 2001, pp.14-23, Lin & Liu, 2003, pp.3-14, UNDP, 2005, p.35). Li and Yue (2004) also indicated that if the health care, education, unemployment insurance and other non-monetary factors were taken into account, China's urban-rural income gap was the highest in the world.

We can measure the current income gap between urban and rural areas from the angles of absolute income and Gini coefficient. From the point of absolute income (see Figure 1), since 1985, the gap which had been narrowed only a few years but expanded most of the years had a significant upward trend on the whole. According to the figures announced by the Ministry of Agriculture recently, in 2006, the relative income gap between China's urban and rural residents had been expanded to 3.28:1, and the income gap of absolute income between them had reached 8172.5 yuan.

From the point of Gini coefficient (see Table 1), the overall Gini coefficient exceeded 0.4 (the internationally recognized warning line) in 1995 and had been higher than 0.4 since 1998, but if the overall Gini coefficient is decomposed into the urban Gini coefficient and the rural Gini coefficient, both of them are no more than 0.4, the urban Gini coefficient is even lower than 0.33. The seemingly inconsistent phenomenon reflects that the income gap between the urban and rural areas is very large in China.

The urban-rural income gap is not only the result of the widening gap, it also has a tendency that further increases the gap between the urban and rural areas. Permanent income gap causes a huge inequality of property distribution, wealth continuously accrues to cities. According to data from an income survey conducted by the Institute of Economics of the Chinese Academy of Social Sciences in 2002, urban and rural residents accounted for 93 percent and 7 percent respectively of the highest decile nationwide and 1.3 percent and 98.7 percent respectively of the lowest decile (UNDP, 2005, p.33). On the condition that the income and wealth of the rural residents is significantly lower than that of the urban residents, the opportunities for rural residents to obtain various kinds of meaningful activities are surely less than that of urban residents. If the policy tries to solve the problem only from the perspective of income, it can alleviate the relative poverty of rural residents through carrying out fiscal transfer payment. But transfer payment can not solve the problem of capability shortage, so it has no substantive significance to develop rural areas virtually. The point is to increase their own ability to obtain income and provide them with a fair environment, so that they have chances to change their backward status by their own efforts. The access to such opportunities and ability is relevant to the following analysis to a large extent.

3.2 Analysis of education gap

The education gap is a deeper level gap between urban and rural areas, which is notably embodied in education investment and educational level of the residents. In 2002, among the whole educational investment, 77% were used in cities, while rural areas in which the population accounts for more than 60% of the total population received only 23% (Guo, 2007, pp.27-44). Calculated by these data, the proportion of per capita education investment used in urban and rural areas was more than 5:1 in 2002. With respect to educational level of the residents, the gap is larger. According to the fifth census, rural laborers in 2000 had 7.3 years of schooling on average, 2.9 years fewer than laborers in urban areas (UNDP, 2005, p.55), and the proportion of the population who received high school, technical secondary, tertiary, undergraduate and postgraduate qualifications in urban areas were respectively 3.4 times, 6.1 times, 13.3 times, 43.8 times, 68.1 times of that of rural areas (Qiu, 2006, pp.4-6). Another related study about higher education equity provided an even higher times: the population who received high school, technical secondary, tertiary, undergraduate and postgraduate qualifications in urban areas were respectively 3.5 times, 16.5 times, 55.5 times, 281.55 times, 323 times of that of rural areas (from China Economic Times, 9 March, 2005).

China's education gap between urban and rural areas increasingly evolves into polarization, while education polarization strengthens the dual structure in urban and rural areas. Zhang et al. (2006, pp.10-14) studied the fairness of education in

China by using education Gini coefficient. They indicated that the significant increase of the national education fairness was in sharp contrast to the regional education inequality and the urban-rural education inequality after 1978; they also reminded that the education inequality between urban and rural areas may cause the vicious circle of “poverty-lack or loss of educational opportunities-poverty or more poverty”. In order to change the unfair situation, it is necessary to increase education investment for the rural areas, but the policies should not be limited to this point. Besides education investment, it is more important to improve rural public infrastructure, provide basic health and social security for rural residents so as to improve their welfare level and life quality. Only the living environment being improved, can the rural areas attract the groups who received higher education to flow from city to countryside, it will be possible to change the serious condition of lacking of high-quality talents in rural areas fundamentally. To the laborers who work in rural areas, especially those who work in the primary industry, skill training and vocational education have especially special significance. These activities can improve their ability and thus are helpful for them to get the opportunities to be employed in a high value-added industry or in a developed area.

