

How Does the Party Rule?  
The Impact of Chinese Communist Party Membership on  
Inequality, Household Assets Portfolio, and Wealth  
Accumulation

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# Background & Research Question

- Political status and connections might play key role in inequality dynamics between individuals.
  - Johnson and Mitton, 2003;; Khwaja and Mian, 2005; Faccio, 2006.
- In the context of China:
  - Unique Party at the Government → individual membership gives political power and connections.
  - Emerging literature measuring the economic returns on **labor income** of Chinese Communist Party (CCP)
    - Li et al. 2007; Appleton, 2009; McLaughlin (2016); Gu, Zheng (2018), Guo, Sun (2019), Nikolov et al. (2019)
  - However, no literature on the role of CCP for **wealth** and **wealth accumulation** → our key contribution.
- Research outline:
  - Provide a **description** of wealth differences between CCP members and non-members
  - We are not claiming **causal** effects

# Data and Descriptives

# Data - China Household Finance Survey (CHFS)

- Panel representative of urban and rural China
- Provides **very detailed** info on HH Wealth and Income.

		2011	2013	2015	2017
<b>N of HH</b>		8.438	28.141	37.289	40.011
<b>N of Individuals</b>		25.008	83.531	114.633	109.412
<b>Education</b>	Non-missing Rate	0,98	0,99	0,97	0,99
	% (Med Educ)	0,28	0,28	0,28	0,28
	% (High Educ)	0,08	0,10	0,10	0,10
<b>Age</b>	Non-missing Rate	1,00	1,00	1,00	1,00
	Mean Age	43,55	44,64	45,91	48,22
<b>Female</b>	Non-missing Rate	1,00	1,00	1,00	1,00
	% of female=1	0,50	0,50	0,50	0,50
<b>CCP - IND</b>	Non-missing Rate	0,65	0,66	0,64	0,67
	% of ind_ccp=1	0,13	0,13	0,15	0,15
<b>CCP - HH</b>	Non-missing Rate	0,99	1,00	1,00	0,99
	% of hh_ccp=1	0,25	0,24	0,24	0,23
<b>Rural</b>	Non-missing Rate	1,00	1,00	1,00	1,00
	% of rural=1	0,38	0,32	0,31	0,32

# Data - China Household Finance Survey (CHFS)

- China Household Finance Survey (CHFS)
- Panel representative of urban and rural China
- Population of  $\geq 15$  years old

Around **24%** of the HHs in our sample have at least 1 CCP member.

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<b>Rural</b>	Non-missing Rate	1,00	1,00	1,00	1,00
	% of rural=1	0,38	0,32	0,31	0,32

# CCP Membership



CCP share increasing in both Net Wealth and Total HH income distribution

# CCP Membership

Probability of being CCP member (Probit model) on individual sample.

CCP members are more likely to be:

- Males
- High educated
- Above 45
- Employed (ref. group) or Retired

Sample includes only **urban** China.

	2011		2013		2015		2017	
<i>Female</i>	-9.28	***	-9.76	***	-9.80	***	-11.19	***
<i>Married</i>	-0.20		1.07	**	2.64	***	1.27	**
<i>Rural</i>	0.65		1.03	**	1.39	***	0.44	
<i>No High School</i>	-11.63	***	-10.68	***	-11.39	***	-10.76	***
<i>Vocational</i>	11.84	***	11.86	***	11.94	***	13.73	***
<i>University</i>	22.24	***	23.77	***	24.24	***	24.04	***
<i>Age: &lt;=25</i>	-9.06	***	-4.34	***	-6.02	***	-8.20	***
<i>Age: 26-35</i>	-4.34	***	-3.69	***	-4.20	***	-3.85	***
<i>Age: 46-55</i>	1.32		2.04	***	2.69	***	1.88	***
<i>Age: &gt;56</i>	8.34	***	8.32	***	8.85	***	7.34	***
<i>Self Employed</i>	-6.81	***	-5.10	***	-5.34	***	-4.85	***
<i>Farming</i>	-7.20	***	-5.70	***	-6.95	***	-6.17	***
<i>Retired</i>	1.05		3.89	***	3.09	***	6.22	***
<i>Out of LF</i>	-5.11	***	-5.15	***	-6.10	***	-3.64	***
<i>Unemployed</i>	-5.64	***	-5.11	***	-4.50	***	-4.29	***
<i>N</i>	16.045		55.321		64.884		70.005	

