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Paris School of Economics
• The World Wealth and Income Database (WID)
  – Provides insight into a fundamental and global social question: income and wealth inequality
  – Covers more than 30 countries (with detailed inequality and macro data)
  – However the WID has only sparse coverage of China

• Two Questions
  – Dynamics of wealth-income ratio and private wealth in China since 1978?
  – Dynamics of income and wealth inequality in China since 1978?
Why this study is important

1. Despite China has experienced exceptional growth, we know little about how growth is distributed in China
   • Who benefits more: private sector vs public sector?
   • What are the income growth rate: bottom 50%, middle 40%, vs top 10%?
   • How do changes in factor shares impact on inequality?

2. Contribute to the study of global income and wealth inequality.
   • China accounts for 20% of the world population and 18% of world GDP

3. Better understood the development of China
   • Look into a fundamental question - how to reconcile economic growth and inequality
   ➔ Reference for searching for a better economic development model for other nations
Research Objectives

- **To build a framework following Distributional National Accounts (DINA) guidelines** (see Alvaredo et al 2016)
  - By combining national accounts, household surveys, fiscal data, and historical data
- **To better compare wealth and inequality within China and across countries**
- **First attempt to connect national accounts with research on distribution (inequality)**
- **Possibility to revise, correct and improve estimates (new raw data sources, better methods)**
Introduction

Literature and Data Source

• Part A: Studies on national wealth of China (National balance sheets)
• Part B: Studies on income and wealth inequality in China

Methodology and Findings

• Part A: The Rise of Wealth-Income Ratio and Private Property in China
• Part B: The Rise of Income Inequality in China
• Part C: The Rise of Wealth Inequality in China

Where We Stand
Studies on national wealth in China

Official national balance sheets
• NBS since 1997, never published (Shi, 2011)

Unofficial national balance sheets
• 2002-2010 (Ma et al, 2012, PBC team)
• 2007-2011, (Li et al 2013, CASS team )
• Limitations:
  – Omit flows, only study stocks
  – No separation of private and public wealth
  – No differentiation of market and book value

Studies on capital or wealth accumulation (no complete balance sheet)
• Capital accumulation by Chow (1993) and Holz (2006)
• Private wealth by Davies et al (2010-2016) using survey data (i.e. CHIP2002)

We will estimate national balance sheets
• Combine national account, survey data, economic census and various data from NBS and PBC
• For a longer period (1978-2015)
• Study flows together with stocks
• Distinguish between private and public wealth
• Estimate market and book value of national wealth
Studies on income inequality in China

China 1978-2015

Rural and Urban Household Survey from NBS (tabulated data, largest survey, yearly)
- 1986-2003, top 1% income share (Piketty-Qian, 2009)
- Consumption inequality since 1981 (WB ProvcalNet)
  → Limitation: no correction of top distribution and tax exempt capital income

Other national surveys (CHIP, CFPS, CHFS, micro data, smaller sample, few waves)
- Compare 2002 and 2010 (Li, 2005, 2013)
- 2011 only (Tan, Zeng, Zhu)
- 2002 only (Luxembourg Income Study (LIS), 2016)
For more details, see WIID 3.4 by UNU-WIDER

We will estimate income distribution
- For the period of 1978 to 2015
- Tabulated data from Rural and Urban Household Survey
- Correct top distribution by using income tax data from high income tax payers
- Correct tax exempt capital income (i.e. private share of undistributed corporate profit) by using national accounts and wealth survey

• Introduction  • Data Source and Literature  • Methodology and Findings  • Where We Stand

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Studies on wealth inequality in China

National surveys (CHIP, CFPS, micro data, smaller sample, few waves)

- Compare 2002 and 2010, no correction of the top (Li and Zhao, 2009; Li and Wang, 2015; Tan, Zeng, Zhu 2017)
- 2012 only, correction of the top using “Hurun Rich List” (Xie and Jin, 2015)
- Projection of 2010-2014 top 1% and 10% wealth shares using only CHIP 2002, correction of top using “Forbes Rich List” (Davies et al, 2015)

We will estimate wealth distribution

- Yearly and for a longer time period: 1995 to 2015
- Correct the top distribution using all available waves of the “Hurun Rich List” (2002-2015)
Introduction

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Methodology and Findings

• Part A: The Rise of Wealth-Income Ratio and Private Property in China
• Part B: The Rise of Income Inequality in China
• Part C: The Rise of Wealth Inequality in China

Where We Stand

1. Concepts and Methodology

2. The Rise of Wealth-Income Ratio and Private Wealth

3. China vs Rich Countries
Private Wealth and Public Wealth

Our concepts and methods generally follow those described in the DINA Guidelines used for WID (Alvaredo et al 2016).

