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CAPITAL ACCUMULATION, PRIVATE PROPERTY AND RISING INEQUALITY  
IN CHINA, 1978-2015

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### **ABSTRACT**

This paper combines national accounts, survey, wealth and fiscal data (including recently released tax data on high-income taxpayers) in order to provide consistent series on the accumulation and distribution of income and wealth in China over the 1978-2015 period. We find that the aggregate national wealth-income ratio has increased from 350% in 1978 to 700% in 2015. This can be accounted for by a combination of high saving and investment rates and a gradual rise in relative asset prices, reflecting changes in the legal system of property. The share of public property in national wealth has declined from about 70% in 1978 to 30% in 2015, which is still a lot higher than in rich countries (close to 0% or negative). Next, we provide sharp upward revision of official inequality estimates. The top 10% income share rose from 27% to 41% of national income between 1978 and 2015, while the bottom 50% share dropped from 27% to 15%. China's inequality levels used to be close to Nordic countries and are now approaching U.S. levels.

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A data appendix is available at <http://www.nber.org/data-appendix/w23368>  
A Code and raw files is available at <http://piketty.pse.ens.fr/files/PYZ2017MainFiles.zip>

## **Section 1. Introduction**

Between 1978 and 2015, China has moved from a poor, underdeveloped country to the world's leading emerging economy. Despite the decline in its share of world population, China's share of world GDP increased from less than 3% in 1978 to 20% in 2015 (Figure 1). According to official statistics, real per adult national income was multiplied by more than 8. While average adult national income (expressed in 2015 euros) was about €120 per month in 1978, it exceeded €1,000 per month in 2015 (Figure 2).<sup>1</sup>

Unfortunately, relatively little is known about how the distribution of income and wealth within China has changed over this critical period. That is, we do not have consistent estimates of the extent to which the different income and wealth groups have benefited (or not) from the enormous Chinese macroeconomic growth. The household surveys that are used to study distributional issues in China suffer from massive under-reporting, particularly at the top of the distribution, and are typically not consistent with the data sources that are used to measure macro growth (namely, national accounts). This is an issue of tremendous importance not only for China and its future development path, but also for the rest of the world and the social sustainability of globalization.

In this paper, we combine and confront several data sources—national accounts, surveys, wealth rankings, and tax data, including recently released income tax data covering high earners—to provide consistent series on the accumulation and

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<sup>1</sup> Annual per adult national income rose from less than 6,500 yuans in 1978 to over 57,800 yuans in 2015, i.e., from about 1,400 euros in 1978 to about 12,500 euros in 2015 (these amounts are expressed in 2015 yuans and euros using the latest purchasing power parity estimates).

distribution of income and wealth in China over the 1978-2015 period. We make two main contributions.

First, we combine official and non-official sources (including independent estimates of China's balance sheets) to provide the first systematic estimates of the level and structure of China's national wealth since the beginning of the market reform process. We find that the national wealth-income ratio has increased from 350% in 1978 to 700% in 2015. This increase can be explained by a combination of high saving rates and a gradual rise in relative asset prices, partly reflecting changes in the legal system of property. The share of public property in national wealth has declined from about 70% in 1978 to about 30% in 2015. More than 95% of the housing stock is now owned by private households, as compared to about 50% in 1978. Chinese corporations, however, are still predominantly publicly owned: close to 60% of Chinese equities belong to the government (with a small but significant rebound since 2009), 30% to private Chinese owners, and 10% to foreigners—less than in the United States, and much less than in Europe.

In brief: China has moved a long way toward private property between 1978 and 2015, but its property regime is still markedly different than in other parts of the world. China has ceased to be communist, but is not entirely capitalist; it should rather be viewed as a mixed economy with strong public ownership. The share of public property in China today (30%) is higher than in the West during the mixed economy regime of the post-World War 2 decades (around 15%-25%), although not hugely so. And while the share of public property in national wealth has declined to 0% or even less than 0% in Western countries (with public debt exceeding public assets in

the United States, Britain, Japan, and Italy today), the public share in China seems to have strengthened since the 2008 financial crisis. These findings are not completely unexpected, but we feel that it is important to be able to put numbers on these evolutions. By constructing comparable series on the structure of national wealth, we can better monitor and analyze the diversity of property structures over time and across countries.

Our second contribution is to combine recently released tax data on high-income individuals with household surveys and national accounts to provide new estimates of income inequality. To our knowledge, it is the first time that tax data on high earners are used to estimate income inequality in China.<sup>2</sup> An income tax has been in place since 1980, but until recently no detailed tax statistics were available, so that scholars had to rely on household surveys based upon self-reported information. In 2006, the Chinese tax administration started to release data on the numbers of high-income individuals (i.e., with individual annual taxable income above 120,000 yuans) and their incomes. We should make clear that this data is imperfect; our revised estimates might well under-estimate inequality and our top income shares should be viewed as lower bounds. What is interesting, however, is that even these lower bounds are already a lot larger than official survey-based estimates. For recent years, we find top 10% income shares around 41% of total income (as opposed to 31% in surveys), and top 1% income shares around 14% of total income (as opposed to 6.5% in surveys). According to our series, the top 10% income share rose from 27% to 41% of national income between 1978 and 2015, while the bottom 50% share

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<sup>2</sup> Previous work on income inequality in China was almost entirely based upon household surveys. See, e.g., Piketty and Qian (2009), Benjamin et al. (2005, 2008), Chi et al. (2011), Chi (2012), Gustafsson et al. (2008a, 2008b), Khan and Riskin (2008, 2005), Knight et al. (2016), Knight (2014), Li, Sato and Sicular (2013), and Xie et al. (2015, 2013).

fell from 27% to 15%. The urban-rural gap increased, but income concentration rose a lot within both urban and rural China.

In effect, China's inequality levels used to be less than European average levels in the late 1970s—close to those observed in the most egalitarian Nordic countries—while they are now approaching U.S. levels. Despite this rise, inequality in China remains significantly lower than in the United States today. The bottom 50% earns about 15% of total income in China versus 12% in the U.S. and 22% in France. For the time being, China's development model appears to be more egalitarian than that of the United States, and less than Europe's. Chinese inequality seems to have stabilized in recent years, as the biggest increase took place between the mid-1980s and the mid-2000s.

We also provide estimates of wealth inequality for the 1995-2016 period by combining wealth surveys with data from the annual Hurun wealth rankings that cover the wealthiest Chinese households. Consistent with the trend for income inequality, wealth concentration has sharply increased too. The Chinese top 10% wealth share (67% in 2015) is getting close to that of the United States (72%) and is much higher than in a country like France (50%).

Although our new series on income and wealth in China are more homogenous and comparable than previous attempts, we stress that they still have the potential to be further improved as new data sources become available and better methods are designed. All the series presented in this paper are available online on the World Wealth and Income Database (<http://WID.world>); updated series will be posted there.

Our paper is part of a broader international project aimed at producing distributional national accounts. The objective is to combine national accounts, surveys, and tax data in a systematic manner to produce inequality series that are homogenous and can be used to compare inequality across countries in a consistent way—in the same manner as GDP can be used to compare the macroeconomic performances of countries.<sup>3</sup>

The rest of this paper is organized as follows. In section 2 we describe our main data sources, concepts, and methodology. Section 3 presents our results on the evolution of aggregate wealth-income ratios and compare the findings to other countries. In section 4 we present our results on the evolution of income and wealth inequality, which we also compare to other countries. Section 5 provides concluding comments. This paper is supplemented by an extensive online Appendix that includes all our raw data sources and computer codes and presents additional robustness checks.<sup>4</sup>

## **Section 2. Data Sources, Concepts and Methodology**

This paper relies on five types of data sources: national income and wealth macro accounts, household income surveys, income tax data, household wealth surveys, and wealth rankings. We start by describing the macro data sources, and then proceed with distributional data. Our concepts and methods generally follow those described in the Distributional National Accounts guidelines used for the World

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<sup>3</sup> Piketty, Saez and Zucman (2016) construct distributional national accounts for the United States, and Garbinti, Goupille and Piketty (2017) for France. These and the present Chinese series all follow the same guidelines (see Alvaredo et al., 2016). New and updated series will be regularly made available on-line on the World Wealth and Income Database (WID.world).

<sup>4</sup> The data appendix available online at <http://piketty.pse.ens.fr/en/>, <http://gabriel-zucman.eu/china>, and <http://WID.world>

Wealth and Income Database (Alvaredo et al., 2016). In this section, we focus on the main conceptual and empirical issues; complete methodological details are provided in the online Appendix.

### Section 2.1. National income and wealth series

We first provide consistent macro series for national income, national wealth, and their components from 1978 to 2015. To establish these series, we follow the U.N. System of National Accounts (SNA, 2008) conceptual framework and the definitions used by Piketty and Zucman (2014), Piketty (2014), and Alvaredo et al. (2016).

#### Section 2.1.1. Basic conceptual framework

National income  $Y_t$  is defined in the standard manner as GDP minus capital depreciation plus net foreign income. Private wealth  $W_t$  is defined as the total value of assets owned by households and non-profit institutions, net of debts.<sup>5</sup>

Following the SNA, assets include all the non-financial (i.e., real) assets—housing, land, buildings, machines, intellectual property etc.—and financial assets—including life insurance and pensions funds—over which ownership rights can be enforced and that provide economic benefits to their owners. Pay-as-you-go Social Security pension wealth is excluded, just like all other claims on future government expenditures and transfers. Durable goods owned by households, such as cars and furniture, are excluded from wealth as well. Non-financial assets are the only “real”

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<sup>5</sup> At this stage, Chinese data sources do not allow to decompose private wealth into personal wealth (households) and non-profit wealth (non-profit institutions, usually a relatively small part of private wealth), so we only provide series for aggregate private wealth (personal plus non-profit).



assets, in the sense that financial assets and liabilities balance each other at the world level and do not contribute to global net wealth. As a rule, all assets and liabilities are valued at their prevailing market prices. Corporations are included in private wealth through the market value of equities owned by households. Unquoted shares are typically valued based on observed market prices for comparable, publicly traded companies.

We similarly define public (or government) wealth  $W_{gt}$  as the net wealth of public administrations and government agencies. In available balance sheets, public non-financial assets like administrative buildings, schools and hospitals are valued by cumulating past investment flows and upgrading them using observed real estate prices. We define market-value national wealth  $W_{nt}$  as the sum of private and public wealth:  $W_{nt} = W_t + W_{gt}$ . National wealth can also be decomposed into domestic capital and net foreign assets:  $W_{nt} = K_t + NFA_t$ . Domestic capital  $K_t$  can in turn be decomposed as the sum of agricultural land, housing, and 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).

While these definitions are standard, two remarks are in order when applying them to China. First, the notions of private and public property do not exactly have the same meaning in China as in developed capitalist countries. The private property of agricultural land (and other agricultural equipment and assets) is relatively unsecure in China. Individual owners have land use rights that can be transmitted to their children as long as they stay in the countryside (more precisely, as long they keep their rural Hukou), but lose all rights to the land in case they move permanently to the

cities (their land is then returned to the local government and allocated to other individuals).<sup>6</sup> In order to reflect this semi-private, semi-public form of ownership, and the fact that the rights of private owners have gradually increased over time (both land use and transmission rights were gradually extended in the 1980s and 1990s), we assume that the public property share in agricultural gradually declined from 70% in 1978 to 40% in 2015. We also show how our results would be affected if we were to use other private-public splitting rules (see section 3 below). As we shall see, this has a relatively limited impact on our main findings.

Second, corporations cannot be valued at their prevailing market price when no stock market exists, which was the case between 1949 and 1990. An alternative measure of the wealth of corporations is the value of corporate assets (net of non-equity liabilities), what we call the corporations' book value. By definition, corporations' book and market values are the same when Tobin's  $Q$ —the ratio between market and book values—is equal to one. Chinese Tobin's  $Q$  ratios display significant time variation after 1993; they fall, for instance, after the 2008 crisis. But overall, they appear to be close to 1. In effect, they seem to be closer to U.S. and U.K. levels, where  $Q$  ratios are close to 1 and sometime higher to 1, than to Japanese, German or French levels, where  $Q$  ratios are typically in the 0.5–0.8 range (Piketty and Zucman, 2014).

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<sup>6</sup> There are two type of Hukou (residence registrations): agriculture Hukou (in rural China) and non-agriculture Hukou (in urban China). People with agriculture Hukou from rural China can keep their agriculture Hukou even when they are working in the cities, and in this way they are still entitled to their lands. They can also choose to change their Hukou to a non-agriculture Hukou (city Hukou), provided they are working in the city and satisfy the requirements of the Hukou change process (for example, having worked more than a certain number of years in the city), which give them access to various other rights (access to certain schools and public services for their family, etc.). After they change their Hukou, they lose their lands in their village. Because the price of land has increased quickly in the last 20 years, agriculture Hukou has become more valuable, and some migrant city workers prefer to keep their agriculture Hukou, even if it restricts their access to other rights. It is almost impossible to change Hukou from non-agriculture to agriculture.

Before 1993, when no estimates of the market value of Chinese corporate equities exist, we compute the value of Chinese corporations by assuming that Tobin's  $Q$  is equal to 1. In the online Appendix, we also report comprehensive series of national wealth where corporations are valued at their book value instead of market prices throughout the 1978–2016 period—what we call book-value national wealth.<sup>7</sup> Because Tobin's  $Q$  is usually close to 1 after 1993, book- and market-value national wealth are usually similar. In the rest of the paper we focus on market-value series.

### Section 2.1.2. Data sources for China's national income and wealth

There exists a relatively long tradition of national accounts in China.<sup>8</sup> For the recent period, we use official national accounts (described below) that comply with the latest international guidelines (SNA, 1993, 2008). Before 1992, Chinese national accounts were based on the Material Planning System. We have homogenized these data by using the same concepts and definitions as in the most recent official accounts.<sup>9</sup> The basic sources for income and output are China's Statistical Yearbook and Compendium of Statistics, available since 1949. These sources allow us to provide annual series of national income and its components over the 1978-2015 period.

There is considerable debate about whether and by how much official Chinese statistics overstate income growth. Young (2003) provides a careful treatment of this

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<sup>7</sup> That is, we define book-value national wealth  $W_{bt}$  as the sum of market-value national wealth and residual corporate wealth:  $W_{bt} = W_{nt} + W_{ct} = W_t + W_{gt} + W_{ct}$ . Residual corporate wealth  $W_{ct}$  is the difference between the book-value of corporations and their market value (the value of their equities). By definition,  $W_{ct}$  is equal to zero when Tobin's  $Q$  is equal to 1.

<sup>8</sup> The first estimation of China's national income was made by Wu Baosan (1947), who provides estimates of national income for the 1930s with detailed sectoral breakdown. Liu-Yeh (1965) estimates national income for the 1933-1959 period and Rawski (1989) for the 1913-1945 period. Since we begin our series in 1978 we do not use this work.

<sup>9</sup> See Appendix Section A.

issue, making systematic downward corrections to Chinese growth by re-estimating the GDP deflator using official statistics. We follow his methodology and replicate his corrections. In addition, we slightly increase the level of GDP by imputing positive housing rental income in GDP, which is not currently done in the official Chinese national accounts. After these corrections, our real GDP growth rate lies in between the official GDP growth rate and the conservative estimate of Maddison and Wu (2008); it is closer to Maddison and Wu's.<sup>10</sup>

As for national wealth, there exists an early attempt by Chow (1993) to document capital formation in China. Chow, however, does not provide a complete balance sheet; it is impossible to fully study the division between public and private property, the role of asset prices, and the importance of land using his series. We rely instead on official and non-official independent estimates of China's balance sheets. The National Bureau of Statistics (NBS) has compiled national balance sheets since 1997, but the data have not been published so far. Official series on the stock of fixed assets, however, are available. In addition to these official series, several recent academic studies attempt to construct the national balance sheet of China. The most detailed attempts are those of Ma et al. (2012), Cao et al. (2012), and Li et al. (2013, 2015).

We start with Ma et al. (2012), Yang et al. (2013, 2015), and the official fixed asset estimates, and apply adjustments to ensure homogeneity and comparability with developed countries' balance sheets. Available data sources before 1993 are relatively limited, so we choose to begin our annual series in 1993, and we provide

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<sup>10</sup> See Appendix Section A.21 for a thorough discussion of this issue.

two separate estimates for 1978 and 1985. We include new estimates for the value of agricultural land and housing for 1978, 1985, and 1993-2015, and we adjust the value of agricultural land to take into account the semi-private nature of rural assets (see section 2.1.1. above). All computations and adjustments made to the raw national balance sheet data are discussed in detail in the Appendix Section A.1.

## Section 2.2. Series on income and wealth distribution in China

### Section 2.2.1. Income distribution series

We construct our income distribution series by combining national accounts, income surveys, wealth data (surveys and wealth rankings), and tax data. We proceed in three steps: we start from household income surveys, which we correct using income tax data on high-income individuals. We then use national accounts and wealth data to impute tax-exempt capital income. All corresponding computer code is provided online, and complete methodological details and extensive robustness checks are discussed in the online Appendix Section B.

**Step 1.** We start from the large, nationally representative household surveys conducted each year in rural and urban areas by China's Statistical Bureau (CSB).<sup>11</sup> The micro-files from these surveys are not accessible, but CSB publishes tabulations using many income brackets and detailed information about income categories (wages, pension and other replacement income, business, and capital income) and

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<sup>11</sup> The sample size has varied between 10 000 households (for older surveys) and 50 000 households (in recent surveys) per year in both the rural and the urban survey.

household size. We use all the annual tabulations from 1978 to 2015 for both the rural and the urban surveys.<sup>12</sup>

Using the generalized Pareto interpolation techniques developed by Blanchet, Fournier and Piketty (2017), we estimate the full distribution of income separately for rural China, urban China, and China as a whole. We express the distributions in terms of generalized percentiles (or g-percentiles). There are 127 g-percentiles: 99 for the bottom 99 percentiles, 9 for the bottom 9 tenth-of-percentiles of the top percentile, 9 for the bottom 9 one-hundredth-of-percentiles of the top tenth-of-percentile, and 10 for the 10 one-thousandth-of-percentile of the top one-hundredth-of-percentile.

The survey income concept that we use is pre-tax, post-replacement income. That is, pension income (and other replacement income such as unemployment insurance) is included in income, while pension contributions (and other social contributions financing replacement income flows) are deducted.<sup>13</sup> The unit of observation is the adult individual, with income equally split between household members. That is, we are interested in the distribution of per-adult income and divide household income by the number of adults in each household.<sup>14</sup>

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<sup>12</sup> Note that these surveys have been conducted by CSB since the early 1950s, and that the 1950-1978 tabulations could also be used using the same methods. The data suggests that income inequality during the 1950s-1970s (as measured by these surveys) was relatively stable at very low levels (close to the levels that we observe in 1978, which are indeed extremely low by historical and international standards).

<sup>13</sup> This is similar to the pre-tax national concept defined in Alvaredo et al. (2016) (and stands in contrast to pre-tax factor income, which treats pension and other replacement income on a contribution basis rather than a distribution basis), except of course that survey data miss important components of national income, especially among top income earners, hence the corrections described below.

<sup>14</sup> This is the same equal-split adult concept as that used in distributional national accounts series recently constructed for the United States (Piketty, Saez and Zucman, 2016) and France (Garbinti, Goupille and Piketty, 2017), except that the equal-split operation is done at the household level in China rather than at the tax-unit level (married couples) in the United States and France. This implies

**Step 2.** We then correct the top of the distribution of survey income by using income tax data. A progressive income tax has been in place since 1980. Until recently, however, the Chinese tax administration did not release detailed income tax statistics: the only information available was the aggregate income tax revenue, sometime with a breakdown by income sources, but not by income bracket. In the absence of better data, Piketty and Qian (2009) used household surveys and the income tax law to simulate theoretical income tax revenues, and found that simulated revenues were smaller than observed revenues—suggesting that top incomes are under-reported in surveys, in line with what is usually found in other countries.<sup>15</sup>

In 2006, the Chinese tax administration issued a circular requiring all taxpayers with individual taxable income above 120,000 yuans to file a special declaration, and it started to release the number of such taxpayers and their taxable incomes.<sup>16</sup> These new fiscal statistics on high earners were released annually at the national level from 2006 to 2010, but the publication was interrupted in 2011. The circular, however, still applies today, and for income years 2011 to 2015 publication of the data continued at

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that we probably somewhat underestimate inequality in China as compared to the United States and France (i.e., we impose more intra-household redistribution than for the United States and France). Note also that the raw household survey tabulations that we use are based on per-capita household income (total income divided by the number of adults and children), which we correct by assuming the same adults/children ratio for all brackets. If high earners have fewer children than average, we slightly under-estimate inequality. Finally, note also that the top decile household income shares reported by Piketty and Qian (2009) for China over the 1986-2003 period do not control at all for household size, which explains why they are significantly higher (2-3 points) than the (uncorrected) top decile household income shares reported here (which are based upon per adult income).

<sup>15</sup> See also Xu and Yue (2013), who combine urban household surveys, tax legislation and aggregate tax revenues to simulate the redistributive impact of China's income tax.

<sup>16</sup> Per the circular, taxable income is defined the sum of wage income, business income, and taxable capital income, minus deductions (which can be estimated to represent on average about 20% of pre-deduction fiscal income, so that the taxable income threshold of 120,000 yuans corresponds to a fiscal income threshold of about 150,000 yuans). China's income tax is a three-part system, in the sense that wage income, business income and capital income are taxed separately (wage income is taxed at progressive rates going from 0% to 45%; business income at progressive rates from 0% to 35%; capital income at a flat rate of usually 20%), so that total taxable income does not usually need to be declared, except in the context of the 2006 circular. The objective of the circular was to improve tax collection and to fight corruption.

the provincial level (sometime with additional information on taxpayers with incomes above 500,000 yuans and 1 million yuans). We collected these provincial tabulations, which together provide useful information about top incomes, even though not all provinces have been covered since 2011. Taxpayers reporting over 120,000 yuans in taxable income represent roughly the top 0.5% of the urban adult population at the national level between 2006 and 2010 (less than 0.4% in 2006, over 0.6% in 2010).<sup>17</sup>

Although the fiscal data is imperfect (and should probably be seen as providing a lower bound for actual inequality), the interesting point is that the fiscal incomes reported by this top 0.5% group are already substantially larger than the levels observed for the top 0.5% in the urban household survey. During the 2006–2010 period, the ratios between fiscal and survey incomes fall in the 1.3–1.6 range if we look at the quantile function  $q(p)$  (i.e., the income threshold  $q(p)$  corresponding to percentile  $p = 0.995$ ) and in the 2.5–3 range when we look at the upper incomes  $y(p)$  (i.e., the average income  $y(p)$  above percentile  $p = 0.995$ ). In other words, top incomes are massively underestimated in surveys.<sup>18</sup>

Our benchmark correction is based upon the following assumption: the survey data is reliable below percentile  $p_1 = 0.8$ , the fiscal data is reliable above  $p_2 = 0.995$ , and we assume that the quantile ratio upgrade factor  $f(p)$  rises piecewise-linearly from  $f(p_1) = 1$  to the observed fiscal/survey ratio  $f(p_2)$  between  $p_1$  and  $p_2$ , so as to generate a smooth and convex Pareto curve (see Blanchet, Fournier and Piketty 2017). We

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<sup>17</sup> The absolute number of high-income taxpayers rises from about 1.6 million in 2006 to 3.1 million in 2010. We compare this number to the total urban population (rather than the total Chinese population) because rural incomes are much lower than urban incomes (hence much less likely to meet the 120,000 yuans threshold), and because agricultural income is entirely exempt from the income tax, which in effect should be viewed as an urban income tax.

