KNOWING ONE'S LOT IN LIFE VERSUS CLIMBING THE SOCIAL LADDER: THE FORMATION OF REDISTRIBUTIVE PREFERENCES IN URBAN CHINA

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Abstract:

This paper examines how individual preferences for redistribution depend on beliefs about what determines one's lot in life and self-assessed prospects for climbing the social ladder in urban China. We find that both beliefs about what determines one's lot in life and subjective perceptions of future mobility are correlated with the formation of left-wing beliefs and, by extension, preferences for redistribution. We find that the marginal effects of the variables measuring one's lot in life are larger than self-assessed prospects for climbing the social ladder. These findings are robust to the inclusion of control variables for the personal characteristics of the respondent, including his or her ideology, and the location in which he or she lives.

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I. INTRODUCTION

To what extent do preferences for redistribution respond to individual beliefs on what determines one's position on the social ladder? To what extent do individuals take into account their prospects for social mobility when evaluating the pros and cons of income redistribution? As noted by Alesina and La Ferrara (2005, p.897):

> Since redistribution is meant to go from the 'wealthy' to the 'poor', at any point in time one would expect the latter to favour it and the former to oppose it. However, the effect of income on preferences for redistribution is more complex. To the extent that today's poor maybe the wealthy of tomorrow and vice-versa, the prospects of future positions in the income ladder should affect individuals' current preferences for redistributive policies.

How preferences for redistribution respond to individual beliefs about what determines one's position on the social ladder has been examined by Alesina *et al.,* (2001), Alesina and Angeletos (2005), Alesina and La Ferrara (2005) and Fong (2001) among others. These studies find that people who believe that wealth and success are the outcome of connections, family history or luck as opposed to effort are more likely to favour redistributive policies. The experimental evidence from dictator games, ultimatum games and public good games on altruism, fairness and reciprocity similarly suggest that people have an innate desire for fairness and are prepared to punish unfair behaviour (Fehr & Schmidt, 2003). The prospect of upward or downward mobility influencing preferences for redistribution has been dubbed the Hirschman (1973) effect and has been examined in several studies. The effect of self-assessed likelihood of being upwardly (or downwardly) mobile in the future on the

desirability of redistributive policies has been previously studied by Ravallion and Lokshin (2000) using Russian data, Corneo (2001) and Alesina and La Ferrara (2005) using United States data and Corneo and Gruner (2002) using data for several OECD countries. These studies generally conclude that people who have better self-assessed prospects of upward mobility are more averse to redistributive policies.

We examine the role of individual beliefs about what determines one's position on the social ladder and the extent to which individuals take into account prospects of moving up the social ladder on redistributive preferences in urban China. Urban China represents an interesting 'natural experiment' to consider the role of these two sets of beliefs on leftist leanings and, by extension, preference for redistribution. On the one hand China's market reforms have created tremendous opportunities for people to climb the social ladder, particularly through fast wealth creation in the non-state sector. On the other hand, the marketisation process has generated growing income inequities between the 'haves' and 'have nots' (see eg. Gustafsson & Li, 2001; Khan & Riskin, 2001; World Bank, 1997). There are whole segments of the urban population, such as workers retrenched from the state-owned sector, who once held privileged positions in Maoist China, but whom the reforms have left behind. These people have little or no realistic prospect of improving their social position and, through protest, have expressed longing for a return to the Maoist past. One example who received widespread media coverage is Wang Shanbao, a 55-year-old worker retrenched from the state-owned sector, whose protest in 2001 took the form of drawing sketches of Chairman Mao on the pavement outside his factory, which drew daily crowds until the factory managers gave him back his job (Forney, 2003).

The results from a study such as this are important for improving our understanding of the political economy of redistributive policy in China. Through the development of the ideal of a 'harmonious society', first outlined at the Sixteenth Party Congress in 2006, Hu Jintao has made reduction in income inequality a centrepiece of the Chinese central government's reform agenda. Leading Party theorist Wu Zhongmin has argued that creating a harmonious society entails promoting "social distributions based on middle income earners as the dominant social group" (Wu, 2006). In this regard, Wu argues that China's present-day social structure is "neither healthy nor conducive to the establishment of a harmonious society" since "more than 80 per cent of the urban population is comprised of low or low-to-middle income earners while middle incomer earners make up only around 10 to 15 per cent of the population." Wu's (2006) understanding of creating a harmonious society is specifically tied to the market-oriented goal of achieving an ideal social distribution that is "small at either end and big in the middle," that is, with middle income earners as the vast majority and tiny minorities of the very rich and very poor at either end.

