

Urban-Rural Income/Consumption Inequality and Household Demand in China

Yu Huang, Renmin University of China¹

Household demand is an important issue not only for micro-studies such as family studies, but also for macro-studies such as domestic demand and economic growth. With the shrinking external market and insufficient domestic demand in China in recent years, Chinese government is urgently trying to expand domestic demand. Besides, there's a wide gap between urban and rural areas in China, which implies that the urban people are significantly richer. So research on income and consumption inequality not only contributes to consumers' economic well-being, but also helps to expand domestic demand and promote economic growth. This paper investigates whether narrowing urban-rural income/consumption inequality would increase household demand and thus promote economic growth. We collect official data from relevant yearbooks and the National Bureau of Statistics (NBS) and obtain a panel data composed by different Chinese provinces. Then we introduce the Theil index and urban-rural income/consumption ratio as measures of inequality and use some panel data models to run the regression. The findings are interesting and may provide helpful policy implications: firstly, both income and consumption inequality will significantly reduce household consumption share and thus reduce the domestic demand; secondly, the income inequality is different from the consumption inequality though they are highly correlated and enhancing income equality is more effective than promoting consumption equality to expand China's domestic demand. Therefore, one possible strategy for Chinese government is to try to control the urban-rural inequality and focus more on narrowing the income inequality.

¹ PHD Student, School of Business, No. 59 Zhongguancun Street, Haidian District, Renmin University of China, Beijing, 100872, China. Phone: (+86)188-1179-1808; (+1)401-854-6391. Email: huangyu358@ruc.edu.cn