<sup>18</sup> In particular, the inverted Pareto coefficient  $b(p) = y(p) / q(p)$  is as low as 1.5 or less in the survey, as opposed to 2.5–3 or more in the tax data.



then apply generalized Pareto interpolation techniques to the corrected tabulations to obtain the full distribution of fiscal income among equal-split adults in urban and rural China, by generalized percentiles, each year from 1978 to 2015.<sup>19</sup> We also provide several variants based upon different piecewise-linear profiles for the upgrade factor between  $f(p_1)$  and  $f(p_2)$ . As shown in Appendix Section B.1, this has a relatively limited impact on the results.<sup>20</sup>

**Step 3.** Finally, we correct our fiscal income series to take into account tax-exempt capital income and estimate the distribution of total pre-tax national income. Important components of capital income are missing from fiscal income data, even in the absence of any tax evasion. First and most importantly, the undistributed profits of privately-owned corporations are not included in fiscal income subject to the income tax in China (nor in most other countries). It is important to correct for this, because the extent to which private shareholders choose to accumulate wealth in the form of undistributed profits (as opposed to dividends and other forms of capital payments such as shares buybacks) may well vary over time and across countries (e.g., due to changing tax incentives), which might introduce biases in inequality

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<sup>19</sup> In the absence of any other information, we choose to apply the average profile of upgrade factors  $f(p)$  between  $p_1 = 0.9$  and  $p_2 = 0.995$  estimated for the 2006-2010 period to all years of the period 1978-2005. This assumption is further justified by the absence of any clear trend in the observed/simulated income tax revenue ratios computed by Piketty and Qian (2009) over the 1986-2003 period. We also choose to apply this same average profile of upgrade factors for all years of the period 2011-2015, as available provincial data on high-income taxpayers suggest that there is no clear trend in the magnitude of the downward bias in the survey. The online appendix section B.1 presents and discusses several robustness checks and alternative assumptions and specifications.

<sup>20</sup> One should note that the Chinese high-income tax data is entirely based upon individual incomes. This corresponds to equal-split income (in the sense of U.S. or French tax data) only if we assume that all high-income taxpayers are either single or married to other high-income taxpayers, which strictly speaking cannot be true. This implies that our estimates tend to over-estimate inequality as compared to the equal-split benchmark, and to under-estimate inequality as compare to the individualistic benchmark (where each spouse is assigned his or her own income). If we obtain access to micro-level Chinese tax data, we will be able to refine this analysis and compute separate equal-split and individualistic series.

statistics, particularly at the top of the distribution. The other main form of tax-exempt capital income is owner-occupied housing rents. We proceed as follows.

First, using the national accounts we estimate the evolution of total non-fiscal capital income  $y_{nf}$ , which we define as the private share of undistributed profits and other tax-exempt capital income (including imputed housing rents) accruing to Chinese households. We find that  $y_{nf}$  gradually rises from less than 5% of per adult national income to as much as 15% over the 1978-2015 period (with a peak in 2007, and a decline to about 11-12% in recent years), largely due to the rise of private corporate ownership and private housing. In contrast, total fiscal income  $y_f$  (i.e., total income subject to the income tax, before any deduction) represents approximately 70% of national income throughout the 1978–2015 period.<sup>21</sup> To estimate the distribution of personal income  $y_p = y_f + y_{nf}$ , we need to make an assumption about the distribution of  $y_{nf}$  and the correlation between  $y_f$  and  $y_{nf}$ . We assume that  $y_{nf}$  follows the same distribution as wealth, which we estimate by applying generalized Pareto interpolation techniques to household wealth surveys and wealth rankings (see section 2.2.2 below).<sup>22</sup> As for the correlation structure between  $y_f$  and  $y_{nf}$ , on the basis of estimates obtained in countries with adequate micro-files (namely, the United States and France, see Blanchet, Fournier and Piketty, 2017), we use the family of Gumbel copulas, with Gumbel parameter  $\theta = 3$ .<sup>23</sup>

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<sup>21</sup> See the online Appendix Section B. In effect, we break down national income  $y$  as  $y = y_f + y_{nf} + y_g$ , with  $y_g$  = government net capital income (including the government's share of undistributed profits) + indirect taxes (net production taxes) received by the government.

<sup>22</sup> The distribution of corporate equity is more concentrated than the distribution of wealth in general, so this assumption may lead us to under-estimate the concentration of non-fiscal income  $y_{nf}$ . Note also that we do not have complete annual estimates for the distribution of wealth (see below), so for missing years we use linear interpolations. Given that the aggregate value of  $y_{nf}$  is small as compared to  $y_f$ , the total impact of these simplifying assumptions on the distribution of  $y_p = y_f + y_{nf}$  is relatively small, as we show in robustness checks and alternative series presented in Appendix Section B.1.

<sup>23</sup> A Gumbel parameter  $\theta = 1$  corresponds to perfect independence, and  $\theta = +\infty$  to perfect correlation. In the online Appendix Section B.1, we show that assuming Gumbel parameters in the 2–4 range

Finally, we apply a proportional upgrade factor to transform the distribution of personal income  $y_p = y_f + y_{nf}$  into the distribution of national income  $y$ . By construction this has no impact on income shares. The goal of this normalization is to ensure that total individual incomes add up to national income, so as to make the levels of income comparable across countries.<sup>24</sup>

### Section 2.2.2. Wealth distribution series

The raw data sources at our disposal to measure the evolution of wealth are more limited than for income. We use the CHIP household wealth surveys conducted in 1995 and 2002, and the CFPS household wealth surveys conducted in 2010 and 2012.<sup>25</sup> We have access to the micro-files of these surveys. They show a substantial rise in wealth concentration over time.<sup>26</sup> Since it is always a challenge to reach out to very wealthy individuals in surveys, it is likely that they under-estimate top wealth levels. We therefore combine the wealth surveys with the data from the annual Hurun rankings of China's wealthiest households covering the 2001-2016 period. We apply

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instead of 3 has only a small impact on our final series (see in particular Appendix Figures B.11 and B.12).

<sup>24</sup> Note that  $y_g (= y - y_p)$  equals government net capital income (including the government share of undistributed profits) plus indirect taxes (net production taxes) received by the government. We have no reason to allocate  $y_g$  in a non-proportional manner, so we adopt this distribution-neutral strategy.

<sup>25</sup> CHIP surveys were also conducted in 2008 and 2013, but these two survey years raise difficulties, so we do not use them (the 2008 survey had problems with the sampling process and is considered not to be nationally representative, and the 2013 survey has no information on housing values).

<sup>26</sup> Previous work on Chinese wealth inequality includes Gan et al. (2015), Li and Wan (2015), Xie and Jin (2015), Knight and Li (2016), Tan, Zeng, and Zhu (2017). By comparing the CHIP 2002 survey and the CFPS 2010 survey, Li and Wan (2015) find that the top 10% wealth share rose from 38.7% to 64.2%. Knight and Li (2016), using the CHIP 2002 and 2013 surveys, find that the top 10% wealth share rose from 37.1% to 48.4% from 2002 to 2013. Using the CFPS 2012 survey and the Hurun Richlist 2012, Xie and Jin (2015) find that the top 10% wealth share is 62.1% in 2012 and the top 1% wealth share is 35.3%. Similarly, Tan, Zeng, and Zhu (2017) use the 2011 CHFS and find a top 10% wealth share of 64.4%.

generalized Pareto interpolation techniques to the combined data to produce complete wealth distribution series.<sup>27</sup>

### **Section 3. The Rise of Wealth-Income Ratios and Private Property in China**

In this Section, we present our main results on the evolution of aggregate wealth from 1978 to 2015.

#### **Section 3.1. The evolution of wealth-income ratios and public property**

We start with the general evolution of the level and structure of national wealth. The Chinese national wealth-national income ratio has increased substantially in recent decades, from about 350% in 1978 to 500% in 1993 and over 700% in 2015, with important changes in the composition of wealth (Figure 3). Agricultural land used to account for almost half of total wealth in 1978, and now accounts for less than a tenth. In contrast, housing and other domestic capital (buildings, equipment, machinery, patents, etc., used by corporations, public administrations, and households) increased enormously, both in shares and in levels. Net foreign assets have become a significant addition to China's national wealth since the mid-2000s.

The most spectacular evolution involves the division of national wealth into private and public wealth (Figure 4). Private wealth was relatively small in 1978 (about 100% of national income), and now represents over 450% of national income. Public wealth, by contrast, has remained roughly stable around 250% of national income. As

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<sup>27</sup> See Appendix Sections B.1. and B.3. These wealth distribution series should be viewed as provisional and subject to revision.

a result, while in 1978 about 70% of national wealth was public and 30% private, in 2015 the proportions are reversed: 30% of national wealth is public and 70% private. China used to be a communist country and is now a mixed economy.

The privatization process was particularly extensive for housing: 95% of the housing stock is now privately owned, against 50% in 1978 (Figure 5). The situation is different for other domestic capital: the public share has declined, but it is still about 50%. If we look more specifically at the ownership of domestic equities (traded and non-traded), we find that private ownership was negligible in 1978 (about 5%), and reaches about 30% in 2015. This is obviously a large rise, but it means that the government remains the owner of about 60% of Chinese domestic equities (while foreigners own the remaining 10%). Interestingly, the fraction of Chinese equities that is publicly owned dropped substantially until 2006, but seems to have stabilized—or even increased somewhat—since 2007 (Figure 6).<sup>28</sup>

When comparing China to other countries, we find that the private wealth-national income ratio in China is now close to Western levels: 450-500% in China in 2015, vs. 500% in the United States and 550-600% in Britain and France (Figure 7a). The major difference is that public wealth has become very small—or even negative, with public debt exceeding public assets—in Western countries, while it has remained substantial in China (Figure 7b).

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<sup>28</sup> Our estimate of government wealth is close to the one obtained by Li (2013a, 2013b, 2015). Another way to assess the role of the public sector is to study the government revenue flow, including the income from property controlled by the government (distributed and undistributed profits and other capital income flows). Naughton (2017) finds that public revenue increased from 16% of national income in 1997 to 41% in 2015. Following Naughton (2017), in the Appendix we estimate public revenue for the period from 1992 to 2015. We find the same rising trend of public revenue as Naughton (2017), although we obtain slightly different levels due to different definitions of public revenue. For a detailed comparison, see the online Appendix Section A.24.

Net public wealth used to be positive and substantial in all Western countries in 1978; the government owned between 15% and 25% of national wealth in the United States, Japan, France, Germany and Britain in the mid-1970s (Piketty and Zucman, 2014; Piketty, 2014). This mixed economy regime resulted from a combination of low public debt (following post-World War 2 debt restructuring and inflation) and a large public sector, including in some cases government ownership of large companies in banking and manufacturing (such as in France until the mid-1980s). The share of public property in China today is somewhat larger than—but by no means incomparable to—what it was in the West from the 1950s to the 1980s.<sup>29</sup>

If anything, the public share in China's mixed economy seems to have increased since the 2008 financial crises, while it has dropped in rich countries—net public wealth is now slightly negative in the United States, Japan and Great Britain, and only slightly positive in Germany and France.

The structure of national property has large 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

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<sup>29</sup> We present two alternative series on the public share in China's national wealth, depending on what fraction of agricultural land is assigned to the government and the private sector (see the discussion in section 2.1 above). This makes a significant difference at the beginning of the period (given the importance of agricultural land in 1978), but has relatively little effect in 2015 (see Figure 7d). In any case, the general trend and orders of magnitudes are not affected.

taxes. To a large extent this is an under-studied subject, partly because of the lack of adequate data collection on national balance sheets. Looking forward, it would be valuable to collect more data to be able to compare the evolution of China's property structure not only with Western countries but also with other emerging economies.

It is interesting to compare the evolution of the public share in national wealth in China and in an oil-rich country such as Norway with a large sovereign wealth fund. Both countries have basically switched positions: the public share declined from 70% to 30% in China between 1978 and 2015, while it rose from 30% to 60% in Norway (Figure 7e). A key difference between public wealth in Norway and China is that most of Norway's public wealth is invested abroad. Norway's large positive net public wealth generates capital income that is mostly used to finance further foreign capital accumulation, which in the long-run can be used to reduce the tax burden and to finance more public spending. In that sense, it is a very different form of public property than in China: in Norway public property has mostly a fiscal and financial dimension, not so much an industrial or control dimension (although Norway's sovereign fund is sometime also used to promote certain policies, e.g., social or environmental objectives).<sup>30</sup>

### Section 3.2. Decomposing wealth accumulation

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<sup>30</sup> It is worth noting that China's net foreign asset position, although it has increased substantially in the past 15 years (about 25% of national income, vs. less than 2% of national income in 2000) remains relatively modest, not only as compared to oil countries like Norway (over 250% of national income in 2015), but most importantly as compared to Japan (78% in 2015) and Germany (35%). In contrast the national wealth-national income ratio is now higher in China than in Japan and other developed countries (see Figure 8). In other words, as compared to the other two major countries with positive net foreign wealth (Japan and Germany), China's wealth accumulation is primarily driven by domestic capital accumulation.

How can we explain the sharp increase in China's national wealth-national income ratio over the last decades? The high Chinese saving rates are obviously an important contributor, but they are not sufficient to account for the full increase. The other part of the explanation is the rise of equity and housing prices, above and beyond the rise in consumer prices. By our estimates, saving explains 50% to 60% of the rise in the wealth-income ratio since 1978, while the increase in relative asset prices accounts for the remaining 40% to 50%.<sup>31</sup>

Just like in rich countries, the rise in relative asset prices can itself be accounted for by a series of factors. First is the high demand for housing assets by Chinese households, itself maybe partly due to limited access to alternative saving and investment vehicles and to insufficient visibility on the expansion of the public pension system. Another important explanation involves changes in the legal system that reinforced private property rights: lifting of rent control, changes in the relative power of landlords and tenants, changes in the relative power of shareholder and workers. It is striking that Tobin's  $Q$ —the ratio between the market and the book value of corporations—appears to be high in China (close to 100%, like in the United States and in the United Kingdom, as opposed to 40%-60% in Germany or Japan). Whether this reflects strong shareholders' rights is, however, unclear at this stage: the series at our disposal are imperfect, and some of the cross-country differences in Tobin's  $Q$  might reflect data limitations. More research is needed before we can reach firm conclusions on the quantitative importance of changes in the legal system in explaining the rise of Chinese wealth. Similarly, our series do not allow us to take a

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<sup>31</sup> See Appendix Tables A.40 to A.49, where we present detailed decompositions of wealth accumulation into volume and price effects for the 1978–2015 period, following the methodology used by Piketty and Zucman (2014) in rich countries.



stance on the (arguably even more complicated) issue of dynamic efficiency in China.<sup>32</sup>

Table 1 decomposes 1996–2015 wealth accumulation by sectors (private and public) and assets (financial and non-financial). Regarding private wealth, we find strong positive capital gains for non-financial assets—mainly housing—and no gains for financial wealth. Conversely, we find strong capital gains for public financial assets and smaller gains for public non-financial wealth. The large capital gains on public financial assets mostly come from government-owned equities, and can be linked to the reform of SOEs since 2003 and the unprecedented wave of initial public offerings of SOEs that started in 2006. China also made capital losses on its net foreign assets, in part due to the appreciation of the yuan after 2004. This explains why given despite its large current account surpluses, the net foreign asset position has increased only moderately (from -9% of national income in 2000 to 15% in 2015). If China had earned the same return on its foreign assets as on its liabilities, its net foreign asset position would reach around 35% of national income today.

Last, we present series on domestic financial intermediation. The ratio between total domestic financial liabilities (i.e., total debt and equity issued by households, the

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<sup>32</sup> Given China's huge growth rates and very high wealth-income ratios, one might be tempted to conclude that China falls in the paradigmatic situation of dynamic inefficiency and excessive capital accumulation. Indeed, and although there is uncertainty about the exact level of the net-of-depreciation capital share  $\alpha$ , the average rate of return to capital  $r$  is clearly less than the growth rate  $g$  (i.e., with a capital share  $\alpha \approx 35\%$  and a national wealth-income ratio  $\beta \approx 700\%$  we have  $r = \alpha/\beta \approx 5\% < g \approx 7-8\%$ ). In a standard one-good model of capital accumulation,  $r < g$  implies excessive capital accumulation, so that in principle an extension of the pay-as-you-go pension system (or higher public debt) could generate Pareto improvements. See, e.g., Song et al (2015) for a discussion. However, the analysis is made more complicated by the fact that we are not in a simple one-good model: relative land prices matter, and so does the relative bargaining power of owners vs. non-owners, and more generally the legal system. Our data series do not allow us to put precise numbers on all these parameters and are not sufficient to do a proper welfare analysis (which in any case would require an explicitly distributional analysis).

government, and the corporate sector combined) and total domestic capital has risen from 60% in 1978 to 140% in 2015. This is a substantial rise, starting from a situation of limited financial development. Despite this rise, however, the level of financial intermediation remains much lower in China than in Western countries, where the financial intermediation ratio rose from 100-140% in 1978 to 200-300% in 2015 (Figure 9a). The fraction of domestic financial liabilities owned by the rest of the world reaches about 5% in China in 2015, as compared to almost 10% in Japan, 15% in the United States and 25-30% in Germany and France (Figure 9b). These differences partly reflect size effects: European countries are smaller, and if we were to consolidate ownership at the European level, the rest of the world would own only about 15% of European wealth (like in the United States). But there seems to be more than this: Asian countries—Japan and even more so China—seem to be less open to foreign ownership than Europe and North America.

## **Section 4. The Rise of Income and Wealth Inequality in China**

We now turn to our results on the evolution of income and wealth inequality.

### **Section 4.1. Income inequality**

#### **Section 4.1.1. The distribution of national income and its evolution**

Table 2 reports statistics on the distribution of pre-tax national income in China in 2015, obtained by combining survey, fiscal, and national accounts data. The data cover the entire distribution from the bottom 50% up to the top 0.001%. Average

income in the entire adult population is 57,800 yuans, but this average masks a great deal of heterogeneity. The average income of the bottom 50% (a group that includes 530 million adults) is equal to 30% of the average income in China. Hence the bottom 50% earns 15% (30% times 50%) of total income. By contrast, the average income of the top 10% (a group that includes 106 million adults) is more than 4 times the average income in China. Hence the top 10% earns more than 40% (4 times 10%) of total income. The middle 40% earns a bit more than 40% of all income, so that their average income is slightly higher than the average per adult income.

Income inequality has increased markedly since the beginning of the market reform process. By our estimates, the share of national income going to the top 10% of the population has increased from 27% in 1978 to 41% in 2015, while the share going to the bottom 50% has dropped from 27% to 15% (Figure 10). In other words, the bottom 50% of the population used to have about the same income share as the top 10% (which also means that their average income was about 5 times lower), while their income share is now about 2.7 times lower (which means that their average income is now about 13.5 times lower). Over the same period, the share of income going to the middle 40% has been roughly stable.

If we compare our inequality series to the official survey-based estimates, two remarks are in order. First, survey data also show a strong rise in the top 10% income share and a strong decline in the top 50% income share from 1978 to 2015. Second, both the level and the rise of inequality are larger in our series. The top 10% income share rises 15 points against 9 points in the survey-based statistics (Figure 11). The upward correction is particularly spectacular for the top 1%: by our

estimates the top 1% earns about 14% of total income in 2015, versus 6.5% only in the raw surveys (Figure 12).

Most of the difference between our estimates and the raw surveys comes from the high-income tax data. The undistributed-profits correction does rise at the end of the period, particularly for very top incomes (reflecting the rise of private business ownership), but it is always less important than the fiscal correction. In 2015, for instance, the top 1% income share is 6.5% in the raw surveys, it reaches 11.5% after factoring in the high-income taxpayers data, and 14% after factoring in undistributed profits and other tax-exempt income (see Appendix Figures B.1 to B.4).

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. The raw surveys show a small but regular decline in income inequality since 2006, which in our series is offset by the rise of undistributed profits. Our results are consistent with the findings of Kanbur, Wang, and Zhang (2017) who argue that a turnaround indeed took place around 2006, due to a mixture of policy changes and the slowdown of structural transformation. This result—stabilization of inequality since 2006—should however be taken with caution, as it could partly reflect data limitations.<sup>33</sup>

#### Section 4.1.2. Income inequality in urban vs. rural China

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<sup>33</sup> In particular, the lack of national data on high-income taxpayers since 2011 forces us to apply the 2006-2010 average correction factors to years 2011-2015 (in effect making it impossible to detect a possible rebound of inequality since 2011). See section 2.2 above and the online Appendix Section B.

What role does the urban-rural gap play in the evolution of Chinese inequality? Adult urban population rose from 100 million in 1978 to almost 600 million by 2015. In the meantime, adult rural population remained roughly stable: it was 400 million in 1978, rose to almost 600 million by the mid-1990s, and then declined to less than 500 million in 2015 (Figure 13). The income gap between urban and rural China has always been large, and it has grown over time: urban households earned on average twice as much income as rural households in 1978; they now earn 3.5 times as much (Figure 14). As a result, while the urban share in adult population has grown from 20% in 1978 to 55% in 2015, the urban share in income has increased from 30% to 80% (Figure 15).

Despite the increase of the urban-rural gap, the rise of inequality in China is primarily due to rising income dispersion within both urban and rural China. The top 10% and top 1% income shares have increased almost as much within urban and rural China as nationally (Figures 16 and 17). It is also interesting to note that there has always been more inequality within rural areas than within urban China. Last, one can see the strong effect of the urban-rural gap when we look at the bottom 50%. The income share of the bottom 50% has sharply declined between 1978 and 2015, both within rural and urban China and nationally (Figure 18). The bottom 50% income share, however, is markedly lower at the national level (15%) than within rural China (20%) or urban China (25%) alone.<sup>34</sup>

### Section 4.1.3. Comparing China with Western countries

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<sup>34</sup> As a result, the middle 40% income share is now similar in China vs. urban China: the top 10% income share is higher in China than in urban China, the bottom 50% income share is lower, leaving the share of the middle 40% at about 43%-44% in both cases in recent years (Figure 19).

Figure 21 compares our Chinese income inequality series with the series recently computed for the United States by Piketty, Saez and Zucman (2016) and France by Garbinti, Goupille and Piketty (2017). These series follow the same methodology as the one applied in this paper; they all attempt to combine national accounts, surveys, and fiscal data to estimate the distribution of pre-tax national income (including undistributed profits and other tax-exempt capital income) among equal-split adults. In the late 1970s, China used to be substantially more equal than France and the United States. In the mid-2010s, it is more unequal than France (a country that is broadly representative of European inequality levels), and is now approaching U.S. inequality levels. While the top 10% income share rose from 27% to 41% in China between 1978 and 2015, it increased in smaller proportions in the USA (from 35% to 47%), and only moderately in France (from 31% to 33%).

Despite its larger population, however, China remains significantly more equal than the United States. The top 1% income share rose from 6% to 14% in China, while it increased from 11% to 20% in the United States (Figure 22). The bottom 50% income share is about 15% in China (20% in rural China, 25% in urban China), vs 12% in the United States and 22% in France (see Figure 23, and Figure 18 above). Even urban China, an economy twice as populated as the United States, is significantly more equal than the U.S.

