

Impact of parental resources on living standard potential

Education, home ownership and housing wealth in post-socialist China

Langyi Tian, Columbia University

Aug 2019

Landscape of wealth studies

- Wealth studies have moved from its "infancy" to "adolescence" since 2000
- Extensively studied in advanced societies (U.S., Sweden, Denmark, etc.) and developing societies with high degree of privatization and marketization (Chile, Mexico, India, etc.)
- Studies portrayed wealth's consequence (educational, occupational attainment, home ownership, etc.), process of wealth accumulations, ascribed traits as wealth determinants, etc.

China as a new observatory

- Post-socialist trajectory: double-digit economic boom and skyrocketing economic inequality
- Initial wave of wealth inequality and absence of gift/inheritance taxation
- Radical marketization and privatization of public welfare in housing, education, etc.
- The returns to capital start to exceed those to labor and capital is more mobile than labor

The impact of parental resources on children's living standard potential in Chinese society

- Indirect impact: education attainment as a proxy of human capital for labor market return
- Direct impact: home ownership and housing wealth as a proxy of stock economic resources

Data

- The China Health and Retirement Longitudinal Study (CHARLS), conducted by China Center for Economic Research at Peking University
- A nationally representative social survey on adults over 45 years old
- Variables constructed from information in 2013, 2014, 2015 wave
- Constructed child-father pairs of respondents and their children
- Focal point on children residing in city zone and rural-urban fringe
- Excluding children with dependence on parental household (co-residence or financial reliance on parents)

Profile of parents and children generation (mean and sd)