Championing the importance of promoting access to education and social protection, job creation and reducing income inequality in a 'harmonious society' allows Hu to sell the evolution of 'capitalism with Chinese characteristics' as a socialist market regime developed on behalf of the people. While Deng Xiaoping's hedonistic aphorism was 'to get rich is glorious', Hu wants to be seen as being committed to the disenfranchised and disadvantaged. To the extent that we find a significant positive relationship between perceptions that one's lot in life is determined by 'connections and luck' and a preference for redistribution, our results would be consistent with the rationale of a harmonious society. That is, there is a need to protect those who have lost out from the reforms through no fault of their own and, at the same time, ensure

social stability. However, to the extent that we find evidence of a Hirschman effect, prospects for upward mobility in China's fast moving market economy could help to explain tolerance, or even support, for high levels of urban income inequality.

II. PREFERENCES FOR REDISTRIBUTION

Several factors determine people's preferences for redistribution (see Alesina & La Ferrara, 2005; Alesina & Fuchs-Schundeln, 2007). One consideration is current income. The poor benefit more from transfer programs and thus are more inclined to support redistributive policies holding all things equal. A second consideration is a person's ideology or political beliefs which may be influenced by a range of extrinsic factors including upbringing and environment (Mullins, 1972). People who lie to the left of the ideological spectrum can be expected to be more predisposed to redistributive policies. A third consideration is expected future income. People who are poor in period one, but expect to become rich in period two, can be expected to oppose redistributive policies on the basis that while such policies benefit them in period one, they will disadvantage them in period two. This statement is based on the assumption that the same redistributive policies in place in period one will continue to be in place in period two. The assumption that once they are in place redistributive policies are stable over time seems reasonable (Alesina & La Ferrara, 2005).

A fourth consideration is people's beliefs about what determine one's lot in life. There are two aspects of this consideration. One aspect is what Alesina and Fuchs-Schundeln, (2007) term 'altruism' or Corneo and Gruner (2002) call the 'public values' effect. The rich may favour redistribution based on a belief that it is appropriate for society to support the poor. One might be more likely to hold such a belief if one perceives market outcomes as unfair and believe that those who succeeded were either well connected, knew the right people or were plain lucky

(Alesina & Fuchs-Schundeln, 2007). For the rich, such motives may reflect pure altruism or be motivated by a desire to avoid the negative effect on individual utility of observing poor people on the street (Alesina & La Ferrara, 2005). A second aspect is what we will call an 'entitlement effect'. Poor people who perceive that one's lot in life is due to factors outside one's control (such as connections, luck, knowing the right people or being born into the right family) will feel a greater sense of entitlement to redistribution because their lot in life was outside their control. Our purpose in this paper is to seek to examine the relative importance of perceptions of one's lot in life and self-assessed prospects to climb the ladder while holding current income, ideology and other personal and demographic variables constant for urban China.

III. ECONOMIC REFORMS IN CHINA

The economic reforms that commenced in the late 1970s have not only led to rapid economic growth, but have had a profound effect on the structure of the Chinese economy. On the eve of the economic reforms, the state-owned enterprise sector was dominant, while the non-state sector lurked on the fringes of the economy. In 1978, state-owned enterprises accounted for almost 80 per cent of industrial value added, while there were just 140,000 individuals engaged in the private sector (Zhang *et al.,* 2001). There was no urban labour market and urban labourers were paid according to wage grades. These wage arrangements were equalitarian, over-centralized and insensitive to variations in performance (Ding *et al.,* 2006). Moreover, the appointment and promotion process was based on political considerations, rather than performance (Bian, 2002). In the three decades since economic reforms commenced the non-state sector has increased in importance relative to the state-owned sector and there has been a surge in inward foreign direct investment (FDI). By 2005, the state-owned share of industrial value added had fallen to less than 20 per cent and the

domestic private sector alone was estimated to account for about one-quarter of gross domestic product (GDP) (NBS, 2005). In 2003, China overtook the United States for the first time as the number one global destination for inward FDI, with FDI worth US$53.5 billion (*Reuters,* 2003). In 2004, inward FDI to China hit US$60 billion (NBS, 2005) with inward FDI expected to be US$63 billion at end 2006 (NBS, 2007).

The outcome of these reforms have been significant changes in employment policies and practices for urban workers, previously characterized by strict bureaucratic control, a monopoly on labour allocation through lifetime employment policies and severe restrictions on labour mobility (Knight & Yueh, 2004). The demise of allocated lifelong jobs, in the push towards a market economy, has resulted in the materialization of a competitive urban labour market in urban China (Warner, 1996). The compensation structure has been reformed with the objective of linking wages with performance. While the precise compensation structure varies across ownership forms, the wage differential between position levels has increased and a number of market-oriented performance-based components have been introduced such as position wages, skill wages, subsidies, bonuses and profit sharing (Ding *et al.,* 2006). The emergence of the non-state sector and, in particular, the growth of FDI has created a strong demand for skilled workers. Increased competition amongst non-state sector employers and the freedom to diverge from a state administered labour system has led to the introduction of on-the-job training and performance based promotion guidelines as non-state firms vie to attract and retain skilled staff.