#### Section 4.2. The distribution of economic growth

Our new series on the distribution of pre-tax national income allow us to decompose growth by income group in a way that is fully consistent with macro growth. That is,

we can quantitatively assess the extent to which the various groups of the population have benefitted from the enormous growth of China.

Figure 27 and Table 3 compare the distribution of 1978–2015 real income growth in China, the United States, and France. Macro growth has obviously been different in the three countries. Average per adult national income has been multiplied by more than 9 in China (corresponding to an average annual increase of 6.2%), while it has increased by 59% in the USA and by 39% in France. In China and the United States, growth accruing to the bottom 50% has been smaller than macro growth (and equal to macro growth in France), while growth accruing to the top 10% has been larger—even more so if one looks at the top 1% and smaller groups up to the top 0.001%. In China, average income for the top 0.001% has been multiplied by almost 40 since 1978 (+3817%, vs +811% for macro growth) and in the US the top 0.001% has been multiplied by almost 8 (+685%, vs +59% for macro growth).

The key difference between China and the United States is that in China the bottom 50% also benefited enormously from growth: the average income of the bottom 50% was multiplied by more than 5 in real terms between 1978 and 2015, which is less than macro growth and top income growth, but still very substantial. Presumably this increase can make rising inequality much more acceptable, especially for a country starting from very low living conditions—at least until a certain point. In contrast, bottom 50% income growth has been negative in the United States (-1%).

In our view, these findings illustrate the usefulness of distributional national accounts. Looking at macroeconomic growth is not enough: it is critical to be able to

decompose growth across income quantiles, to be able to analyze which social groups benefit—or not—from it.

### Section 4.3. Wealth inequality

Table 4 reports statistics on the distribution of wealth in 2015, obtained by combining wealth surveys with data from the annual Hurun rankings that cover the wealthiest Chinese households. Average wealth reaches 282,000 yuans per adult in 2015, about 5 times average income. That is, as studied in Section 3 above, the private wealth to national income ratio is around 500%. Like in other countries, wealth is significantly more concentrated than income: the top 10% share is 67% for wealth, versus 41% for income. The top 0.001% alone—the 10,653 richest adults with net wealth above €66 million—owns 5.8% of total wealth, about as much as the bottom 50%—the 531 million poorest adults.

Figure 20 shows that, consistent with the trend for income inequality, wealth concentration has sharply increased. The top 10% wealth share increased from 40% in 1995 to 67% in 2015, while the middle 40% and bottom 50% wealth shares collapsed. As a result, while wealth inequality used to be much lower in China than in the Western world in the mid-1990s, it is now intermediate between Europe and the United States (Figure 28). The Chinese top 10% wealth share (67% in 2015) is getting close to that of the United States (72%) and is much higher than in a country like France (50%). The bottom 50% wealth share is now barely higher than in rich countries, where it is usually around 0%–5%.



We stress that despite our best efforts, these series must still be viewed as provisional and imperfect. We believe that our corrected income and wealth inequality estimates for China are more satisfactory and plausible than previous estimates, but they are surely not meant to be the last word on the issue. Looking forward, progress could be made in at least three directions. First, more detailed fiscal data would make it possible to revise our top 1% income share for recent years—possibly upward and by a significant margin.<sup>35</sup> Second, our current estimates disregard tax evasion. There is evidence that a growing amount of wealth is held abroad by wealthy Chinese households (Zucman, 2014, 2015). Our current series do not incorporate these assets, neither in the national wealth totals, nor in our distributional estimates. Incorporating these offshore assets and the income they generate could lift the top shares significantly (Alstadsæter, Johannesen and Zucman, 2017). Last, Hong Kong and Macao are excluded from all our macro and micro data. This could lead us to underestimate the rise of inequality, and ought to be taken into account in future research.

## **Section 5. Concluding Comments and Perspectives**

By combining and confronting Chinese national accounts, surveys, wealth rankings, and tax data (including recently released income tax data covering high earners), we obtain two main findings. First, the property structure in China is that of mixed economy, with a large share of public property: about 30% of national wealth in 2015

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<sup>35</sup> Using the 2011 CHFS survey data, a recent study (Tan, Zeng, and Zhu, 2017) finds a top 1 percent income share in China as large as 23.8% in 2010, much higher than our estimate for 2010, 15.1%. Given the imperfections of the available tax data, we certainly cannot rule out the possibility that the top 1% income share in China could be over 20%. However, after carefully studying the 2011 CHFS data, we have several reasons to suspect that this result is driven by outliers, limited sample size and issues related to sampling design; see the online Appendix Section B.2.

belongs to the government, including about 60% of domestic corporate equity. This is larger than the share of public property in the Western mixed economies of the post-World War 2 decades, though not far from it. The public share has stopped declining since 2007-2008 and might be a long-lasting feature of the Chinese economy.

Second, income inequality has increased substantially since the beginning of the reform process. China used to be more equal than Europe in the late 1970s—about as equal as the most egalitarian Nordic countries—while it is now approaching U.S. inequality levels. Despite this rise, inequality remains lower than in the United States today, which given the size of China and the large gaps between its rural and urban regions is striking.

An interesting question is the extent to which these two findings—declining but still high public ownership; rising income inequality, but less than in the United States—are related. China's mixed economy structure might contribute to mitigating the rise of inequality. We leave a quantitative analysis of how public property, taxes, public services, and welfare spending shape the distribution of income in China to future research

Has inequality gone too far in China? The evidence compiled in this paper is obviously not sufficient to provide answers to such a complex issue. However, at the very least, our findings indicate that there is a need for more transparency about income and wealth. The recently released tax statistics on high earners lead us to propose a large upward correction of official income inequality estimates. Improved access to tax statistics could lead to further revisions. The current lack of

transparency about income and wealth data in China—and elsewhere—puts serious limits to our collective ability to monitor inequality dynamics and design adequate policy responses.

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**Table 1: Sources of national wealth accumulation in China, 1996-2015**

## Panel A: Sources of market-value national wealth accumulation

Sector	Assets	Wealth/national income ratio		Decomposition of wealth/national income ratio in 2015		
		$\beta_{1996}$	$\beta_{2015}$	Initial wealth effect	Cumulated new savings	Capital gains or losses
Private	Non-financial assets	163%	299%	31%	36%	231%
	Net financial assets	85%	189%	16%	172%	1%
Public	Non-financial assets	134%	74%	26%	28%	19%
	Net financial assets	97%	149%	19%	63%	68%
National	Total	479%	710%	93%	298%	320%

## Panel B: Sources of book-value national wealth accumulation

Assets	Wealth/national income ratio		Decomposition of wealth/national income ratio in 2015		
	$\beta_{1996}$	$\beta_{2015}$	Initial wealth effect	Cumulated new savings	Capital gains or losses
Residential housing	163%	251%	32%	56%	163%
Other domestic capital	198%	342%	38%	218%	86%
Foreign wealth	-9%	15%	-2%	24%	-7%
Farm lands	120%	51%	23%	0%	28%
Reserved lands	3%	18%	1%	0%	18%
National wealth	474%	677%	92%	298%	287%

Notes: In Panel A, private saving is equal to personal saving plus the private share of retained earnings; public saving is equal to government saving plus the public share of retained earnings. Source: PYZ2017NationalAccountsData, Sheet A49



**Table 2: Income thresholds and income shares in China, 2015**

<b>Income group</b>	<b>Number of adults</b>	<b>Income threshold</b>	<b>Average income</b>	<b>Income share</b>
Full Population	1,063,542,632	¥0	¥57,807	100.0%
Bottom 50%	531,771,316	¥0	¥17,150	14.8%
Middle 40%	425,417,053	¥34,442	¥63,210	43.7%
Top 10%	106,354,263	¥117,812	¥239,476	41.4%
<i>incl. Top 1%</i>	<i>10,635,426</i>	<i>¥345,520</i>	<i>¥804,886</i>	<i>13.9%</i>
<i>incl. Top 0.1%</i>	<i>1,063,543</i>	<i>¥1,071,112</i>	<i>¥3,641,463</i>	<i>6.3%</i>
<i>incl. Top 0.01%</i>	<i>106,354</i>	<i>¥6,207,479</i>	<i>¥18,503,392</i>	<i>3.2%</i>
<i>incl. Top 0.001%</i>	<i>10,635</i>	<i>¥30,203,833</i>	<i>¥78,833,979</i>	<i>1.4%</i>

**Notes:** This table reports statistics on the distribution of income in China in 2015. The unit is the adult individual (20-year-old and over; income of married couples is splitted into two). In 2015, 1 euro = 7.0 yuans (market exchange rate) or 4.6 yuans (purchasing power parity). Income corresponds to pre-tax national income. Fractiles are defined relative to the total number of adult individuals in the population. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Source: Appendix B.

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

Income group (distribution of per adult pre-tax national income)	China		USA		France	
	Average annual growth rate 1978- 2015	Total cumulated growth 1978- 2015	Average annual growth rate 1978- 2015	Total cumulated growth 1978- 2015	Average annual growth rate 1978- 2015	Total cumulated growth 1978- 2015
Full Population	<b>6.2%</b>	811%	<b>1.3%</b>	59%	<b>0.9%</b>	39%
Bottom 50%	<b>4.5%</b>	401%	<b>0.0%</b>	-1%	<b>0.9%</b>	39%
Middle 40%	<b>6.0%</b>	768%	<b>0.9%</b>	42%	<b>0.8%</b>	35%
Top 10%	<b>7.4%</b>	1289%	<b>2.1%</b>	115%	<b>1.0%</b>	44%
<i>incl. Top 1%</i>	<i>8.4%</i>	<i>1897%</i>	<i>3.0%</i>	<i>198%</i>	<i>1.4%</i>	<i>67%</i>
<i>incl. Top 0.1%</i>	<i>9.1%</i>	<i>2405%</i>	<i>4.0%</i>	<i>321%</i>	<i>1.7%</i>	<i>84%</i>
<i>incl. Top 0.01%</i>	<i>9.8%</i>	<i>3113%</i>	<i>4.7%</i>	<i>453%</i>	<i>1.8%</i>	<i>93%</i>
<i>incl. Top 0.001%</i>	<i>10.4%</i>	<i>3817%</i>	<i>5.7%</i>	<i>685%</i>	<i>2.6%</i>	<i>158%</i>

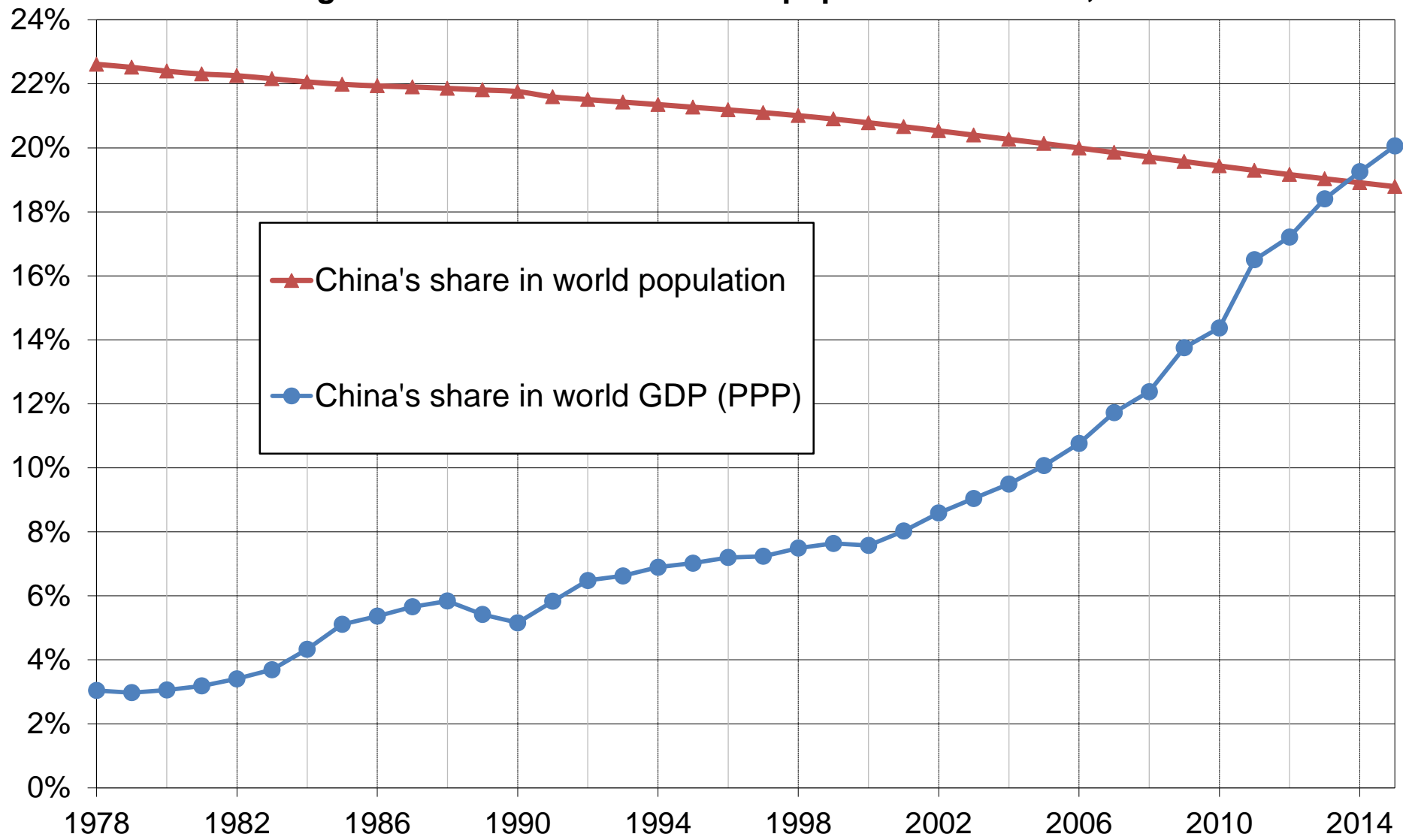
Sources: China: this paper. USA: Piketty-Saez-Zucman (2016). France: Garbinti-Goupille-Lebret-Piketty (2017). Distribution of pre-tax national income among equal-split adults. The unit is the adult individual (20-year-old and over; income of married couples is splitted into two). Fractiles are defined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

**Table 4: Wealth thresholds and wealth shares in China, 2015**

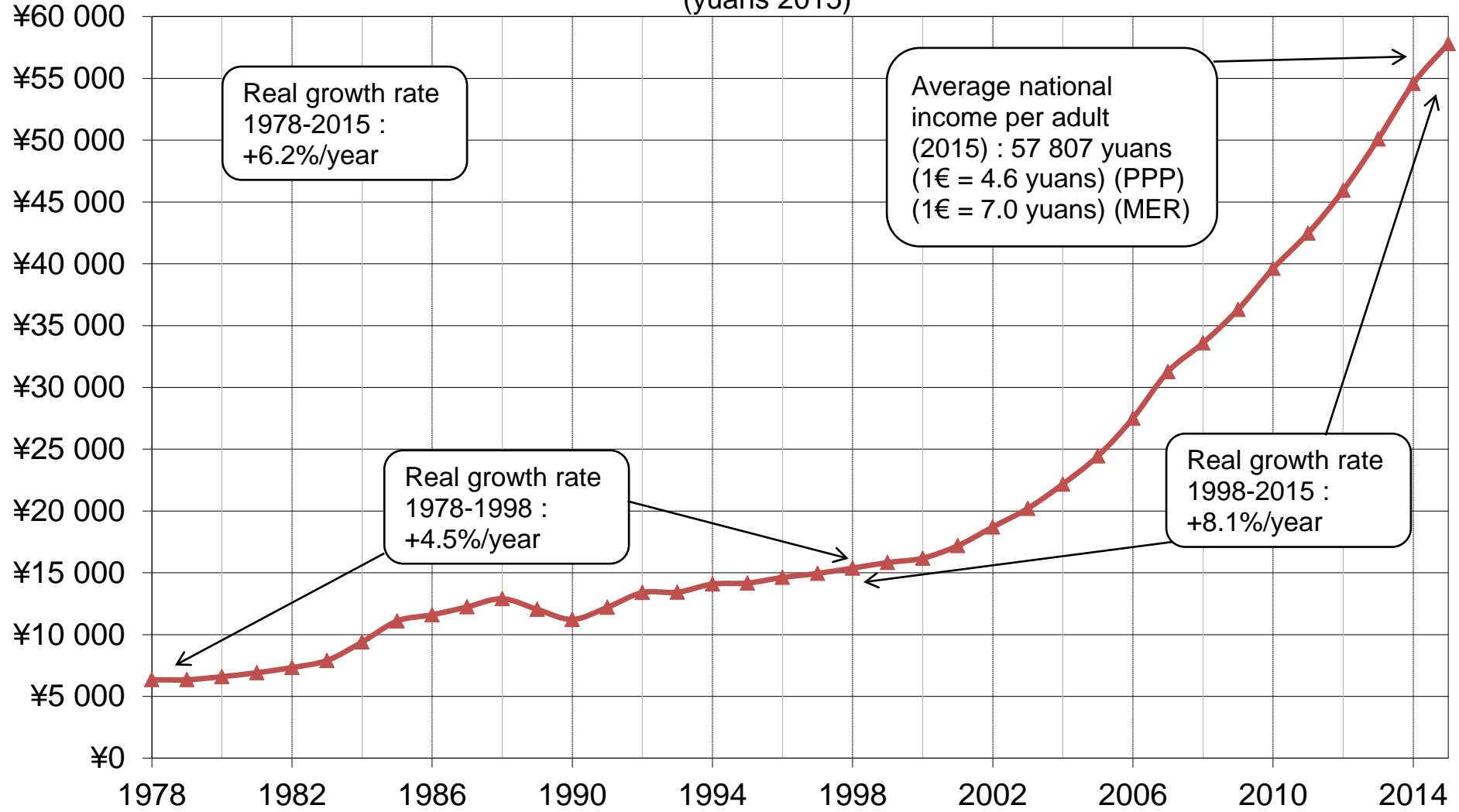
<b>Wealth group</b>	<b>Number of adults</b>	<b>Wealth threshold</b>	<b>Average wealth</b>	<b>Wealth share</b>
Full Population	1,063,542,632	¥0	¥281,718	100.0%
Bottom 50%	531,771,316	¥0	¥36,293	6.4%
Middle 40%	425,417,053	¥84,932	¥184,173	26.2%
Top 10%	106,354,263	¥420,197	¥1,899,019	67.4%
<i>incl. Top 1%</i>	<i>10,635,426</i>	<i>¥2,979,431</i>	<i>¥8,347,004</i>	<i>29.6%</i>
<i>incl. Top 0.1%</i>	<i>1,063,543</i>	<i>¥7,988,140</i>	<i>¥46,156,982</i>	<i>16.4%</i>
<i>incl. Top 0.01%</i>	<i>106,354</i>	<i>¥67,744,170</i>	<i>¥309,247,711</i>	<i>11.0%</i>
<i>incl. Top 0.001%</i>	<i>10,635</i>	<i>¥465,654,285</i>	<i>¥1,623,209,327</i>	<i>5.8%</i>

Notes: This table reports statistics on the distribution of wealth in China in 2015. The unit is the adult individual (20-year-old and over; wealth of married couples is splitted into two). In 2015, 1 euro = 7.0 yuans (market exchange rate) or 4.6 yuans (purchasing power parity). Wealth corresponds to net personal wealth. Fractiles are defined relative to the total number of adult individuals in the population. Provisional estimates (survey based). Corrected estimates will combine wealth survey and billionaire lists. Source: Appendix B.