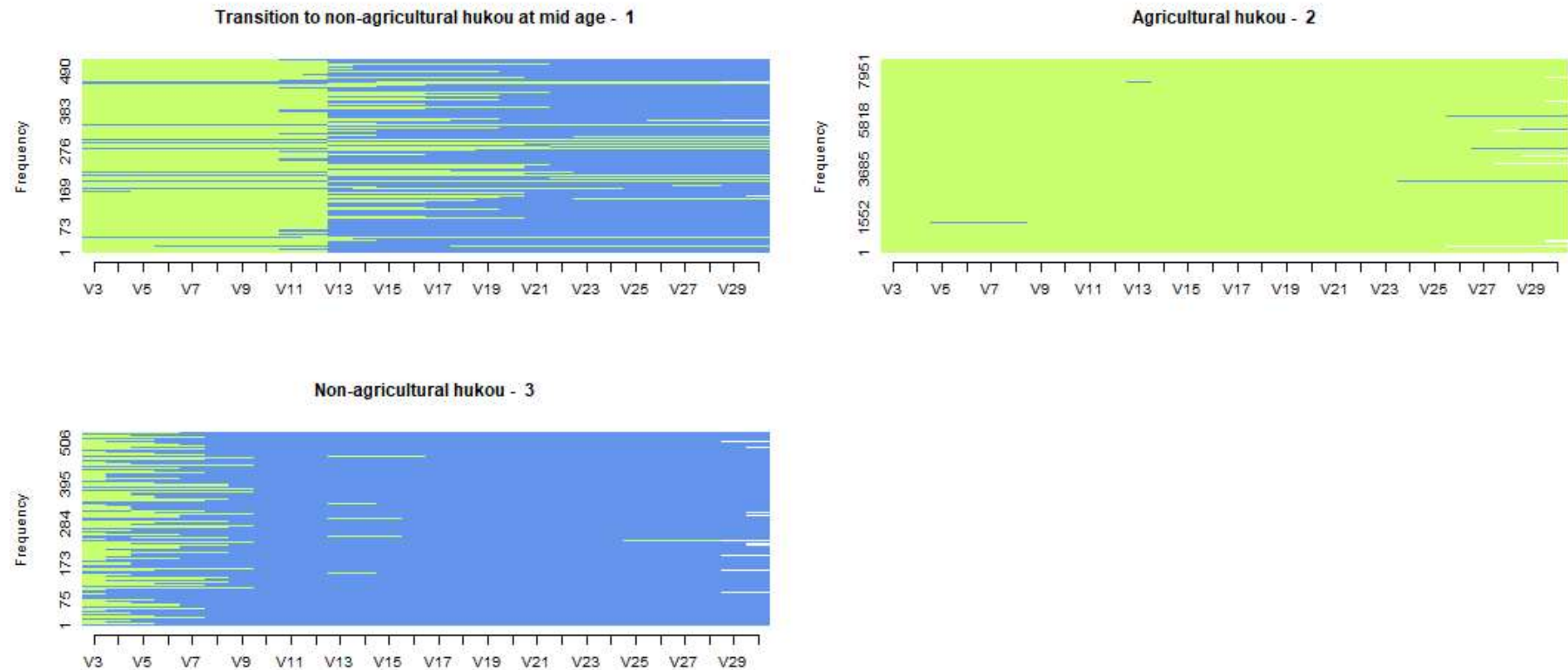
Children

- Average birth year 1980 (sd 6.7)
- Years of schooling 10.6 (4.1) yrs
- 8% only child
- 92% married
- 53% with urban hukou
- 15% with party membership
- 65% owns home
- Home value medians 320k among home owners

Fathers

- Average birth year 1951 (sd 8.6) yrs old
- Years of schooling 7.7 (4.1) yrs
- 35% residing in urban area, among whom 36% hold urban hukou
- 7% with party membership
- 81% owns residing home
- With different household registration/hukou and occupational trajectories
- Averaging ¥170k, housing asset as majority

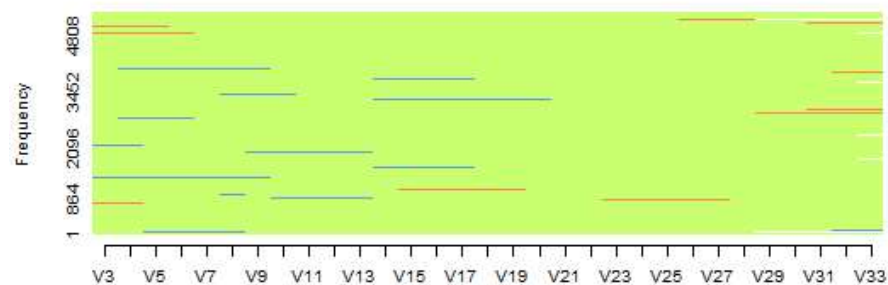
Father trajectory of hukou/household registration



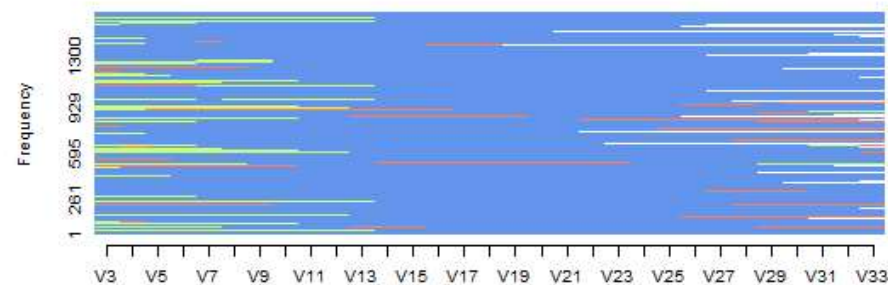
- Categories from K-means clustering of optimal matching sequences