Increased opportunities for urban residents to improve their occupational and social status are not restricted to the non-state sector. In the pre-reform period and in the early stages of market reforms, party membership was an important predictor of

professional attainment (Bian *et al.,* 2001; Walder, 1995; Zhou, 2001). However, promotion patterns have changed over time, even in the state-owned sector. According to an official report (Office of Organization Reform), between 1985 and 1995 in the state-owned sector, college educated managers increased from 22 per cent to 32 percent; managers aged below 35 increased from 39 per cent to 43 per cent and the number of professionals increased 16 per cent per annum. Using data from 20 cities collected in 1993 and 1994, Zhao and Zhou (2004) found that although there was some evidence of continuing political selection, promotion processes in the state-owned sector had become increasingly rationalized, reflected in the growing importance of education as a criteria for promotion and the active replacement of old bureaucrats with a new generation of managers. These findings have been confirmed in detailed case studies of specific state-owned enterprises which have found that career mobility is primarily based on good performance (eg. Smyth & Zhai, 2003).

While the market reforms have created new opportunities to climb the professional and social ladder, they have also led to unprecedented disparities between the 'haves' and 'have nots'. As a result of state-owned enterprise restructuring, it is estimated that 26 million state-owned employees were made redundant between 1998 and 2002 (Armitage, 2003). Those who have been retrenched from the state-owned sector are invariably precisely those who find it the most difficult to find another job. Appleton *et al.* (2002) find that, using survey data from 2000, as many as 11 per cent of urban workers had been retrenched and 53 per cent of these remained unemployed at the time of the survey. The risk of retrenchment was higher for women, the less educated, the low skilled and the middle-aged. The fact that reemployment rates were low implying that unemployment will be long-term. The duration of unemployment was longer for the unhealthy, the less educated and women with young children.

Alongside the retrenched, China has an estimated 120-140 million off farm migrants. These people, who constitute 80 per cent of the workforce in the construction sector and 50 per cent of the workforce in the service sector, have made China the world's factory. Simply put, migrants have been the engine room that has driven China's high growth rate and positioned China to overtake the United States as the world's largest economy by 2015 (Allen *et al.,* 2005). However, the returns that migrants have received have not been commensurate with the contributions that they have made to China's economic success. Migrants receive low wages, endure long hours and are often confronted with poor working conditions. A survey administered by the All-China Federation of Trade Unions in 2006 found that 65 per cent of migrants were working in so-called 'Three D jobs' (dirty, dangerous and demeaning).[1] Migrants also face social discrimination. Confronted with a city of strangers, often physically demanding jobs and few comforts, migrants often experience 'psychological poverty' (China Daily, 2003) due to isolation, loneliness and social exclusion.

IV. DATA AND EMPIRICAL SPECIFICATION

Our data were collected by China Mainland Marketing Research Company (CMMRC), a spin-off from China's State Statistical Bureau, which conducted face-to-face interviews with approximately 10,000 individuals in 32 Chinese cities in 2002; of which, there were up to 8,800 valid responses depending on the specific empirical specification employed.[2] CMMRC employs multistage stratified random sampling to ensure a representative sample in terms of age, gender and income. Interviewees were asked a number of questions about attitudes and beliefs including some designed to

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[1] Tao Zhiyong, Deputy Division Chief, Department of Social Security, All-China Federation of Trade Unions, National Social Insurance Administration Workshop, Beijing, August 2006.
[2] The cities sampled were Beijing, Tianjin, Shijiazhuang, Taiyuan, Huhehaote, Shenyang, Changchun, Harbin, Shanghai, Nanjing, Hangzhou, Hefei, Fuzhou, Nanchang, Jinan, Zhenzhou, Wuhan, Changsha, Guangzhou, Nanning, Haikou, Chongqing, Chengdu, Guizhou, Kunming, Lhasa, Xian, Lanzhou, Xining, Yinchuan, Wulumuqi, Xiamen.

capture preferences for redistribution. There were no questions that asked directly about preferences for redistribution as used, for example, by Alesina and La Ferrera (2005). Therefore we use variables depicting left-wing beliefs. Individuals who express left-wing beliefs can be taken as having strong preferences for redistribution (Di Tella *et al.,* 2008). The variables depicting left-wing beliefs centred on access to education (*Education-L),* social protection (*Social-Protection-L*), income inequality (*Income Inequality-L*) and unemployment (*Unemployment-L*). Following the approach in Di Tella *et al.* (2008), the L-extension indicates that higher values on these variables suggest left-wing beliefs. For example, *Education-L* is a dummy variable equal to 0 if the answer to the question: *"Please evaluate the degree of fairness in receipt of educational opportunities"* was *"very fair", "fair", "neither fair nor unfair"* or *"unfair"* and 1 if the answer was *"very unfair"*.