**Figure 1: China's share in world population and GDP, 1978-2015**

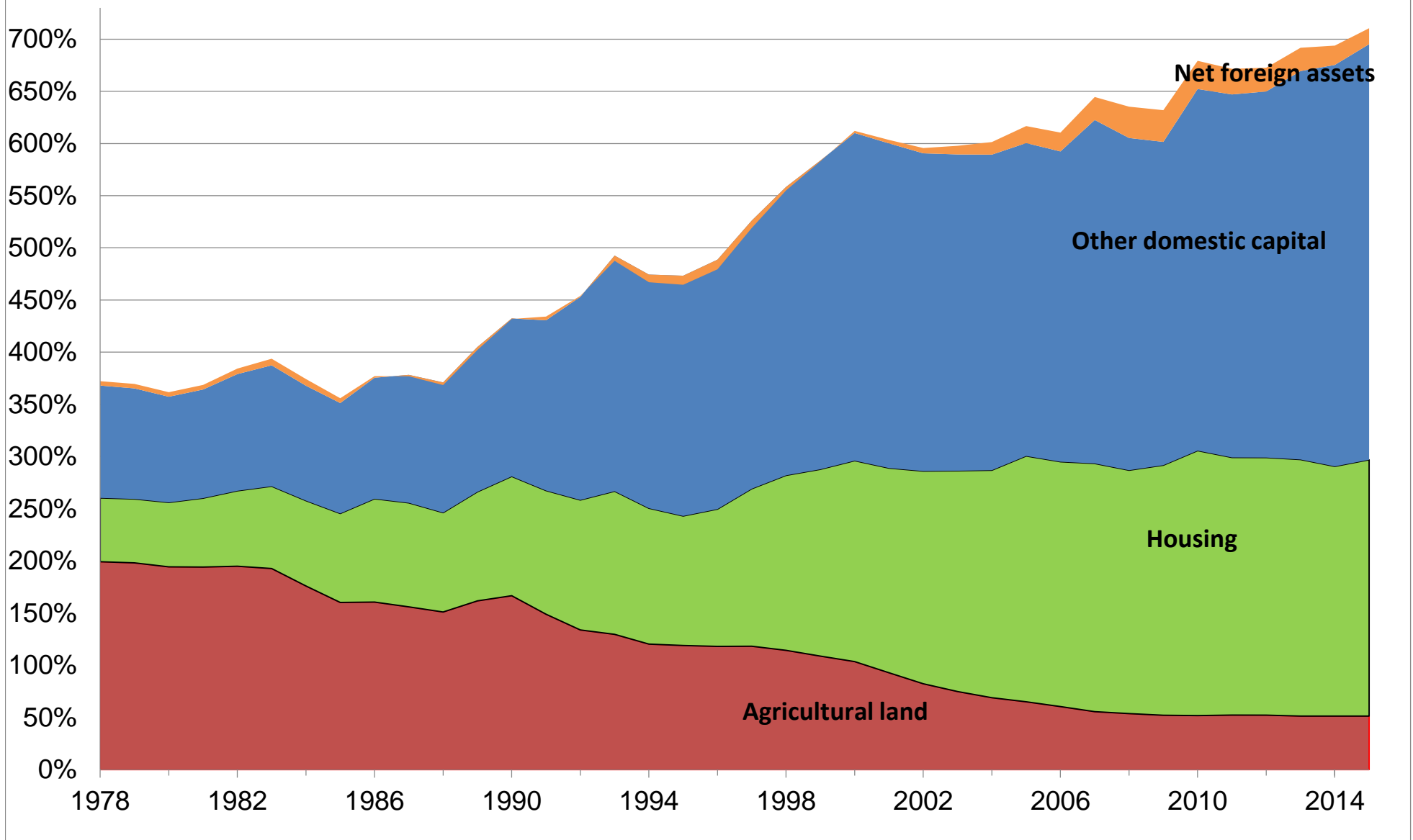


**Figure 2: The rise of per adult real national income in China, 1978-2015**  
(yuans 2015)

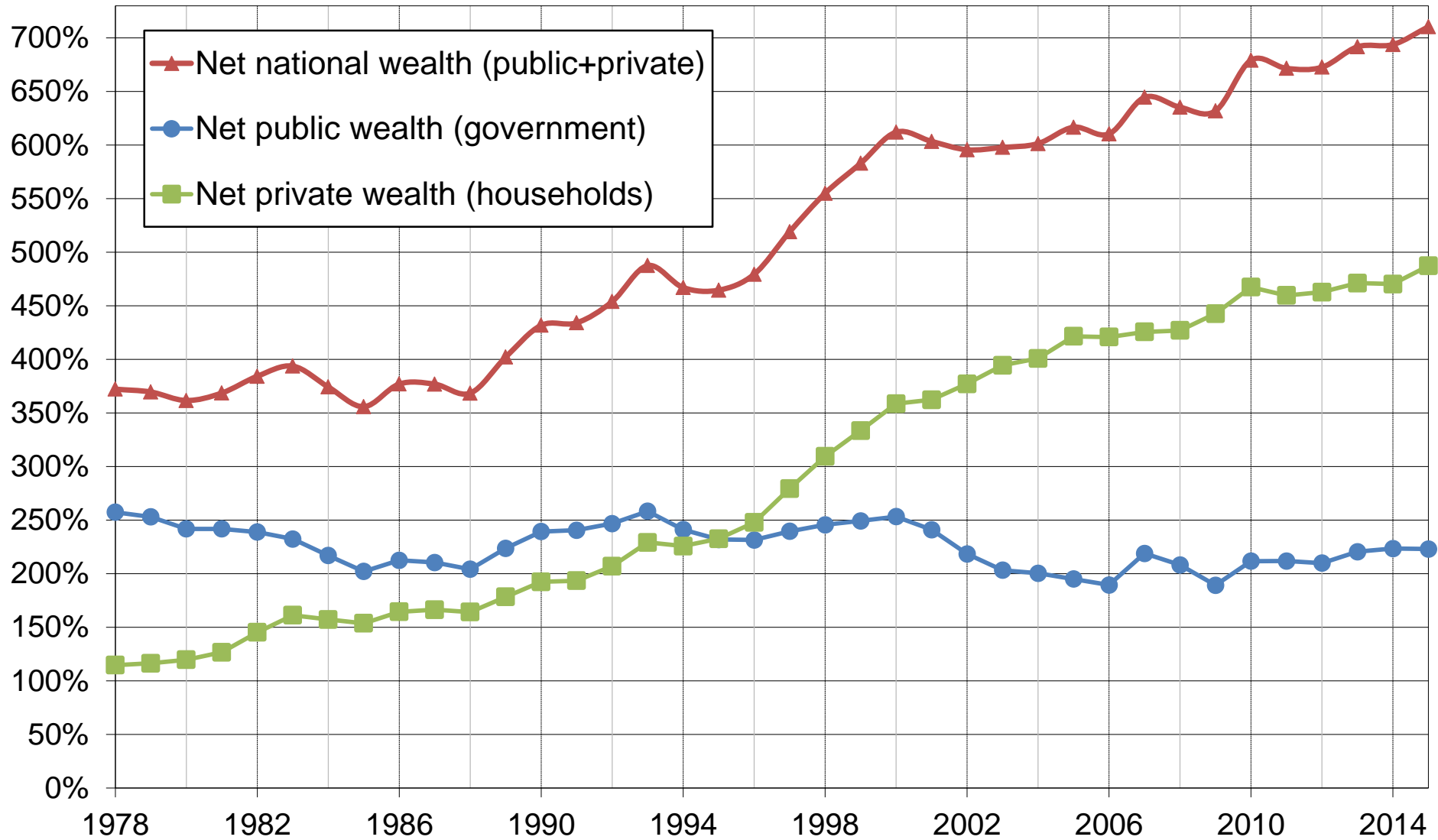


National income divided by adult population. National income = GDP - capital depreciation + net foreign income.

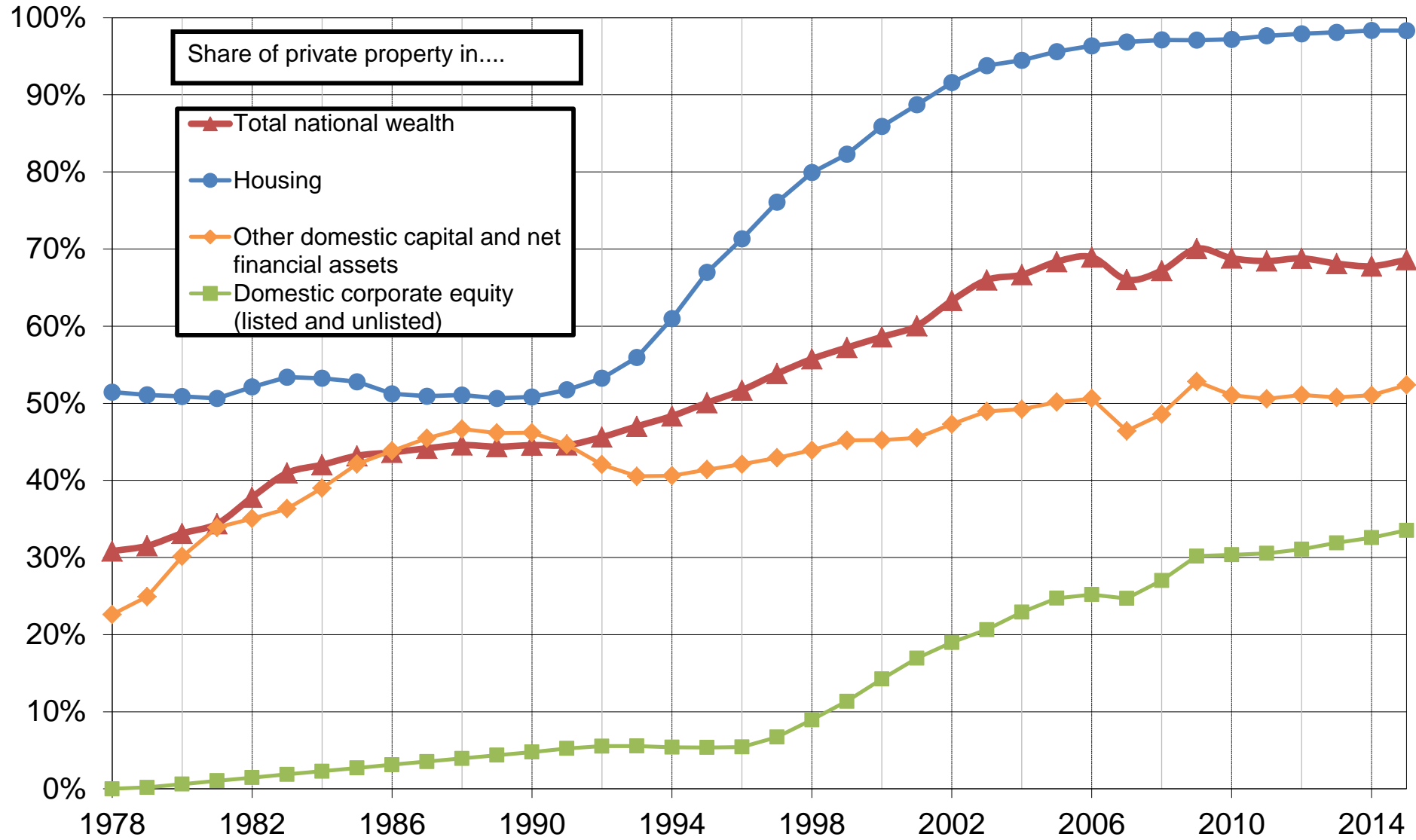
**Figure 3. The structure of national wealth in China 1978-2015** (% national income)



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

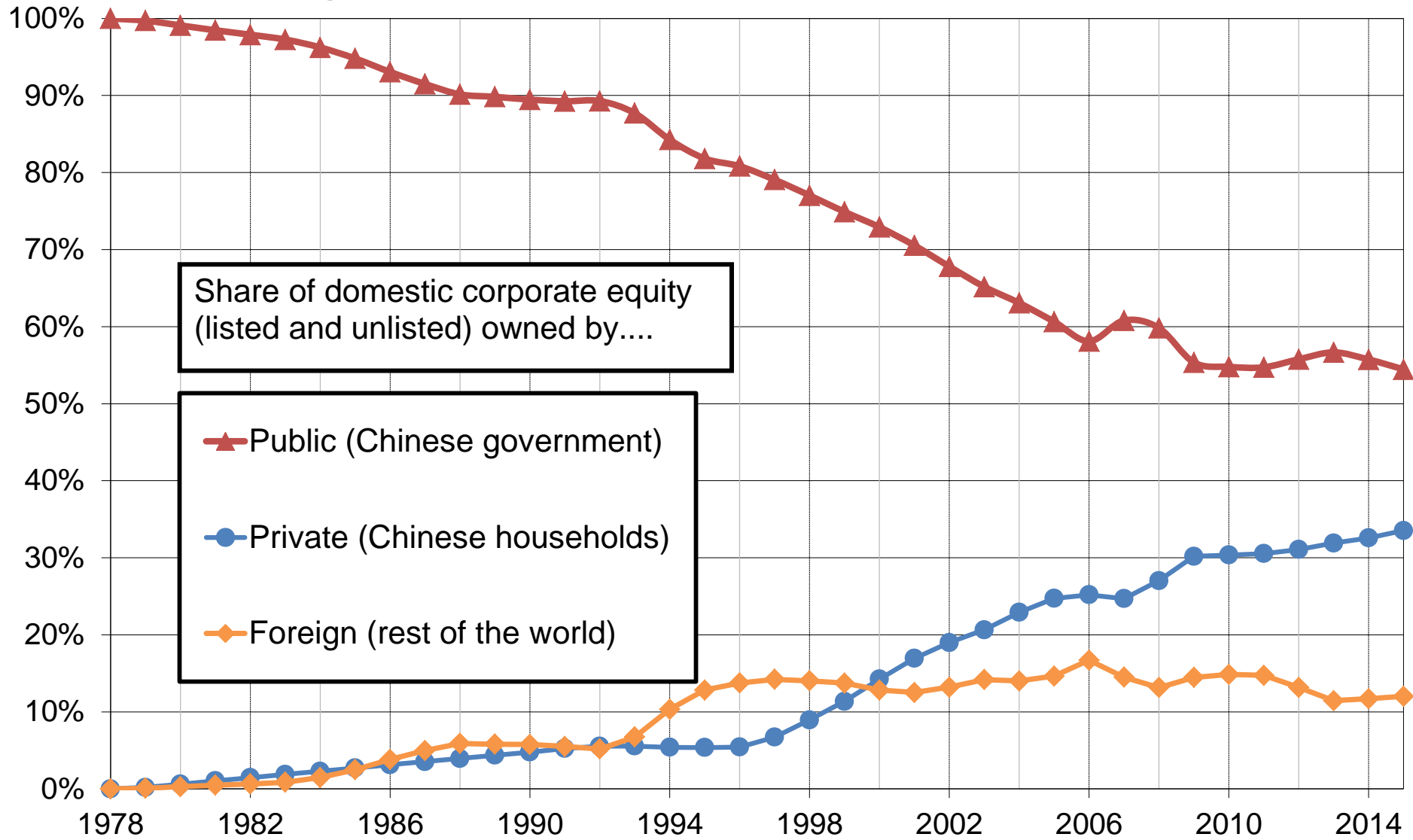


**Figure 5. The rise of private property in China 1978-2015**



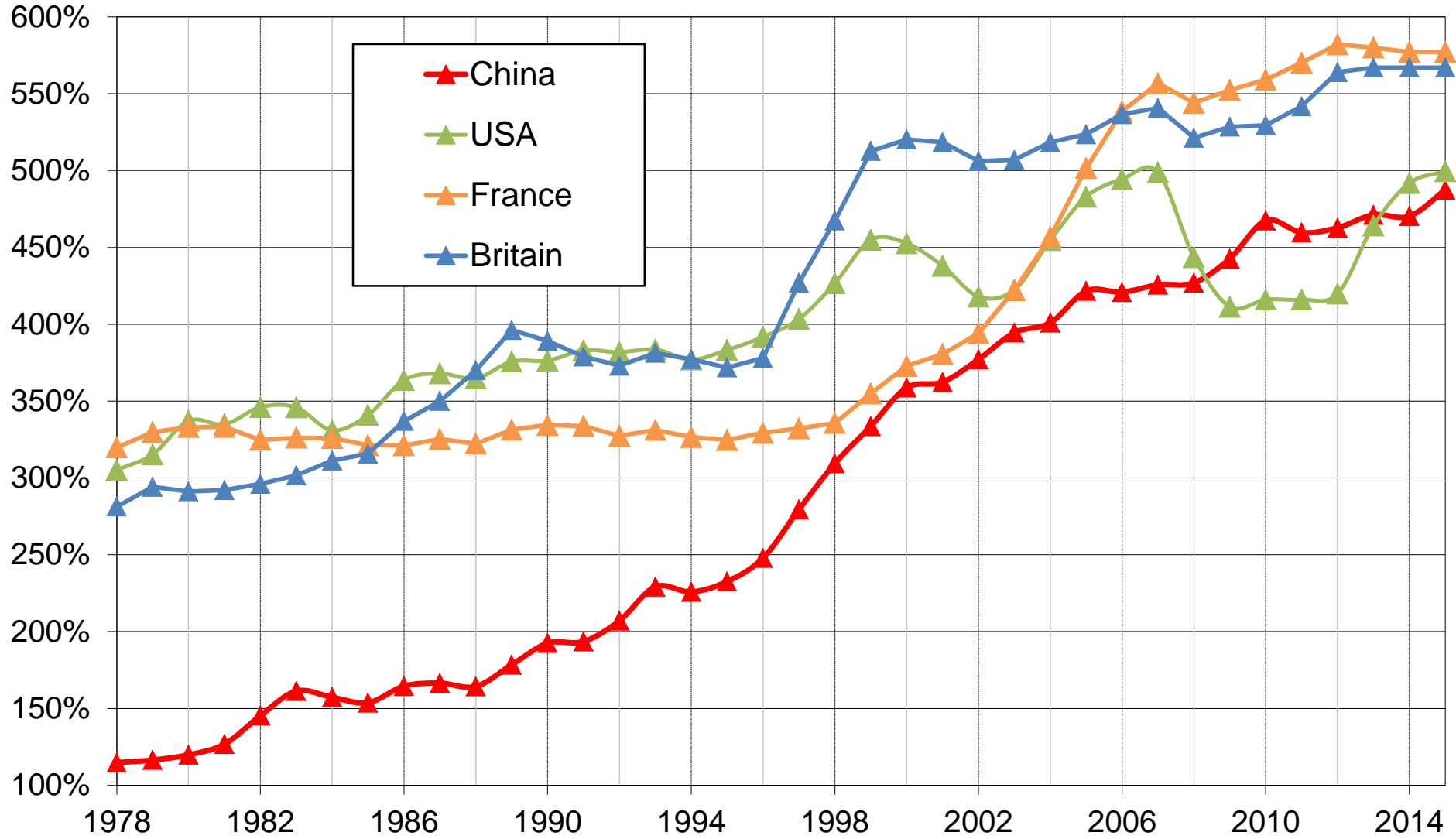


**Figure 6. Corporate ownership in China 1978-2015**



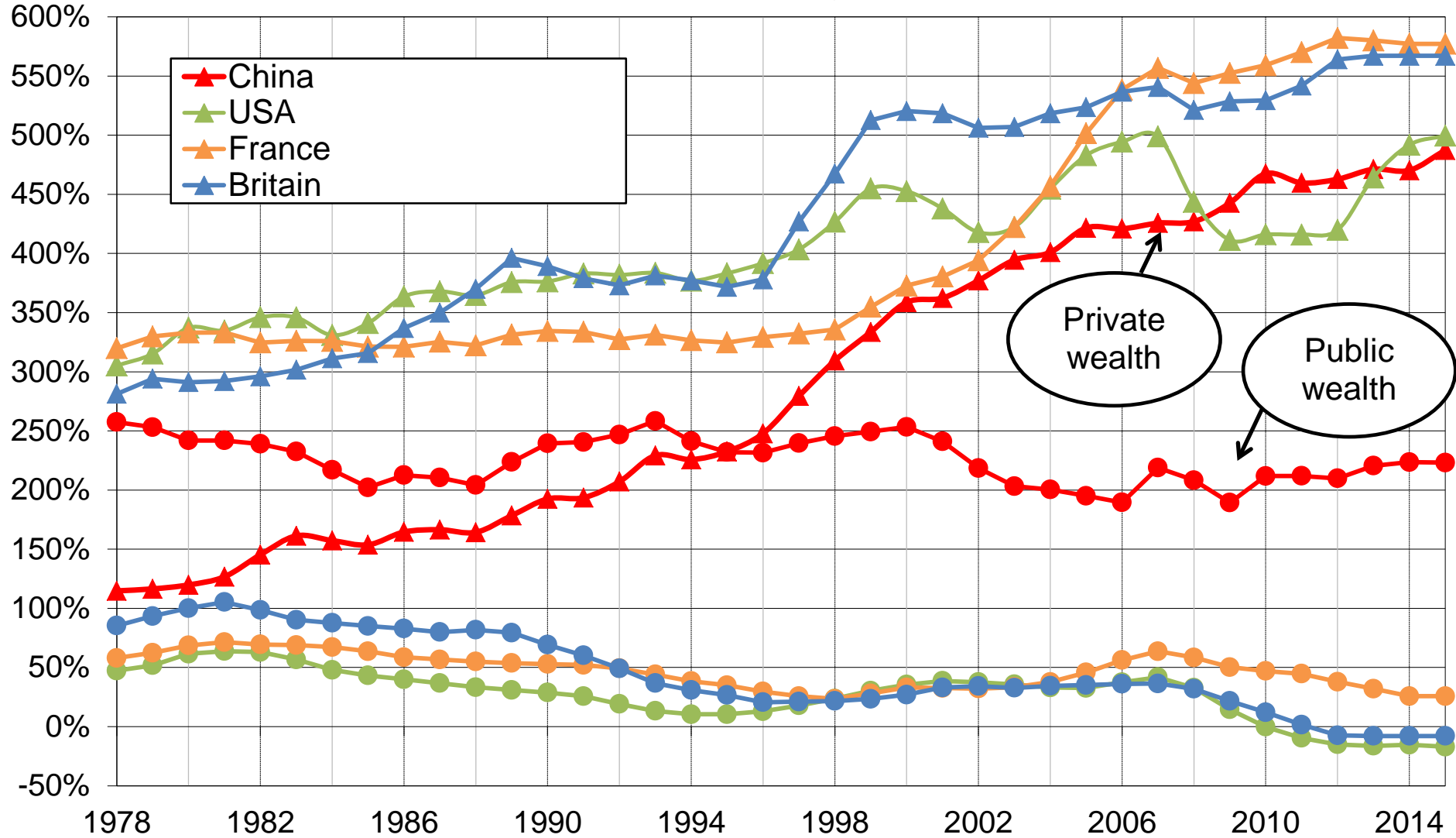
**Figure 7a: The rise of wealth-income ratios: China vs rich countries**

(private wealth (households), in % national income)

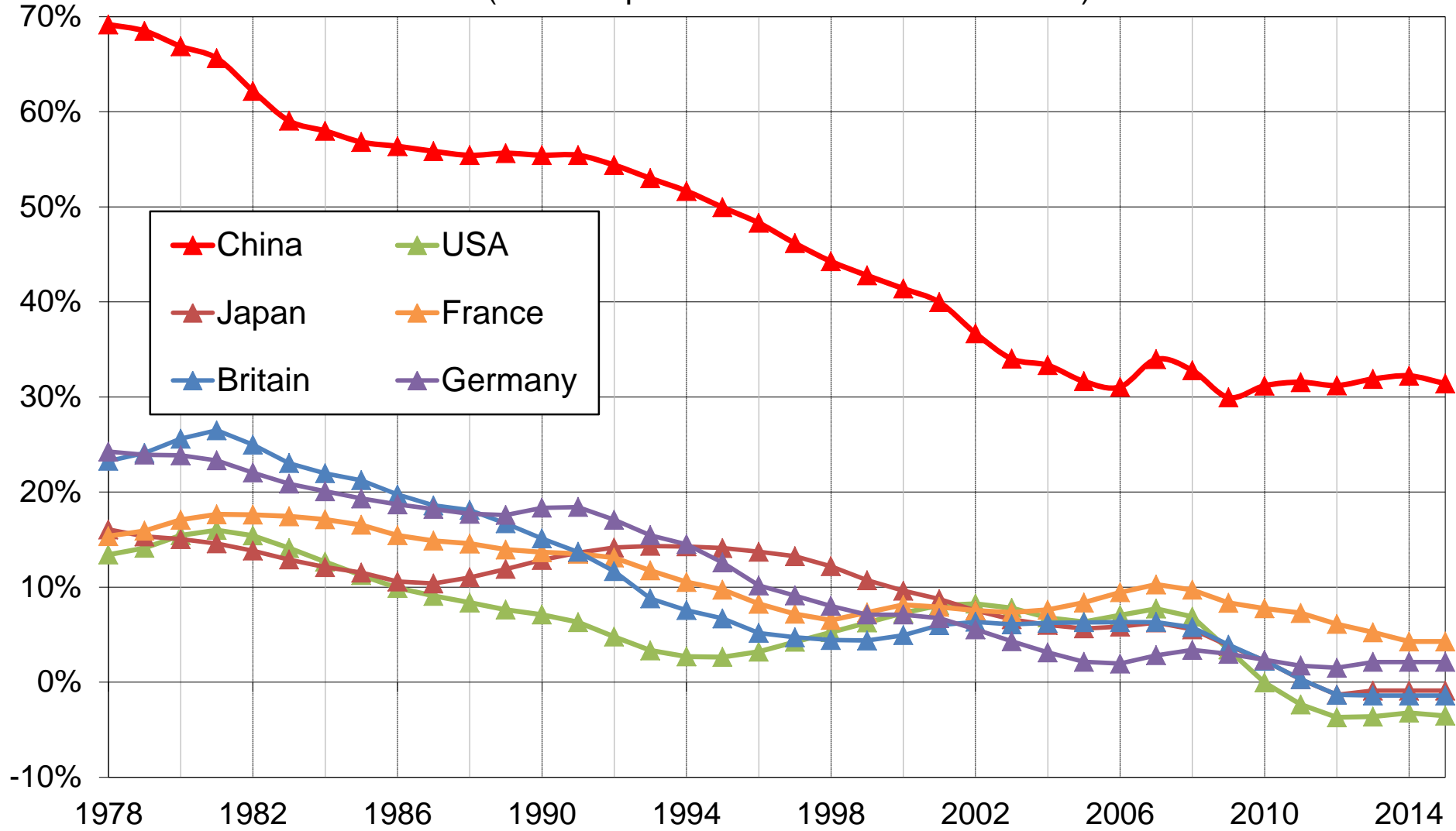


**Figure 7b: The rise of wealth-income ratios: China vs rich countries**

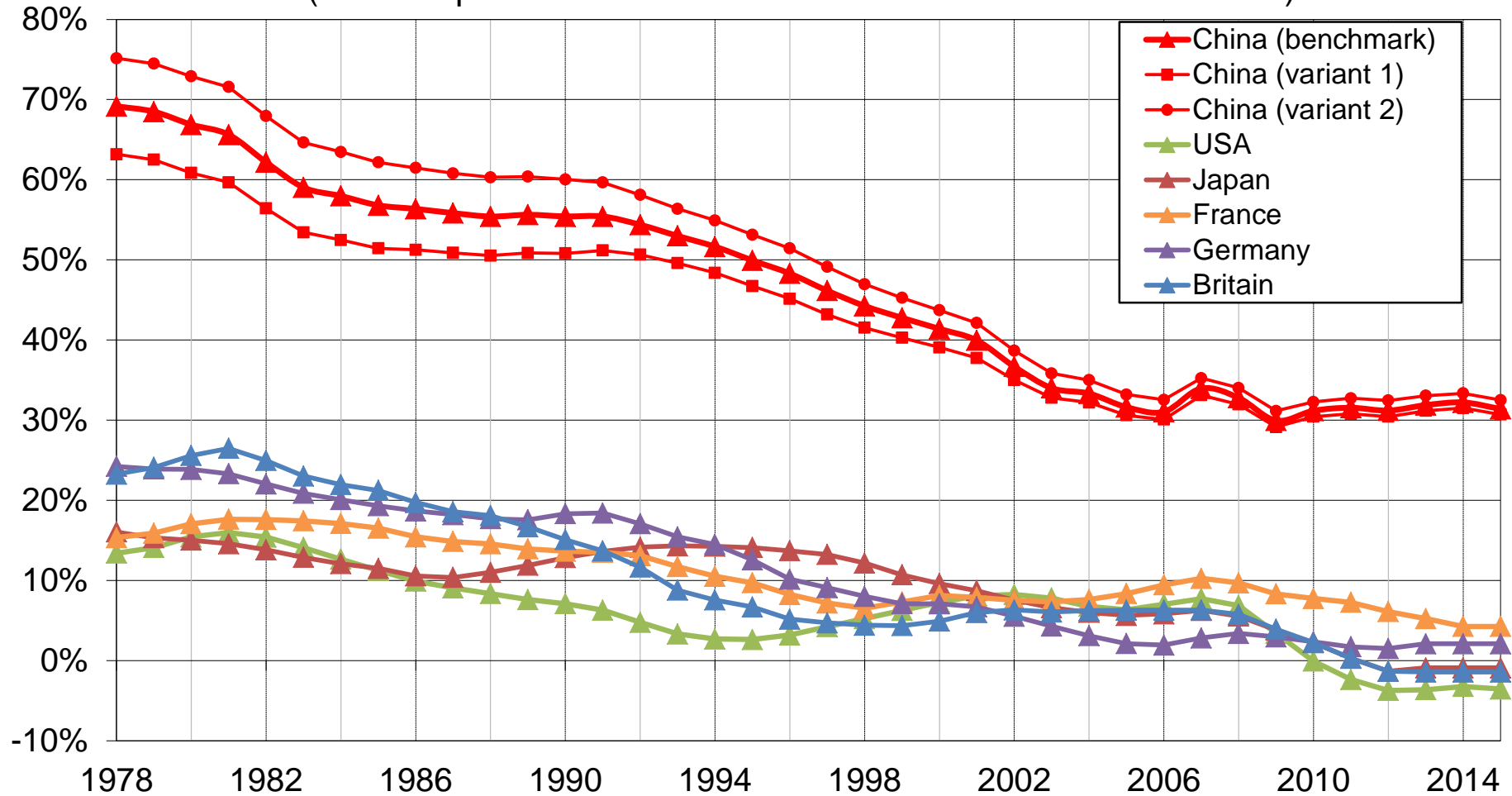
(private wealth (households) vs public wealth (government), in % national income)



