

# The Economics of China

## Capital Accumulation, Private Property, and Rising Inequality in China, 1978–2015



Fall 2020

# Capital Accumulation, Private Property, and Rising Inequality

- In this lecture, we will use the authors' estimates to:
  - Go through the composition, ownership, and distribution/inequality of wealth in China.
  - Have a quick revisit to income inequality.
  - Answer the following question: How were the benefits of China's miracle growth distributed?

# Capital Accumulation, Private Property, and Rising Inequality

- Composition of Wealth in China
  - "Agricultural land used to account for almost one-half of total wealth in 1978; it now accounts for less than one-tenth".
  - The remaining 90% of wealth in China is composed of housing and other (mainly) domestic capital.
  - This includes things like "buildings, equipment, machinery, patents, etc.".

# Capital Accumulation, Private Property, and Rising Inequality

- Who Owns Wealth in China?

- Overall, "in 1978 about 70 percent of national wealth was public and 30 percent private".
- "In 2015 the proportion are reversed: 30 percent of national wealth is public and 70 percent private".
- "95 percent of the housing stock is now privately owned".
- For other domestic capital, ownership is now roughly split 50-50 between public and private.
- As for domestic equities (traded and non-traded), 60% was state owned, 30% privately owned, and 10% foreign owned in 2015.
- Land is still publicly owned but with "lease development rights" and "long-term leases" given to private "owners".

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- Public Ownership of Wealth in China, is it unprecedented?
  - Public Ownership of Wealth in China today is **somewhat comparable to what it was in the West from the 1950s to the 1980s.**
  - For example, "the government owned between 15 percent and 25 percent of national wealth in the United States, Japan, France, Germany, and Britain in the mid-1970s".
  - This included government ownership of large companies in banking and manufacturing in these countries.
  - However, today, public wealth in Western countries is small or negative.

# Capital Accumulation, Private Property, and Rising Inequality

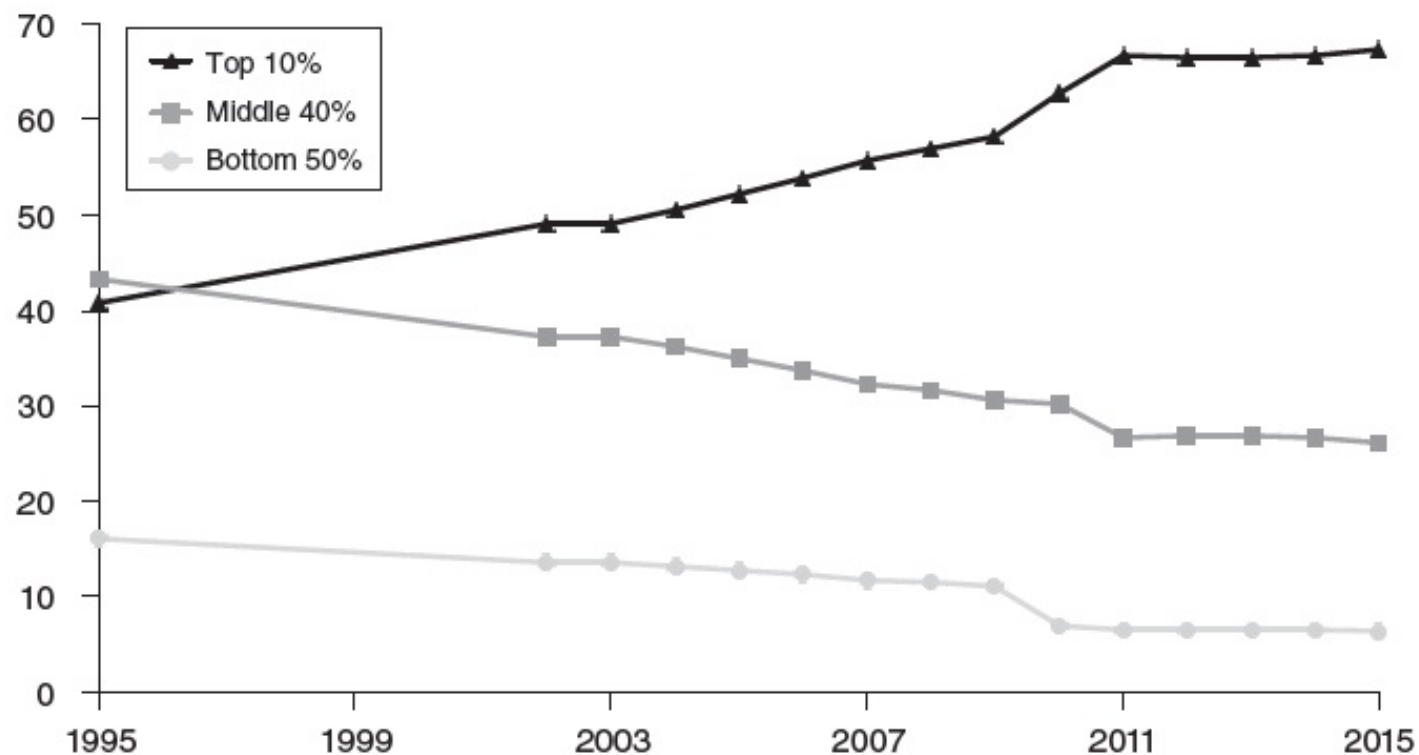
- Implications of Public Ownership of Wealth.
  - "The structure of national property has **implications for economic development**".
  - "The size of public property affects the State's ability to conduct industrial and regional development policy (sometime in an efficient way, sometime less so)".
  - "It also has potentially large **fiscal consequences**:"
    - "governments with negative net public wealth typically must pay large interest payments before they can finance public spending and welfare transfers",
    - "while those with large positive net public wealth can benefit from substantial capital income and finance more spending than what they levy in taxes.

