Income Mobility or Consumption Mobility: Dynamic Social Welfare in Rural China

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Social Accounting Matrix is an useful tool for analyzing issues about income distribution, however, it is not capacity for exploring the other important concept about social welfare, income mobility. This paper wants to make contribution in this area.
With more availability of long-time household panel survey data in China, more research is moving from income inequality to income mobility as the latter is considered a more precise measure for social welfare dynamics. Compared with wealth or consumption, however, income is not directly linked to welfare. Therefore, it would be better to examine welfare mobility or social welfare dynamics by wealth or consumption, rather than income data.
This study estimates both income mobility and consumption mobility by comparison using a transition matrix from a panel dataset of more than 20,000 households in rural China between 1986 and 2010 provided by the Research Center for Rural Economy in Ministry of Agriculture in China. Specifically, we select two sample groups due to data availability: one group consists of 6665 households from 1986 to 2010(except for the years of 1992, 1994, and 1999 due to data missing); the other consists of 10096 households from 1995 to 2010(except for the year of 1999).
Transition matrix approach is widely considered as a good instrument for measuring the probability of change in the quantile rank of household income or consumption in the current literature. Based on the transition matrix, this study developed four indexes (specifically, Weighted Average Move Ratio (WAMR), Inertia Ratio (IR), Quasi-Inertial Ratio (QIR) and Chi-Squared Index (CSI)) for measuring social mobility in rural China in the past three decades.
The main findings include:
First, both income mobility and consumption mobility have a decreasing trend from 1986 to 2010 except for two small bumps in 1991-1993 and 2001-2002 .
Second, consumption mobility is significantly higher than income mobility during the observed period. It is slightly different from the previous studies, which mainly found that the variance of consumption is usually smaller than that of income due to consumption smoothing. It is plausible that consumption is often determined by wealth rather than income, while the variance of wealth is often larger than income in rural China.
Third, it is confirmed that consumption mobility is a better index than income mobility to reflect dynamic social welfare. Household consumption can be easily smoothed, and hence more sensitive to wealth than income, while income can fluctuate drastically particularly in current rural China with a lot of dynamics.
Finally, it is worth to point out that our conclusions are quite robust with respect to different measures of subsamples.