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## The Equal Pay Policy in China: A Preliminary Assessment

“People are concerned not so much with scarcity  
but more with uneven distribution.”

*The Analects of Confucius*

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### Abstract:

Drawing on field research and statistical data, this article is an original contribution to the understanding of the public sector “equal pay” policy and, more broadly, income distribution in China. The making and development of the equal pay policy epitomize the complexity and challenges in promoting wealth distribution in China. Surging government revenue boosts public confidence in improving civil service pay in order to build a responsible government while the widening income inequality in society perplexes remuneration across sectors in China. Though the Chinese government has substantially mitigated the public-private pay gap, making the pay more equal across different localities and units largely fails in China. Compared with some developing countries, the Chinese government has fiscal capacity to pay civil servants fairly and adequately; nevertheless, substantial pay inequality within the public sector has made the positive effect of the civil service pay reform diluted. The broad implication is that inclusive growth toward a harmonious society in China requires a thorough and comprehensive rethinking of China’s overall income distribution system.

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**Keywords:** Public sector pay; income distribution; corruption; inclusive growth; China.

## Introduction

Public sector remuneration is central to administrative reforms and corruption control across the world. Drawing on the experiences of administrative reforms in a variety of countries, Bender and Elliott (2003) argue that though fiscal reforms and organizational restructuring often precede reforms in public sector pay, an ineffective pay system will seriously erode the effectiveness of the former administrative reforms. An effective pay system is needed especially in developing countries where corruption prevails and civil service governance is not in good shape, *before* other administrative reforms can be executed by the civil servants with a reasonable degree of propriety (Rijckeghem & Weder, 2001).

Aiming at addressing the external and internal pay equalities, the “equal pay” policy in China<sup>1</sup> resembles some characteristics of the public sector pay reforms in Western countries. However, the equal pay policy has embodied more extensive visions than the Western counterparts. The equal pay policy aims at not only motivating public employees but also improving income distribution in the whole society. Perhaps more important, the improvement of the public sector remuneration is viewed as a key step to curbing the state’s predatory behaviours and promoting a responsible government.<sup>2</sup> The research on Chinese public sector remuneration has been focused on the period of the 1980s and early 1990s (Chew, 1990a; 1990b). More intriguing and far-reaching development of the civil service remuneration has come into being in the late 1990s when the market economy gradually took root in China. The equal pay policy was geared to improving civil service motivation. Later on, the policy was extended to address deep-rooted issues such as corruption control and the amelioration of income distribution in the whole society. The paper

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- 1 In many developed countries, the equal pay policy mainly refers to equal remuneration for men and women. That is, employees should be compensated equally for work of equal value (see Rubery & Fagan, 1994). In this paper, the equal pay policy applies to civil servants and other public employees and mainly targets at internal pay inequality.
  - 2 In spite of a democratic deficit, scholars have argued that the Chinese government can become more responsible and accountable towards its constituency (Li, 2009; Pan, 2009). This seems to be echoed in the realpolitik as the notion of “responsible government” (*zeren zhengfu*) was brought up repeatedly in recent government documents and leaders’ speeches.

attempts to unravel the nuances involved in the making of the equal pay reform and evaluate the effect of this reform.

As a common practice in developed economies, motivating civil servants by extrinsic rewards was nonetheless a lingering problem in China at least for four decades after the founding of the People's Republic of China (PRC). As discussed later, promoting material rewards instead of proletarian enthusiasm made some important figures lose their jobs during the early period of the PRC. The introduction of the market economy in the 1990s nevertheless marked a breakthrough of endorsing material awards as an effective way to motivate civil servants. Prior to the promulgation of the "Provisional Regulations on Civil Servants of the PRC" (*Gongwuyuan zanxing tiaoli*), the Ministry of Personnel had held internal discussions on the negative consequences of low wages in the public sector and the resultant large external pay inequality (Zhao, 1997). Zhao Dongyuan, the then Minister of Personnel, argued that low wages in the public sector had grave repercussions on the morale of civil servants and administrative efficiency. To mitigate external pay inequality, the Chinese government raised the remuneration of public employees across the board for six times between 1997 and 2006.

In contrast to efforts to reduce external pay inequality, the progress on internal pay inequality has been slow, although pay inequalities across government departments had reached an alarming level in China in the mid-1990s. Minister Zhao discussed this issue and suggested that non-cash payments and various departmental bonuses, which might aggravate internal pay inequality, should be eradicated immediately. Nevertheless, there were deep-rooted and perpetuated problems embedded in public sector remuneration in China. First, overpayments in public sector compensation were the results of fiscal profligacy and the lax enforcement of fiscal discipline at the local level. Resource-rich government agencies would channel public money into employees' pockets. Second, the internal pay disparities were strongly associated with corruption. Government departments made a "profit" from exercising power; in the meantime, civil servants of these departments benefited personally. Public sentiment towards corruption had become acute in the late 1990s. In many surveys done in the period, corruption was ranked as the most serious issues in the Chinese society (see Manion 2004; Yang, 2004).