To measure people's perceived prospects of moving up the social ladder, we use an ordered variable capturing responses to the question: "*How do you expect your social status to change in the future?"* Possible responses were 1= "*substantial decline", 2= "large decline", 3= "some decline", 4= "no change", 5= "some improvement", 6= "large improvement"* and 7= "*substantial improvement"*. Most people were relatively optimistic about the future. Respondents answered as follows: 0.8 per cent said "*substantial decline";* 1.0 per cent said "*large decline"*; 6.8 per cent said "*some decline"*; 19.8 per cent said "*no change"*; 42.7 per cent said "*some improvement"*; 16.5 per cent said "*large improvement"* and 12.5 per cent considered there would be a "*substantial improvement"* in their social status in the future.

To measure individual beliefs about what determines one's position on the social ladder we used answers to the question: "*What do you consider to be the most*

important factor in determining one's position in life"? We employed a series of dummy variables set equal to 1 and zero, otherwise if the respondent considered the most important factor to be *"diligence and effort"; "good luck and opportunities"; "having good social connections", "knowing powerful people* or *being born into a powerful and wealthy family"*. Answers were as follows: 36.1 per cent said *"diligence and effort";* 30.7 per cent said *"good luck and opportunities";* 27.2 per cent said *"having good social connections";* 14 per cent said *"being born into a powerful and wealthy family"* and 12.3 per cent said *"knowing powerful people"*.

We also included a series of control variables to measure the respondent's demographic characteristics, income and ideology as well as the location of the city in which he or she lived. Alesina and La Ferrera (2005) point out that risk aversion could be an important factor explaining preferences for redistribution; that is, those who are risk averse have stronger preferences for redistribution. We do not have direct measures of risk aversion, such as information on gambling. Thus, similar to the approach in Alesina and La Ferrera (2005), we proxy risk aversion using a dummy variable for whether the respondent is self-employed. The rationale is that self-employed individuals may be more prone to take risks. Full details of the variables employed in the analysis including the controls are in the appendix.

The following logit regressions were estimated across the 32 Chinese cities for 2002:

$Beliefs\text{-}L_{ic} = \alpha Ladder\ Future_{ic} + \beta Ladder\ Position_{ic} + Personal\ Controls_{ic} + \phi_c + \varepsilon_{ic}$

Here *Beliefs-L* refer to *Education-L, Social Protection-L, Income Inequality-L* or *Unemployment-L. Ladder Future* measures people's perceived prospects of moving up the social ladder. *Ladder Position* is a vector of dummy variables measuring beliefs about what determines position on the social ladder. The subscripts refer to

individual *i* living in city *c*. Personal controls are a set of variables controlling for age, gender, marital status, education, income, occupation and ideology of the respondent. ϕ_c is a dummy variable denoting whether the individual lives in a coastal province where the marketisation process is more advanced and ε_{ic} is the (i.i.d) error term.

We use five separate dummy variables to examine the effect of individual beliefs as to what determines one position in life on the existence of left-wing views. We expect that people who consider diligence and effort to determine one's position in life to be less likely to hold left-wing views. We expect people who consider good luck and opportunities, having social connections, knowing powerful people or coming from a powerful and wealthy family to be the most important factor in determining one's lot in life to be more likely to hold left-wing views and, thus, favour redistribution.

V. RESULTS

Panel A of Table 1 shows how *Beliefs-L* vary according to what determines one's position on the social ladder and prospects of moving up the social ladder, controlling for personal characteristics (other than ideology) and location of the respondent. Consistent with Hirschman's (1973) tunnelling effect we expect that individuals who evaluate their future prospects better to be less likely to hold left-wing views. We find that *Ladder Future* has no statistical effect on *Education-L* and *Income Inequality-L*; however, individuals who expect their social position to improve are statistically less likely to consider the problem of providing social protection and bad management of social welfare or the problem of unemployment to be 'very serious'. Thus, there is mixed support for a Hirschman effect with the upwardly mobile having no statistically significant view on access to education and income inequality, but statistically less likely to hold left-wing views on social protection and unemployment.