3.3 Analysis of health gap

Health is a basic capability, lacking of health means the deprivation of the opportunities to choose. For a long time, the allocation of public health and medical resources had tilted to urban and developed areas seriously and neglected the rural and backward areas. The level of rural per capita medical resources is far below the city on average. In 2003, the numbers of hospital beds and doctors per 1000 persons in urban areas were 3.67 and 4.84; while the numbers of hospital beds and doctors per 1000 persons in rural areas were 0.67 and 1.19 (Qiu, 2006, pp.4-6). The current rate of rural cooperative medical coverage is only about 10%, while the coverage rate of urban areas is 42% (Qiu, 2006, pp.4-6). The indicators of health input in rural areas are far below the national average level, 87% of farmers are completely self-financed medical groups, and the per capita health expenditure of rural residents is only 28% of that of urban residents (Guo, 2007, pp.27-44).

With respect to medical care spending, the gap between urban and rural areas is also very notable. By the end of 2005, the expenditures of urban and rural residents in medical care were respectively 7.6% and 6.6% (China Statistical Yearbook, 2006). Considering the income ratio between urban and rural residents was 3.22:1 at the same time, the ratio of medical care spending between urban and rural residents was 3.71:1. The serious uneven situation of public health and medical resource distribution results in the involuntary deprivation of the health of many rural residents. In 2005, a report co-sponsored by the State Council's Development Research Centre and the World Bank came to the conclusion that the reform of the national medical system was “basically unsuccessful”; this conclusion is largely associated with the health gap between urban and rural areas. Clearly, Chinese government should take a more active role in this field.

3.4 Analysis of employment opportunities gap

By the end of 2005, the total number of employment was 758.25 million in China, of which the rural employment number was 484.94 million and the number of the population who was employed in the primary industry was 339.7 million (China Statistical Yearbook, 2006). Calculated by the above data, the number of employed persons in rural areas and in the primary industry amounted for 63.96% and 44.8% of the national total respectively, and the number of employed persons in the primary industry amounted for 70.05% of the rural total. It indicated that there were very little non-agricultural opportunities for the rural residents. The fact that too many people are employed in the primary industry determines that it is impossible for this group to get rid of the position of relative poverty by agriculture; and it also determines that the modern agriculture, which is characterized by mechanization and scale operation, can't work in the current China. Seen from the process of China's modernization and urbanization, developing modern agriculture and reducing the gap between urban and rural areas are the necessary way. Therefore, the transfer of a large number of farmers into towns is an inevitable choice.

Providing employment opportunities is the objective requirements to the transfer of rural surplus labor. However, China's current household registration system characterized by urban-rural divide restricts the movement of the farmers to the cities and their freedom of choosing place of residence, it also leads to the unfairness in seeking employment and business opportunities, thus depriving the chance of many farmers to change the status of their lives. Household registration is the institutional obstacle of the orderly flowing of employment and the establishment of a unified labor market between urban and rural areas, so it is the fundamental factor of causing the binary social structure. Comparing with urban areas, the labor resources of rural areas are relatively abundant, but the demand quantity is relatively small. The common sense of economics tells us that if the supply of a resource is far beyond its demand, its price will surely be low, which means that in the circumstances of unfree movement, the income of rural residents in general must be less than that of urban residents. In the free flow circumstances, the labor resource, which is abundant but relative cheap, will gradually flow from rural areas to towns. In the state of complete free movement, it can be expected that rural labor will continue to transfer to urban areas until the marginal values of labor of rural and urban areas are fully equal. In reality, many limited conditions which are specific and vary from person to person decide that a completely free flow is impossible to achieve. But the institutional barriers can be completely eradicated; a reasonable system should ensure that every person can flow unrestrictedly whenever he or she has the will and ability to move.

3.5 Analysis of social security gap

Since the introduction of urban economic reform in 1984, China has gradually carried out the reform of social security

system, which focuses on providing old-age, unemployment and medical insurance for urban workers. The policy guidance of city priority inevitably brings the enormous gap of social security between urban and rural areas. Seen from the basic guarantees, by the end of 2005, the number of people who were covered by the basic old-age insurance, the unemployment insurance and the basic medical insurance had reached 174.88 million, 106.48 million and 137.83 million respectively in urban areas, but there were only 54.42 million people who were included in the old-age insurance in rural areas (China Statistical Yearbook, 2006). With respect to the indicators of special care and social assistance, the numbers of people who were included in a minimum standard of living were 2247 and 367 per 10000 persons respectively in urban and rural areas. According to the personnel who benefited from social security, the coverage ratio of social security was only 3% in rural areas, the proportion of social security coverage ratio between urban and rural areas was 22:1, and the proportion of per capita social security fee between urban and rural areas was 24:1 (Guo, 2007, pp.27-44).