# CCP Unadjusted Income and Wealth Gap

	2013			2015			2017		
	<i>CCP=1</i>	<i>CCP=0</i>	$\Delta$	<i>CCP=1</i>	<i>CCP=0</i>	$\Delta$	<i>CCP=1</i>	<i>CCP=0</i>	$\Delta$
<i>Gross Wealth</i>	129.900	95.166	<b>0,27</b>	139.685	106.764	<b>0,24</b>	169.681	126.491	<b>0,25</b>
<i>Net Wealth</i>	123.456	90.071	<b>0,27</b>	133.079	100.826	<b>0,24</b>	162.272	121.071	<b>0,25</b>
<i>Debt</i>	28.371	21.117	<b>0,26</b>	31.792	25.279	<b>0,20</b>	35.715	26.379	<b>0,26</b>
<i>HH Total Income</i>	10.263	7.883	<b>0,23</b>	12.049	9.783	<b>0,19</b>	13.745	10.722	<b>0,22</b>
<i>Consumption</i>	-6.752	-5.723	<b>0,15</b>	-7.538	-6.691	<b>0,11</b>	-7.674	-6.617	<b>0,14</b>
<i>House Wealth</i>	121.053	94.082	<b>0,22</b>	119.039	96.795	<b>0,19</b>	153.258	119.326	<b>0,22</b>
<i>N of HHs</i>	5.098	12.212		6.544	15.880		6.793	17.219	

Notes: Monetary unites are expressed in Euros at 2017 prices. Sample only includes **urban** China.

Large Wealth and Income Gaps

CCP effect on Net Wealth

# CCP Effect on Net Wealth

*Following Gradin (2016):*

→ Unconditional Quantile Regressions (Fortin et al. 2008, 2018) at the HH-level.

**Aim:** understand the CCP gap along **unconditional** NET wealth distribution.

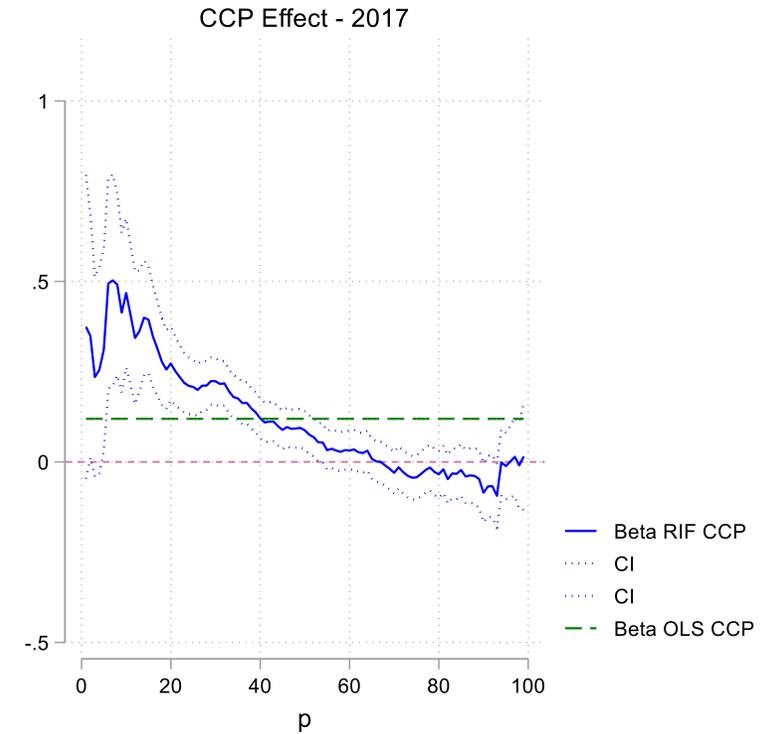
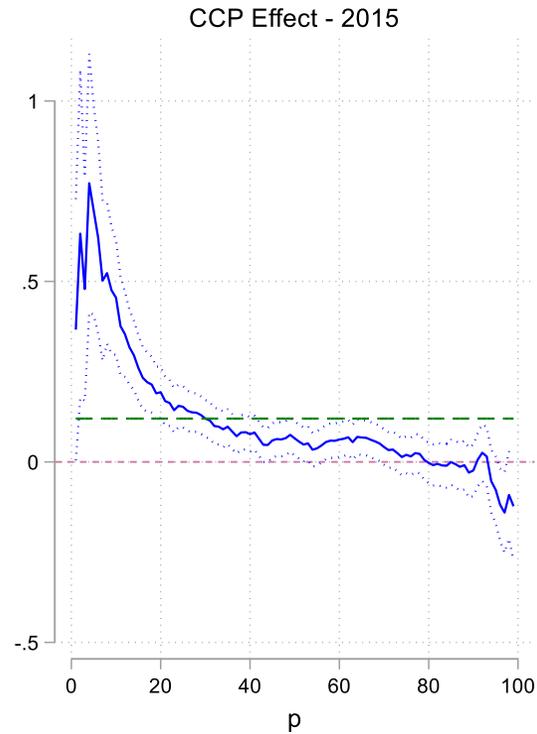
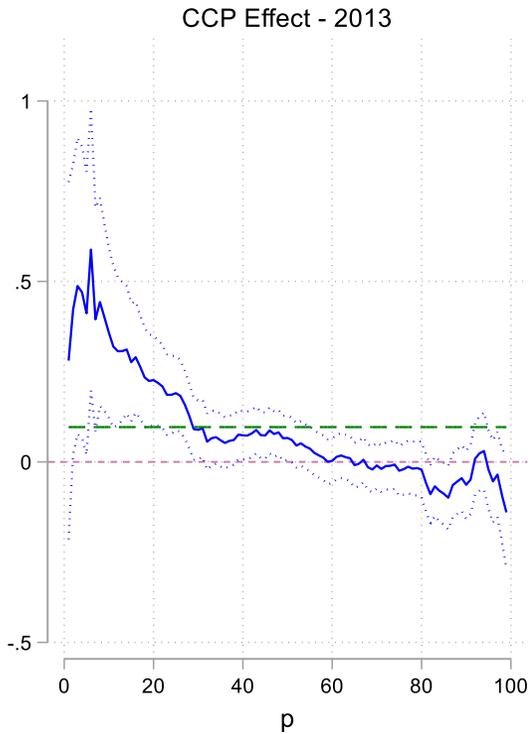
Y= Quantiles of the (log-) Net HH Wealth