Insert Table 1

Overall, the results for the effect of individual beliefs as to what determines one position in life on left-wing beliefs are fairly consistent with expectations. There is a statistically significant positive relationship between each of considering social connections, knowing powerful people and coming from a powerful and wealthy family to be the most important factor in determining one's lot in life and three of the four proxies for left-wing views. Individuals who considered social connections, knowing powerful people or coming from a powerful and wealthy family to be most important were all more likely to hold left-wing views on income inequality and social protection with the marginal effects of knowing powerful people larger than that for the other two variables. Individuals who considered coming from a powerful or wealthy family to be most important were also more likely to hold left-wing views on access to education, while people who considered social connections or knowing powerful people to be the most important determinants of one's lot in life were more likely to hold left-wing views on unemployment. Across left-wing views, considering social connections, knowing powerful people and coming from a powerful or wealthy family to be the most important determinant of one's position on the social ladder all had their largest marginal effects on left-wing views on income inequality.

In panel A of Table 1, the one ladder position variable that is partly inconsistent with expectations is belief that one's lot in life is due to good luck and opportunities. It is statistically significant with a negative sign in the *Education-L* regression and statistically significant with a positive sign in the *Income Inequality-L* regression. Individuals who believe that the most important factor in determining one's lot in life is good luck and opportunities are statistically more likely to hold left-wing views on

income inequality, although the marginal effect is smaller than the ladder position variables that attribute success to factor's outside the individual's control. At the same time, individuals who believe good luck and opportunities to be the most important factor were statistically less likely to consider access to education to be 'very unfair'. Individuals who consider 'opportunities' to be most important may well interpret these in terms of opportunities to access education. If so, this result would be consistent with the findings for diligence and effort in the *Education-L* regression. Those who consider diligence and effort or good luck and opportunities to be the most important factor, do not see moving up the social ladder as entirely outside of their hands, as it can be realized through either accessing education and/or hard work.

One possible objection to the findings in Panel A is that we do not control for the respondent's ideology. It may be simply that people who hold left-wing views on the issues examined here are of a particular political persuasion and that once we control for ideological position the effect of beliefs as to what determines one's lot in life and prospects for improving oneself will disappear. The survey does not have a question that asks directly about ideology. Thus, we use the mean value of responses to a question on perceptions of conflict between five categories of people designed to represent capital and labour, where individuals who report higher levels of conflict are assumed to be to the left of the ideological spectrum (see appendix for the details). The results including ideology as an additional control variable are reported in Panel B. 'Good luck and opportunities' is no longer significant in the *Income-Inequality-L* regression, but apart from this the results for the key variables of interest in terms of significance, signs and marginal effects are similar to those reported in Panel A.

The results for the variables depicting beliefs that outcomes in life are due to connections, who you know or the family into which you were born, rather than individual effort, are consistent with the lingering remnants of communist ideology. A basic tenant of communist ideology is that one's economic and social status in capitalism is a reflection of privileged upbringing or selective opportunities not available to all, rather than individual hard work. Not surprisingly, this view is still widely held in urban China today amongst those who have lost out from the reforms. Among the control variables, which are not reported, we find that people on low incomes and those 'laid off' (*xiagang*), unemployed (*shiye*), waiting for work (*daiye renyuan*) and receiving government relief (*xiangshou zhengfu jiujide pinkun renyuan*) are more likely to favour redistribution. People on low incomes, those out of work and those receiving government relief are direct beneficiaries of redistributive policies. We actually find, contrary to expectations, that 'individual households and the self-employed (*geti hu huo ziwo gu you renyuan (ziyou zhiyezhe))*' are more likely to hold left-wing beliefs, suggesting that this group, relative to those not in the labour force which were the reference category, are more likely to value the insurance against negative income shocks provided by redistributive policies. This could reflect the high risk of failure in the non-state sector in China's uncertain market environment. While the returns are potentially high, so are the risks with private entrepreneurs in the informal sector facing discrimination on several fronts, including raising bank loans (see eg. Tsai, 2002). We find that older people are more likely to favour redistribution. Alesina and Fuchs-Schundeln (2007) also found that older East Germans were more predisposed to state intervention. The explanation is that socialist heritage is important in influencing people's belief formations and that older Chinese

(or East Germans) have lived longer under communism or, in China's case, are more likely to be old enough to remember the redistributive rhetoric of the Maoist past.

