

# **Income Inequality, Family Formation and Generational Mobility in Urban China**

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Household income inequality has increased in most developed and developing economies in the world in the last 30 years and China is exemplary in this regard. While many analyses of its strident inequality growth have focused on the effects of policies relating to Urban-Rural and Inland-Coastal distinctions, growth in inequality has prevailed on both sides of those respective divides suggesting something more fundamental is at play. Here, specific types family formation and human capital transfer are demonstrated to engender increases in household income inequality measures. Using a unique data set linking grandparents, parents and children in Urban China, evidence of structural change over successive cohorts toward such matching and mobility patterns is observed over the last 70 years. Influenced by such events as the Cultural Revolution, the One Child Policy and the Economic Reforms, people intensified positive assortative matching behaviors and polarizing human capital transitions. Social class designations became less important and educational class designations became more important. A counter-factual analysis verified the impact of these changes on household income inequality in urban China.