Father trajectory of occupation

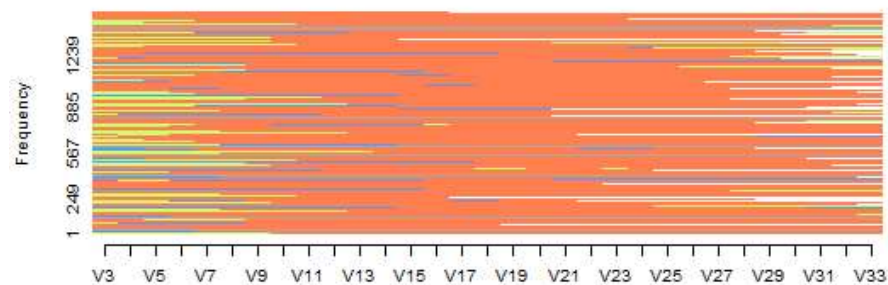
Agricultural employment - 1



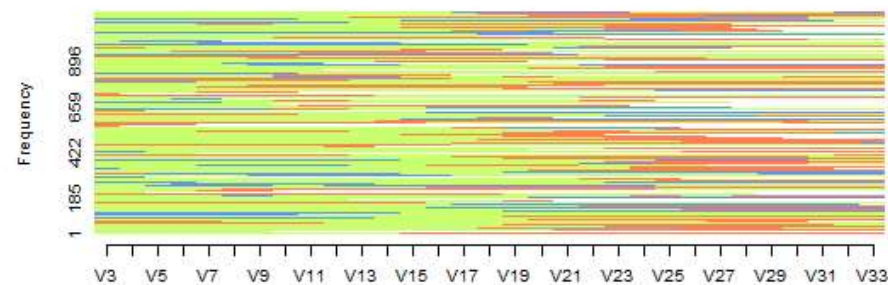
Government, public institution, SOE/within-the-system employment - 2



