
Comments by Kozo Kiyota, **on Education
Development and Wage Inequality
in Urban China**

Kozo Kiyota: This paper asks how the wage structure in urban China has changed from 1995 to 2013. Although several studies have already addressed a similar issue, this paper presents an updated analysis. The analysis utilized the data from the China Household Income Project Survey in 1995, 2002, 2007, and 2013. The analysis mainly focused on two types of wage gap (or wage inequality). One is the educational wage gap that is defined as the wage gap among middle school, high school, and college graduates. The other is the regional wage gap that is defined as the wage gap among east, central, and west regions.

The major findings of this paper are three-fold. First, the analysis found the increasing importance of education for the wage gap in urban China, especially in coastal regions. Second, wage gaps in education, gender, and age increased significantly from 1995. Finally, the regional wage gap increased between 1995 and 2007 and then declined after 2007. Based on these findings, the authors concluded that the inflow of college-educated workers was not sufficiently high to reduce the educational wage gap in urban China. Similarly, the mobility of the educated workers is not sufficiently high to reduce the high educational returns in specific regions.

This paper asked interesting and important questions, and presented interesting findings. Nonetheless, there is some room to improve this paper. I have three comments. First, I worry about the measurement of the prices. Although the authors stated that the wages were adjusted to the 2013 price using provincial urban consumer price index, I wonder whether or not the price index controls for the regional price differences. For example, the price level in Beijing and Shanghai may be higher than the price level in other Chinese urban cities. If the price level is adjusted to unity in all cities in 2013, it is difficult to compare the price levels and wages across regions.

In this connection, the average real wages in regions i and j can be written as w_i/p_i and w_j/p_j , respectively, where w is nominal wage and p is the price level. Suppose that the real wage is higher in region i than in region j (i.e., $w_i/p_i > w_j/p_j$). The decline in regional wage gap will be observed if the inflation rate is higher in region i than in region j (i.e., $p_i > p_j$) even when the changes in nominal wages are the same between these two regions (i.e., $w_i = w_j$). I wonder whether the decline in regional wage gap after 2007 is mainly driven by

the changes in the prices rather than those in wages. If the changes in real wages are mainly driven by the changes in the prices, the interpretation of the results will change.

Second, more detailed and clear explanations about the policy implications may be helpful. In their conclusion, the authors state that the restrictions on the mobility of educated workers should be removed. This may lead to sagging local economies, however, because if the educated workers move from region i to region j , both per-capita and aggregate income in region i decline while they increase in region j . Therefore, it may be helpful to policymakers if the authors discuss the effects of the removal of the restrictions in more detail, taking into account such general equilibrium effects.

Finally, as a next step for this paper, it may be interesting to ask where this gap originates. Several studies in international trade have addressed the issue of regional wage gap, based on the factor price equalization theorem.¹ Similarly, Kiyota (2012) applied a multiple-cone trade model to examine the relationship between factor endowments, sectoral production, and wages across prefectures in Japan. Provided that the labor mobility across regions is low in China, it may be interesting to apply trade models in explaining the regional wage gap in China.

References

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¹ See, for example, Tomiura (2005) for the case of Japan; Bernard et al. (2008) for the case of the United Kingdom; and Bernard, Redding, and Schott (2013) for the case of the United States.