Several other studies have also found that Marxist beliefs or socialist heritage are important in influencing people's belief formation. Alesina *et al.,* (2001) emphasise the influence of Marxist ideology in explaining differences in preferences for redistribution between Europe and the United States. In a comparison of six Eastern European countries and six Western countries, Corneo and Gruner (2002) find that the Eastern Europeans have stronger preferences for redistribution than the Western Europeans. Corneo (2001) and Alesina and Fuchs-Schundeln (2007) find that following reunification, people living in the former East Germany have stronger preferences for redistribution than people living in the former West Germany.

The results for variables representing beliefs that outcomes are outside one's control are consistent with what, in Section two, we described as the 'altruism' and 'entitlement' effects. Rich people who believe that outcomes are outside the control of the individual are more likely to feel altruistic. Poor people who believe outcomes are outside their control are more likely to feel a sense of entitlement to redistribution. To examine whether feelings of altruism among the rich or feelings of entitlement among the poor are more important in driving the results for ladder position determinants we created a dummy variable set qual to one if respondents considered either social connections, knowing powerful people or coming from a powerful and wealthy family (all factors outside one's control) to be the main determinant of one's position in life. We interacted this dummy variable with a dummy variable for the top quintile of income earners and called this interaction term '*Altruism'* and with a dummy variable for the bottom quintile of income earners and called this interaction term

'Entitlement'. We regressed each of the proxies for *Belief-L* on *Altruism, Entitlement* and controls for personal characteristics (including ideology) and location. If *Altruism* is positive and significant this would be consistent with the existence of high income left-wing liberals with a sense of altruism driving the findings, while if *Entitlement* is positive and significant, this would be consistent with low income individuals who have a strong sense of entitlement to redistribution driving the results.

Insert Table 2

The results are presented in Panel A of Table 2. The *Altruism* variable is statistically significant with the expected positive sign in each case. The marginal effects are largest in the *Income Inequality-L* and *Unemployment-L* regressions. The *Entitlement* variable is statistically significant with the expected positive sign in the *Education-L* and *Unemployment-L* regressions. Overall, Panel A of Table 2 is consistent with a strong sense of altruism and mixed sense of entitlement, although there is evidence of a sense of entitlement among the poor when it comes to access to education and addressing unemployment. An objection to the results in Panel A of Table 2 is that we do not control for expectations about the future. It might be that the results for *Altruism* in Panel A of Table 2 reflect a preference for redistribution among high income earners who expect their social status to decline in the future in which case they may benefit from redistribution. To address this point, in Panel B of Table 2, in addition to the controls employed in Panel A, we also control for expectations about the future. The *Ladder Future* variable is statistically significant with the expected negative sign in three of the four specifications. The results for *Entitlement* in Panel B are the same as the results in Panel A of Table 2. However, interestingly, *Altruism* ceases to be statistically significant in three of the four specifications, suggesting that

the results for *Altruism* in the *Education-L, Income Inequality-L* and *Unemployment-L*
specifications in Panel A of Table 2 may in fact be driven by expectations among high
income individuals that their fortunes will decline in the future.

As discussed earlier, redistributive preferences among the rich need not be motivated
purely by altruism, but may reflect a desire to reduce the unpleasantness of seeing
poverty on the streets. To examine whether this is a factor we re-estimated the same
specification as reported in Table 1 Panel B, but instead of using a coastal dummy we
used an interaction term, interacting the top quintile of income earners with a dummy
variable for cities in the three north-east provinces (Heilongjiang, Jilin and Liaoning).
The north-east is regarded as the iron rustbelt of China with the highest proportion of
laid-off workers (see eg Smyth & Zhai, 2003). Our objective was to examine whether
high income individuals in the north-east, confronted with the sight of large numbers
of unemployed, would have stronger preferences for redistribution. The results were
interesting. The high-income north-east interaction term was statistically insignificant
in the *Education-L, Social Protection-L* and *Income Inequality-L* regressions, but
statistically significant with a positive sign in the *Unemployment-L* regression. In
other words, confronted with large numbers of laid-off workers, high income people
in the north-east, were statistically more likely to regard the unemployment problem
as 'very serious' compared with high income individuals in other parts of the country.

VI. CONCLUSION

We find evidence that individuals who have better self-assessed prospects of upward
mobility are statistically less likely to hold left-wing beliefs on social protection and
unemployment. By extension we can conclude that those who rate their prospects of
climbing the social ladder in urban China favourably, are less likely to prefer
redistributive policies designed to provide social welfare or support for the

unemployed and laid-off. However, self-assessed ability to climb the social ladder had no effect on the formation of left-wing views on education or income inequality. We also find that the formation of left-wing views and, by extension, support for redistributive policies are influenced by individual beliefs on what determines one's status on the social ladder. People who believe one's position is due to diligence and effort are less likely to hold left-wing beliefs on access to education and income inequality. Meanwhile, people who believe that success in life is largely due to factors outside their control; namely, having the right connections, knowing the right people or being born into the right family, were pretty much more likely to hold left-wing views and, by extension, favour redistribution across the board. These results were robust to controlling for personal characteristics of the respondent including ideology and income as well as the location of the city in which he or she lived.