CCP: key control variable

X= HH characteristics expressed in terms of proportions of the family size or the number of adults:

- *HH composition:* proportion of adults in the HH
- *HH age composition:* proportion of HH members in the 26-35 class, 36-45 class, 46-55 class, 56-66 class
- *HH education level:* proportion of adults in the HH belonging to 3 main education classes
- *HH activity status:* proportion of adults in the HH who are in pension, married, active in LM, with poor health
- *HH labor characteristics:* proportion of females actively working, retired, self employed, farmers, civil servants among active LM adults in HH
- *HH occupational background:* proportions across occupational classes (1 digit)

# CCP Effect on Net Wealth



## Take Home Message 1:

Decreasing Effect of CCP along the NW distribution

- On average, CCP membership is correlated with **12% higher NET Wealth**.
- Being CCP member gives a relative bigger advantage in terms of NW to bottom than to top quantiles.
- Inequality reducing.

Note: Particularly interesting since CCP effect on income is rather constant or slightly increasing according to previous (limited) literature.

# CCP Effect on Net Wealth

## *Take Home Message 1:*

**Decreasing** Effect of CCP along the NW distribution

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→ How to Explain it?

# CCP Effect on Net Wealth

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→ How to Explain it?

→ Before doing that, it is important to understand wealth composition of HHs in urban China