The contrast between the government's responses to external pay inequality vis-à-vis internal pay disparities raises questions. This paper

finds that though both external and internal pay equalities are included in the scope of the government's equal pay policy, internal pay inequality has not been as squarely dealt with as in the case of external inequality. As a result, internal pay gap still remains significant and even worsens in some cases, and the associated predatory behaviours and corruption of government cadres are still rampant in today's China. More broadly, substantial internal pay disparities reflect the weakness of the income distribution system in the country. As the Chinese leadership increasingly recognizes the importance of "inclusive growth", improving salaries across sectors in order to boost domestic consumption has become imperative in China. Simply improving the public sector pay nonetheless fuels resentment from ordinary people as happened in other developing countries.

The findings presented in this paper are drawn from the author's field research in Fujian, Hubei, and Guangdong Provinces in 2008 and 2010. A total of 58 civil servants including six finance bureau heads at the county level were interviewed. The statistical and documentary sources in the five county units were carefully analyzed. In addition, the Chinese and English literatures on Chinese civil service remuneration were examined. The paper is organized as follows. The first and second sections examine the background of the equal pay policy and review the literature on the relationship between corruption and pay inequality. The third and fourth sections outline the civil service pay system in China and recent government efforts in addressing external pay inequality. Based on field research and statistical data, the fifth to seventh sections discuss the equal pay policy with an emphasis on internal pay equality. The final section investigates the relationships among pay inequality, public sector motivation and bureaucratic behaviours.

## **Pay Inequalities and Bureaucratic Behaviours**

Cross-national evidence suggests that bureaucrats may act predatorily when their wages are kept unreasonably low (Wei, 1999). In ancient China, rulers deliberately offered an extra benefit (*yanglian yin*) to local officials to prevent corruption (Klitgaard, 1987). Using increased pay to deter corruption also claims solid theoretical grounds. The "efficiency wage" hypothesis coined by Becker and Stigler (1974), among others, is the most influential theory in this regard. This hypothesis argues that

paying a higher-than-market clearing salary is necessary for corruption control. Further research reveals that good compensation helped to reduce corruption in Sweden between 1870 and 1970 (Tanzi, 1998). Based on the experience of the US during the period 1970–1983, Goel and Rich (1989) observed that relatively high compensation for public servants can effectively discourage officials from taking bribes. Using a cross-national panel data, Rijkeghem and Weder (2001) developed a well-known test on the relationship between the public sector pay and corruption. They find that the public sector pay is negatively and significantly associated with corruption.

Corruption control will only be realized when public servants earn relatively high salary in comparison with other wage earners in the society. In reality, the absolute level of civil servant remuneration by itself may not matter significantly, but the perception of a “fair” income is. “The ‘fair wage’ can be determined through comparing the wages of peers within or outside the place of employment, social expectations, the market wage, subsistence requirements, the status of civil servants, etc.” (Mahmood, 2005, p. 70). The perception of pay unfairness would increase the probability of corruption which may be legitimized as a means to compensate the unfairness over the official pay system. The public may also sympathize with corrupt officials who are poorly paid (Abbink, 2005), which will cause trouble to the government’s anti-corruption efforts.

Quah (2003) thus argues that good public sector pay relative to the private sector is essential for effective anti-corruption efforts in many countries. Nevertheless, this only touches upon the impact of external pay inequality on civil service governance. The relationship between internal pay equality and corruption, however, is overlooked by the previous literature. As noted by Mahmood (2005), the perception of pay unfairness is determined by the comparison among peers “within or outside the place of employment” (p. 70). Substantial internal pay disparities between government departments may lead to the perception of pay unfairness and associated distorted incentive structures of civil servants.

Admittedly, differentiating remuneration between senior executives and junior civil servants is necessary for rewarding accumulated contribution and the seniority of civil service. Nevertheless, in a country with a continuous emphasis on sizable fringe benefits in favour of senior cadres, internal pay inequality plays a more vital role in negatively shaping cadres’ behaviours in China. More importantly, the situation is much more acute when the labour market is rigid, like in China. The

“efficiency wage” hypothesis, as mentioned, has been developed against the background of the rather flexible labour markets in developed countries. As civil servants are readily shifted to the private sector, paying a higher-than-market clearing salary to civil servants is instrumental in maintaining the good morale of civil service. A rigid labour market, by contrast, limits the possibility of transfers of labour between the public and private sectors. Substantial internal pay inequality therefore could be more devastating in civil service governance in developing countries like China. The policy makers of the equal pay policy in China seem well aware of the importance of internal pay equality; thus the senior officials in public personnel management reiterated the necessity of curbing pay disparities across government departments in the 1990s. The policy implementation nonetheless has run in a different direction.

### **Rational Low Wage Policy**

The policy of “rational low wage” had dominated the Chinese civil service remuneration for over 40 years. Introducing this policy in 1957, Deng Xiaoping, the then General Secretary of the Chinese Communist Party, argued that:

There should not be too large a gap between workers’ and peasants’ lives, and between urban and rural lives. In enhancing living standards, we must take into account the conditions of a good majority of the nation. For the time being, therefore, we must adhere to a rational low wage system and do our best to let everyone have a meal to eat (cited in Takahara, 1992, p. 44).