In terms of the relative importance of perceived ability to move up the ladder versus what determines one's status on the ladder, the latter appears to be more important in explaining the formation of views about redistribution in China. Those variables attributing one's position in life to factors outside one's control have a stronger positive effect on the formation of left-wing views in urban China than the negative effect exerted by either the perception one's lot is due to factors inside one's control (diligence and effort) or prospects for climbing the social ladder. Specifically, variables attributing one's position in life to factors outside one's control are statistically significant across more models and have larger marginal effects on left-wing belief formation. As far as the implications for redistributive policy in China, reflected in the notion of constructing a harmonious society, there is mixed signals.

On the one hand there is some support for a Hirschman effect suggesting tolerance of some inequalities among those who rate their chances to move up the ladder and, at the same time, support for redistribution for those who see one's position in life as determined by power and privilege outside their control. That the latter seems to have stronger effects on support for redistributive policies lends credence to the objectives of what constructing a harmonious society seeks to achieve; lest those who hold preferences for redistribution vent their frustrated preferences in the form of political or social upheaval which is precisely what the Chinese government is seeking to avoid. However, the fact that there is evidence of a tunnelling effect in urban China, means the Chinese government has to be careful not to quash the ambitions of those who seek to move up the social ladder and who in all likelihood will be the wealth creators as China's market reforms move forward, through heavy-handed redistribution. Encouraging those seeking to move up the social ladder, while at the same time ensuring adequate social support for those who do not feel able to, will entail a delicate balancing act for China's redistributive policies in coming decades.

Table 1 Effect of individual beliefs as to what determines one's position on the social ladder and prospects of moving up the social ladder on left-wing views in urban China

	Education-L	Social Protection-L	Income Inequality L	Unemployment L
		PANEL A		
Ladder Future	-0.0002	-0.0072**	-0.0057	-0.0123**
	(-0.13)	(-2.48)	(-1.32)	(-2.42)
Ladder Position				
Diligence and Effort	-0.0133***	0.0024	-0.0205*	-0.0155
	(-3.48)	(0.31)	(-1.91)	(-1.24)
Good Luck and Opportunities	-0.0084**	0.0027	0.0204*	0.0129
	(-2.21)	(0.34)	(1.82)	(1.01)
Social Connections	0.0021	0.0258***	0.0316***	0.0254*
	(0.51)	(3.06)	(2.74)	(1.92)
Knowing Powerful People	-0.0024	0.0425***	0.0616***	0.0543***
	(-0.53)	(3.68)	(4.02)	(3.17)
Powerful/Wealthy Family	0.0179***	0.0240**	0.0561***	0.0230
	(2.79)	(2.27)	(3.73)	(1.39)
Personal Controls (Excluding Ideology)	YES	YES	YES	YES
Coastal Dummy	YES	YES	YES	YES
Psuedo R^2	0.0331	0.0254	0.0173	0.0257
Number of Observations	7770	7320	7701	7744
		PANEL B		
Ladder Future	0.0002	-0.0069***	-0.0043	-0.0121***
	(0.10)	(-2.40)	(-1.01)	(-2.38)
Ladder Position				
Diligence and Effort	-0.0126***	0.0025	-0.0214**	-0.0152
	(-3.51)	(0.33)	(-2.00)	(-1.21)
Good Luck and Opportunities	-0.0082**	0.0026	0.0181	0.0121
	(-2.29)	(0.33)	(1.63)	(0.95)
Social Connections	0.0008	0.0252***	0.0267***	0.0233*
	(0.21)	(3.00)	(2.33)	(1.76)
Knowing Powerful People	-0.0024	0.0429***	0.0594***	0.0542***
	(-0.55)	(3.70)	(3.89)	(3.16)
Powerful/Wealthy Family	0.0141***	0.0233**	0.0486***	0.0207
	(2.45)	(2.20)	(3.28)	(1.25)
Personal Controls (Including Ideology)	YES	YES	YES	YES
Coastal Dummy	YES	YES	YES	YES
Psuedo R^2	0.0499	0.0259	0.0227	0.0260
Number of Observations	7762	7312	7693	7736

Notes: [1] All variable definitions are in the appendix. [2] All specifications are estimated with logistic regressions. [3] Marginal effects are reported. Values of z-statistics are in parenthesis. [4] *, $p<0.1$; **, $p<0.05$; *** $p<0.01$. Source of the data is China Mainland Marketing Research Company, 2002 survey.