National Income \( Y_t = GDP_t - KD_t + FY_t \) (Net foreign Income)

Private wealth \( W_t = \) Private assets – Private debt

Assets=Non-financial assets + Financial assets

= House + Agriculture Lands + Other domestic capital

+ Currency, deposits, loans, and bonds + Insurance + Equity

We similarly define public (or government) wealth \( W_{gt} \)
Market Value of National Wealth

Market-value national wealth $W_{nt}$

$= \text{Private wealth } W_t + \text{Public wealth } W_{gt}$

$= \text{Domestic capital } K_t + \text{Net foreign assets } NFA_t$

Domestic capital $K_t$

$= \text{Agricultural land } + \text{Housing } + \text{Other domestic capital}$

(including the market value of corporations, and the value of other non-financial assets held by the private and public sectors, net of their liabilities).
Book Value of National Wealth

An alternative measure of the wealth of corporations:

Corporations’ book value

= the total value of corporate assets - non-equity liabilities

Residual corporate wealth $W_{ct}$

= Corporation’s book value - Corporation’s market value

Book-value national wealth $W_{bt}$

= Market-value national wealth $W_{nt} + W_{ct}$

Remarks:

Tobin’s $Q = \frac{Corporation’s \ market \ value}{Corporation’s \ book \ value}$

Tobin’s $Q = 1 \Rightarrow W_{ct} = 0$.

In our studies, for now we assume Tobin’s Q for unlisted corporations is equal to 1.

1. Concepts and Methodology

2. The Rise of Wealth-Income Ratio and Private Wealth

3. China vs Rich Countries
Increase of national wealth-income ratio due to private wealth

Figure 4: Public vs private property in China 1978-2015 (% national income)

- Net national wealth (public+private)
- Net public wealth (government)
- Net private wealth (households)
Rise of national wealth-income ratio (Housing and Other domestic capital)

**Figure 3. The structure of national wealth in China 1978-2015** (% national income)

### Other domestic capital includes
- a. the market value of corporations
- b. the value of other non-financial assets held by the private and public sectors net of their liabilities

### Housing
- a. Rural house value + Urban house value
- b. House value
  - =living area per capita
  - *population
  - *market price per sqm.
- KDt

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China 1978-2015

Privatization wave explains rise in private wealth

**Figure 5. The rise of private property in China 1978-2015**

- Share of private property in:
  - Total national wealth
  - Housing
  - Other domestic capital and net financial assets
  - Domestic corporate equity (listed and unlisted)

**Privatization**

### Housing Privatization
- Starts in 1992
- States Owned Enterprises privatized through restructuring, bankruptcy, and acquisition
  - 1998-2006

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Public share in corporate equity stops decreasing since 2006

Figure 6. Corporate ownership in China 1978-2015

Share of domestic corporate equity (listed and unlisted) owned by....

- Public (Chinese government)
- Private (Chinese households)
- Foreign (rest of the world)

1. Concepts and Methodology
2. The Rise of Wealth-Income Ratio and Private Wealth
3. China vs Rich Countries
National wealth-income ratio rise dramatically since 1990

Figure 8: The rise of wealth-income ratios: China vs rich countries
(national wealth (public + private) vs net foreign wealth, in % national income)

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Private wealth-income ratio catches up with rich countries

Figure 7b: The rise of wealth-income ratios: China vs rich countries
(private wealth (households) vs public wealth (government), in % national income)

- China
- USA
- France
- Britain

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Figure 7c. The decline of public property: China vs rich countries

(share of public wealth in national wealth)
Public wealth share decreases in the world (robustness check)

Figure 7d. The decline of public property: China vs rich countries

(share of public wealth in national wealth: alternative estimates)

Public share in agricultural land drops from 70% to 40% (benchmark), 60% to 30% (variant 1), 80% to 50% (variant 2). Public share in rural housing drops from 30% to 0% (benchmark), 20% to 0% (variant 1), 40% to 10% (variant 2).
Part B: The Rise of Income Inequality in China

1. Concepts and Methodology
2. Top 1%, top 10%, middle 40% and bottom 50%
3. China vs Rich Countries
4. Inequality between and within rural and urban China
Step 1

Estimate distribution of income ($y_f$)

1. Survey data

2. Methods
   - Generalized Pareto interpolation techniques (Blanchet-Fournier-Piketty, 2016)
   - Problem of underestimation of the top income share
Step 2