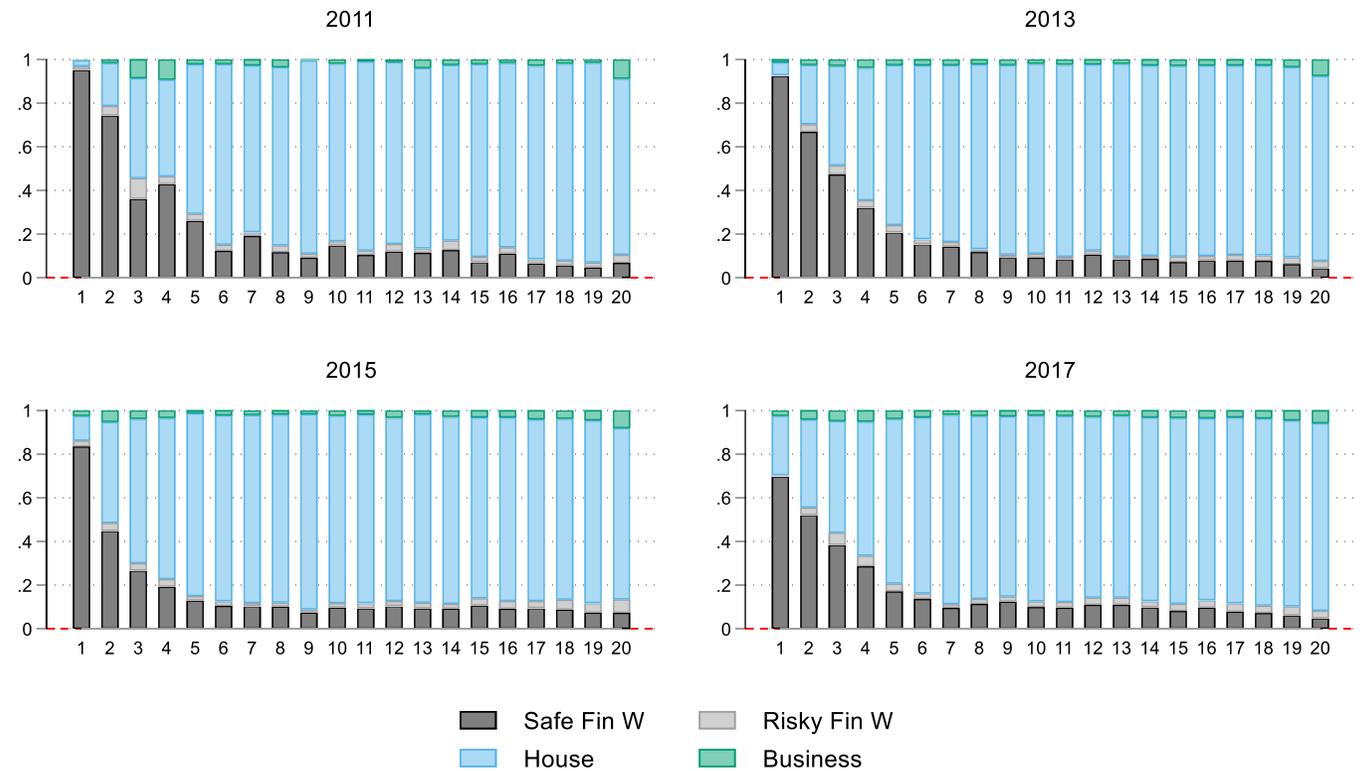
# Wealth Composition in Urban China

## Gross Wealth Composition

The Graph shows **Gross Wealth** composition across the wealth distribution in urban China.

- **Housing is the key wealth component**
- Increasing **business** wealth shares at the top of the wealth distribution.

Wealth sources are normalized by the number of adults in each HH.



# CCP Effect on Net Wealth

## *Take Home Message 1:*

Decreasing Effect of CCP along the NW distribution

## → How to Explain such Effect?

**Intuition:** Owning House boost your wealth significantly, especially at the bottom of the distribution.

**Hypothesis 1:** CCP members might have **better chances** to get an **house** with respect to non members.

**Test:** Probit Model on the probability of having an house controlling for HH information.

We run **separate models for 3 main Net Wealth bins:**

- the bottom 50%
- the mid 40%
- the top 10%.

# CCP Effect on Net Wealth

**Hypothesis 1:** CCP members might have **better chances** to get an **house** with respect to non members.

**Test:** Probit Model on the probability of having an house controlling for HH information along NW bins.

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<b>Y=Probability of having 1 house</b>						
<i>Bottom 50%</i>	<i>Mid 40%</i>	<i>Top 10 %</i>	<i>HH Controls</i>	<i>Year dummies</i>	<i>N</i>	
<b>0,035</b> ***	0,001	-0,008	Yes	Yes	91.641	

**Results:** CCP members at the bottom 50% of the net wealth distribution have **statistically significant higher probability of owning their house**.