As having “a meal to eat” was a dominant concern at the time, the compensation of state cadres should not be too high. On the whole, as Cooke (2005) points out, “for half a century, the state has largely maintained a high-employment, low-wage, low-consumption pattern of the economy” (p. 294). Although the civil servant’s salary was relatively high during the initial few years after 1949, it was soon held back by the emergent egalitarianism ideology.

The cadre’s salary system was inherited from the previous guerrilla period immediately after 1949. Non-cash remuneration was the main source of cadre’s income. Based on the suggestions of the Soviet experts, the early liberated areas had adopted a salary system with substantial pay

disparities between senior and junior cadres. This practice attracted much controversy at the time. The conservative forces in the Chinese Communist Party (CCP) in favour of egalitarianism seriously attacked this practice. A central investigation group, therefore, was sent to the early liberated areas in 1953. The investigation group reported that the pay level was too high in these regions and the pay differentials among cadres were unacceptable (Li, 1991).

Li Lishan, the then Minister of Labour and a senior Party member, defended the practice strongly because he believed that good remuneration and appropriate pay disparities would effectively motivate government employees (Takahara, 1992). Chen Boda, the then Deputy Director of the Party Central Propaganda Department, criticized Li Lishan as ideologically backward because a good compensation, in his view, might only drive cadres to pursue material rewards rather than proletarian enthusiasm (Takahara, 1992). Party Chairman Mao Zedong personally favoured spiritual rather than material rewards for cadres as well. Eventually, Li Lishan lost the debate and stepped down from the position as Minister of Labour later. This victory of the radical wing laid the foundation of the rational low wage policy in the next 40 years.

The first cash-based salary system was put in place in 1956 when the cadre's salary was deliberately constrained and the wage gap between senior and junior cadres was kept low. Under the increased dominance of the conservative forces, the State Council made several wage cuts exclusively to senior cadres in 1956, 1959, and 1960, which rendered the pay gap unreasonably narrow among the bureaucracy (Chew, 1990a; Li, 1991).

The low wage policy was criticized by many central leaders in public personnel management in 1979 (Takahara, 1992). During a national conference for public sector pay, officials characterized the 1956 pay system as being “low-wage (*di*), egalitarian (*ping*), rigid (*si*) and chaotic (*luan*)” (Wu, 2010, p. 94). In addition to low wage, egalitarianism means that many supervisors and supervisees earned the same level of pay. Thus, internal pay equality was unbelievably “good”, and the formal wage gap between cadres was trivial at the time.

Significant external pay inequality remained, however. The pay level of state organs was far lower than that in state-owned enterprises. When the wage policy of the state-owned enterprise (SOE) reform was largely relaxed in the 1980s, the employees of SOEs enjoyed a sharp pay rise. State organs, however, still adopted a rigid, top-down remuneration

system wherein the policy of “rational low wage” still held. The gap between state cadres and state-owned enterprise employees increased dramatically in the 1980s. Xu (1992) reports that the salary growth rate in state organs was only 55 per cent of that in state-owned enterprises between 1986 and 1990. The Ministry of Personnel conducted a survey in 1990 indicating the salary gap between state organs and SOEs was very large. In addition, compared with those in the private sector,<sup>3</sup> employees in the government were compensated poorly. There was a popular saying at that time: “Selling boiled eggs is better off than building nuclear missiles; working with a razor blade is better off than with a surgical blade” (*Zaodaodan buru mai chayedan, nashoushudaoburuna titoudao*) (Cooke, 2005, p. 295).

### **Aggressive Pay Rises Since 1997**

A turning point came in 1997 when the first pay rise for civil servants across the board came (Ministry of Personnel & Ministry of Finance, 1997). External pay inequality was since mitigated steadily. The then Premier Zhu Rongji promised to double the salary of civil servants within three years (*Singtao Daily*, 2001). Drawing on experiences in Hong Kong and Singapore, he argued that although the Chinese government could not afford high salaries to civil servants, salary increments should be employed to deter corruption (*Takung Pao*, 11 January 2000). Though the premier promised to use good pay in deterring corruption, motivating civil servants to improve their performance surely was a more important concern as poor performance and bureaucratic expansion had plagued the country for roughly 20 years (Yang, 2004).

In 2000, Zhu Rongji told the media that “my current monthly salary is 2,000 *yuan*; it will increase to 3,400 *yuan* in 2001 and 4,000 *yuan* in 2002.” (*Takung Pao*, 11 January 2000) During the period 1997–2006, there had been six pay raises nationwide. The growth of civil service remuneration was arresting. According to Li and Xu (2006), in 1999, the rate of salary raise was 1,440 *yuan* for on-the-job and retired people and 1,980 *yuan* for senior cadres. In 2001, civil servants enjoyed a new pay raise ranging from 1,440 *yuan* to 1,896 *yuan*. They received a salary increase at the rate of 600 *yuan* to 960 *yuan* annually in late 2003.

