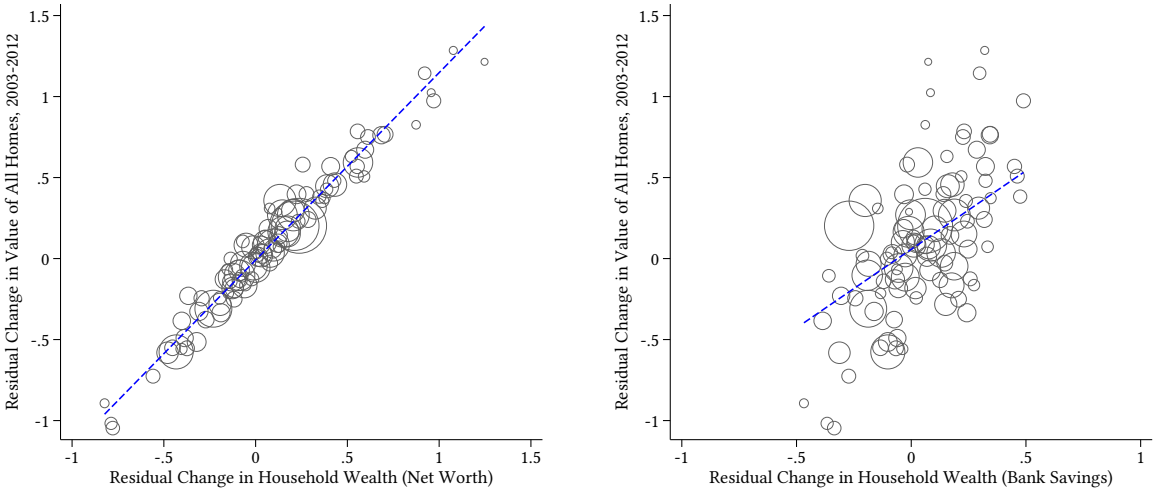
Fig. 2. Growth in the Overall Value of Homes is Positively Associated with Growth in Household (Non-housing) Wealth

(a) Wealth measure including housing. Slope of fitted line: 1.16.

(b) Wealth measure excluding housing. Slope of fitted line: 0.97.



Note: This figure plots the 2003-2012 growth rate in (residual) housing value over the growth rate in (residual) household wealth. The residuals are constructed by regressing log housing value and log household wealth on log income and log population. Left: Wealth including housing. Right: Wealth excluding housing (which is simply household bank savings).

homes. The coefficients on log(wealth) are similar whether I include or exclude housing from household wealth, suggesting that the estimated tight relationship is not due simply to regressing housing on housing.

Figure 2 graphically illustrates the tight relationship between increases in the total value of homes and increases in household (total or non-housing) wealth. Log housing value and log household wealth are first regressed on log income and log population. I take the regression residuals and plot the 2003–2012 growth rate in (residual) housing value over the growth rate in (residual) household wealth, including or excluding housing. Again, the slope of the fitted line representing the association between increases in the total value of homes and increases in household wealth is similar and close to one, whether I include or exclude housing from household wealth.

The one-to-one association between increases in the total value of homes and increases in household (total or non-housing) wealth is quite robust. Specifically, it is robust to: (1) additional proxies of purchasing power and of levels of economic activity as controls in the

is uncorrelated with growth in income, electricity use, industrial profits, the number of taxis, elementary school population and bank loans; among the seven dimensions of local economy examined, only population growth is correlated with famine severity, but the correlation is negative, and unlikely to explain the positive instrumental variable results.

Table 3: Famine Severity as Instrument for Wealth Accumulation

	(1)	(2)	(3)
Dependent Variable	9-year Growth in Housing Value		
Model	OLS	IV	IV (w/o prov capitals)
9-year Growth in Wealth	1.12***	1.23***	1.26***
9-year Growth in Income	-0.01	-0.04	-0.01
9-year Growth in Population	0.05	0.05	0.10
Observations	99	99	76
First-stage F-stat		11.65	9.85

Note: All variables are deflated by the consumer price index at the province level. Standard errors are clustered at the province level. *** indicates significance at the 1% level.

3. Proposed Mechanism and Institutional Background

Financial market frictions together with an upward transition in Chinese household wealth provide a mechanism that potentially explains the large increase in housing prices, the large and declining housing return premium, and the faster-than-income-growth increase in housing values that is linked one-to-one with the increase in household wealth.

The mechanism operates as follows. A low initial wealth and borrowing constraints limit the amount of investable funds, thereby generating a low price for homes in 2003. Subsequently, household savings from low initial household wealth generate a transitional

Table A4: Placebo Tests for the Famine Severity Instrument for Wealth Accumulation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dependent Variable	Income Growth	Electricity Growth	Ind. Profit Growth	#Taxi Growth	Pop. Growth	Enrollment Growth	Credit Growth
Model	OLS	OLS	OLS	OLS	OLS	OLS	OLS
Famine Severity	-0.17	0.31	0.89	0.19	-0.24**	-0.20	0.26
(P-value)	(0.257)	(0.305)	(0.120)	(0.430)	(0.013)	(0.364)	(0.254)
Observations	99	99	98	98	99	98	99
Adj. R^2	0.003	0.001	0.015	-0.004	0.052	-0.001	0.003

Note: This table reports placebo tests for the famine severity instrument for wealth accumulation. The dependent variables are 9-year long growth rates of income, electricity use, industrial profits, number of taxis, population, elementary school enrollment, as well as bank credit at the city-level, during 2003-2012. The independent variable is famine severity, as measured by the abnormal loss of birth cohort size during 1959-1961 at the local level in the 1990 Census, following Meng, Qian and Yared (2015). Standard errors are clustered at the province level. ** indicates significance at the 5% level.