We can further **refine** our results, looking at “how respondents obtained the house” →

*Same results for year-specific models*

# CCP Effect on Net Wealth

We can further refine our results, looking at “how respondents obtained the house”:

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	<b>Y= How did you obtained the House?</b>		
	<i>HH Controls</i>	<i>Year dummies</i>	<i>N</i>
<i>RE market</i>	Yes	Yes	50.057
<i>Inheritance</i>	Yes	Yes	50.057
<b><i>Policy</i></b>	<b>Yes</b>	<b>Yes</b>	<b>50.057</b>
<i>Selfbuilt</i>	Yes	Yes	50.057

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# CCP Effect on Net Wealth

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<i>RE market</i>	-0,005		-0,008		-0,023	Yes	Yes	50.057
<i>Inheritance</i>	-0,040	***	-0,010		0,004	Yes	Yes	50.057
<b><i>Policy</i></b>	<b>0,031</b>	<b>***</b>	<b>0,036</b>	<b>***</b>	<b>0,033</b>	<b>**</b>	<b>Yes</b>	<b>50.057</b>
<i>Selfbuilt</i>	-0,026		-0,029	*	0,013	Yes	Yes	50.057

**Results:** CCP members have higher probability of getting an house via public policy programs.

# CCP Effect on Net Wealth

Hypothesis 1: CCP members might have **better chances** to get an **house** with respect to non members.

Y=Probability of having 1 house						
	<i>Bottom 50%</i>	<i>Mid 40%</i>	<i>Top 10 %</i>	<i>HH Controls</i>	<i>Year dummies</i>	<i>N</i>
	<b>0,035</b> ***	0,001	-0,008	Yes	Yes	91.641

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*Take home message 2:*

CCP members have **higher chances** to own an house, and are more likely to access housing via **public policy programs**.

# CCP Effect on Net Wealth

## *Take home message 2:*

CCP members have **higher chances** to own an house, and are more likely to access housing via **public policy programs**

## Hypothesis 2: CCP members might enjoy **larger Housing Fund**

**Intuition:** Positive selection of CCP members into employed and better payed jobs.  
→ **higher funds** available for **housing investments**

Introduced in **1994**, the Housing Fund is a form of **social insurance paid** by both **employers** and **employees**.

It ranges from 10% to 40% (depending on the city) of employee's gross wage, splitting equally between employer and employee.

Such funds are **allocated in the employee personal account and can be withdrawn only for hosing related expenses** (i.e. down payment, construction, purchase, renovation of the property, and paying back a mortgage).

In 2017, the total housing fund stock, income, and outflow account for 6.3%, 2.3% and 1.6% of China's GDP respectively.

# CCP Effect on Net Wealth

**Hypothesis 2:** CCP members might enjoy **larger Housing Funds**

**Test:** Run a regression at the HH level for the bottom 50%, mid 40% and top 10% separately.

Here the dependent variable is (the logarithm of):

- Current House Fund Deposit
- Average Monthly Payment
- *Imputed:* Average Monthly Payment \* Months of Contribution

**Key parameter of interest:** CCP dummy at the HH level

As before we control for: *HH composition, age composition, education level, activity status, labor characteristics, occupational background*

→ Sample restricted to those that have house funds (around 20.000 HHs)

# CCP Effect on Net Wealth

Hypothesis 2: CCP members might enjoy larger Housing Funds



**Take home message 3:**

CCP members have on average **10%** more resources from house fund for housing investment.

Results are robust to:

- Heckmann 2-steps selection correction
- year-specific models

# CCP Effect on Net Wealth

## Summing Up:

- Returns on NW for CCP members are positive and decreasing along the NW distribution.
  - At the bottom of the distribution CCP status gives a NW of around 50% while at the top this premium vanishes.
- Decreasing CCP premium might be explained by an **higher propensity** of members to own a house with respect to non members, at the bottom of the distribution.
- These findings are also supported by evidence that CCP members have (along the entire NW distribution):
  - Higher chances of access the housing market via policy programs
  - Higher housing funds

Such differences might therefore be correlated with **different** wealth portfolio strategies → ultimately affect wealth accumulation

