Income inequality an insufficient consumption in China

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Part 01
Inequality and Economic Transition
Coverage

- **2011**
  - 25 provinces
  - 80 cities/districts/counties
  - 320 communities
  - 8438 households

- **2013**
  - 29 provinces
  - 262 cities/districts/counties
  - 1048 communities
  - 28141 households

- **2015**
  - 29 provinces
  - 363 cities/districts/counties
  - 1439 communities
  - 40000 households
Population shares of Housing Provident Fund

- Jiangxi: 15.2%
- Anhui: 12.6%
- Heilongjiang: 19.2%
- Guangxi: 15.4%
- Chongqing: 19.1%
- Jining: 8.5%
- Yunnan: 13.9%
- Hunan: 15.4%
- Hebei: 13.9%
- Henan: 19.1%
- Sichuan: 12.6%
- Inner Mongolia: 19.1%
- Shanxi: 17.0%
- Hebei: 16.4%
- Zhejiang: 19.1%
- Shandong: 15.4%
- Liaoning: 19.1%
- Gansu: 25.3%
- Guangdong: 20.3%
- Tianjin: 35.1%
- Jiangsu: 30.7%
- Shanxi: 17.0%
- Shanghai: 16.4%
- Beijing: 30.7%
- Nationwide: 17.0%

Official
CHFS
Part 02

Inequality and Consumption
### Household Income Gini Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Nationwide</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.6145</td>
<td>0.597</td>
<td>0.587</td>
</tr>
<tr>
<td>2012</td>
<td>0.6037</td>
<td>0.581</td>
<td>0.589</td>
</tr>
<tr>
<td>2014</td>
<td>0.6043</td>
<td>0.572</td>
<td>0.609</td>
</tr>
</tbody>
</table>

### National Bureau of Statistics
- 2010: 0.481
- 2012: 0.474
- 2014: 0.469
- 2015: 0.462

World average in 2010: 0.55

### Household Income p90/p10

<table>
<thead>
<tr>
<th></th>
<th>Nationwide</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>25.95</td>
<td>21.87</td>
<td>20.38</td>
</tr>
<tr>
<td>2012</td>
<td>28.61</td>
<td>19.20</td>
<td>25.50</td>
</tr>
<tr>
<td>2014</td>
<td>27.82</td>
<td>17.18</td>
<td>28.42</td>
</tr>
</tbody>
</table>

### Income inequality in China:
- Nationwide: No change
- Rural: increasing
- Urban: decreasing
How to understand the high Gini in China?

- A consequence of market economy and efficient resource allocation.

- Very little change of Gini if:
  - excluding households work in monopoly industries: 0.57
  - excluding households work in public sector: 0.58

- Income tax made little difference:
  - No income tax: 0.61

- Transfers made some differences:
  - No transfers at all: 0.6915
  - No “producer transfers” (mostly in agriculture): 0.6056
  - No social security income: 0.6857
  - No other social welfare programs: 0.6059
How to understand the high Gini in China?

- Income tax made little difference:
  - Few people paid income tax:
    - Currently only 58.43 million people or 4.2% paid income tax
    - In fact there should be 129.58 million 9.6% to pay income tax

- Transfers made some differences:
  - No transfers at all: 0.6915
  - No “producer transfers” (mostly in agriculture): 0.6056
  - No social security income: 0.6857
  - No other social welfare programs: 0.6059
Income tax: no effect

<table>
<thead>
<tr>
<th></th>
<th>Household income</th>
<th>Salary and wage income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before tax</td>
<td>After tax</td>
</tr>
<tr>
<td>Overall</td>
<td>0.61</td>
<td>0.61</td>
</tr>
<tr>
<td>Urban</td>
<td>0.57</td>
<td>0.56</td>
</tr>
<tr>
<td>Rural</td>
<td>0.60</td>
<td>0.60</td>
</tr>
</tbody>
</table>
Gini of OECD countries based on market incomes

- Gini coefficients of market income from OECD countries are close to 0.5.
- China has much higher heterogeneity than OECD countries, and very little income transfer programs.
- Gini in China is expected to be higher than 0.5.
Saving rates of various countries

People who are rich and who have liquidity constraints save more

China has the highest and the rising saving rate
Not everybody saved

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>64.1%</td>
</tr>
<tr>
<td>Rural</td>
<td>55.6%</td>
</tr>
<tr>
<td>Overall</td>
<td>60.6%</td>
</tr>
</tbody>
</table>

