Discussion on "Long-Term Trends of Income and Wage Inequality in China"

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Contribution of the Paper

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  - It makes a thorough investigation into various data sources available and presents convincing evidence that income and wage inequalities have been rising over the last 3 decades in China.
  - It suggests various channels that have contributed to the rise of inequality, as well as policies that are meant to reduce it.

- Focus of my discussion: some possible extensions of this work.
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- Short-run inequality v.s. Long-run (intergenerational) inequality
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  - "Fair" inequality: workers of higher productivity are paid more.
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- "Fair" inequality: workers of higher productivity are paid more.
  - Higher education and skills. (Cognitive abilities)
- "Unfair" inequality: workers of the same productivity are paid differently, people are faced with different opportunities.
  - Discrimination against migrants and their children.
  - Unbalanced resource allocation across various regions of the nation.
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"Fair" inequality v.s. "Unfair" inequality

- "Fair" inequality is productive. It rewards workers who made more investment in their human capital.
- "Fair" inequality provides incentives for workers to become more productive.
- "Unfair" inequality is counter-productive. Unequal opportunity to obtain human capital directly impedes the disadvantaged population from becoming more productive.
- Unequal pay provides disincentives for disadvantaged workers to become more productive.
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- Short-run inequality: the existence of inequality in a cross section, “fair” or “unfair”.
- Long-run (intergenerational) inequality: mostly related to “unfair” inequality, i.e., unequal opportunities.
- In particular, unequal access to education.
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  - Effects are most likely to be in the short run.
  - They contribute to the stability of the society, but not growth.
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- Policies that target the roots of inequality, in particular the "unproductive" and "unfair" inequality.
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  - Equal opportunity at the micro level

  - Relax "Hukou" system, facilitate worker mobility, equalize payment between equally productive workers.
  - Provide equal educational opportunities for migrant children.
  - Provide financial aid for students from poor families.
  - Enhance access to educational loans.

- Equal opportunity at the macro level

  - More balanced resource allocation across regions, in particular, investment in the supply of education.
  - "Poverty Alleviation and Development" policies.

These policies have not only short-run, but more importantly, long-run effects on reducing inequality as well as boosting economic growth.
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Future Work

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- Individuals will react to policies by changing their investment in their own human capital as well as their children’s human capital.
- Firms will react by changing their hiring and investment decisions.
- The effects of policies depend on how these "micro" decision makers make their decisions and how their choices are inter-related.
From Heckman (2005)

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- "Human capital is the asset that ultimately determines the wealth of China. Fostering access to education will reduce inequality in the long run."

- "There is a role for letting market forces work to stimulate the production of skills and at the same time to reduce overall inequality, even in the short run, in China."