# Wealth Accumulation (preliminary)

# Wealth Accumulation - Panel sample

**Sample:** HHs in the sample from 2013 – 2015 (64% of 2013 sample) and from 2015 – 2017 (58% of 2013 sample)

Following Saez and Zucman (2016) and Kuhn, Schularick, Steins (2020), Law of motion of wealth of HH i:

$$W_{t+1}^i = (1 + q_t^i)W_t^i + S_t^i$$

$$W_{t+1}^i - W_t^i = q_t^i W_t^i + S_t^i$$

$$nw_t^i = \frac{W_{t+1}^i}{W_t^i} - 1 = q_t^i + \sigma_t^i$$

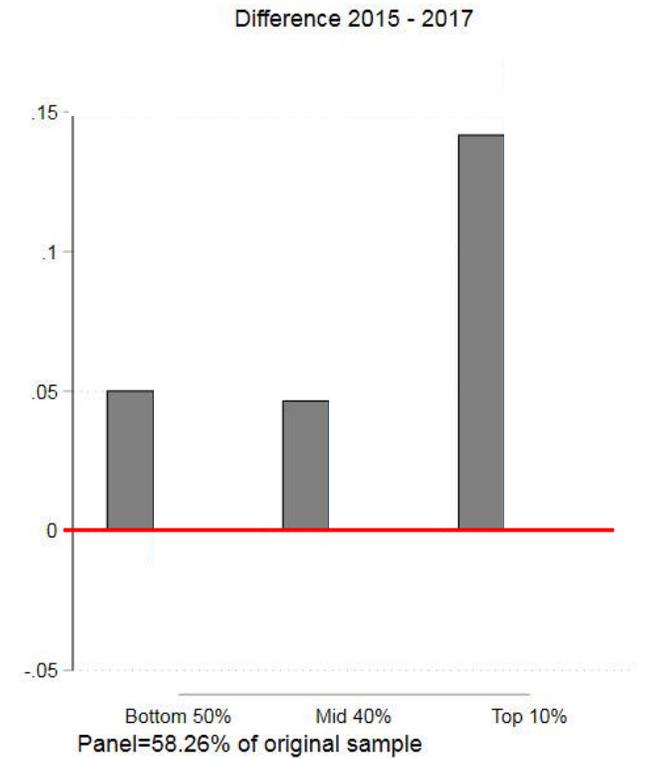
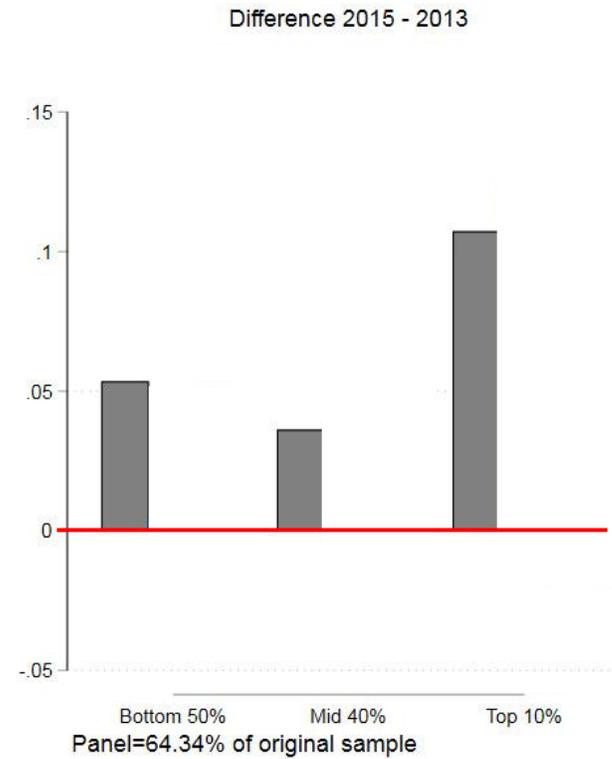
$$\sigma_t^i = \frac{S_t^i}{W_t^i} \rightarrow \text{the contribution of **savings** to wealth growth}$$

$$q_t^i = \sum_{j=1}^J \left( \frac{p_{j,t+1}}{p_{j,t}} - 1 \right) * \frac{A_{j,t}}{W_t^i} * \rightarrow \text{the effect of **capital gains** to wealth growth}$$

# Wealth Accumulation - Panel sample

In the figures we plot:

$$\Delta nw = nw^{CCP} - nw^{NO}$$



# Wealth Accumulation - Panel sample

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$$\Delta nw = nw^{CCP} - nw^{NO}$$