Private sector/outside-the-system employment - 3



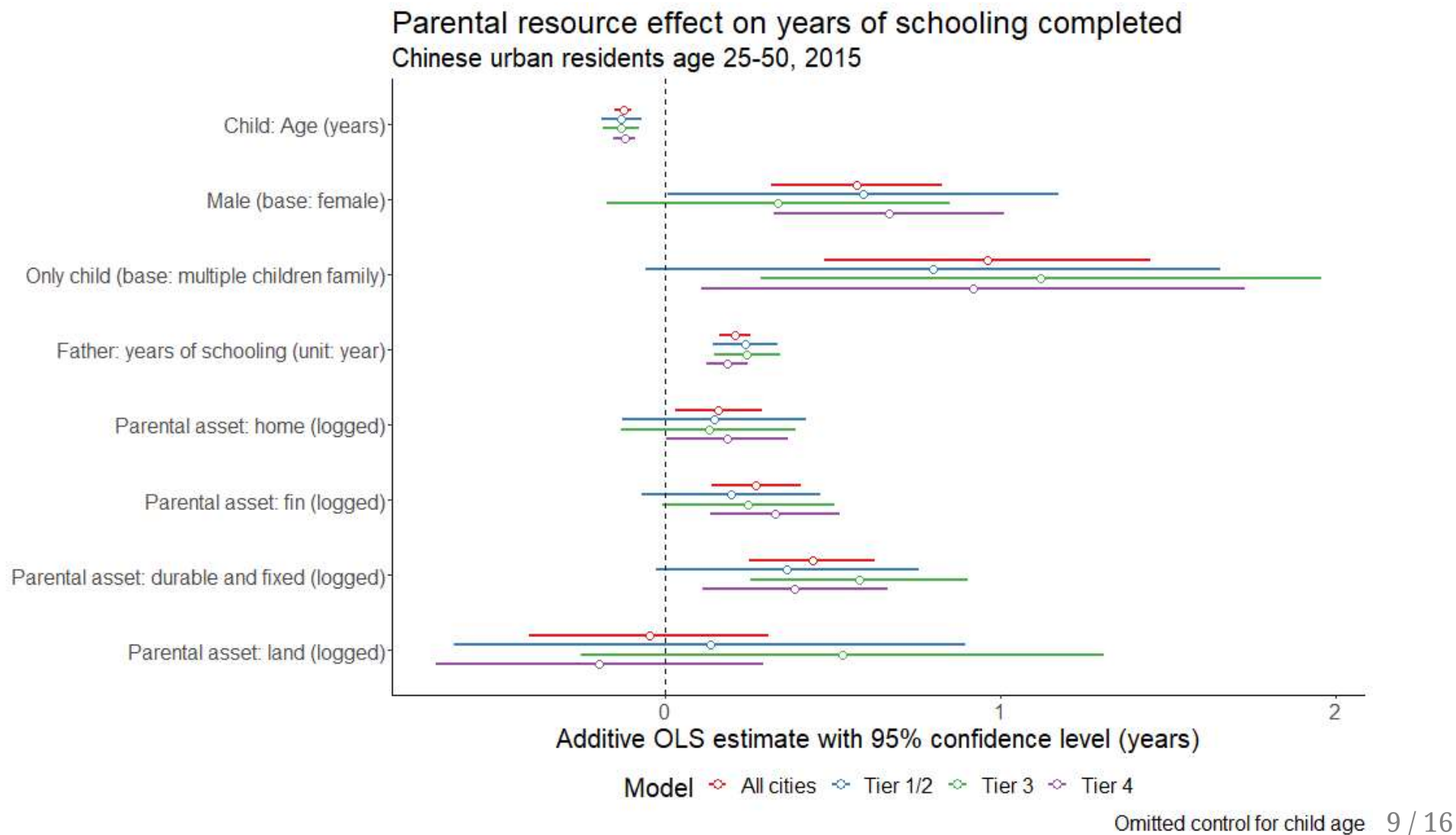
Mixed occupational trajectory - 4



- Categories from K-means clustering of optimal matching sequences

Education in China since reform

- Diploma credentials are crucial for labor market performance
- Universal primary and secondary education (9 yrs) basically achieved
- Radical expansion, privatization and stratification of tertiary education since 1999
- Evidence supporting Maximally Maintained Inequality (MMI) thesis



Linkage between wealth and education

- Different compositions of impact at different positions in wealth distribution
- Insurance mechanism: wealth mitigates the risks involved in decisions about specific educational transitions
- Purchasing mechanism: purchase of educational goods/services

Housing sector in urban China

- Used to serve as public welfare
- Radically privatized and marketized since 1990s ("Public housing into private assets")
- Expansion and appreciation over time contributed to much of present wealth inequality
- Linked with wealth, living standard (education/healthcare resources), labor force participation, class identity (gated community), etc.
- Qualitative studies in major cities show significant patterns of housing support from parental resources among middle class households

Parental household net Worth

- Averaging ¥170k, housing asset as majority
- Strong correlation with offspring housing wealth Home value of children homeowners averages 440k for parental households with net worth <160k; is 1,050k for parents holding >500k of net worth
- No direct relationship with offspring ownership rate. Potential reason: Possession of homes of different neighbourhood and location

home gift upon marriage

- Among home owners, 10% was gifted a home upon marriage
- The only child (36%) and male (23%) homeowners are much more likely to have received gifted home from parents than non-only child (10%) and female (2%) owners
- Average market value of gifted home is 230k (inflation unadjusted), significant considering median household income among children is between 30k and 50k
- Small difference between gifted homeowners (620k) and achieving homeowners (560k)

Summary of findings

- Higher stock of net worth from parents positively mediate educational attainment of offspring controlling other cultural, occupational and institutional advantages
- Some children, more likely male and only child, are gifted home by parents upon marriage, which significantly increases their chance to become homeowners
- Higher net worth of parents is also associated with higher home value holdings among children, net of the functioning of children's achieved status and other parental resources

Thoughts and forward

- Parental economic resources become more pronouncing, translating to indirect advantage of educational attainment for further building of better life chance and living standard, undermining education's role in facilitating equity and mobility
- More directly, by gift upon marriage and other inter vivo transfers, parental wealth facilitate home/asset ownership, strengthening intergenerational contract, improving children's living standard potential, and passing on accumulated economic resources
- The impact might expand if the opportunity structure in Chinese society continue to increasingly rewards more for human capital and economic power (while less for political capital and institutional advantage)
- Such transmission might constitute part of a chain from the political/institutional advantage at parental generation to the converted economic power, then to the persistence of it in the offspring
- The mechanism is embedded in the process of China's macro-structural social transformation in the past decades, which would reveal how the privileged manage to pass on their resources