For a long time, the land and the family perform the social security function in rural areas. But land protection and family protection have obvious limitations and vulnerabilities in the modern society. So in the process of advancing China's modernization and urbanization, the security function of land and family should only be regarded as a transition on condition that the real social security is absent. The current problem to be solved is how to incorporate social security of the rural residents into the process of urbanization and modernization, making them well co-coordinated and promote each other. Under the restrictive conditions of urbanization, modernization and providing social security for rural residents, the program of "land-for-security" is worthy of considering. First, give the farmers the right to use the land permanently or at least more than 50 years, the using right is allowed to be circulated freely on condition that the purpose of the land will not be changed. The farmers can choose between operating the land themselves and transferring the using rights to others, including the individual and the state. In the mode of transferring the using rights to the individual, the rental income paid by the transferee naturally provide a basic security to the transferor. In the situation that the state receiving the transfer, the state can consider adopting the policy of replacing land with social security, which is the above-mentioned "land-for-security". On the one hand, the land-lost farmers can obtain social security; on the other hand, this mode means opportunity to concentrate the using right of the land so as to carrying out modern scale operation and developing modern agriculture. To avoid the formation of state monopolies, the maximum scale of the state farm should be restricted, which can be regarded as a guarantee to the vitality of competition.

4. Conclusion

The current urban-rural gap in China is caused by a variety of factors and embodied in various respects. Although concerning only one aspect, such as income gap, is helpful to understand the gap, it is impossible to fundamentally reverse the trend of ever-widening gap. If the policy emphasize one point too much, it is harder to achieve the expected results because of neglecting other important aspects, so a good policy is surely a result of multi-dimensional consideration and implementation. This paper suggests that the government's policy of solving the gap between urban and rural areas should be established on the basis of transfer payments, focused on education, health and employment opportunities, and supplemented by social security.

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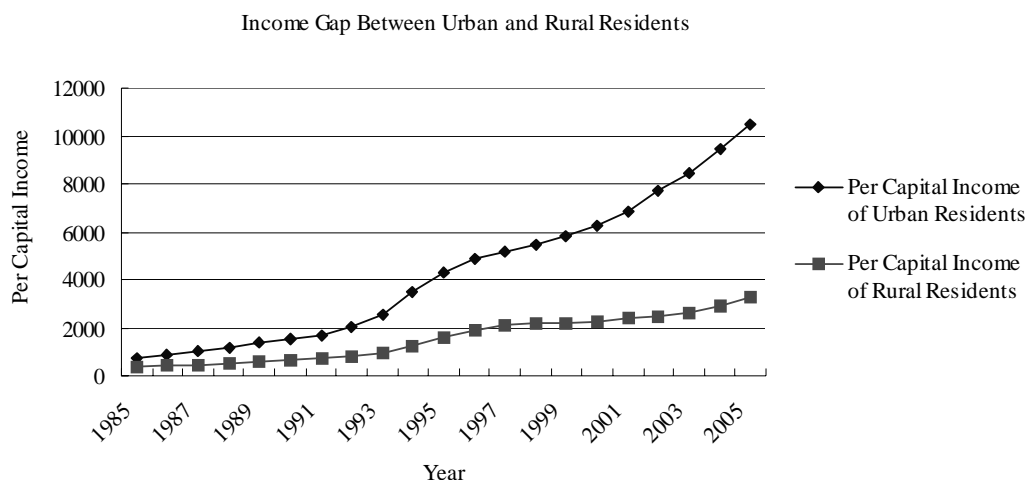


Figure 1. Income Gap between Urban and Rural Residents

Table 1. China's Gini Coefficient (1985-2004)

Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
G1	0.3073	0.3239	0.3247	0.3384	0.3529	0.3587	N.A.	0.3993	0.4183	0.4300
G2	0.2166	0.2117	0.2208	0.2229	0.2281	0.2319	N.A.	0.2473	0.2625	0.2874
G3	0.2812	0.2960	0.2981	0.3111	0.3230	0.3221	0.3218	0.3185	0.3395	0.3374
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
G1	0.4169	0.3946	0.3964	0.4001	0.4124	0.4275	0.4331	0.4297	0.4430	0.4419
G2	0.2792	0.2783	0.2861	0.2911	0.2961	0.3089	0.3121	0.3057	0.3221	0.3263
G3	0.3349	0.2974	0.3353	0.3375	0.3471	0.3623	0.3671	0.3725	0.3788	0.3637

Notice: G1, G2, G3 represent the Overall Gini Coefficient, the Urban Gini Coefficient and the Rural Gini Coefficient respectively.

Source: Calculated by Cheng, Yonghong (2007), according to the statistical data opened by the National Bureau of Statistics of China.