**Figure 7c. The decline of public property: China vs rich countries**  
(share of public wealth in national wealth)

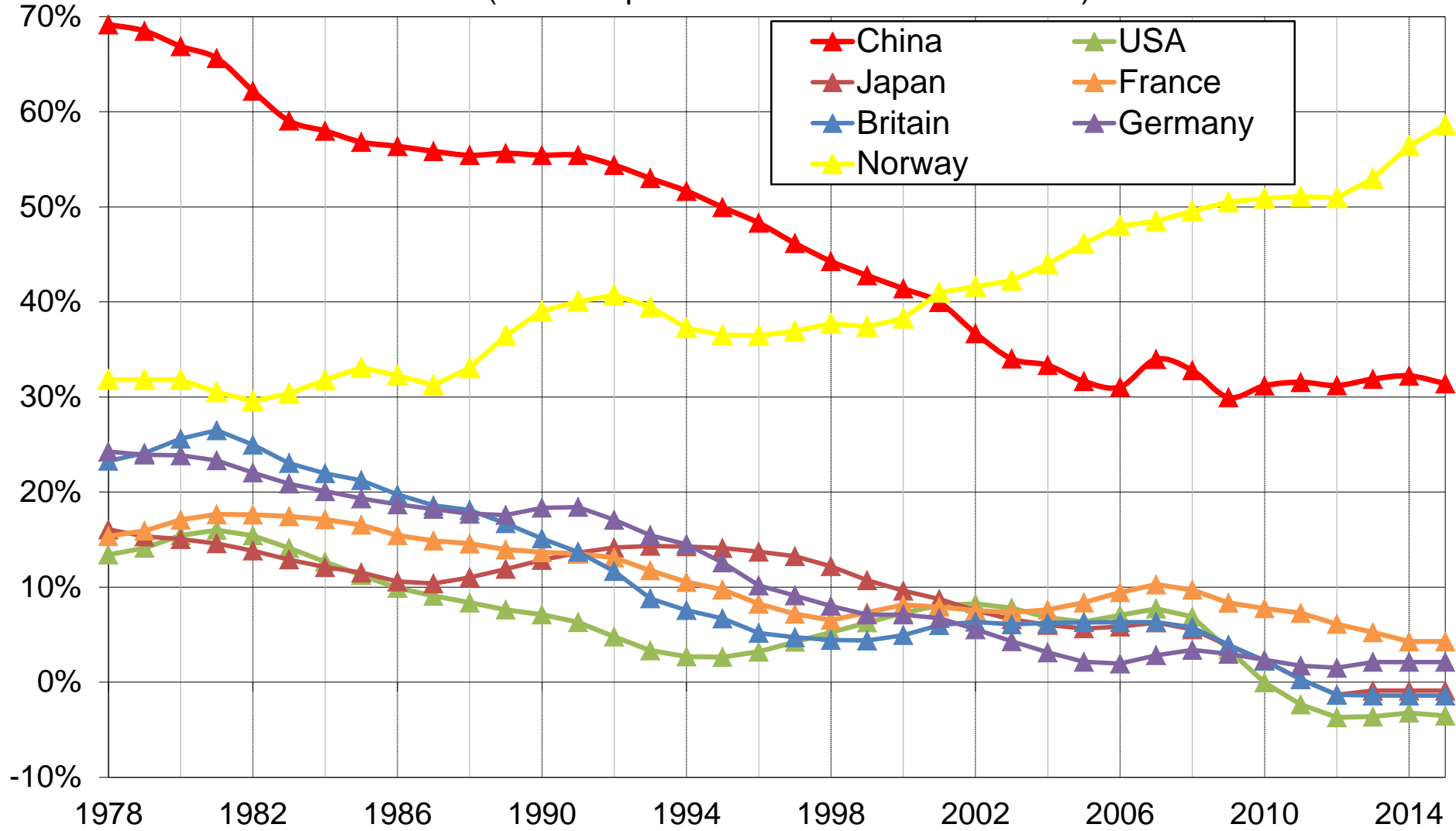


**Figure 7d. The decline of public property: China vs rich countries**  
 (share of public wealth in national wealth: alternative estimates)



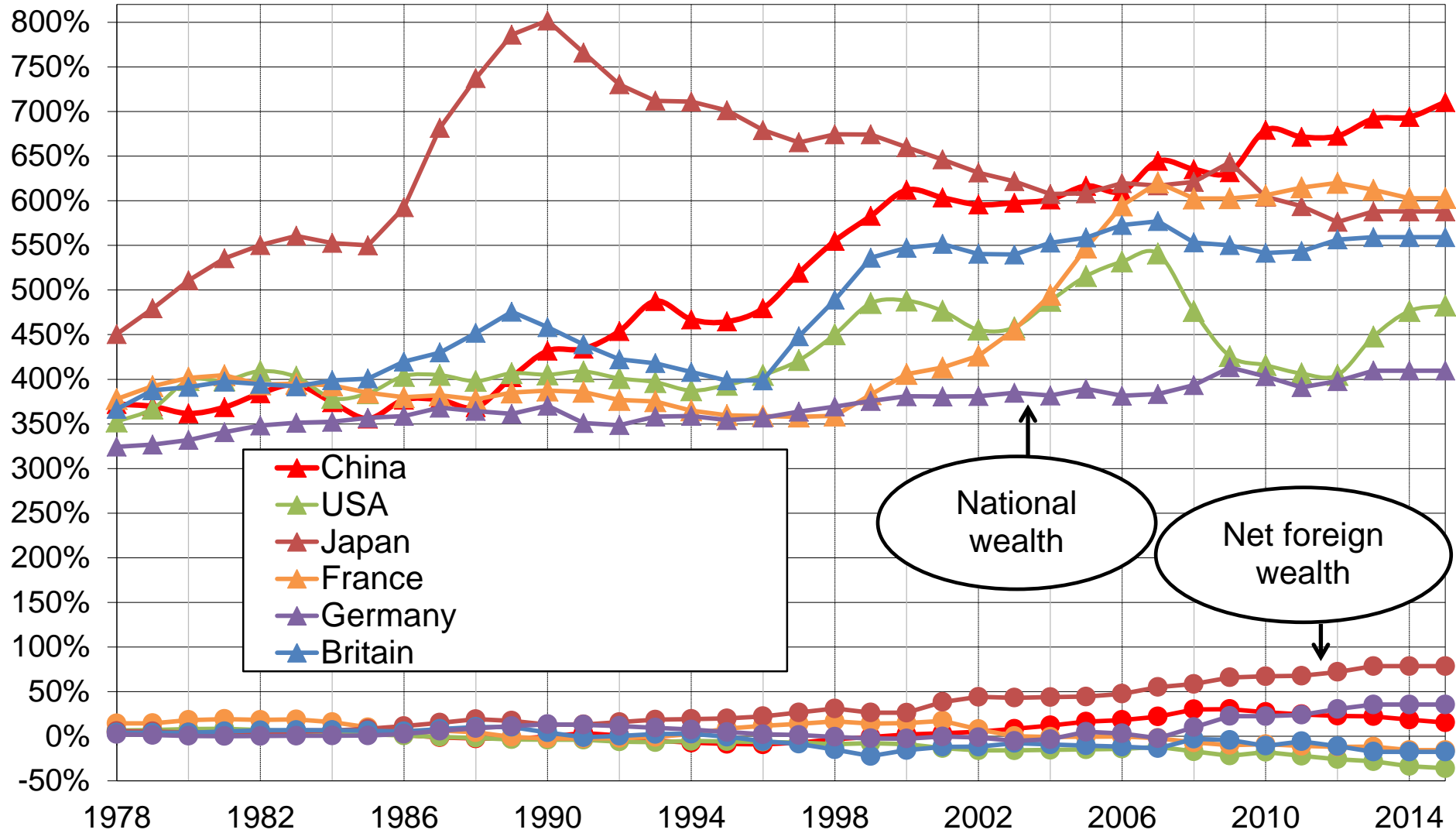
Public share in agricultural land drops from 70% to 40% (benchmark), 60% to 30% (variant 1), 80% to 50% (variant 2).  
 Public share in rural housing drops from 30% to 0% (benchmark), 20% to 0% (variant 1), 40% to 10% (variant 2).

**Figure 7e. The decline of public property: China vs rich countries**  
(share of public wealth in national wealth)

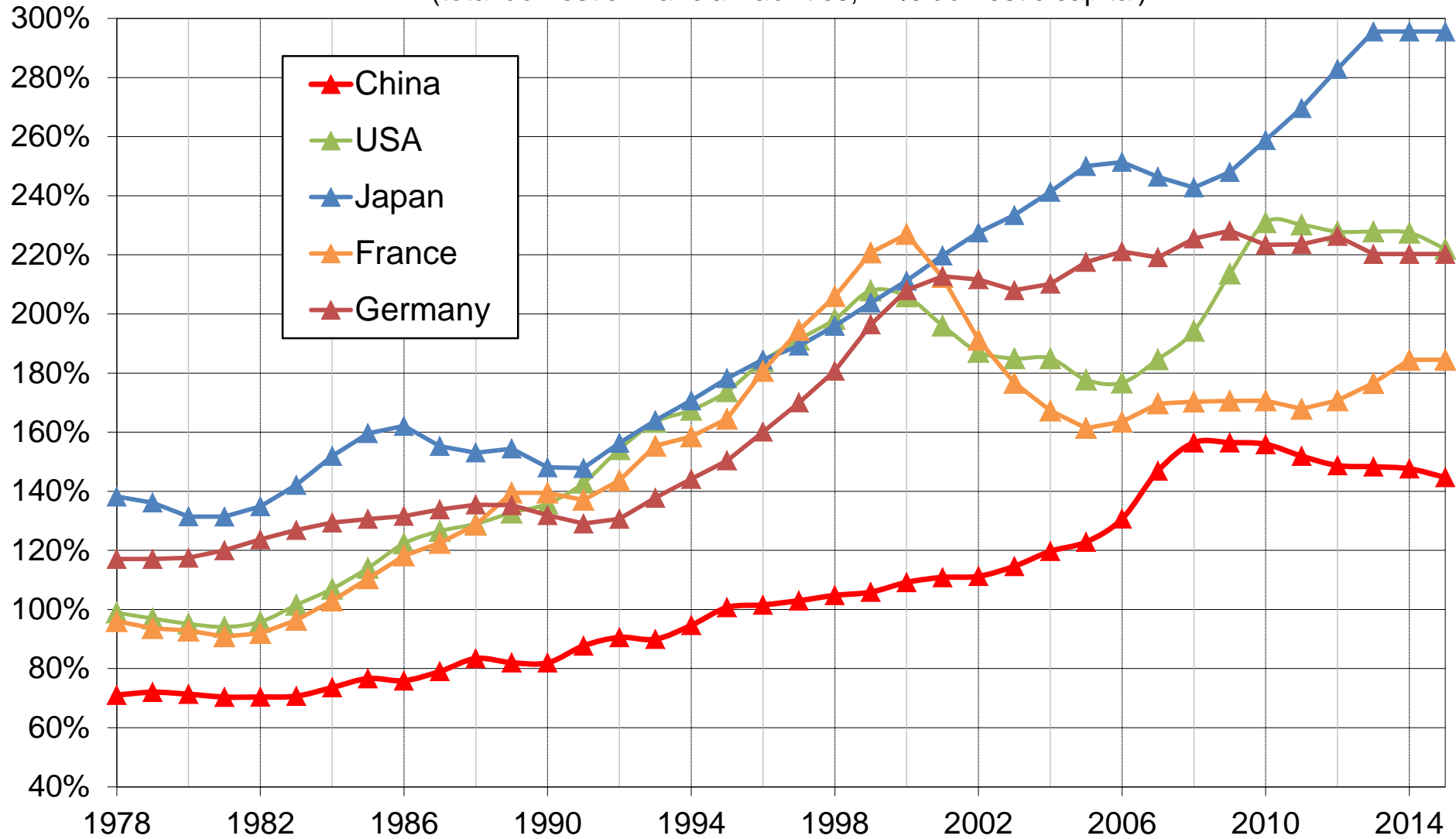


**Figure 8: The rise of wealth-income ratios: China vs rich countries**

(national wealth (public + private) vs net foreign wealth, in % national income)

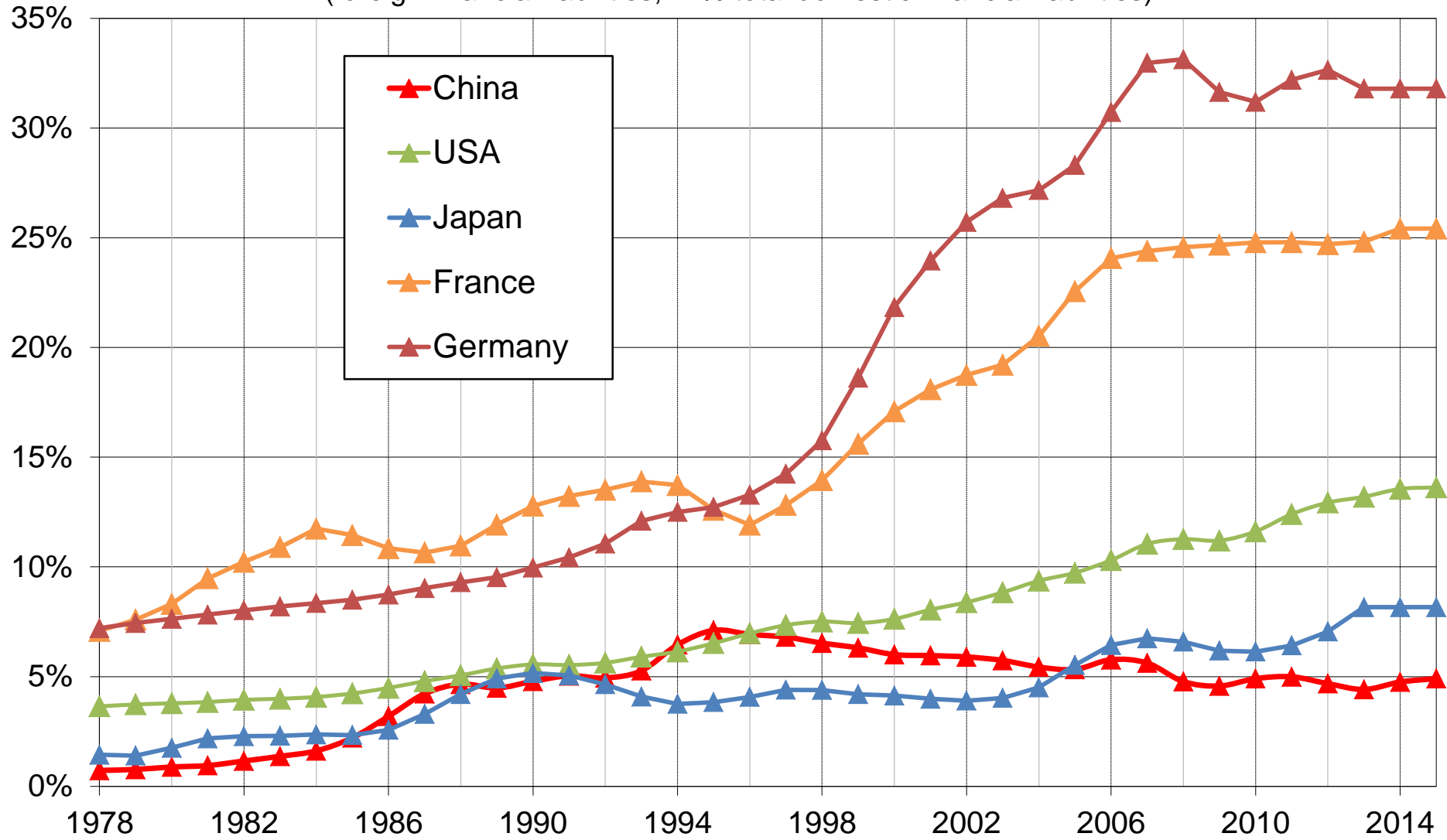


**Figure 9a: The rise of financial intermediation: China vs rich countries**  
(total domestic financial liabilities, in % domestic capital)

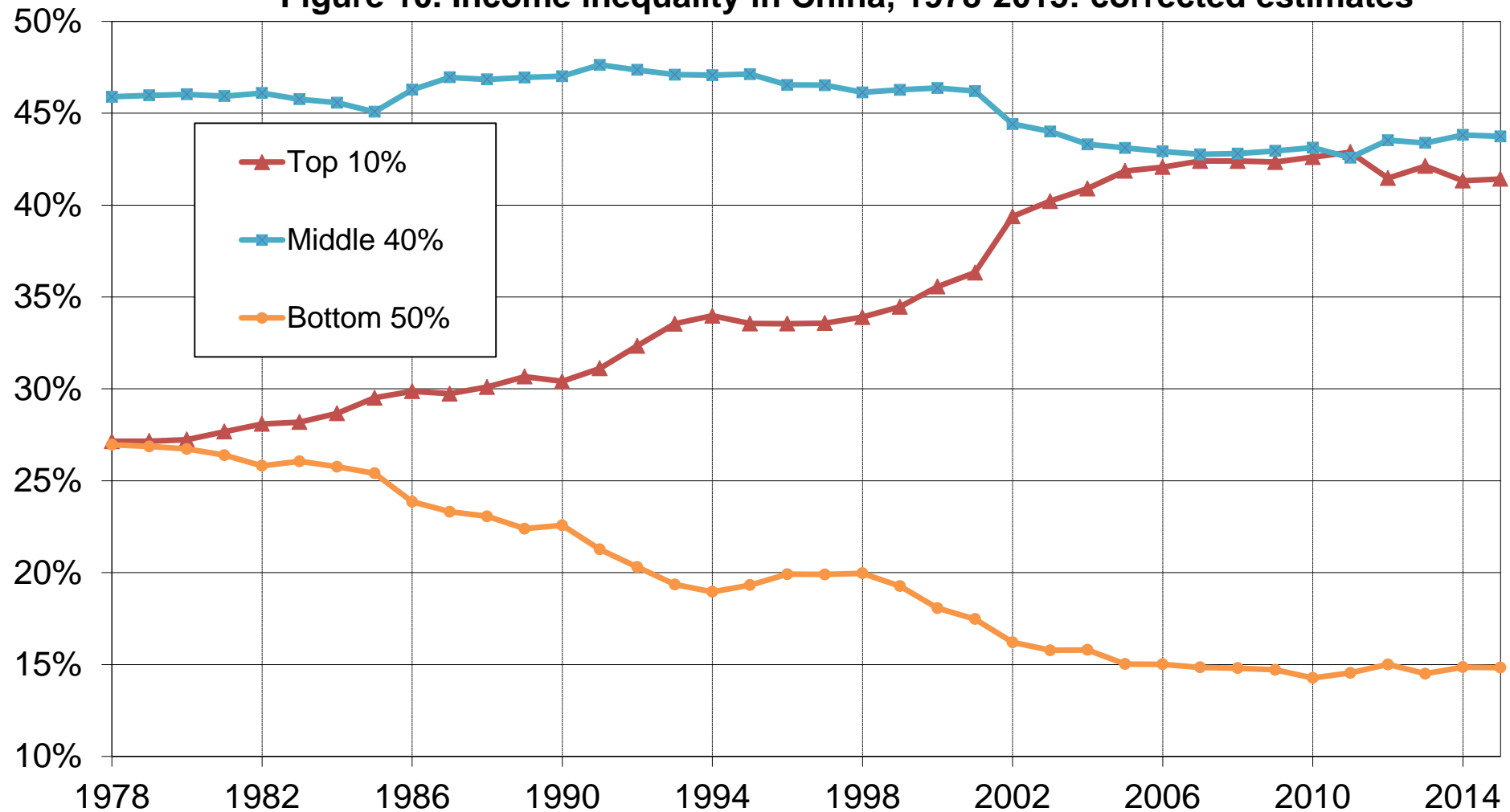




**Figure 9b: The rise of foreign ownership: China vs rich countries**  
(foreign financial liabilities, in % total domestic financial liabilities)