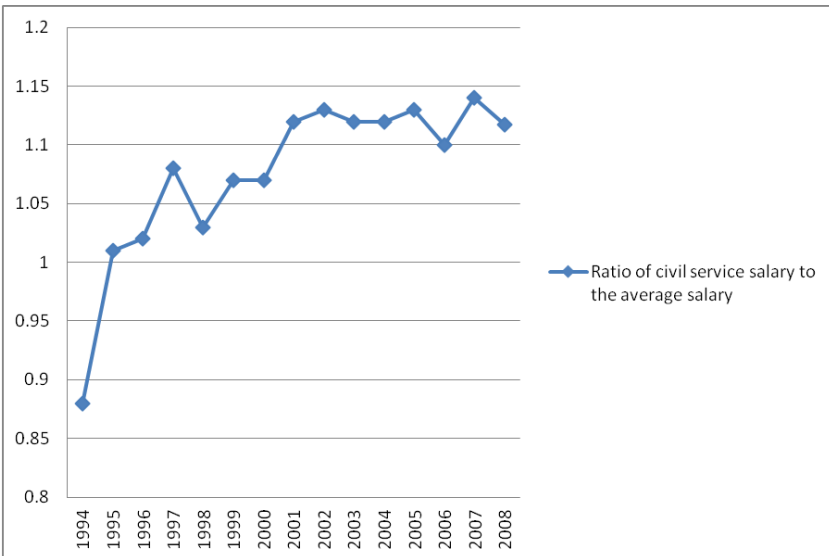
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3 The private sector had no strict pay ceiling at the time.



Aggregate data suggests that Chinese civil service pay is relatively high after the six pay rises (Figure 1). In 1994, the annual average pay of civil servants was 4,000 *yuan* while it was 4,538 *yuan* in all groups of employees both in the government and the private sector. Civil service pay saw a big rise in 1997: the average civil service pay was 1.08-fold of the average pay for all job categories. The 2001 pay rises in January and October 2001 drove up the civil service pay to a new height. While the average salary of all job categories was 10,870 *yuan*, civil servants earned 12,125 *yuan* annually. The updated pay rise in 2006 further enhanced the civil service remuneration: the ratio of civil service pay to the average one was 1.14 in 2007. In general, the six pay rises have boosted the civil service compensation significantly between 1997 and 2008. The external pay equality therefore has improved over a decade's pay raises.

**Figure 1 The Ratio of Civil Service Salary to the Average Salary, 1994-2008**



Sources: National Bureau of Statistics, 1995–2009.

### **Worsening Internal Pay Inequality**

As external pay disparities between civil servants and employees in the

private sector have been addressed to some extent, the pay gap within the bureaucracy has become more prominent in China. Even civil servants of the same city received very different compensation packages in reality. Resource-rich departments offered generous allowances in addition to regular salaries whilst some departments could not pay their staff even the basic salary in full. The pay gap among civil servants of a bureau in different localities within a province was often stunningly large, let alone the gap among provinces. For example, in Guangdong Province, a section member (*keyuan*, the lowest rank of civil servant with university degree) in Shenzhen city earned more than a county government head (*chuzhang*, a parallel to the middle-level manager in a private company) in the majority of localities in Guangdong Province. The data provided by the Statistical Bureau of Guangdong Province indicate that the average monthly salaries of county-level cadres in Shenzhen and Dongguan in 2001 were 4.1- and 2.91-fold higher than those of civil servants in Zhanjiang City, as shown in Table 1.

**Table 1 Civil Service Pay in Guangdong Province (yuan/month), 2001**

	County Head	County Deputy	Section Head	Section Deputy	Section Member and Clerk
Guangzhou	3,094	3,001	2,878	2,828	2,362
Shenzhen	5,118	4,612	4,052	3,520	3,134
Shaoguan	1,645	1,508	1,185	1,044	930
Zhanjiang	1,247	1,238	1,165	1,081	919
Huizhou	1,910	1,705	1,415	1,256	1,101
Shantou	2,004	1,860	1,648	1,471	1,285
Meizhou	1,453	1,182	1,017	887	816
Zhaoqing	1,618	1,485	1,277	1,064	1,191
Yangjiang	1,710	1,631	1,332	1,167	983
Dongguan	3,633	3,176	2,698	2,407	2,121
Average	2,343	2,140	1,867	1,673	1,484

Source: Guangdong Provincial Statistical Bureau, 2004.

As noted by Wang (2006), the civil service wage gap between

provinces was striking. Civil servants in Shanghai, Tibet, and Beijing earned 30,000 *yuan* annually in 2003; however, there were 70 per cent of provinces wherein civil servants received 15,000 *yuan* per year. These data only reflect the formal income disparities among provinces. If informal salaries and fringe benefits were taken into consideration, the situation would be much more pessimistic.

The Chinese civil service pay consists of three parts: namely the base salary, cost of living allowance, and bonus. Both the base salary and bonus were heavily regulated by the central government while the cost of living allowance was left less regulated. Regional governments or even individual governments could set the rate of cost of living allowance very differently. The civil service wage gap mentioned above mainly reflected the variations of the cost of living allowance; thus some local governments tried to regulate the cost of living allowance in the early 2000s. In addition to the formal pay, some cadres, especially the leading cadres, had substantial non-cash benefits, such as free luxury cars.