# Capital Accumulation, Private Property, and Rising Inequality

- (Private) Wealth Inequality in China.
  - In 2015, "the top 10 percent share is 67 percent for wealth".
  - This is close to the US (72 percent) and higher than France (50 percent).
  - This number was 40 percent in 1995 in China.
  - **"The top 0.001 percent alone owns 5.8 percent of total wealth, about as much as the bottom 50 percent (the 531 million poorest adults)".**

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Panel A. Wealth inequality in China, 1995–2015 (%)





# Capital Accumulation, Private Property, and Rising Inequality

- What about Income Inequality in China?
  - In 2015, according to the authors' estimates:
  - **The income share of the bottom 50 percent (more than 500 million people) was around 15%.**
  - The income share of the middle 40 percent was around 44%.
  - The income share of the top 10 percent was around 41%.
  - Within the top group, **the income share of the top 1 percent was around 14% of national income.**
  - "According to our series, most of the increase in top income shares took place between 1980 and 2006".
  - "Income inequality appears to have stabilized since then".

# Capital Accumulation, Private Property, and Rising Inequality

- Conclusion: How were the benefits of miracle growth distributed?
  - "Miracle Growth" of the Chinese economy meant that "average per adult national income has been multiplied by more than 9 in China", between 1978 and 2015.
  - However, **"growth accruing to the bottom 50 percent has been smaller than macro growth, while growth accruing to the top ...has been larger"**.
  - So, while for the bottom 50 percent "average income was multiplied by more than 5 in real terms between 1978 and 2015"; "average income for the top 0.001 percent has been multiplied by more than 26".

# Capital Accumulation, Private Property, and Rising Inequality

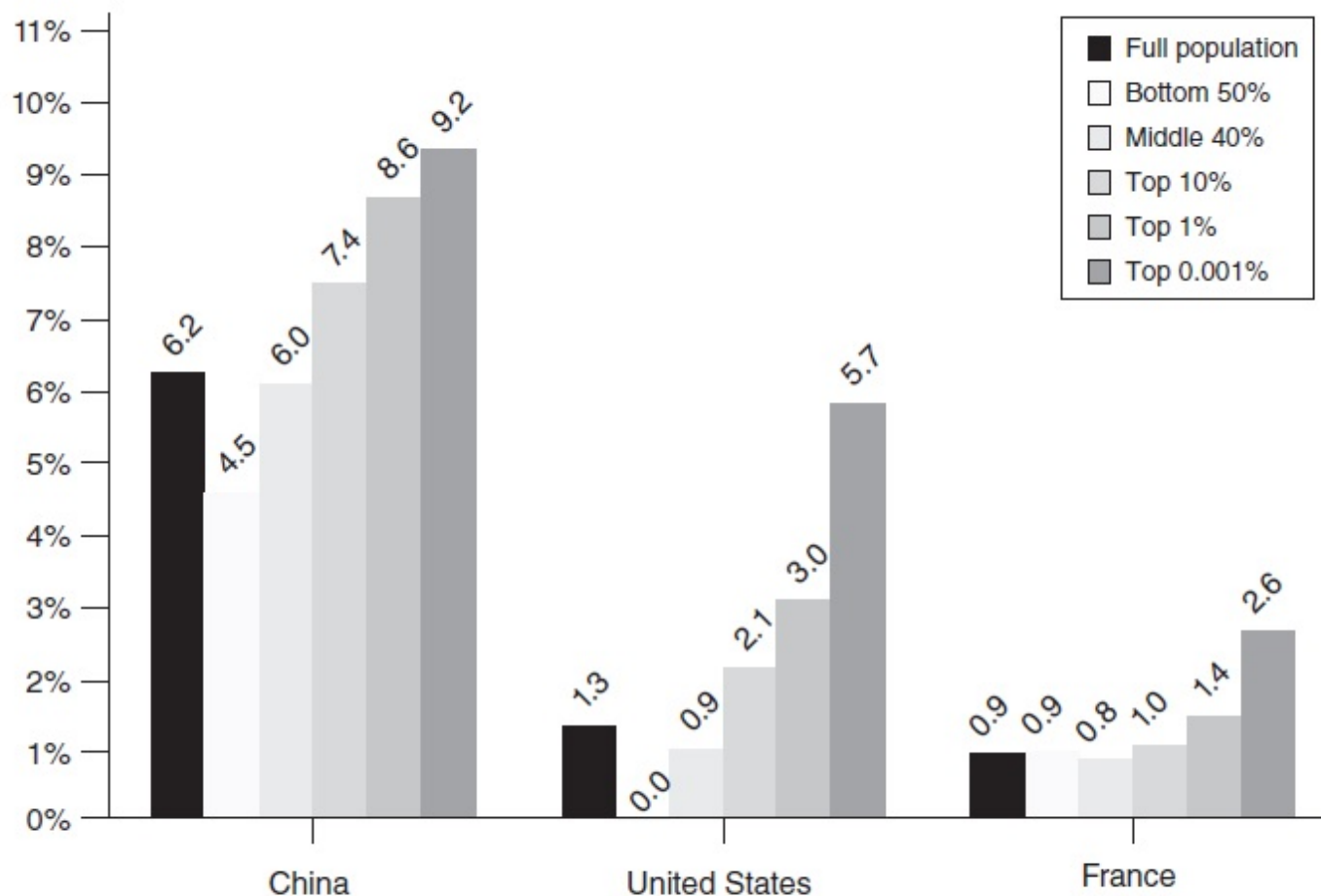


FIGURE 9. AVERAGE ANNUAL GROWTH RATE OF REAL PER ADULT PRE-TAX NATIONAL INCOME, 1978–2015