Only 2/3 of households have positive saving

Unequal distribution of saving

<table>
<thead>
<tr>
<th>Income group</th>
<th>China Saving rates</th>
<th>China Proportion in total saving</th>
<th>US Saving rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest 5%</td>
<td>71.2%</td>
<td>52.1%</td>
<td>37.2%</td>
</tr>
<tr>
<td>Highest 10%</td>
<td>64.9%</td>
<td>64.0%</td>
<td>27.5%</td>
</tr>
<tr>
<td>Highest 20%</td>
<td>58.0%</td>
<td>77.6%</td>
<td>21.3%</td>
</tr>
</tbody>
</table>
Various policies to encourage consumption had little success

- China’s poor don’t have money to spend. They cannot borrow against the credit cards.
- China's rich are already spending what they need, and pocketing most of the rest.
- Unequal income distributions and liquidity constraints cause insufficient domestic demand.
- Improving income distribution would promote economic transition
## Increasing the minimum wage: no effect

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gini before adjustment</td>
<td>0.61</td>
<td>0.56</td>
<td>0.60</td>
</tr>
<tr>
<td>Strict enforcement</td>
<td>0.58</td>
<td>0.55</td>
<td>0.56</td>
</tr>
<tr>
<td>Minimum wage increases by:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td>0.58</td>
<td>0.54</td>
<td>0.56</td>
</tr>
<tr>
<td>100%</td>
<td>0.58</td>
<td>0.54</td>
<td>0.56</td>
</tr>
</tbody>
</table>
Transfer payments can effectively reduce Gini
According to the US Congressional Budget Office: the poorest 20% of households: market income: $7,500; after transfer payments: $30,000.

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excluding social security funds</td>
<td>14.5%</td>
<td>36.6%</td>
</tr>
<tr>
<td>Including social security funds</td>
<td>29.8%</td>
<td>46.7%</td>
</tr>
</tbody>
</table>
Financial Resources to Implement Large-scale Government Transfer Payments

- Where the money comes from:
  - 70% of state-owned enterprise profits
  - 50% of incremental government revenue
  - 2% of GDP deficit
- Total = 3.8 trillion RMB
  - 36% of government spending, similar to the US level
Dramatic effect on income inequality

<table>
<thead>
<tr>
<th></th>
<th>Subsidy per family (RMB)</th>
<th>Overall</th>
<th>City</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before transfer</td>
<td></td>
<td>0.61</td>
<td>0.56</td>
<td>0.60</td>
</tr>
<tr>
<td>Subsidize all</td>
<td>9,500</td>
<td>0.49</td>
<td>0.48</td>
<td>0.43</td>
</tr>
<tr>
<td>Subsidize the bottom 80%</td>
<td>12,800</td>
<td>0.46</td>
<td>0.45</td>
<td>0.38</td>
</tr>
<tr>
<td>Subsidize the bottom 60%</td>
<td>15,800</td>
<td>0.42</td>
<td>0.44</td>
<td>0.32</td>
</tr>
</tbody>
</table>
Part 03

An EITC Field Experiment in China
Incentive compatible welfare system

- Conditional Cash Transfer (CCT) project
  - Motivate families health and education investments
    Example: the free lunch program for school kids

- Earned Income Tax Credit system (EITC)
  - Negative tax rate for working class
  - 30% of American households benefit from this system, negative rates up to 30%
A Field experiment of EITC

• Started on Nov 2013
• 120 households in treatment group, 120 households in control group
• Average cost per household is about 400 RMB per month
A Field experiment of EITC

### Employment rate

<table>
<thead>
<tr>
<th></th>
<th>2015.12</th>
<th>2016.10</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment group</td>
<td>59.7%</td>
<td>70.7%</td>
<td>11%</td>
</tr>
<tr>
<td>Control group</td>
<td>64.9%</td>
<td>65.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Policy effect</td>
<td></td>
<td></td>
<td>10.6%</td>
</tr>
</tbody>
</table>

### Living expenses (RMB per month)

<table>
<thead>
<tr>
<th></th>
<th>2015.12</th>
<th>2016.10</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment Group</td>
<td>976</td>
<td>1349</td>
<td>373</td>
</tr>
<tr>
<td>Control group</td>
<td>1326</td>
<td>1376</td>
<td>50</td>
</tr>
<tr>
<td>Policy effect</td>
<td></td>
<td></td>
<td>323</td>
</tr>
</tbody>
</table>
Contact us:
pr@chfs.cn

Thank You!

Let China understand herself, Let the world know China.