Table 2. The relative importance of altruism and entitlement effects in explaining preferences for redistribution in urban China

	Education-L	Social Protection-L	Income Inequality L	Unemployment L
		PANEL A		
Altruism	0.029*	0.076***	0.063*	0.086**
	(1.87)	(2.66)	(1.95)	(2.11)
Entitlement	0.043***	0.014	0.030	0.060***
	(3.60)	(1.09)	(1.61)	(2.88)
Ladder Future	NO	NO	NO	NO
Personal Controls (Including Ideology)	YES	YES	YES	YES
Coastal Dummy	YES	YES	YES	YES
Psuedo R^2	0.036	0.016	0.017	0.026
Number of Observations	8766	8219	8700	8775
		PANEL B		
Altruism	0.0233	0.0780**	0.0462	0.0633
	(1.18)	(2.15)	(1.32)	(1.55)
Entitlement	0.0310**	0.0181	0.0276	0.0506**
	(2.03)	(1.20)	(1.28)	(2.07)
Ladder Future	-0.0006	-0.0094***	-0.0097**	-0.0150***
	(-0.40)	(-3.27)	(-2.30)	(-3.00)
Personal Controls (Including Ideology)	YES	YES	YES	YES
Coastal Dummy	YES	YES	YES	YES
Psuedo R^2	0.0383	0.0200	0.0162	0.0244
Number of Observations	7762	7312	7693	7736

Notes: [1] All specifications are estimated with logistic regressions. [3] Marginal effects are reported. Values of z-statistics are in parenthesis. [3] *, $p<0.1$; **, $p<0.05$; *** $p<0.01$. Source of the data is China Mainland Marketing Research Company, 2002 survey.

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Appendix – Description of Variables

Education-L: A dummy variable equal to 0 if the answer to the question: *"Please evaluate the degree of fairness in receipt of educational opportunities"* was *"very fair", "fair", "neither fair nor unfair"* or *"unfair"* and 1 if the answer was *"very unfair"*.

Social Protection-L: A dummy variable equal to 0 if the answer to the question: *"Do you consider the problem of providing social protection and bad management of social welfare to be serious"?* was *"not serious", "serious"* or *"quite serious"* and 1 if the answer was *"very serious"*.

Income Inequality-L: A dummy variable equal to 0 if the answer to the question: *"Please evaluate the degree of fairness in the distribution of income"* was *"very fair", "fair", "neither fair nor unfair"* or *"unfair"* and 1 if the answer was *"very unfair"*.

Unemployment-L: A dummy variable equal to 0 if the answer to the question: *"Do you consider the problem of unemployment and being laid-off to be serious"?* was *"not serious", "serious"* or *"quite serious"* and 1 if the answer was *"very serious"*.

Ladder Future: An ordered variable capturing responses to the question: *"How do you expect your social status to change in the future"?* Possible responses were 1= *"substantial decline"*, 2= *"large decline"*, 3= *"some decline"*, 4= *"no change"*, 5= *"some improvement"*, 6= *"large improvement"* and 7= *"substantial improvement"*.

Ladder Position: A series of dummy variables capturing responses to the question: *"What do you consider to be the most important factor in determining one's position in life"?* Possible answers were *"diligence and effort", good luck and opportunities", "having good social connections", "knowing powerful people"* or *"being born into a powerful and wealthy family"*.

Control Variables:
Age: Respondent's age in years.

Gender: A dummy variable equal to 1 if the respondent is male and 0 if the respondent is female.

Marital Status: A set of dummy variables corresponding to whether the respondent was single, married, divorced and not remarried, divorced and remarried, widowed and not remarried or widowed and remarried.

Education: A set of dummy variables corresponding to the respondent's highest education level: Junior secondary school or below, senior secondary school, polytechnic school, three year higher degree or above.

Income: Respondent's monthly household income (in RMB).

Occupation: A set of dummy variables for the respondent's occupation.

Coastal: A dummy variable equal to 1 if the respondent lives in a coastal province; zero otherwise.

Ideology: Mean value of responses to the question "*Do you perceive there to be a conflict of interest between the following"?* The five categories are (a) '*between the poor and the wealthy',* (b) '*between white collar and blue collar workers',* (c) '*between labour and capital in private enterprises',* (d) '*between labour and capital in foreign funded enterprises',* (e) '*between labour and capital in joint ventures'.* Possible answers are 1= *"no conflict",* 2= *"very little conflict",* 3= *"little conflict",* 4= *"considerable conflict"* and 5= *"serious conflict"*. We interpret people who report higher levels of conflict to be to the left of the ideological spectrum.

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