Some large cities, such as Shanghai, Beijing, and Guangzhou, started to curb the internal pay inequality among the bureaucracy in the early 2000s. The practice of the Beijing municipal government was widely reported. With the abandonment of the structural pay system,<sup>4</sup> the Beijing municipal government adopted a simplified pay system in 2004. The amount of salary was decided exclusively by the official's ranking. For example, the monthly pay for section-, division-, bureau-, and ministry-level positions was 3,000, 5,000, 8,000, and 10,000 *yuan* respectively (Qi & Sun, 2006). The pay level of civil servants in resource-rich departments, such as tax bureaus, was substantially contained in this reform. They no longer received season-end bonuses; thus their salaries were cut by roughly 30 per cent overnight. In stark contrast to the situation in tax bureaus, some civil servants in resource-poor departments, such as cultural affairs bureau, got a dramatic pay rise. In general, 70 per cent of civil servants of the Beijing municipal government had a pay rise whilst 20 per cent of them got a pay cut. The rest remained the same with regard to the pay level (Qi & Sun, 2006).

The Beijing experiment did not address internal pay inequality in fact. Rather, it invited some oppositions from both central ministries and other

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4 The structural pay system (*jiegou gongzizhi*) means that the formal wage is separated into different components wherein each component serves for a unique purpose. The Beijing municipal government's practice promoted a simplified way to pay determination (only cadre position mattered in determining civil service pay).

regional governments because the level of salary adopted in Beijing far exceeded the fiscal capacity of the less well-off localities and violated the pay principle<sup>5</sup> set by the “Provisional Regulations on Civil Servants of the PRC”. In addition to the denouncement from outsiders, civil servants of the Beijing municipal government were also not satisfied with the reform. Civil servants with heavy workloads earned almost the same with others. Thus, many civil servants turned to reduce their workload to mitigate their perceptions of unfairness (Qi & Sun, 2006).

Despite some initiatives in reducing the internal pay inequality in some cities, the pay gap between civil servants drew great attention within the bureaucracy across the board. In some senior cadres’ perception surveys, the pay gap has become a focal point in recent years. In a longitudinal survey, senior government officials enrolled in the Central Party School of the CCP were asked to name issues of public concern for the past year. Corruption, the reform of state-owned enterprises, and mass lay-off were among the top three from 1998 to 2004. Beginning in 2005, however, the pay gap has been the most prominent issue (Ru, et al., 2005). The widened pay gap among the bureaucracy had been condemned by elites at the annual meetings of the Chinese People’s Political Consultative Conference (CPPCC) and National People’s Congress (NPC). In 2003, for instance, one of the members of the CPPCC criticized those government departments with rich resources for overpaying their civil servants (*Wenweipo*, 2003). In March 2006, Wang Jianlun, a member of the CPPCC and the former Vice Minister of Labour and Social Security, argued that rectifying civil service pay gap is a vital step to improve the fairness of income distribution in the whole society (*Beijing News*, 2006). In addition, a member of the NPC proposed a nationwide sunshine salary system, which aimed at curbing overpayments in government departments in 2005 (Hua, 2005). Disgruntled civil servants also lodged complaints to various organizations such as personnel departments and media organizations.

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5 The civil service remuneration should not solely depend on civil servant’s position according to the pay policy in China. Seniority, among others, should be considered to determine the pay level of a given civil servant.

## Central Efforts to Mitigate Internal Equal Pay

The central government had responded to the widening pay gap through various measures to curtail overpayments in the public sector. The disciplinary organ of the CCP took the lead in these actions, as overpayment was often depicted as corruption. In 2005, for instance, the Central Commission for Discipline Inspection of the CCP, the Organization Department of the CCP, the Establishment Department of the CCP, the Ministry of Supervision, the Ministry of Finance, and the Ministry of Personnel jointly issued the document “Opinion on Standardizing Allowances in the Public Sector” (Discipline Inspection Commission of the CCP, et al., 2005). In 2006, these six ministries issued another document with regard to public sector remuneration — “Notification on Standardizing Allowances for Civil Servants” (Discipline Inspection Commission of the CCP, et al., 2006), which used harsh wordings to criticize overpayments in some departments and localities and warned that any future “offenders” would be removed from office immediately.

This political approach, however, had little success in regulating public sector remuneration to its expected goal. First, there was no coherent plan of actions. Overpayment behaviours in a government department needed to be first identified, and some people in the department should be held responsible for overpayments. The above-mentioned documents, however, lacked clear and feasible guidelines on the detection and reporting of overpayments. Civil servants who benefited from overpayments were unsurprisingly reluctant to report illicit behaviours with themselves as the beneficiaries. Outsiders were unlikely to know the actual level of incomes in a government department. Second, compared with other corruption behaviours, overpayments occupied a less important position in reality, thereby rendering both investigation and punishment very ineffective. As many corruption cases involved more than 10 million *yuan* in China (Yang, 2004), overpayments with a few thousand *yuan* definitely were trivial. In many cases, it remained an open question in practice whether or not overpayments can be regarded as embezzlement. Thus, the disciplinary organs of the CCP would not make a real effort to detect them.