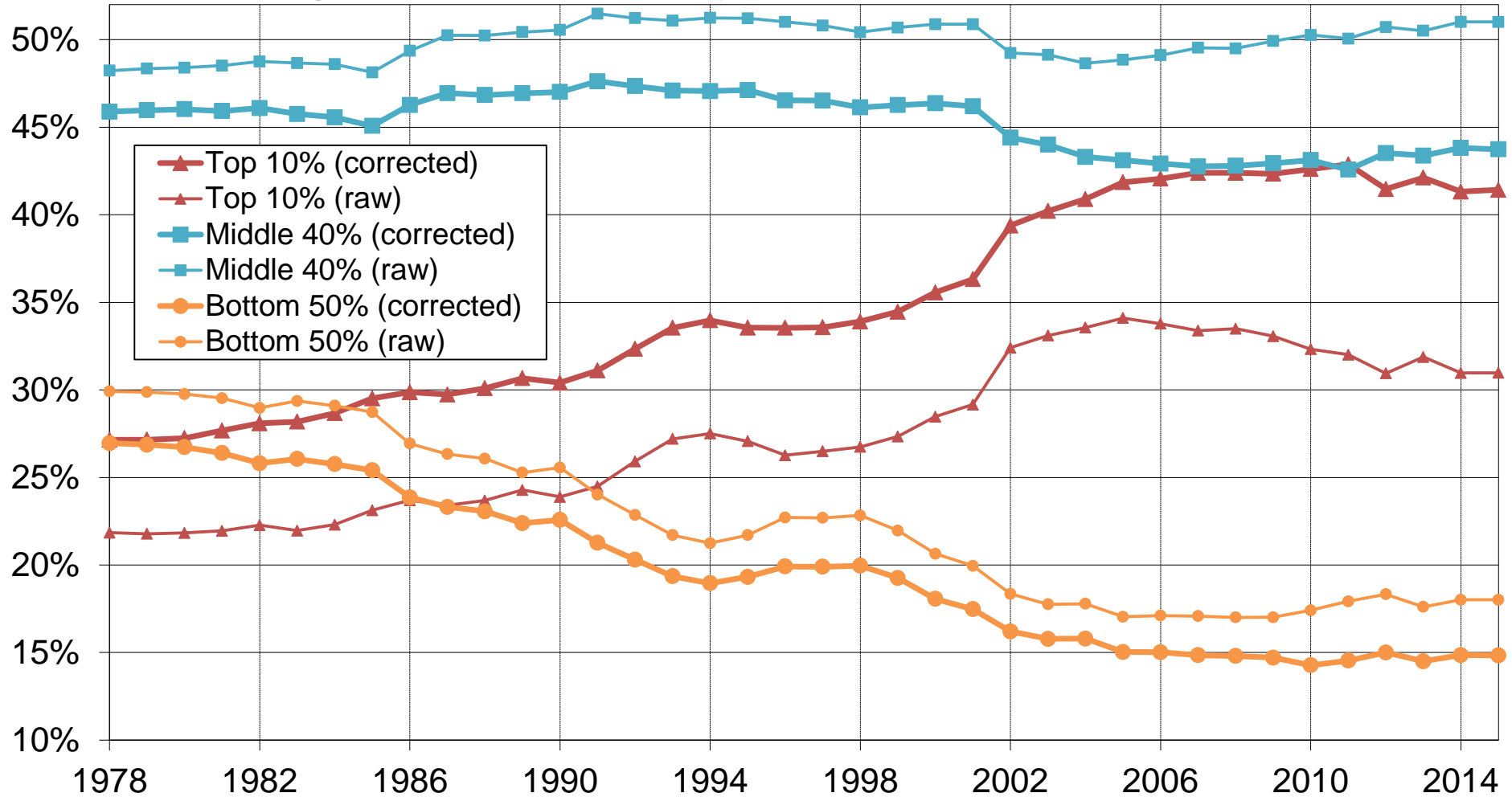


**Figure 10. Income inequality in China, 1978-2015: corrected estimates**



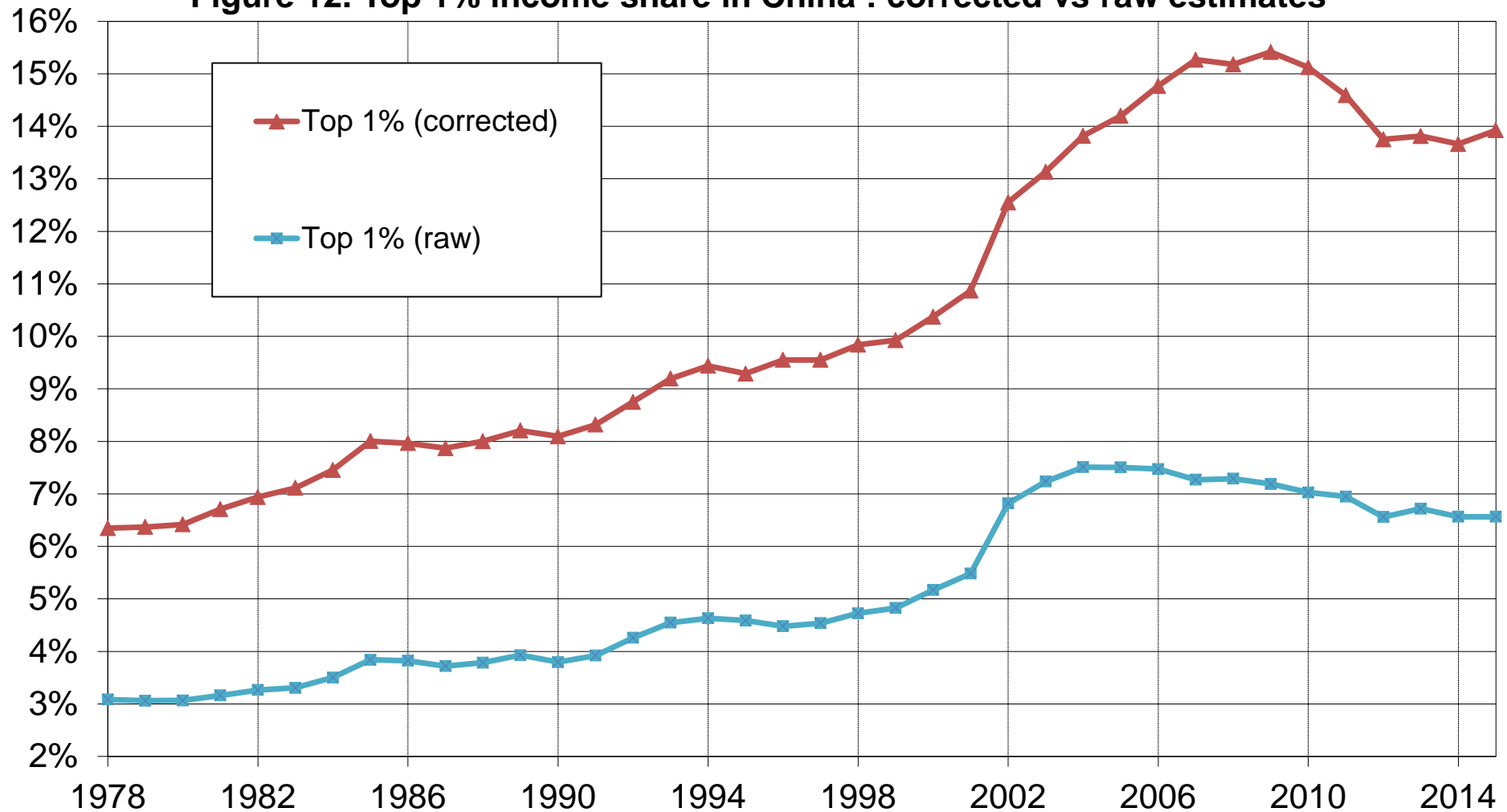
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.  
Corrected estimates (combining survey, fiscal, wealth and national accounts data).  
Equal-split-adults series (income of married couples divided by two).

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



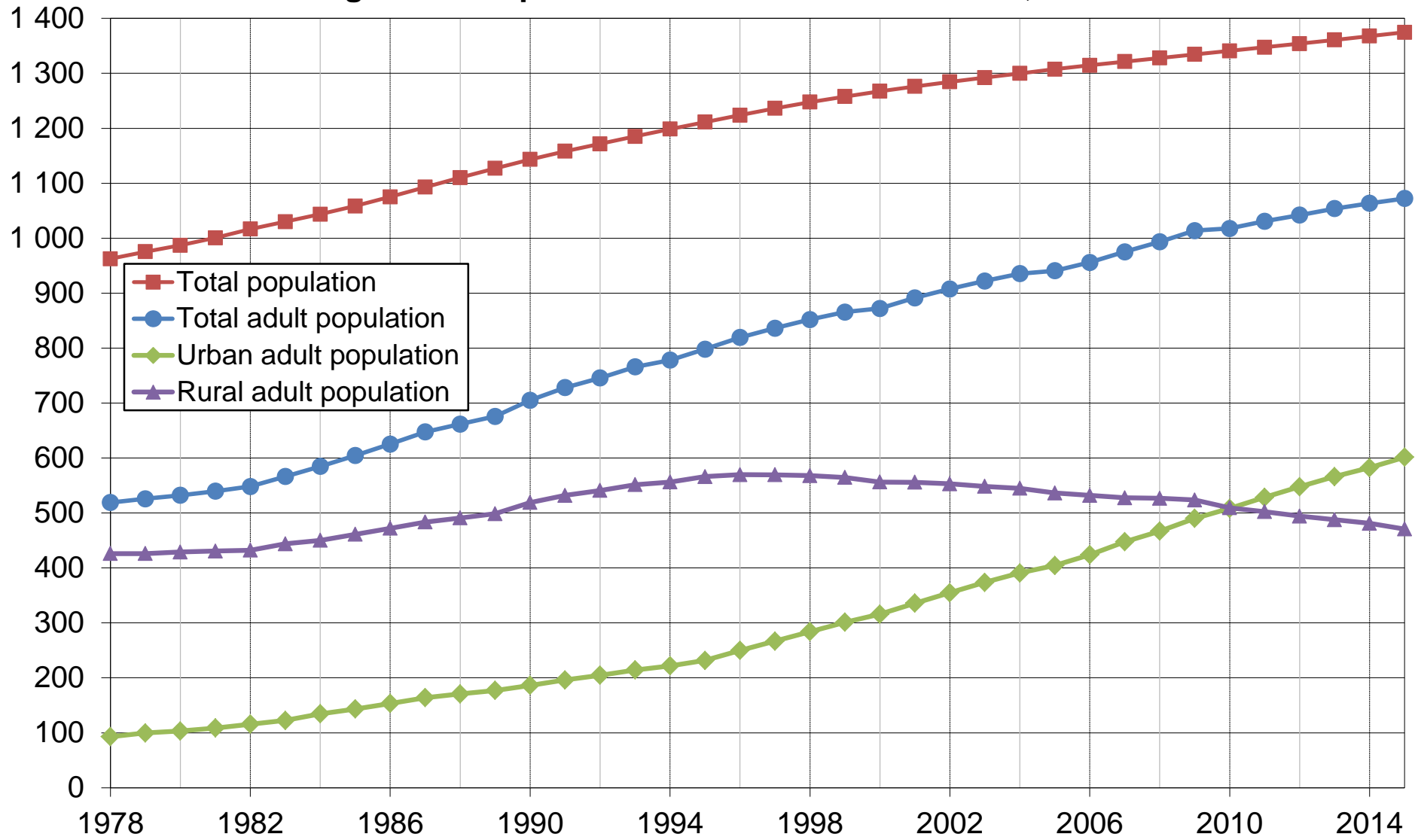
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data. Equal-split-adults series (income of married couples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

**Figure 12. Top 1% income share in China : corrected vs raw estimates**

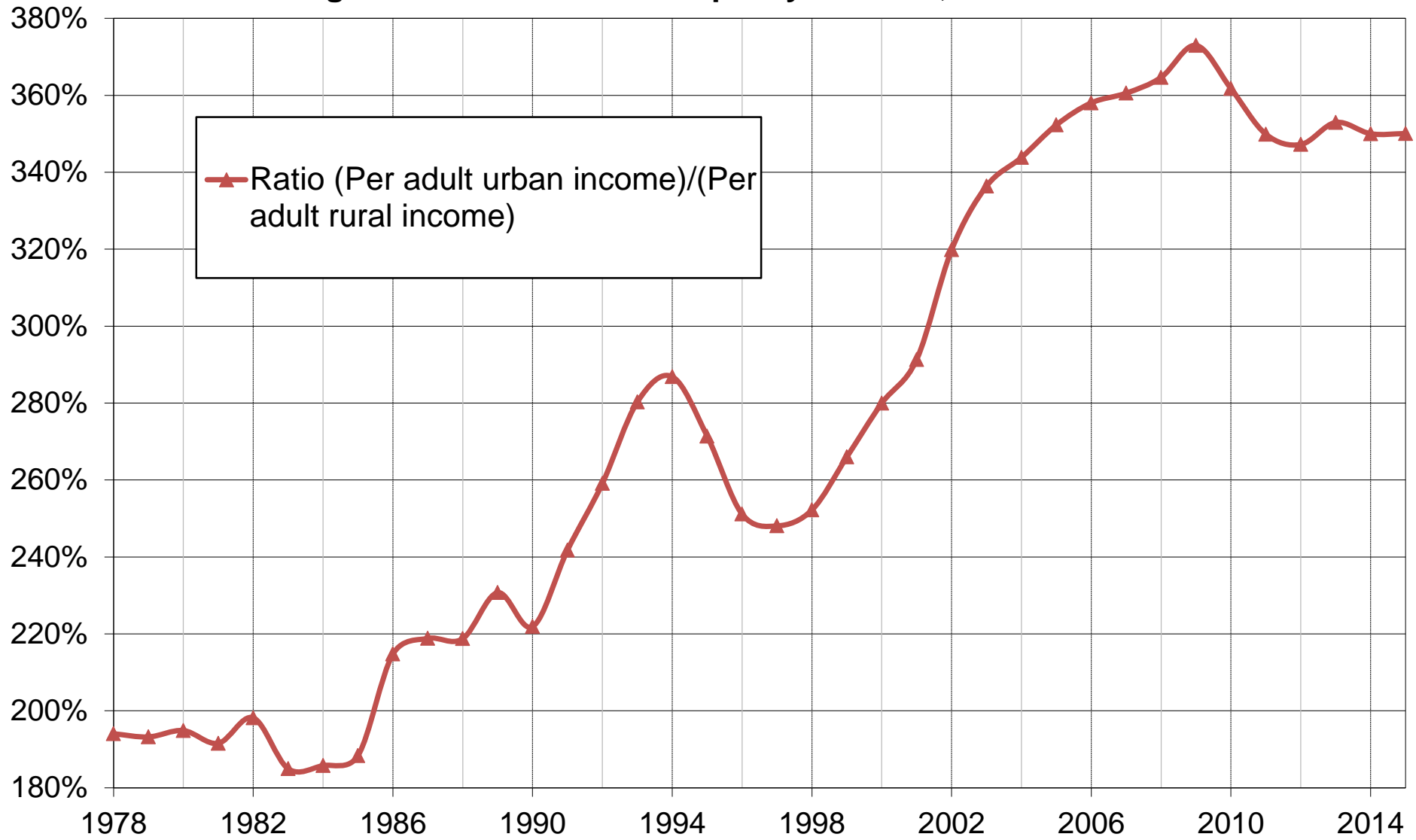


Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data. Equal-split-adults series (income of married couples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

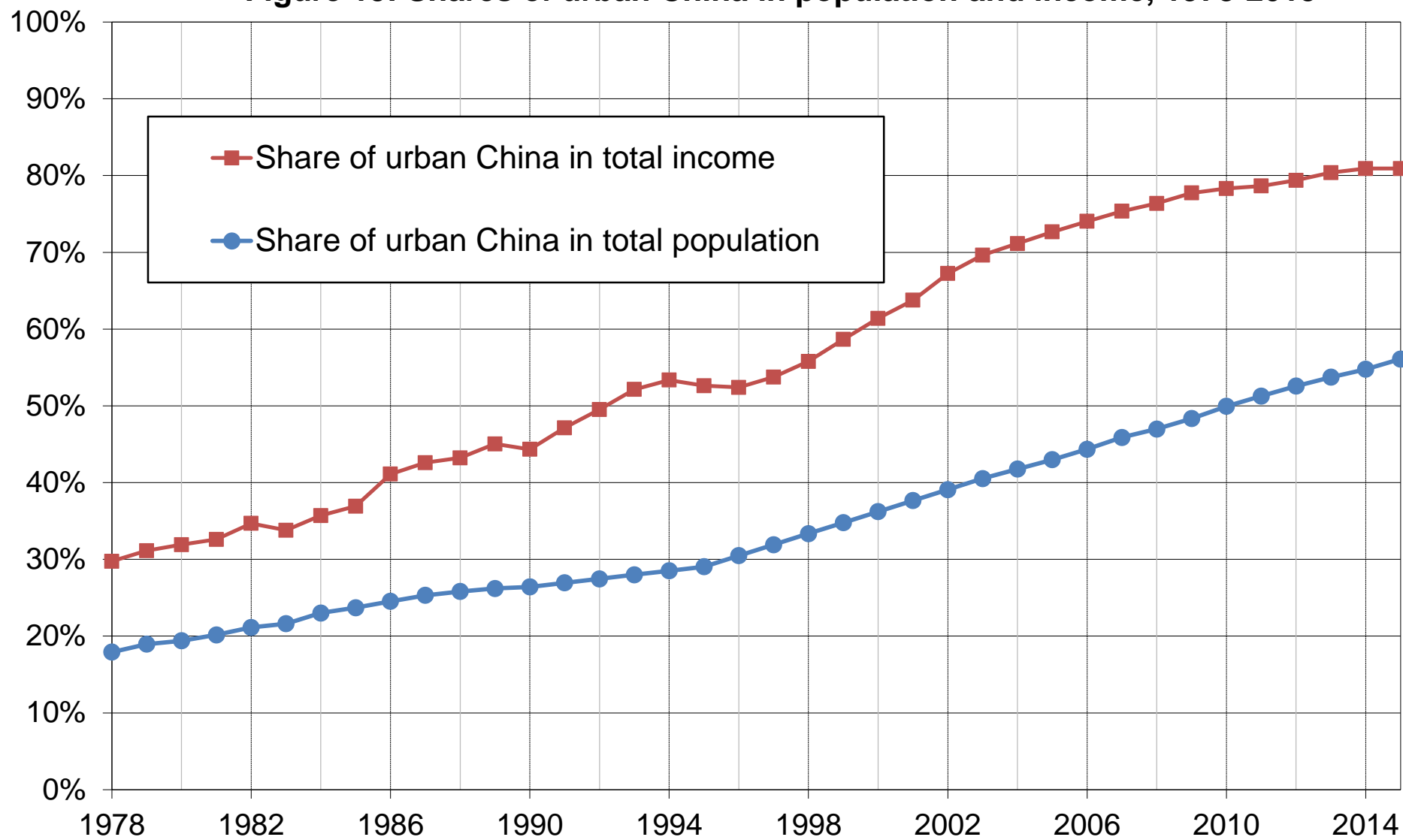
Figure 13: Population in urban and rural China, 1978-2015



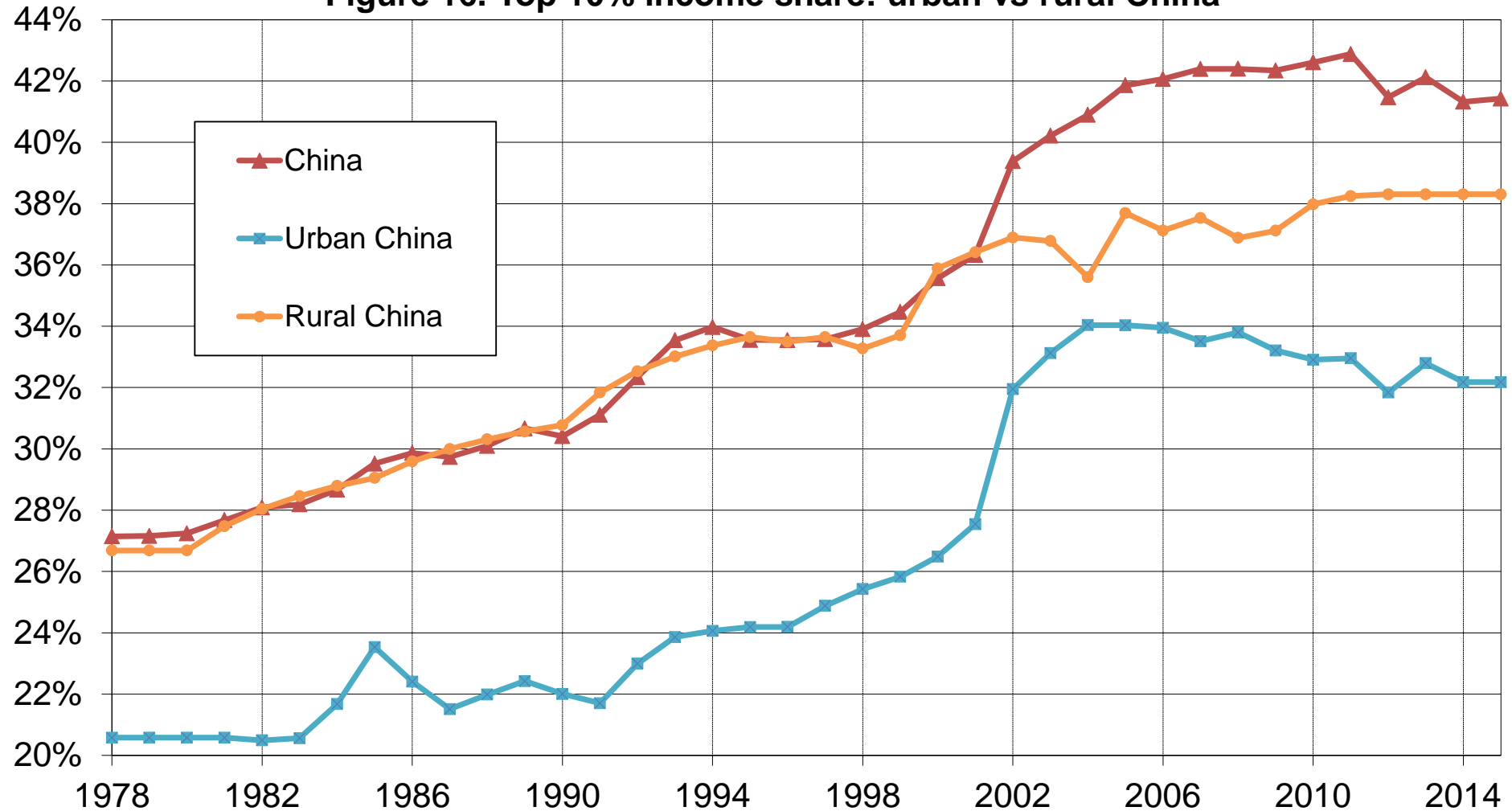
**Figure 14: Rural-Urban Inequality in China, 1978-2015**



