



# Inequality will worsen as people in the PRC get older

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An already widening gap between rich and poor in the People's Republic of China is likely to worsen due to its rapidly aging population.

Increasing life expectancy and the effect of a decades-long family planning policy that limited the number of children people could have is felt throughout the economy.

At the end of 2011, the number of people over 60 years old in the PRC reached 185 million or 14 percent of the population. By 2030, the PRC is expected to become the world's most aged society, and by 2050, the number of elderly people is forecast to climb to 454 million, or 33 percent of the total population.

For about 3 decades, the PRC has seen double-digit annual economic growth. It is the second-largest economy in the world.

But the economy's expansion has also been associated with rapid population aging and soaring inequality. The PRC's Gini coefficient, which measures the income or wealth distribution of the population and is the most commonly used gauge of inequality, jumped from 0.30 in 1980 to 0.53 in 2010 and is among the highest in the world.

Income inequality in the PRC is a serious issue, especially compared with countries at a similar stage of economic development.

High and persistent income inequality can significantly hurt demand, stall growth, trigger economic crises, and erode social cohesion.

Population aging is a worldwide problem. Other countries in East and Southeast Asia face the same difficulty as life expectancy increases and birth and fertility rates fall.

The United Nations projects there are some 600 million people aged 65 or older, and by 2035 this figure is expected to top 1.1 billion, or 13 percent of the world's population.

The ratio of old people, aged 65 or above, to labor force, aged 15 to 64, will grow even faster. From 1960 to 2015, this ratio for the world population rose by more than 46 percent, from 8.61 to 12.33, or about 12 old people for every 100 working.

By 2050, it is expected to jump to 25, while in rich countries it will be much higher.

Japan will have 73 old people for every 100 work-age people by 2050, an increase from 35 in 2010.

In the PRC, the old-age dependency rate will more than double from 15 to 36 by 2050.

Population aging will, over time, widen income gaps for people born at the same time due to differences in education, employment, health, family background, and idiosyncratic luck, among other factors. Aging also tends to worsen consumption or spending inequality.

Between 1989 and 2011, consumption inequality was higher than income inequality in the PRC.

Consumption inequality was higher in rural than urban areas, while income inequality was largely the same in both.

People with poor education tended to have lower incomes and consume less than those with higher education.

This trend is different in developed countries such as the United States and the United Kingdom where income inequality is higher than consumption inequality.

Poorly educated rural farmers in the PRC do not have as much access to financial and insurance services when their livelihood is at risk. The situation is the same in other developing countries, where poor households cannot get loans during hard times.

An added challenge is that the credit market in the developing world is not yet fully developed, which means access to credit is a challenge.

Better access to, and knowledge about, financial services would reduce inequality over time, signifying the importance of promoting financial access among citizens in a rapidly aging society.

This episode was based on research done for ADBI by Xudong Chen, a professor at the School of Business, Department of Finance and Accounting, Baldwin Wallace University; Bihong Huang, a research fellow at ADBI; and Shaoshuai Li, a PhD candidate at the University of Macau.