The promulgation of the Civil Service Law of the PRC provided a great opportunity to address pay inequality among civil servants. The law was passed by the Standing Committee of the NPC in April 2005 and took

effect in January 2006. The law pays equal attention to external and internal pay equalities. First, according to the law, the Chinese government will install a pay trend survey system, which is widely used in developed countries. The survey will investigate the remuneration information in the private sector, such as the basic salary, bonus and fringe benefits in private companies and make suggestions for civil service pay adjustments. Second, internal pay equality is emphasized by this law as well. The law stipulates that individual government agencies cannot make pay raises or pay cuts by themselves, which would lead to pay gaps among civil servants.

“Equal pay” is one of the key principles of the 2006 pay regime, which is the latest civil service pay system in China. On 14 June 2006, the State Council (2006) issued the “Notification on the Civil Service Pay System Reform” (*Guanyu gaige gongwuyuan gongzi zhidu de tongzhi*), which marked the beginning of the 2006 civil service pay regime in China.<sup>6</sup>

The introduction section of the 2006 pay document discusses explicitly the internal equal pay issue. The document claims that the prominent problem in income distribution should be unravelled, that is, the regional income gap among civil servants must be narrowed down in a bid to build a clean government. In detail, the management of civil service pay should be improved, and the pay gap among civil servants (with the same rank) should be minimized. In practice, though the central government does not lay down any numerical target for addressing the regional pay inequality, the pay gap between provinces is expected to be reduced; likewise, “same remuneration within the same city” (*tongcheng tong daiyu*) is the goal for internal pay equality in a given locality. That is, civil servants living in a city must have a comparable pay for the work of equal value. More practically, resource-rich departments were asked to conduct pay cuts immediately after the introduction of the 2006 pay document. Local governments needed to mobilize financial resources to improve the pay level of those departments with poor financial positions.

Apart from passing the above law and documents, the central government also seeks to legitimize the equal pay system and the 2006 pay reform as a whole through an internal political deliberation. A Politburo meeting was held in May 2006 to discuss the civil service pay

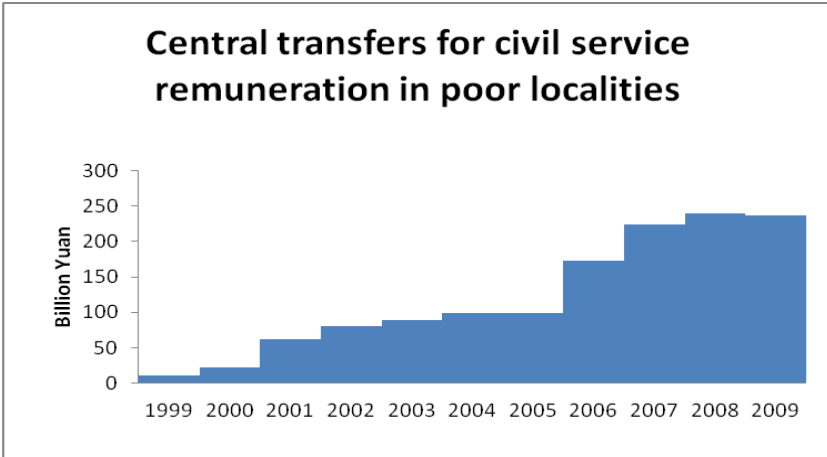
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6 There have been four civil service pay systems in China, which took place in 1956, 1985, 1993, and 2006 respectively.

reform. The meeting brief viewed civil service pay gap as an epitome of income inequalities in the whole society, which garnered great attention from both elites and ordinary people (*Hong Kong Commercial Daily*, 2006). Just before the installation of the 2006 pay regime, the Central Committee of the CCP had a meeting with non-CCP members (mainly those serving in democratic parties (*minzhu dangpai*)). The general secretary of the CCP and the president of the PRC, Hu Jintao, promised to improve the income of the disadvantaged in the society while curbing the pay gap among the bureaucracy.

The central government employs central grants to make sure that its attempts at alleviating external and internal pay inequalities will not be thwarted by local governments, since some poor localities may not be able to offer civil servants the pay raises as stipulated by the central government. It means that the remuneration level in rich localities will be contained while, with the financial support from the centre, poor regions will catch up. A special fiscal transfer earmarked for salary raise was created in 1999 to enable poor localities to receive such central subsidies. For example, the central government had specifically assured governments of poor localities that the central government would bear the full cost of salary increases in October 2001 and July 2003 (Li & Xu, 2006). Eight rich provinces, such as Shanghai, Jiangsu, and Guangdong, on the other hand, were asked to shoulder the costs by themselves. As Figure 2 shows, the central transfers for civil service remuneration in poor localities have increased dramatically in recent years. Wong (2007) argues that as compared with other central transfers, the transfer for civil service remuneration is the most fast-growing one. It was 10.8 billion *yuan* nationwide in 1999 and 236.6 billion *yuan* in 2009. In sum, the transfer grew by 22 folds over the past decade.

**Figure 2 Central Transfers for Civil Service Remuneration in Poor Localities**



Sources: Li & Xu, 2006; Ministry of Finance website (<http://www.mof.gov.cn>); Wong, 2007.

