

## **Abstract**

China's impressive growth has been accompanied by increasing inequality and a widening rural–urban divide. This paper identifies and examines nine major dimensions of this divide: income, consumption, education, healthcare, employment, child care, pensions, access to public services and environment. The paper attributes the main causes of the rural–urban divide to China's development strategy and the associated regressive tax and subsidies policies. This paper is among the first to evaluate and decompose the rural–urban divide into multiple dimensions or gaps, and highlights the severe constraints on the Chinese peasantry. It discusses the policy and welfare implications of the rural–urban divide. It argues that the large size of the rural–urban divide was mainly due to inequality in opportunities and the lack of social provision of public goods in rural areas. The removal of discriminatory policies, including the provision of such public goods, will lead to greater equality of opportunity and a reduced gap. Increased equality and efficiency can be achieved simultaneously.

**Keywords:** poverty, income inequality, rural–urban divide, China

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