



# Glass ceiling effect in urban China: Wage inequality of rural-urban migrants during 2002–2007☆



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## ABSTRACT

The paper studies the levels and changes in wage inequality among Chinese rural-urban migrants during 2002–2007. Using data from two waves of national household surveys, we find that wage inequality among migrants decreased significantly between 2002 and 2007. Our analysis on the wage distribution further shows that the high-wage migrants experienced slower wage growth than middle- and low-wage migrants—a primary cause of declining inequality of migrants. By using distributional decomposition methods based on quantile regression, we find that an overall between-group effect dominates in the whole wage distribution, which means that the change in returns to the characteristics (education, experience and other employment characteristics) plays a key role, but on the upper tails of the wage distribution, the within group effect (residual effect) dominates, implying that the unobservable factors or institutional barriers do not favor the migrants at the top tail of the wage distribution. We also study wage differential between migrants and urban natives, and find that though the wage gap is narrowed, the gap at the upper wage distribution is becoming bigger. Overall, the results suggest that there exists a strong “glass ceiling” for migrants in the urban labor market.

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## 1. Introduction

China's burgeoning economic growth and increasing labor demand in urban areas, have resulted in a historically unprecedented surge of urbanization. More and more of the rural population have been joining this exodus to the cities, in search of a better life. According to the National Bureau of Statistics of China (NBS), there were around 275 million rural-to-urban migrants (hereafter referred to as “migrants”) in 2014, which could be the largest population movement within a country in modern human history.

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The phenomenon of the great migration has attracted significant attention from academics, the public and both the central and local governments, because this is related to so many economic issues such as labor market reform, industrial restructuring, competitive advantages in international trade etc. Despite the general recognition that it is important to have a better understanding of this phenomenon, this group had been almost omitted in most Chinese official statistics until recently.<sup>1</sup>

Another important social phenomenon during this period has been the widening income and wage distributions in urban China, one of the most remarkable shifts in the structure of labor compensation in the Chinese labor market since economic reform began in China in 1979.

Increasing inequality and large scale rural-urban migration are two of the most important phenomena in contemporary labor market of China. Numerous studies cover each of these issues separately, but few investigate both issues. For example, there are many studies on the Chinese rural-urban migration. Some researchers focus on the migration decisions, including Hare (1999 and 2002) and Zhao (1999 and 2003), and others examine the impact of migration on the source communities (e.g., de Brauw & Giles, 2008; Du, Park, & Wang, 2005 and Taylor, Rozelle, & de Brauw, 2003). Another group of studies focus on labor market segregation between urban natives and migrants in terms of wages, welfare and other aspects, as done by Demurger, Gurgand, Li, and Yue (2009), Deng and Li (2010), Knight and Yueh (2009), Meng and Zhang (2001) and Zhu (2015). These papers find that migrant workers work more hours and receive less pay than urban natives. This gap is only partially explained by differences in their work-related characteristics and can mostly be attributed to the differing returns to endowments and other unobservable factors, generally assumed to be “discrimination” or “labor market segmentation” in China.

Income inequality has generally been on the rise in China since 1979. The unequal income distribution is a hotly debated topic in Chinese news media, policy circles and academia.<sup>2</sup> Even though it has been widely observed and extensively examined by researchers, data availability limits many studies to investigate inequality among migrants. The picture of inequality in China is incomplete in the absence of good information on the state of inequality among the 275 million migrants; any policy discussion and formulation should therefore take this group into consideration.

To fill this gap in the literature, this paper studies the levels and changes in wage inequality among migrants between 2002 and 2007, compares inequality among migrants with that among urban natives and investigates the sources and causes behind these trends. A deeper understanding of this phenomenon could be important for both academic and policy making purposes.

To our knowledge there are only a few studies related to our paper. Kanbur and Riskin (2008) uses the migrant sample in the 2002 wave of the China Household Income Project, and provides evidence that inequality among migrant households was greater than inequality among both rural and urban households in 2002. Their study focuses on inequality at the national level, so they do not dig deeper into their findings on migrants. The fact that they only have one cross-sectional dataset from 2002 also limits the scope of their study, making it impossible for them to investigate the changes in inequality among migrants over time. Qu and Zhao (2014) observes that wage inequality continued to increase among urban natives between 2002 and 2007, whereas wage inequality among migrants decreased over the same period, but they do not provide further analysis on their findings. Magnani and Zhu (2012) specifically analyze the gender wage gap among rural-urban migrants in China using the CHIP 2002 data. Demurger et al. (2009), Deng and Li (2010), Knight and Yueh (2009), Meng and Zhang (2001) and Zhu (2015) mostly focus on the wage differentials between urban workers and rural migrants in the urban labor market, but they do not touch the inequality among migrants.

Following the classical human capital theory by Mincer (1974), wage distribution can mostly be explained by variables linked to a standard human capital model, such as education and experience. Many studies such as Autor, Katz, and Kearney (2005), Juhn, Murphy, and Pierce (1993), and Lemieux (2006), however, show that wage inequality within a group of workers with the same level of education and experience, which is called “residual inequality” in the literature, explains most of the growth in the overall wage inequality of the United States. Several studies on wage inequality in urban China, such as those by Xing and Li (2012) and Meng, Shen and Xue (2013), also show that residual inequality is very important to explain the wage dispersion of urban natives.

In this paper we take residual inequality seriously. Residual inequality among migrants could be even greater than that in other countries and urban natives in China because it reflects major unobservable skills or institutional factors that may significantly impact migrant wages. For example, China has experienced a rather long period of institutional segmentation between rural and urban labor markets as a result of the *hukou* household registration system. While the importance of the *hukou* system is getting smaller, it still affects migrants in many ways and hampers their assimilation in urban China. Even if migrants had the same level of education, working experience, and other observable employment characteristics as their urban counterparts, migrants are unlikely to obtain overall remuneration that is comparable to urban natives.

<sup>1</sup> The National Bureau of Statistics (NBS) in China had previously conducted household surveys based on the Household Registration System, i.e. the *hukou* system for many years. Migrants were not systematically covered in this framework until 2013. To fill the gap, the NBS has conducted another specific survey based on rural households in source areas to cover rural-urban migrants every year since 2009. The official Chinese government labor statistics (e.g. on unemployment, wages and social security) did not cover migrants living in the urban destinations until 2008.

<sup>2</sup> Numerous papers have also been produced on inequality in China. For example, Gustafsson and Li (2002), Morduch and Sicular (2002) and Benjamin, Brandt, and Giles (2005) investigate inequality in rural China. Knight and Song (2003) study the urban inequality over 1988–1995, Tsui (1993) and Kanbur and Zhang (1999) examine regional inequality in China, Knight and Song (1999) and Sicular, Yue, Gustafsson, and Li (2007) investigate the urban-rural income gap and Ravallion and Chen (2007) provide a comprehensive study on inequality and poverty in China. Many more studies can be found, such as those by Li, Sicular, and Gustafsson (2008), Zhao, Griffin, Li, and Zhu (1994) and Zhao, Li, and Riskin (1999), all of which use China Household Income Project (CHIP) data, in addition to other research found in the symposium on Chinese inequality in the December 2006 issue of the *Journal of Comparative Economics*.

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