Compared with the political means to curb pay disparities, the administrative way with “equal pay” being a principle of civil service pay system to improve pay equality has many merits. Unlike the periodical crackdown on overpayments and corruption, the “equal pay” serves as the binding rule governing public sector remuneration in China. The effects of pay equality thus should be more lasting and sustainable. A caveat is in order. The equal pay policy is constrained or relies on the reform in the political system. On the whole, the civil service remuneration reform (civil service reform) is also constrained by the current political environment in China. Given a political and administrative system with many deficiencies, the equal pay policy has its weakness since its birth. As noted below, internal pay disparities are not readily mitigated, partly because of both the fragmented financial system and the problematic civil service system.

### **Unequal Pay Despite Equal Pay Reform**

Two indicators serve to gauge the level of regional pay inequalities among civil servants. The first is the extent to which the gap in average civil service pay between the highest paid and the lowest paid localities is



narrowed. Data suggests that the result is not satisfactory. Shanghai was consistently a provincial-level area with the highest civil service pay between 1998 and 2008, while Guizhou, Shaanxi, and Jiangxi Provinces ranked the lowest in 1998, 2003, and 2008 respectively. The ratio of the highest wage to the lowest one was 2.9 in 1998 and remained at 2.76 ten years later, in 2008, after several years of reforms geared to equalize civil service pay.

A second indicator is the coefficient of variation (CV) of the civil service pay, which reveals a more pessimistic picture. The CV is a standard way to measure income variations within or across regions (higher value indicates a larger gap). The value of the CV shows no signs of substantial decline during the examined period. Instead, the value of the CV of the civil service pay had even increased sharply during 1998–2005. The value of the CV in 2005 was 0.42 while it was 0.30 in 1998. It means that income gap in the public sector deteriorated between 1998 and 2005, although both the central government and local governments seemed to be making efforts to equalize the public sector remuneration.

Apart from the substantial pay gap between provinces, pay disparities within a province are also very large. For example, in Henan Province (one of the most poorly compensated provinces in general), a fresh university graduate earned on average 32,942 *yuan* per year in a provincial government bureau while his or her peers in poor localities in the same province received 12,720 *yuan* per year (Shi, 2010). Likewise, a civil servant (section member, *keyuan*) working in well-off counties near the provincial capital in Fujian Province earns 40,620 *yuan* per year, against 25,000 *yuan* if she works in a poor, adjoining county (Interview notes PA-20091227 and PA-20090111).

As noted previously, civil servants in the same city should have a comparable pay according to the central policy. The situation in reality does not work out this way. In the D county in Hubei Province, civil servants earned very differently as some enjoyed pay rises stipulated by the central government while some did not. Disgruntled officials responded that no one knew when the equal pay policy would be fully implemented in all civil servants in the county. The situation in the N county in Hubei Province was more daunting. The county fiscal bureau only shouldered 60 per cent of the cost incurred and the remaining part

should be provided by individual government departments<sup>7</sup> (Interview note PA-20090527-1). Civil servants in the county thus could have good pay if their own departments were rich enough to pay their civil servants.

Other evidence suggests that the rule of “same remuneration within the same city” as emphasized by the central government is hardly implemented. The civil servants are paid by different fiscal bureaus; thus even though they live in the same city, they are compensated differently. Currently, the civil servants working in a resource-rich district earn far higher than their counterparts in another city districts in the same city. In Henan Province, for example, public employees in the same city had a pay gap of 1,000 *yuan* per month even though the living costs were almost identical (Shi, 2010).. Worse still, the deficiencies in civil service management in China perplex the equal pay policy. For example, although civil servants work in statistics departments, some may receive higher remuneration since their organizations are categorized as “vertical management” (*chuzhi guanli*) (He & Wang, 2010).<sup>8</sup>

In addition to the formal pay inequalities, non-wage remuneration exclusively for leaders aggravates the situation. Burns (2003) observes that the top civil servants in China enjoy a highly generous non-wage remuneration system compared with other countries. The gap in non-wage remuneration between leaders and ordinary civil servants, as noted by Su and Yang (2008), is very significant at the local level. The pay gap has been intensified since the housing system for public employees, which might mitigate pay inequality to some extent, was commercialized in the second half of the 1990s. Leaders obtain exclusively non-wage remuneration, such as *public vehicles* and entertainment expenses.

According to the central regulation on public cars, only ministers are allowed to occupy an official car with a driver (Central Committee of the CCP and State Council, 1999). The central government also stipulates that the value of ministers’ cars should not exceed 450,000 *yuan* per vehicle. The value of other official cars should not be higher than 250,000 *yuan* per vehicle. In reality, a department head at the county level usually has an official car with a driver. For example, a county government in the

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7 This practice infringes the central regulation of every civil servant receiving a comparable wage in a given city.

