



The impact of education on income inequality between ethnic minorities and Han in China[☆]



Bente Castro Campos^a, Yanjun Ren^{a,*}, Martin Petrick^b

^a Institute of Agricultural Economics, University of Kiel, Wilhelm-Seelig-Platz 6/7, 24118 Kiel, Germany

^b Leibniz Institute of Agricultural Development in Transition Economies, Theodor-Lieser-Str. 2, 06120 Halle (Saale), Germany

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ABSTRACT

This article analyzes the impact of education on income inequality between ethnic minorities and Han in China by using the data from the China Health and Nutrition Survey (CHNS) over the period 1993–2011. An instrumental variable approach using two institutional changes is applied to address the endogeneity of education in income equations for various subsamples. To investigate the impact of education on income inequality between ethnic minorities and Han, we introduce an interaction term between the ethnic minority status and years of education. Our results suggest that there exists significant income inequality to the disadvantage of ethnic minorities for the full, female, and urban samples, and depending on the instrument also for the rural sample. Nevertheless, our results for these samples show specific returns to education for ethnic minorities, which implies that a portion of the income gap can be overcome with additional education. We find that in general one additional year of education will increase earned incomes of ethnic minorities by 26.3–28% and in particular by 13.5–14.4% for women from an ethnic minority group, by 10.4–14% for ethnic minorities with urban household registration, and by 10.8% for ethnic minorities with rural household registration. However, we cannot obtain conclusive results for the male sample due to weak instruments.

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1. Introduction

The Chinese government started in the end of 1978 to implement economic reforms known as “Socialism with Chinese characteristics.” China has since then experienced high economic growth; the average GDP annual growth rates have been approximately 7–9%, and poverty rates have largely declined from 60.7% in 1990 to 6.3% in 2011¹, lifting 500 million people out of

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* Corresponding author.

E-mail addresses: bcastro@ae.uni-kiel.de (B. Castro Campos), yren@ae.uni-kiel.de (Y. Ren), petrick@iamo.de (M. Petrick).

¹ See <http://povertydata.worldbank.org/poverty/country/CHN>

severe poverty. Nevertheless, income inequality in China has severely increased after 1990 (Benjamin, Brandt, & Giles, 2005, Li & Sicular, 2014). China has shifted from a comparatively equal to a very unequal society. The national Gini coefficient in China currently stands at high levels between 0.47 and 0.52 (Yue, Li, & Gao, 2013)². In such an unequal situation disadvantaged social groups such as ethnic minorities usually suffer more from income inequality. How is the situation in China? Is there considerable income inequality between ethnic minorities and Han, the majority group, in China? In addition, China's ethnic minorities, with a few exceptions, have generally less education than do Han (Hannum, 1999, 2002, Ding, 2006). If there is income inequality between ethnic minorities and Han, can additional education, which is usually linked to higher incomes, help to reduce it?

To address these questions, we adjust Mincer's income equation by including the ethnic status and an interaction term between the ethnic status and years of education as additional variables. Data for this research are taken from the China Health and Nutrition Survey (CHNS)³ over the period 1993–2011. We pay special attention to educational attainment because with more education individuals usually earn more; yet this also implies that education might be endogenous in the income equation, as individuals might increase their educational attainment to receive higher incomes; therefore, we use an instrumental variable approach to capture the endogeneity of education in income equations by applying two institutional changes.

To analyze income inequality between ethnic minorities and Han matters, as it has real life consequences. Ethnic minorities who earn less over the lifecycle also have less for the basic needs of their families and fewer savings for retirement; thus, they might end up to be poorer and less integrated in society; this might buttress social tensions. Given that ethnic tensions are an ever more crucial global issue, useful lessons about income differentials between ethnic groups can be learned from a transition country like China.

This article proceeds as follows. Section 2 briefly reviews the essential literature on the income effect of ethnic minority status and on the education efficiency (return to education) gap between ethnic minorities and Han in China. Section 3 provides the empirical framework, which is an amendment of Mincer's income equation. Section 4 describes the data and provides descriptive statistics. Section 5 shows the empirical findings for the full sample and for the female, male, urban, and rural subsamples. In the last section we draw conclusions.

2. Literature review

2.1. The income effect of ethnic minority status

Income inequality is pronounced along racial and ethnic lines in many countries. Income gaps between ethnic groups can be attributed to at least two possible explanations, which are not mutually exclusive and interlinked with other pre-labor market circumstances. First, differences in between-group income differentials, such as in education, labor market experience, and occupational composition can explain a portion of the income gap. Second, labor market discrimination in job access and wages can explain another portion of the income gap (Becker, 1971).

Over time many governments have tried to tackle income inequality by addressing these two major issues with all kinds of public policies, including affirmative action, equal opportunity legislation, and educational and financial benefits for the disadvantaged. The recent literature, however, suggests that despite all of these public efforts, there is still considerable income inequality throughout the world. For example, ethnic minorities in Vietnam earn approximately 11% less than does the majority group (Pham and Reilly, 2009). The causes are largely attributed to lower labor market returns due to ethnic minorities' characteristics. In Latin America, a large portion of the ethnic wage gap in favor of the white can be attributed to differences in educational attainment and occupational segregation (Ñopo, Atal, & Winder, 2010). In Israel, changes in the earnings structure through skill-based technological change have mainly led to increased inequality between ethnic minorities and the majority group (Haberfeld & Cohen, 2007). In Great Britain, the income gap is mainly attributed to ethnic minorities making up a larger portion in lower paying jobs (Brynin & Güveli, 2012). In the United States, the income gap between whites and blacks has been persistent over time and is largely attributed to skill differences (Altonji & Blank, 1999). Nevertheless, Fang and Heywood (2006) find no considerable difference in earnings in output-based pay between Europeans and non-Europeans in Canada.

In China, with the foundation of the People's Republic of China in 1949, the government started to reclassify ethnic groups and autonomous areas and progressively set up a preferential policy framework. Fifty-five ethnic minorities alongside the Han-majority have been classified since 1949. Actually China has implemented a very advanced preferential policy framework to tackle labor market discrimination and ethnic inequalities, but one look into the Xinjiang Uyghur Autonomous Region (XUAR) and the Tibet Autonomous Region (TAR) tells us how poorly these policies have been enforced (Gilley, 2001, Yee, 2003, Hillman, 2008). Regarding income differentials between ethnic minorities and Han, the literature suggests differences in human capital, household and regional characteristics as the major determinants. Hannum and Xie (1998) compare differences in occupational attainment between ethnic minorities and Han in XUAR by using 1982 and 1990 census data. They find an increasing gap in occupational attainment between ethnic minorities and Han over time. Gustafsson and Li (2003) analyze rural income differences between ethnic minorities and Han based on survey data from 19 provinces in 1988 and 1995. They find an increasing income gap of 19.2% in 1988 to 35.9% in 1995, indicating lower income levels for ethnic minorities. By using the 1988 Chinese Household Income Project (CHIP) data, Johnson and Chow (1997) find that ethnic minorities in rural and urban areas earn approximately 19% and 4.5% less than Han, respectively. Li (2003) uses the CHIP data for 1995 and discovers that ethnic minorities earn 9% less than

² The Gini coefficient ranges from zero (perfect equality) to one (perfect inequality).

³ See <https://www.cpc.unc.edu/projects/china>.

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