**Correction using Income Tax Data on high-income taxpayers**

- In 2006, the Chinese tax administration issued a circular
- All taxpayers with individual taxable income higher than **120 000 yuan (about 18 000 USD)** to file a special declaration
- Release the total number and taxable income of these taxpayers (about 0.5% of urban adults)
  - At the **national level** annually for income years **2006 to 2010**
  - The publication at national level was **interrupted in 2011**, although the circular still applies
  - From **2011 to 2015** the publication of the data continued at the **provincial level** in a large number of provinces

→ We collected all these tabulations, which together provide useful information about top incomes in China
Step 3

Estimate distribution of total personal income \((y_p)\)

\[ y_p = y_f + y_{nf} \]

\(y_{nf}\): tax-exempt capital income (i.e. private share of undistributed profits)

1. Estimate total amount of \(y_{nf}\) using national account
2. Estimate distribution of \(y_{nf}\) using wealth survey data
3. Estimate distribution of total personal income \(y_p\)
4. Transform the distribution of personal income \(y_p\) into the distribution of national income \(y\) (normalize the distribution by national income)
Part B: The Rise of Income Inequality in China

1. Concepts and Methodology
2. Top 1%, top 10%, middle 40% and bottom 50%
3. China vs Rich Countries
4. Inequality between and within rural and urban China
Privatization and Income Inequality

Income inequality increased dramatically during 1998-2006 SOEs privatizing and reforming periods.

It became stable since 2006 after SOEs finished restructuring.

Figure 10. Income inequality in China, 1978-2015: corrected estimates

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).
NBS Survey data underestimated inequality

Figure 11. Income inequality in China: corrected vs raw estimates

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data. Equal-split-adults series (income of married couples divided by two).
Figure 12. Top 1% income share in China: corrected vs raw estimates

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data. Equal-split-adults series (income of married couples divided by two).
Part B: The Rise of Income Inequality in China

1. Concepts and Methodology
2. Top 1%, top 10%, middle 40% and bottom 50%
3. China vs Rich Countries
4. Inequality between and within rural and urban China
Increase of inequality in China, top 10%

Figure 21. Top 10% income share: China vs rich countries

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).

Without correction
China’s top 10% income share varies between 20% and 28%, which is lower than France.
China vs US (top 1% vs bottom 50%)

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China vs France US (top 1% vs bottom 50%)

Figure 26. Bottom 50% vs Top 1% income share: China vs France

- China: Bottom 50%
- China: Top 1%
- France: Bottom 50%
- France: Top 1%

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).
Increase of inequality in China, top 1%

Figure 22. Top 1% income share: China vs rich countries

Without correction
China’s top 1% income share varies from 3% to 7%, which is lower than France, much lower than US.
Decrease of income share of bottom 50%

Figure 23. Bottom 50% income share: China vs rich countries

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).
Middle 40% stay comparatively stable

Figure 24. Middle 40% income share: China vs rich countries

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).
Figure 2: The rise of per adult real national income in China, 1978-2015
(yuans 2015)

Real growth rate 1978-2015: +6.2%/year
Average national income per adult (2015): 57,807 yuan (1€ = 4.6 yuan) (PPP)
(1€ = 7.0 yuan) (MER)
Real growth rate 1998-2015: +8.1%/year
Real growth rate 1978-1998: +4.5%/year

### Table 3: Income growth and inequality 1978-2015: China vs. rich countries

<table>
<thead>
<tr>
<th>Income group (distribution of per adult pre-tax national income)</th>
<th>China</th>
<th>USA</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Population</td>
<td>6.2%</td>
<td>811%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Bottom 50%</td>
<td>4.5%</td>
<td>401%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Middle 40%</td>
<td>6.0%</td>
<td>768%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Top 10%</td>
<td>7.4%</td>
<td>1289%</td>
<td>2.1%</td>
</tr>
<tr>
<td>incl. Top 1%</td>
<td>8.4%</td>
<td>1897%</td>
<td>3.0%</td>
</tr>
<tr>
<td>incl. Top 0.1%</td>
<td>9.1%</td>
<td>2405%</td>
<td>4.0%</td>
</tr>
<tr>
<td>incl. Top 0.01%</td>
<td>9.8%</td>
<td>3113%</td>
<td>4.7%</td>
</tr>
<tr>
<td>incl. Top 0.001%</td>
<td>10.4%</td>
<td>3817%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