8 Survey offices in statistics departments were centralized in 2004; therefore, the National Bureau of Statistics can collect the survey data directly from grass-roots units. Thus, in spite of doing similar jobs, civil servants have very different pay even they work in the same government building and for an identical function.

suburbs of Beijing claimed the success in reducing waste in public car management (Xia, 2005). Ironically, both the Township Party Secretary and the head were allowed to obtain official cars exclusively for them although the Township Party Secretary and the head were definitely unqualified for this privilege. In addition, the leading cadres seem to turn a blind eye to the price cap imposed on the public vehicles. The majority of leading cadres buy more expensive cars than those stipulated by the central government (Ma, 1998). Some leading officials have two or more cars used for different purposes. In most cases, the leading cadres' relatives also benefit greatly from official cars; it is not surprising to see that taxpayer-funded official cars have been used extensively by the cadre's wife, children, and the driver to attend banquets or go to school.

## Conclusion

Discussion so far shows that civil service pay reforms in China in the second half of the 1990s had not brought about the changes as expected. While the external pay inequality is mitigated to some extent after several pay raises, the internal pay inequality, however, has largely remained or even gotten worse.

Many civil servants who have limited opportunities to be promoted to higher positions and are unsatisfied with their remuneration have turned to predatory behaviours and corruption. The negative consequence of excessive internal pay differentials would be very serious as shown in some developing countries. The civil service pay reform in Uganda is a case in point. Initially, addressing public-private pay differential had achieved some positive outcomes. Substantial internal pay inequalities after the mid-1990s nonetheless made the positive effect of the pay reform diluted. Large pay differentials among the bureaucracy “fuel resentment, undermine morale, and provide a stimulus to corruption” (Robinson, 2007, p. 459). Many commentators also point out a salient phenomenon in China — corrupt “ceiling cadres” (*tianhuaban ganbu*). Those civil servants reaching their career peaks tend to line their pockets rather than serve the people, suggesting that the public service ethic of the civil service is thinning out in China. Based on a recent survey, Du (2009) observes that “ceiling” cadres are more likely to be predatory and corruption-prone. This may also be partly due to the unfair pay structure and a rigid labour market as discussed previously. Suppose these cadres

had been more “fairly” paid, they might not be prone to corruption at the peak of their careers.

Investigating the background and processes of introducing the equal pay policy reveals that the first part of the equal pay policy in China is much more successful than the second. Motivating civil servants through mitigating public-private pay differentials has garnered broad support within the Party-state bureaucracy, though ordinary citizens may view differently, but citizen voice traditionally has weak leverage in the Chinese decision-making system. By contrast, curbing fiscal profligacy and corruption by narrowing pay disparities across government units invites resistances from both ordinary civil servants and senior cadres. Though some civil servants of resource-poor departments welcome a smaller gap with their resource-rich counterparts, no one within the bureaucracy in China seeks wholeheartedly to put an end to fiscal profligacy and informal compensation in the public sector. As closely associated with both fiscal profligacy and corruption, internal pay disparities are nearly impossible to be eradicated unless a clean and responsible government is put in place.

Indeed, it has been reported that local governments have become *more* predatory in recent years (Chen, Hillman & Gu, 2002). Corruption statistics also suggest a similar trend: more senior officials have been investigated and prosecuted for corruption after the mid-1990s (Gong & Wu, 2012). In each corruption case, the sums involved have risen sharply (Yang, 2004). According to the *China Procuratorial Yearbook*, the number of “grand cases” (*da an*) in bribery, embezzlement, and the alike in proportion to the total prosecuted cases rose from 32 per cent to 67 per cent during the period 1998–2008, and “prime cases” (*yao an*) increased from 4.9 per cent to 7.4 per cent in the same period.<sup>9</sup> An updated survey on corruption severity in China among private entrepreneurs between 2006 and 2007 also reveals an alarming situation. About 17.6 per cent of private entrepreneurs viewed that “hardly anyone (public official) is involved” in corruption. 63.1 per cent of the respondents agreed that “some officials are corrupt” while 19.0 per cent of them thought that “most officials are corrupt” (Chen & Dickson, 2008, p. 796). Johnson and Hao (1995) note that China has witnessed a surge of corruption. Based on an investigation on the quality of government in a

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9 “Grand case” means that the case involves a vast amount of money. Currently, it refers to at least 50,000 *yuan* for bribery. “Prime case” denotes that the corruption case has high-ranking officials (above the county level) involved.

wide variety of countries, La Porta, et al. (1999) aptly point out: “It is likely that in countries where bureaucrats have much power, they collect both higher wages and significant bribes.” (p. 239) It seems that the Chinese situation fits squarely with the above assumption.

In a state with the communist ideology — albeit abating, modern ideas and practices in public sector remuneration encounter formidable challenges and resistances in the *realpolitik*. Sound and effective incentive structures, nevertheless, are essential to corruption control and even a responsible government. Addressing pay inequality within the bureaucracy not only requires an official document from the central government but also simultaneous changes of public finance, cadre management, and inter-governmental management in the country. Perhaps more importantly, the reform of income distribution should not only target at public sector remuneration but also improve the income of the disadvantaged such as rural residents and urban migrants. Otherwise, the resentment arising from income inequality may make public sector remuneration ineffective. Inclusive growth in China needs a comprehensive reform of macroeconomic management and the pertinent fiscal policy.

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