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## Income Inequality in Transitional Urban China: The Effect of Market versus State

 PDF (Size: 154KB) PP. 373-381 DOI: [10.4236/sm.2012.24049](https://doi.org/10.4236/sm.2012.24049)

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### ABSTRACT

The rise of inequality in China is one of the most serious social problems in the reform era in China. Previous studies have debated the relative importance of human capital, political capital, and other factors in determining personal income. Using a new dataset from 2006 China General Social Survey (CGSS, 2006), the first author replicates earlier tests to measure whether the market or state has more impact on incomes as a way to the competing hypotheses related to human versus political capital. The results of the ordinary least squares regression analysis show no significance in party membership, state ownership, and work experience, while the first author does find high returns to education, which supports Nee's market transition theory. Moreover, the findings indicate that market sectors, including domestic private enterprises and foreign enterprises have remarkable advantages in earnings, and there is a great income gap between different regions, sectors, and within the sectors. To summarize, the market and state play a dual role in determining income in transitional urban China.

### KEYWORDS

Income Inequality; Urban China; Market Effect; State Effect

### Cite this paper

 Wu, Q. , Goetz, B. , Hartmann, D. & Wang, Y. (2012). Income Inequality in Transitional Urban China: The Effect of Market versus State. *Sociology Mind*, 2, 373-381. doi: [10.4236/sm.2012.24049](https://doi.org/10.4236/sm.2012.24049).

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