Sources: China: this paper. USA: Piketty-Saez-Zucman (2016). France: Garbinti-Goupille-Lebret-Piketty (2017). Distribution of pre-tax national income among equal-split adults. The unit is the adult individual (20-year-old and over; income of married couples is split into two). Fractiles are defined relative to the total number of adult individuals in the population. Corrected estimates (combining survey, fiscal, wealth and national accounts data).
Growth rate of pre-tax national income by income groups

Figure 27: Rising inequality and income growth: China vs others

Average annual growth rate of real per adult pre-tax national income, 1978-2015

- China
  - Full population: 6.2%
  - Bottom 50%: 6.0%
  - Middle 40%: 8.4%
  - Top 10%: 10.4%
- USA
  - Full population: 1.3%
  - Bottom 50%: 0.9%
  - Middle 40%: 2.1%
  - Top 10%: 3.0%
- France
  - Full population: 0.9%
  - Bottom 50%: 0.9%
  - Middle 40%: 1.0%
  - Top 10%: 1.4%
Part B: The Rise of Income Inequality in China

1. Concepts and Methodology
2. Top 1%, top 10%, middle 40% and bottom 50%
3. China vs Rich Countries
4. Inequality between and within rural and urban China
Rural and urban adult population

Figure 13: Population in urban and rural China, 1978-2015
Figure 14: Rural-Urban Inequality in China, 1978-2015

1. Increase the price of agricultural product
2. Encourage township enterprises
3. Urban economic slows down
Increase of share of urban in total population and income

**Figure 15: Shares of urban China in population and income, 1978-2015**

- Share of urban China in total income
- Share of urban China in total population
Figure 16. Top 10% income share: urban vs rural China

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).
**Top 1%: rural vs urban**

Figure 17. Top 1% income share: urban vs rural China

Distribution of pretax national income (before taxes and transfers, except pensions and unemply. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).

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Bottom 50%: rural vs urban

Figure 18. Bottom 50% income share: urban vs rural China

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data).
Equal-split-adults series (income of married couples divided by two).
Middle 40%: rural vs urban

**Figure 19. Middle 40% income share: urban vs rural China**

Distribution of pretax national income (before taxes and transfers, except pensions and unemployment insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).
Part C: The Rise of Wealth Inequality in China
Concepts and methodology

Estimate distribution of Wealth ($w_f$)

1. Survey data
   - CFPS (2010, 2012)

2. Methods
   - Generalized Pareto interpolation techniques (Blanchet-Fournier-Piketty, 2016)
   - Problem of underestimation of the top wealth share

Figure 20. Wealth inequality in China, 1995-2015

Figure 28. Top 10% wealth share: China vs rich countries

Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).
Estimate China’s national wealth and inequality 1978-2015

Completed analysis

- Wealth series by assets (Agricultural land, Housing, Other domestic capital, and Net foreign assets, Market value vs Book value)
- Private and public share of national wealth assets
- Capital income and capital return of assets by sector (Housing, Corporate, Government)
- Top1%, top 10%, middle 40%, and bottom 50% income share (corrected using income tax data from high income tax payers)
- Comparison of China’s statistics with rich countries

Preliminary working paper and presentations

- Capital Accumulation, Private Property, and Inequality in China, 1978-2015 (link)
- Findings presented in AEA Meeting 2017, “Global inequality dynamics: New findings from WID.world” (link)
- Presentation at Paris School of Economics (February 7th 2017)
Step 1: Improve Estimates on capital share and return 1978-2015

Future work

- Estimate capital income and capital return by industries using macro data from industry statistic year book.
- Estimate labor and capital income share in different income groups (Top 1%, top 10%, middle 40%, and bottom 50%)
- Estimate wealth shares for different income groups
- Estimate capital return in different income groups
- Using micro survey data 1988-2013 (CHIP, CFPS)
- How do changes in factor shares impact on inequality?
Step 2: Estimate urban/rural level and provincial level wealth and inequality 1978-2015

Work in Progress:
- Estimate income inequality within and between rural and urban China

Future work
- Estimate provincial level wealth and inequality
- Data requirements
  - provincial level national account data (flows and stocks)
  - Provincial level survey data on incomes
- Required data already partially collected (Statistic Yearbooks of 34 provinces, Economic Censuses)

Step 3: Long term estimates of national wealth income ratio, 1930s-1978
- Required historical data already partially collected
Thank you very much!

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Appendix
• **Distributional National Accounts (DINA)**

- how is national income distributed in different groups (public vs private, top 1%, top 10%, middle 40%, bottom 50%)?
- how are labor and capital incomes distributed in different groups?
- what contribute to the change of the wealth (saving or capital gain) in different group?
- what are the capital return of different assets in different group?