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



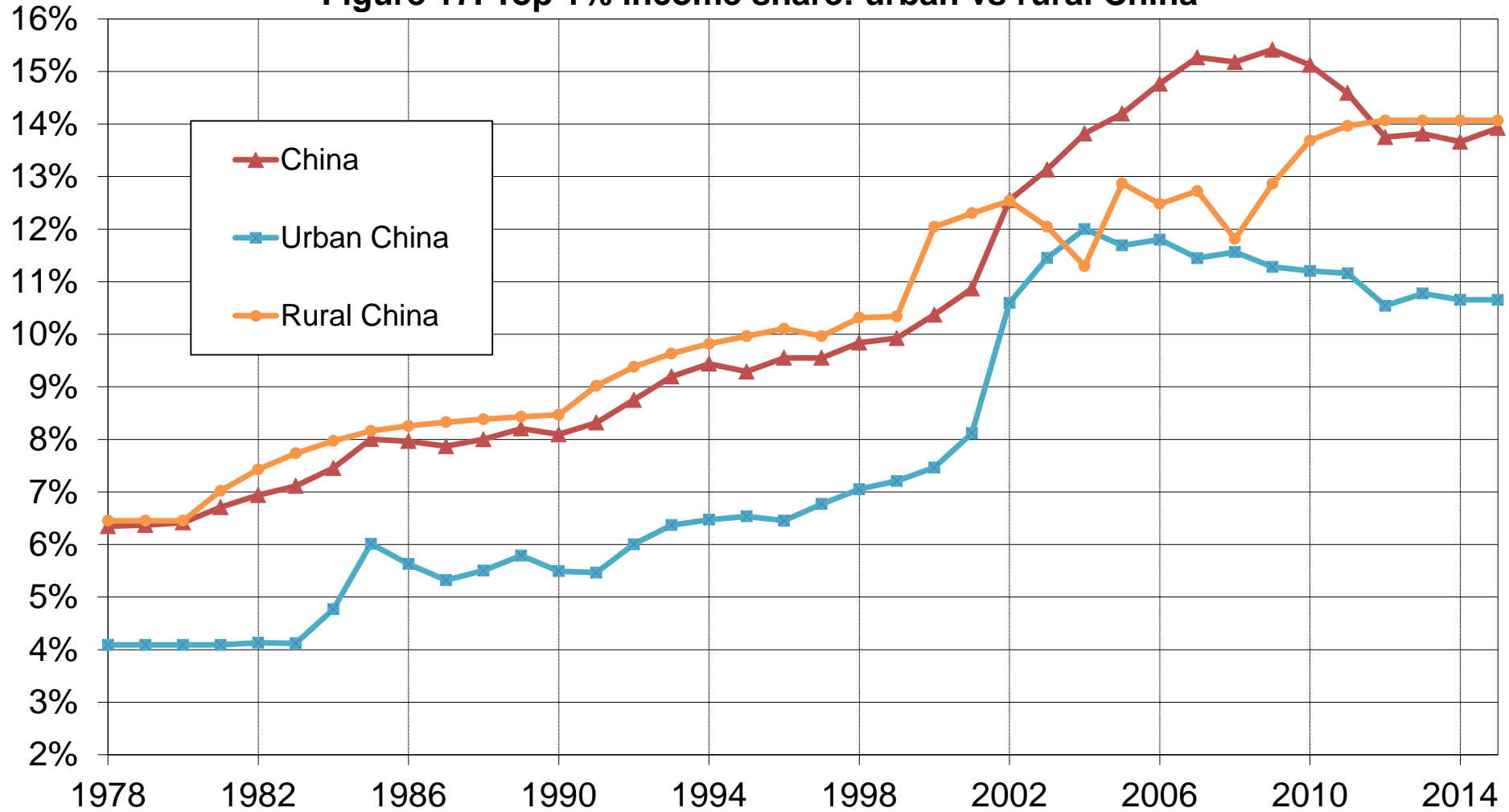
**Figure 16. Top 10% income share: urban vs rural China**



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).

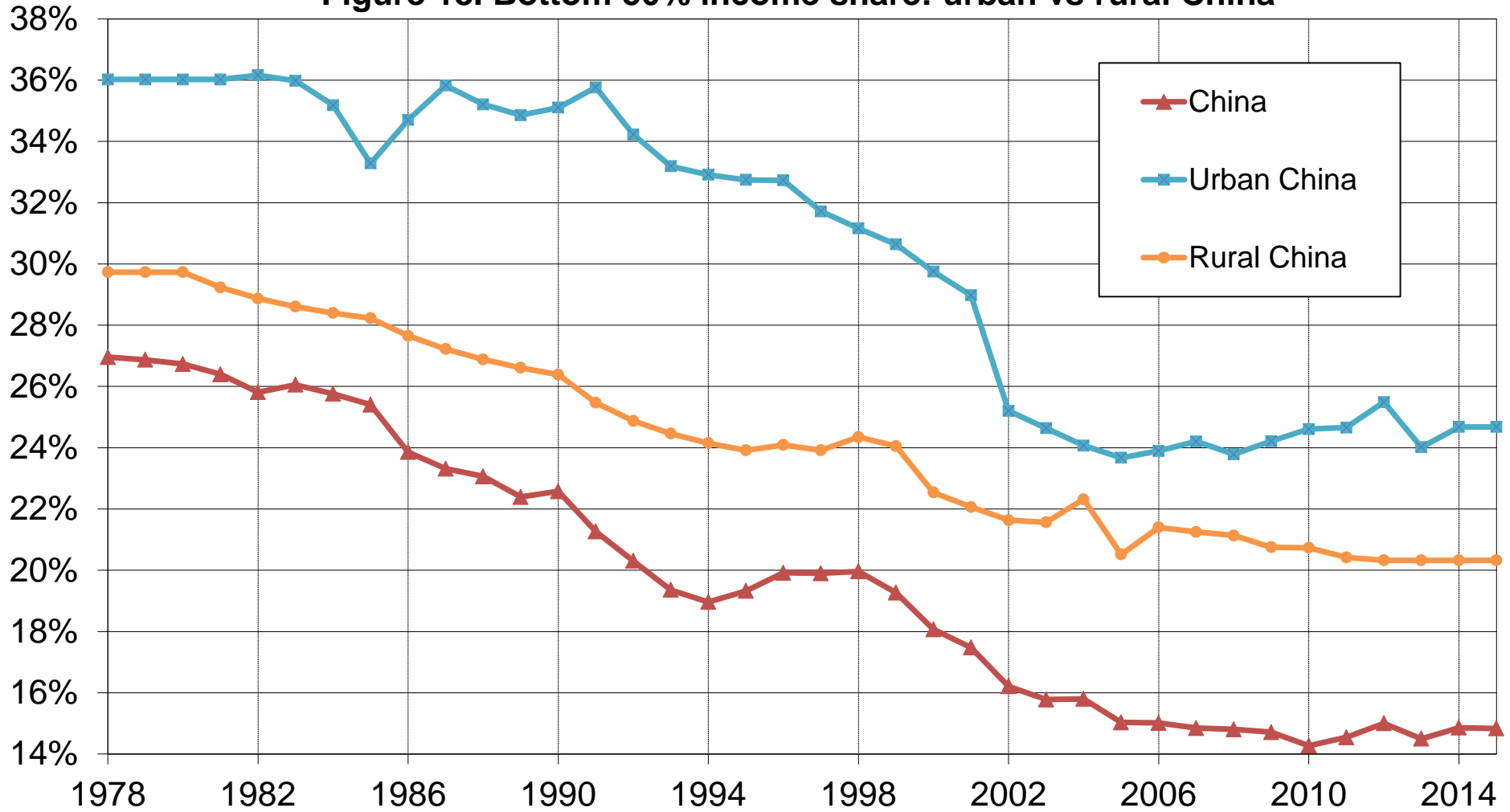


**Figure 17. Top 1% income share: urban vs rural China**



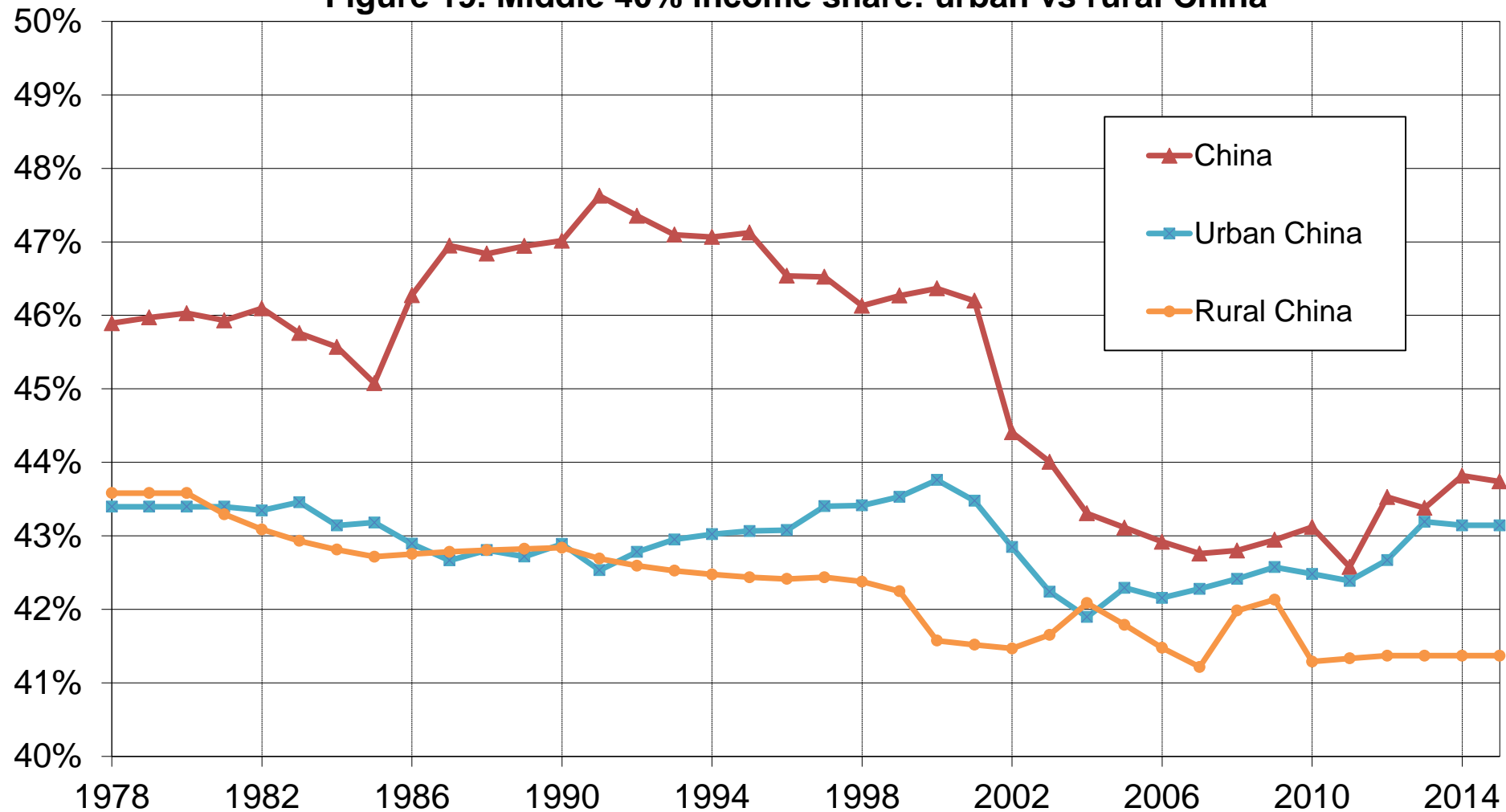
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.  
Corrected estimates (combining survey, fiscal, wealth and national accounts data).  
Equal-split-adults series (income of married couples divided by two).

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



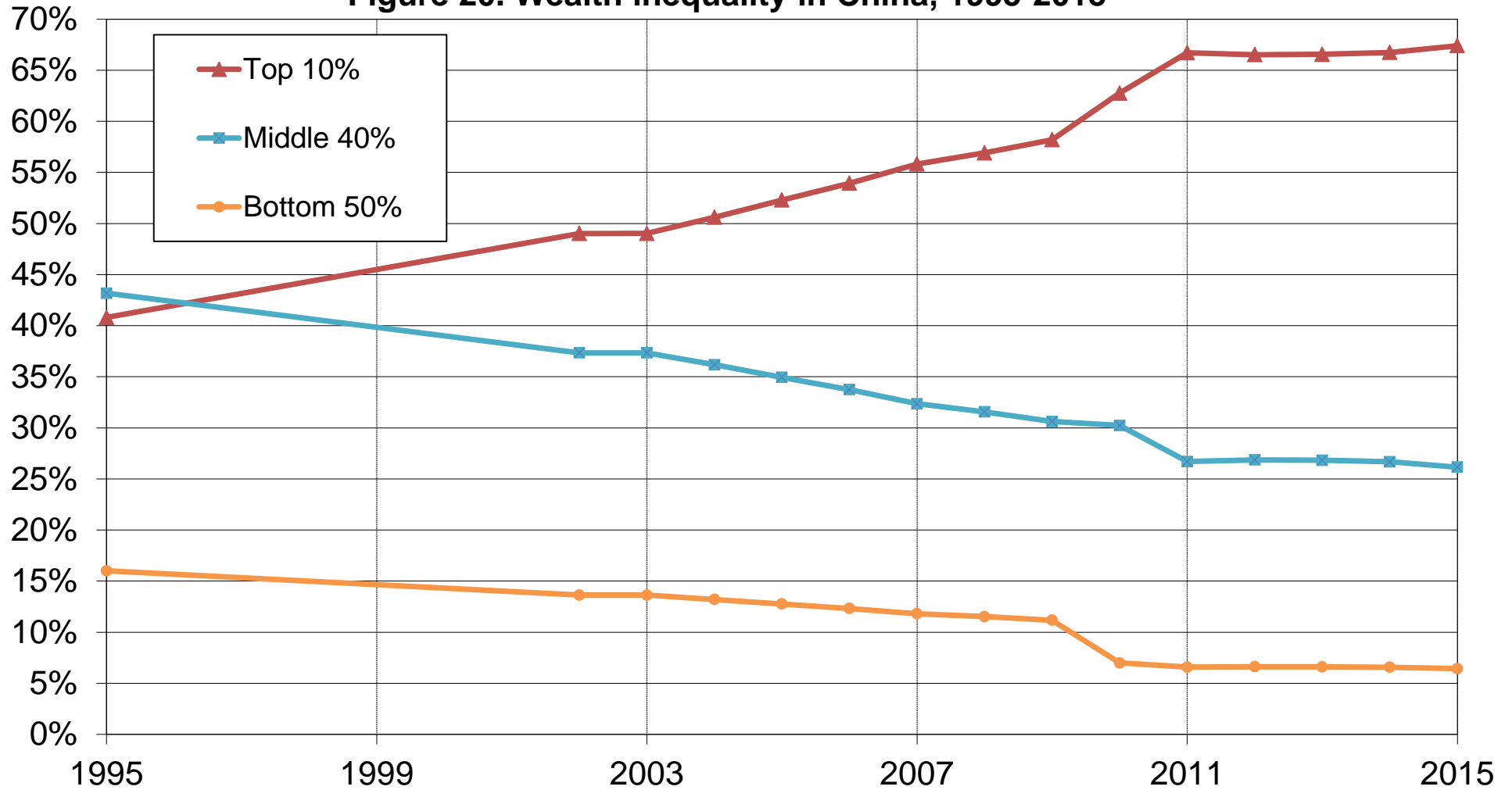
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.  
Corrected estimates (combining survey, fiscal, wealth and national accounts data).  
Equal-split-adults series (income of married couples divided by two).

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



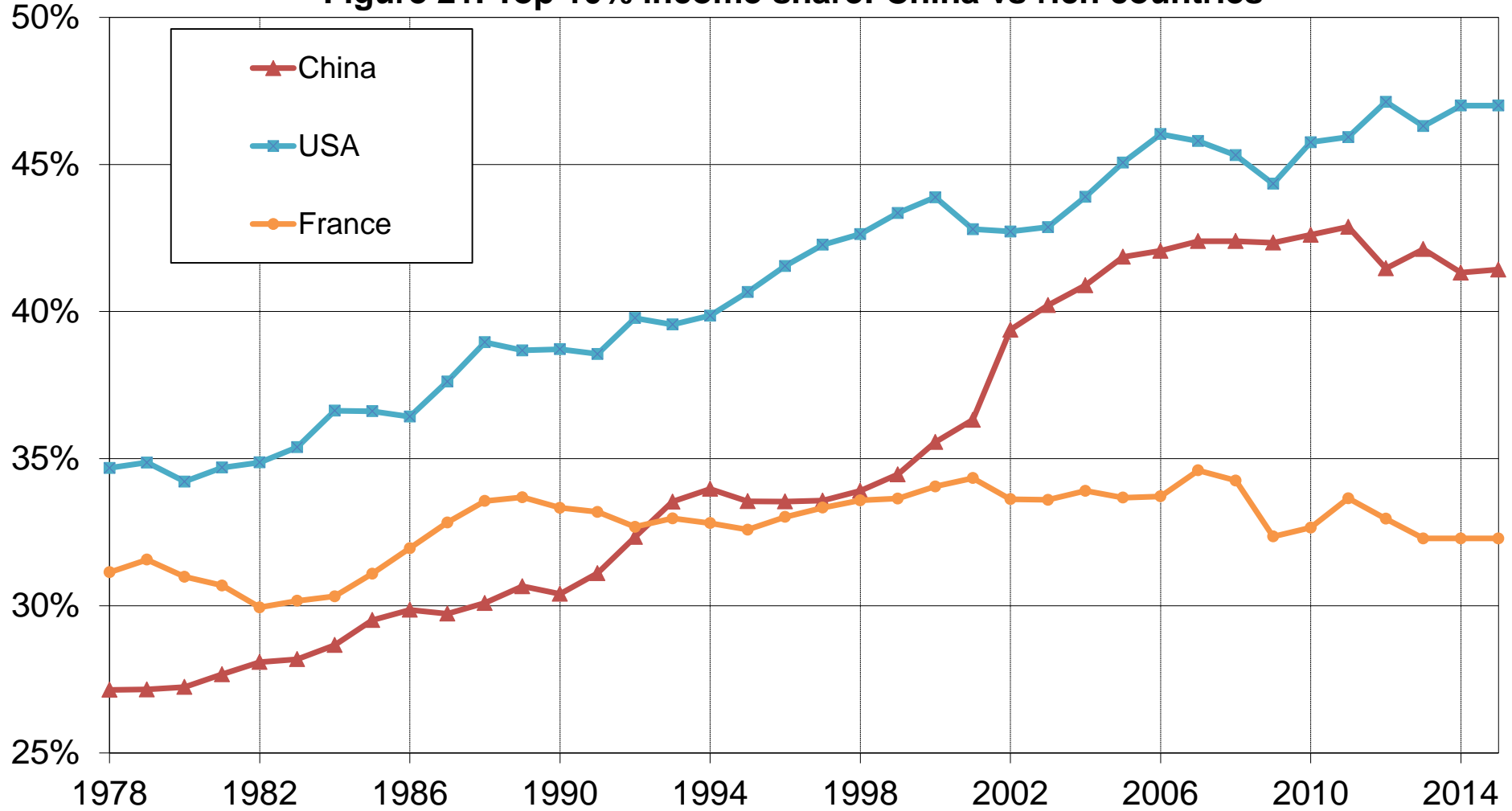
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.  
Corrected estimates (combining survey, fiscal, wealth and national accounts data).  
Equal-split-adults series (income of married couples divided by two).

**Figure 20. Wealth inequality in China, 1995-2015**



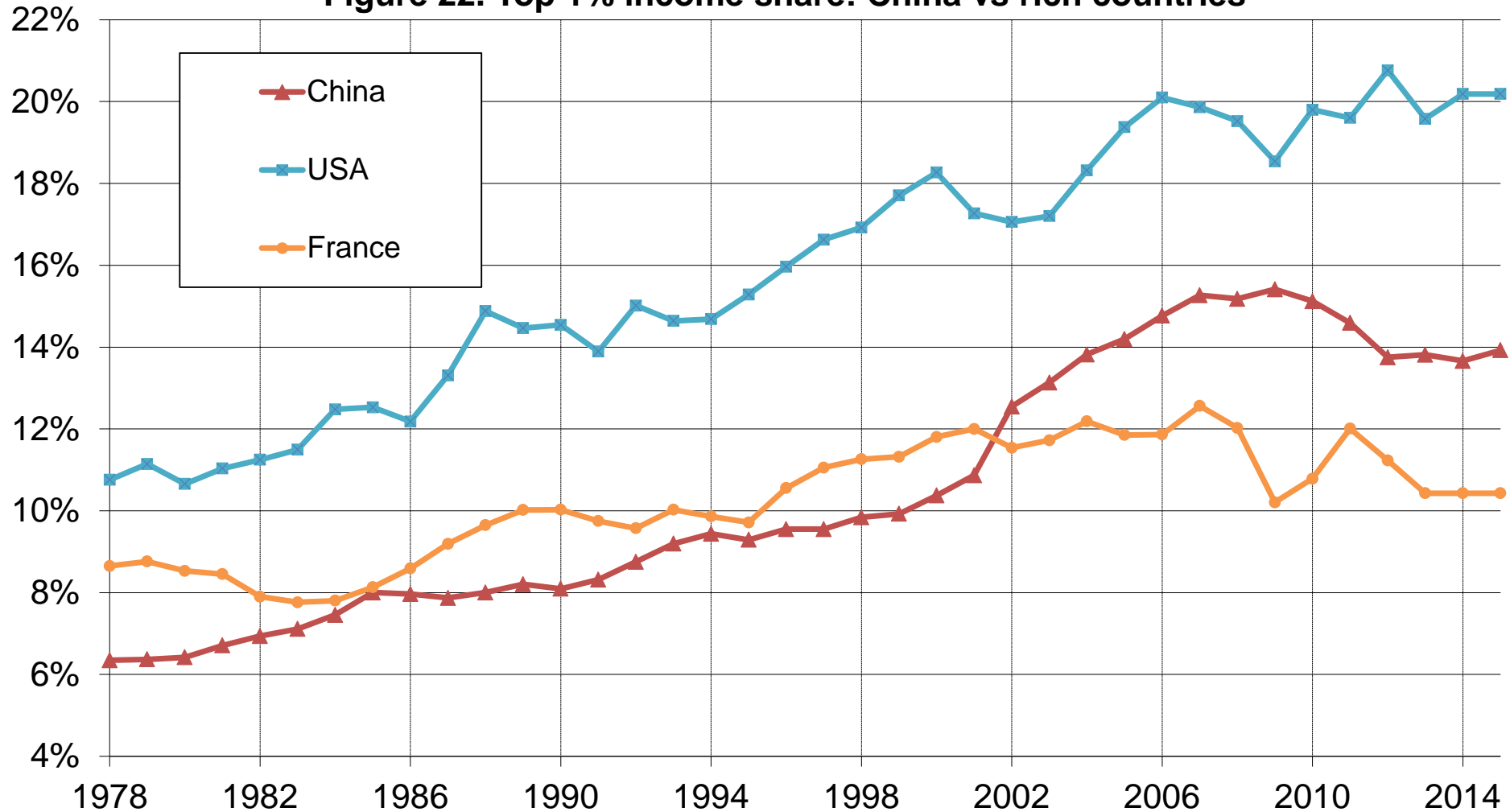
Distribution of net personal wealth among adults.  
Corrected estimates (combining survey data and wealth rankings).  
Equal-split-adults series (wealth of married couples divided by two).

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



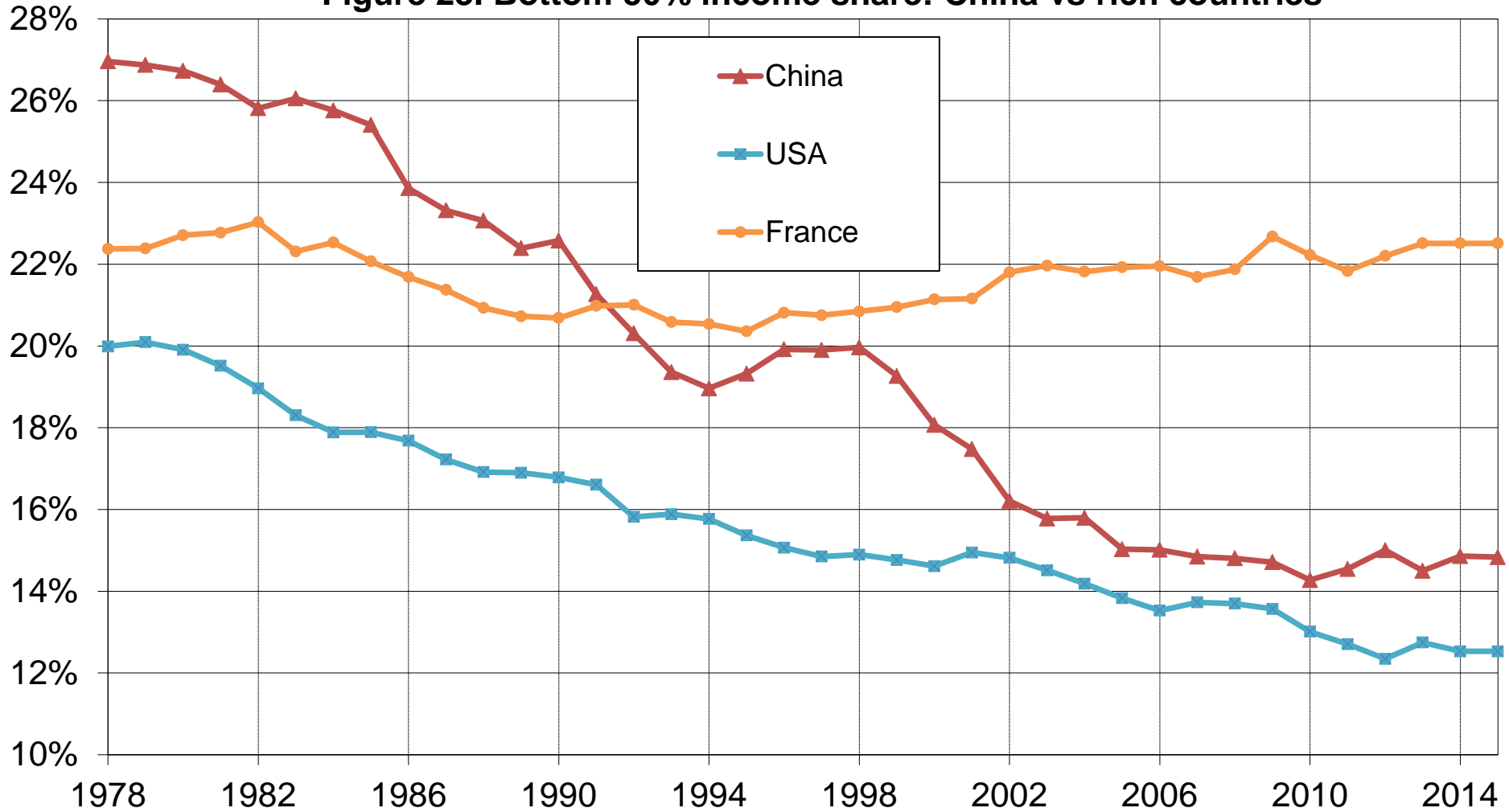
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.  
Corrected estimates (combining survey, fiscal, wealth and national accounts data).  
Equal-split-adults series (income of married couples divided by two).

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



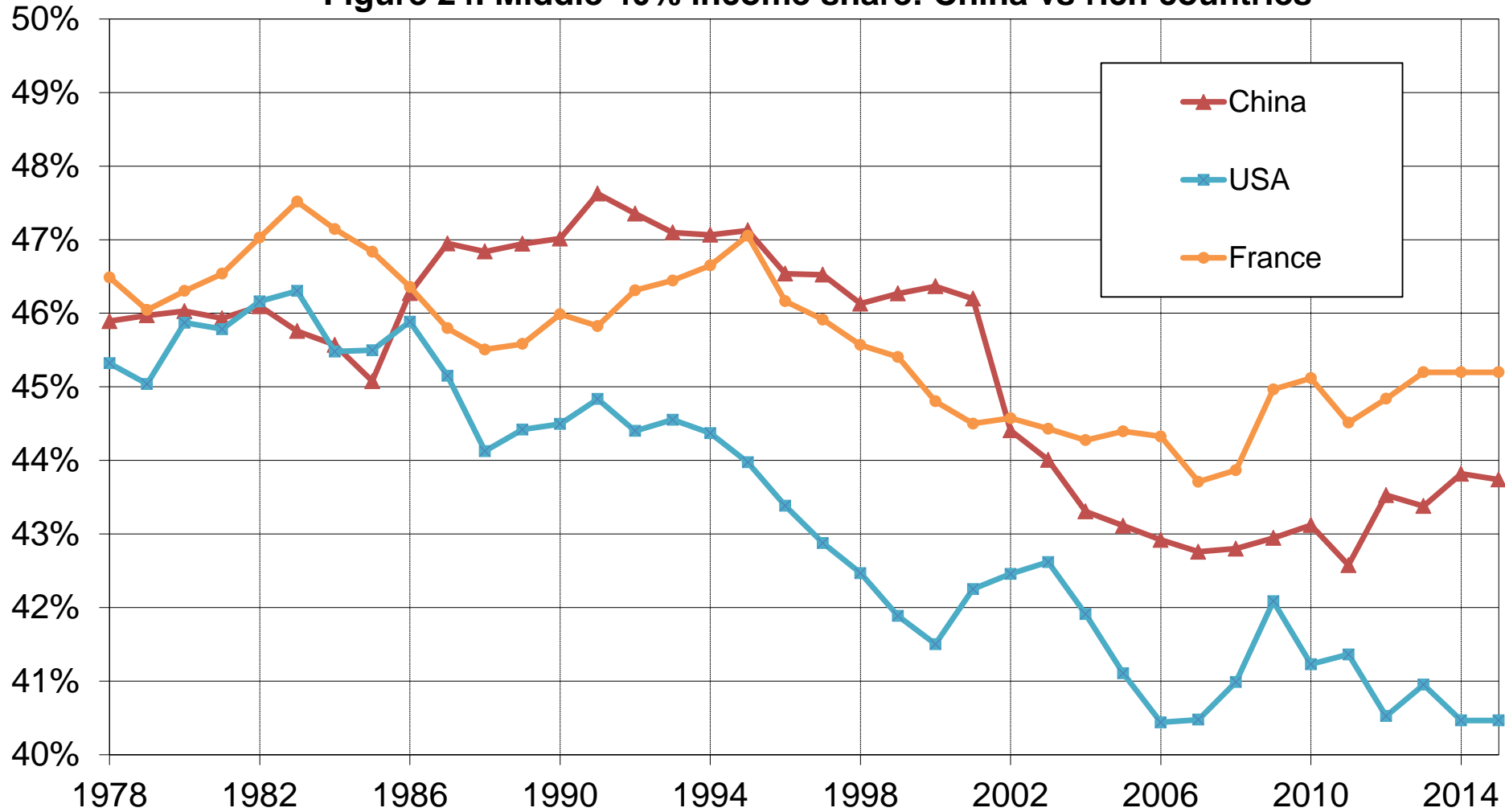
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.  
Corrected estimates (combining survey, fiscal, wealth and national accounts data).  
Equal-split-adults series (income of married couples divided by two).

**Figure 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).

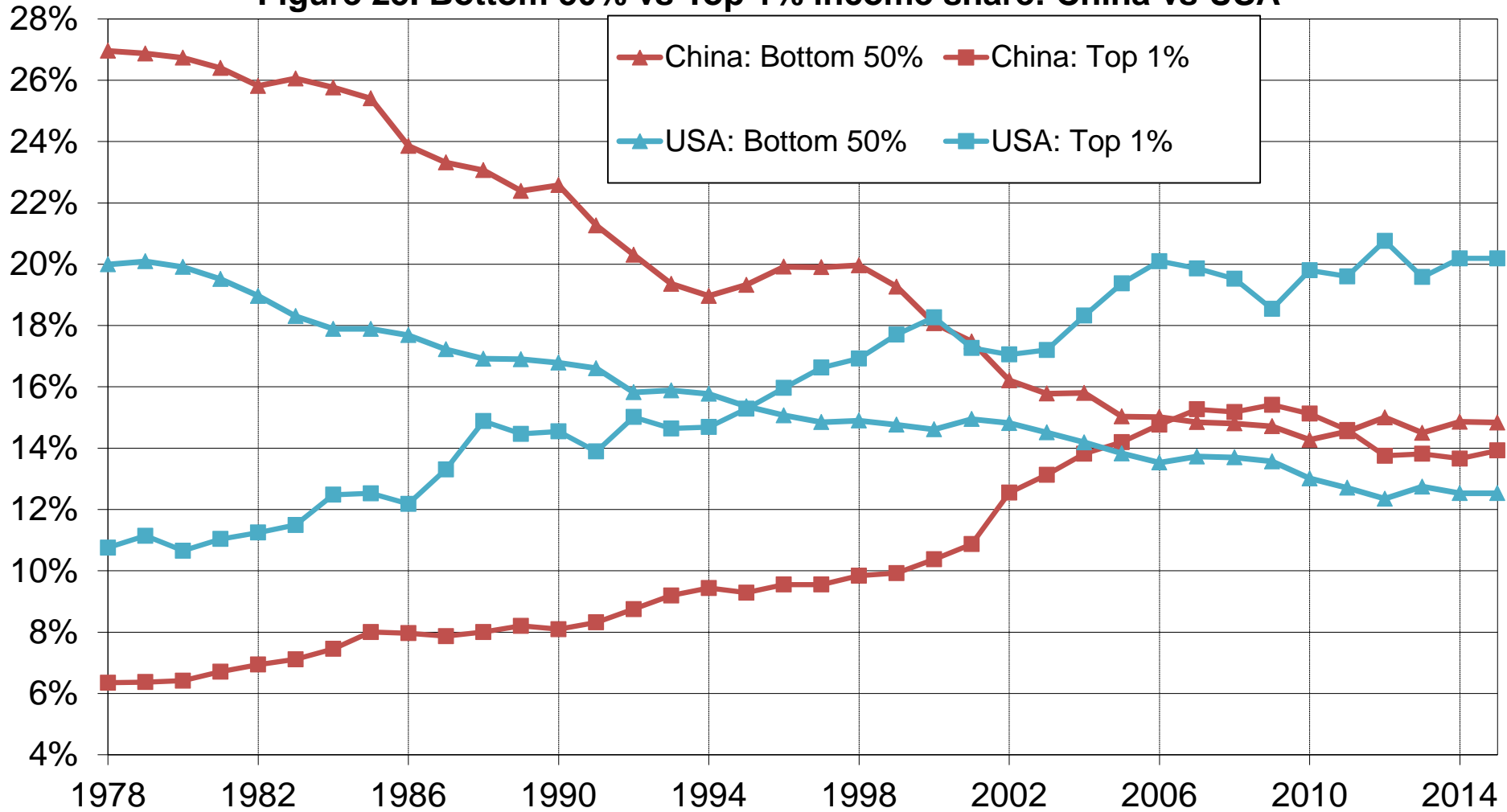
**Figure 24. Middle 40% income share: China vs rich countries**



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).

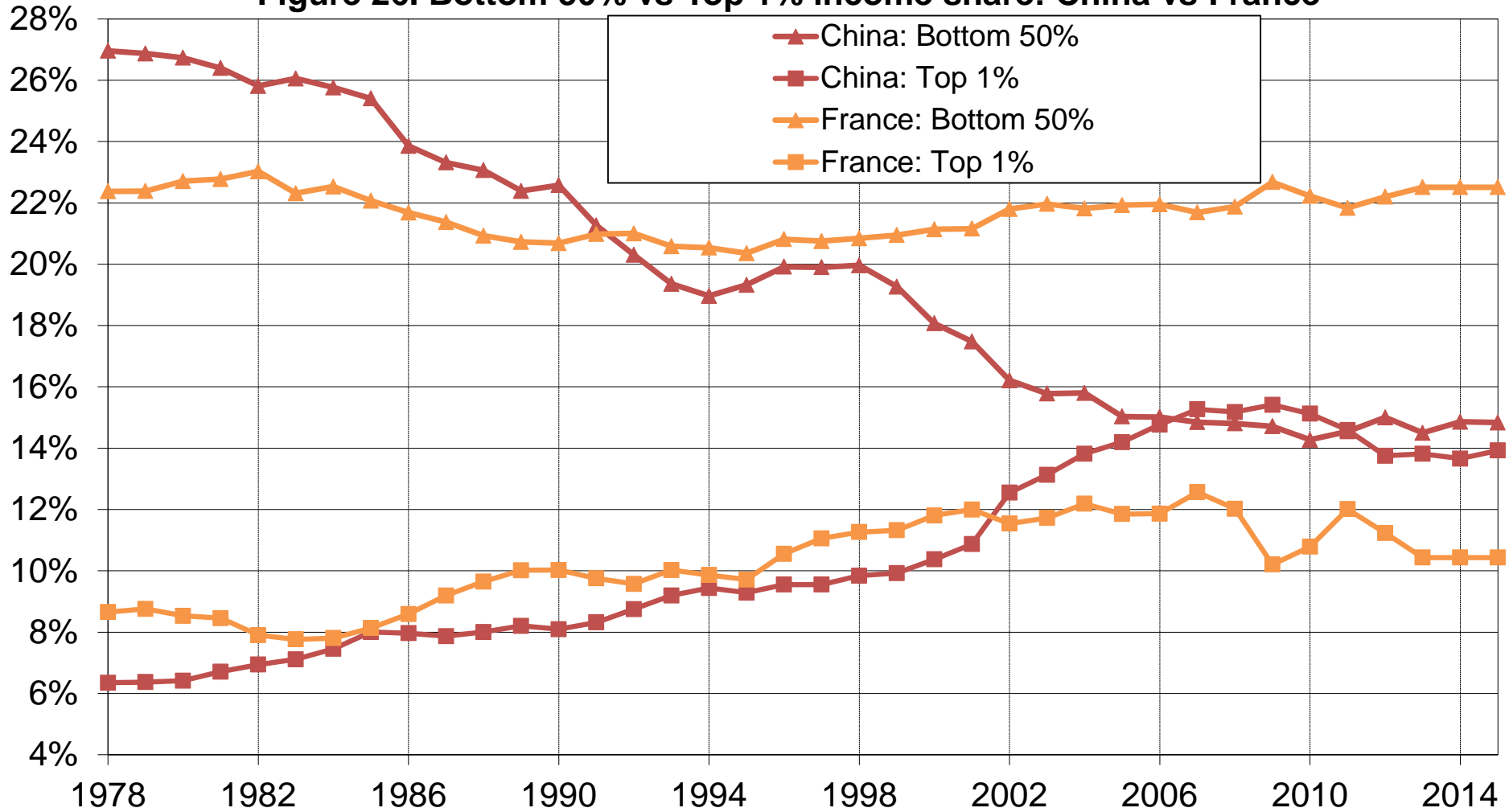


**Figure 25. Bottom 50% vs Top 1% income share: China vs USA**



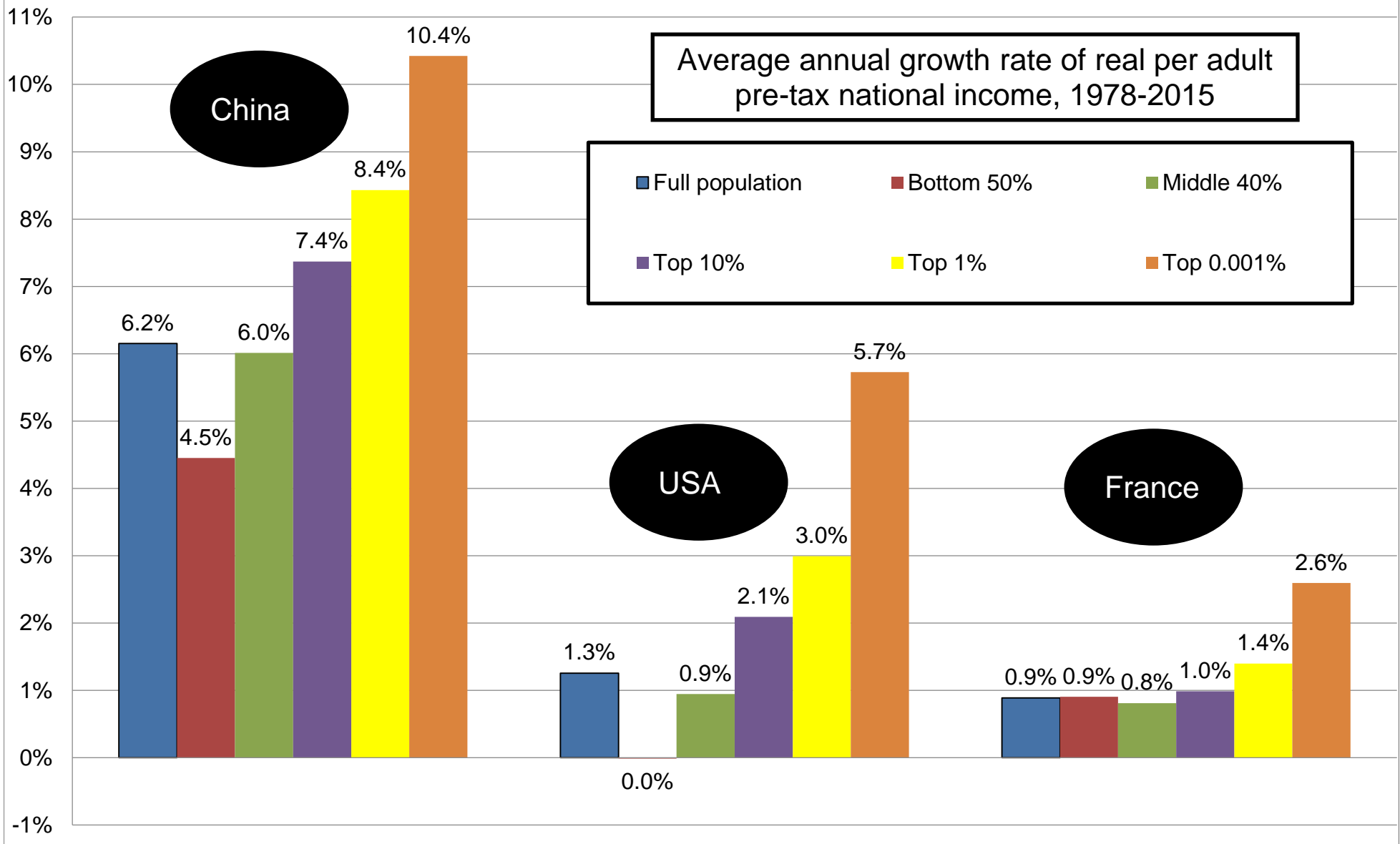
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.  
 Corrected estimates (combining survey, fiscal, wealth and national accounts data).  
 Equal-split-adults series (income of married couples divided by two).

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

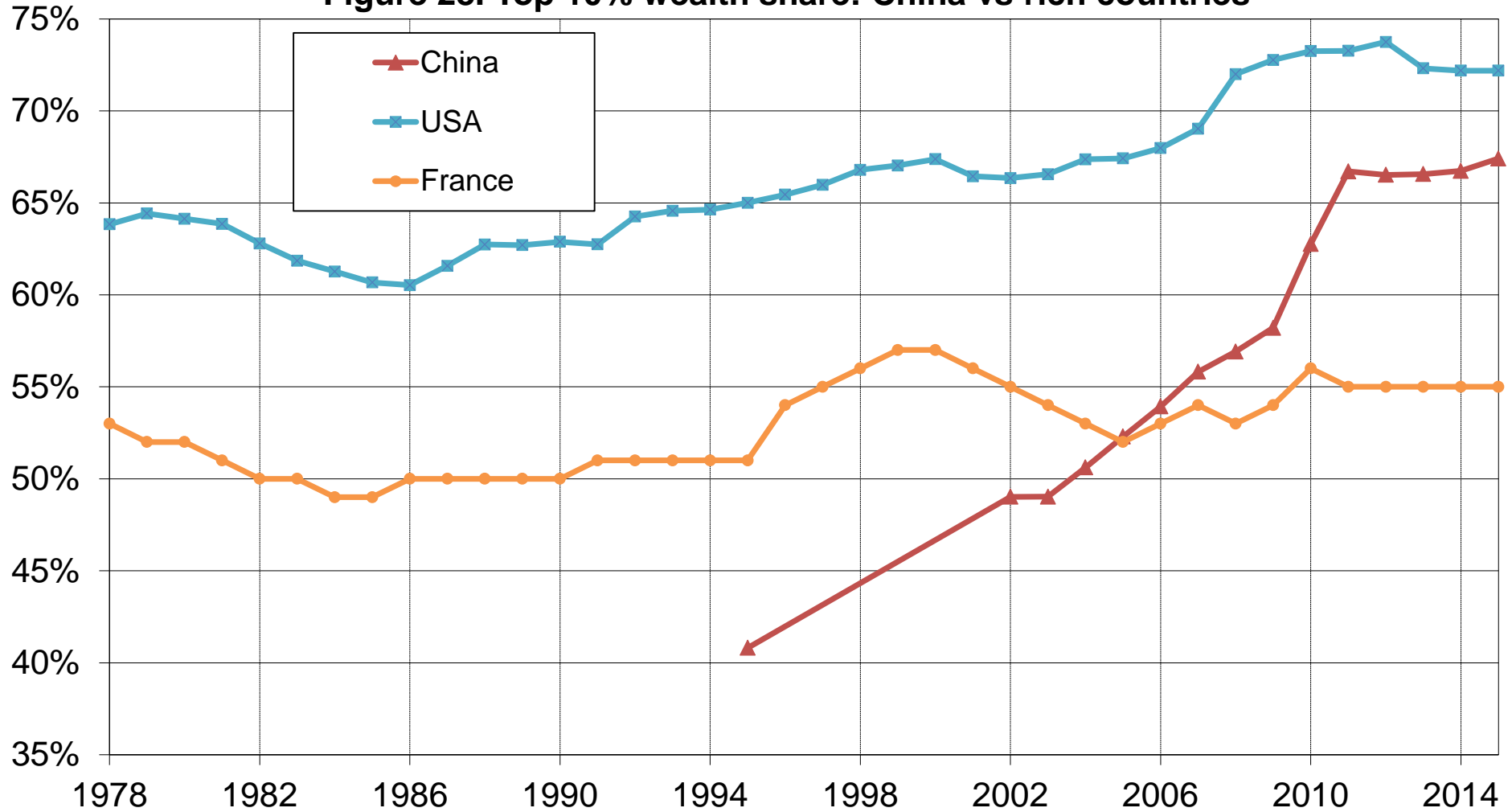


Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults.  
 Corrected estimates (combining survey, fiscal, wealth and national accounts data).  
 Equal-split-adults series (income of married couples divided by two).

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



**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).