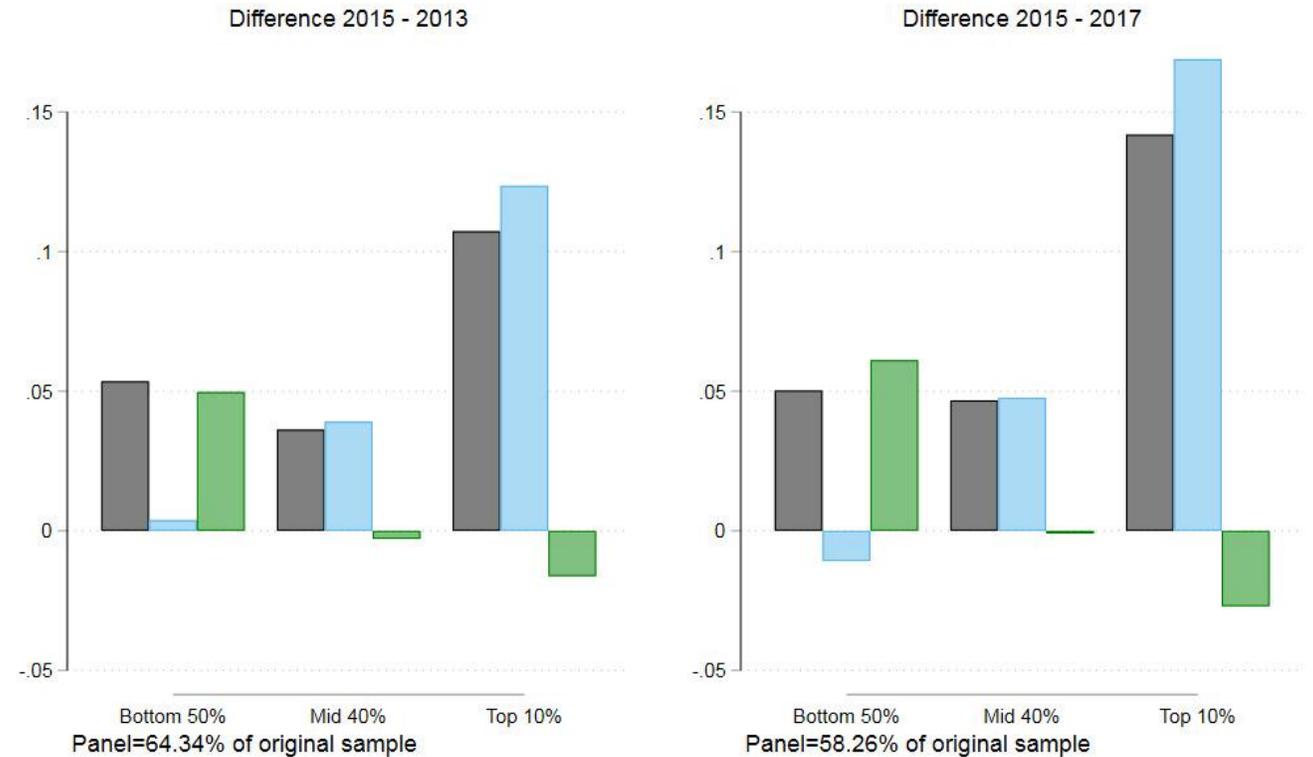
$$\Delta q = q^{CCP} - q^{NO}$$

$$\Delta \sigma = \sigma^{CCP} - \sigma^{NO}$$

## *Take home message 4:*

CCP members have faster wealth accumulation ratios.

- At the **bottom** this is driven by higher saving capacity
- At the **top** by higher capital gains



# Conclusions

We first study wealth differences between members and nonmember of the CCP in urban China.

Specifically:

- CCP premium is **decreasing** along the NW distribution.
  - At the bottom 50% of the distribution wealth gap is higher due to:
    - Easier access to the Housing Market for non-members
    - Higher availability of House Funds
- CCP members have faster wealth accumulation ratios.
  - At the **bottom** 50% this is driven by an higher **saving** capacity
  - At the **top** 10% by higher capacity of accumulating **capital gains**

Thank You!

Extra

# CCP Application – Nikolov, Wang, Acker (2019)

The party initiation process involves several steps:

- 1) “Motivation” letter
- 2) Accepted letters → Training activist
- 3) Final Assessment – “exam”

*“Membership in the Communist Party of China acts as an initial step toward becoming one of China's administrative elite.”*

# Background & Research Question

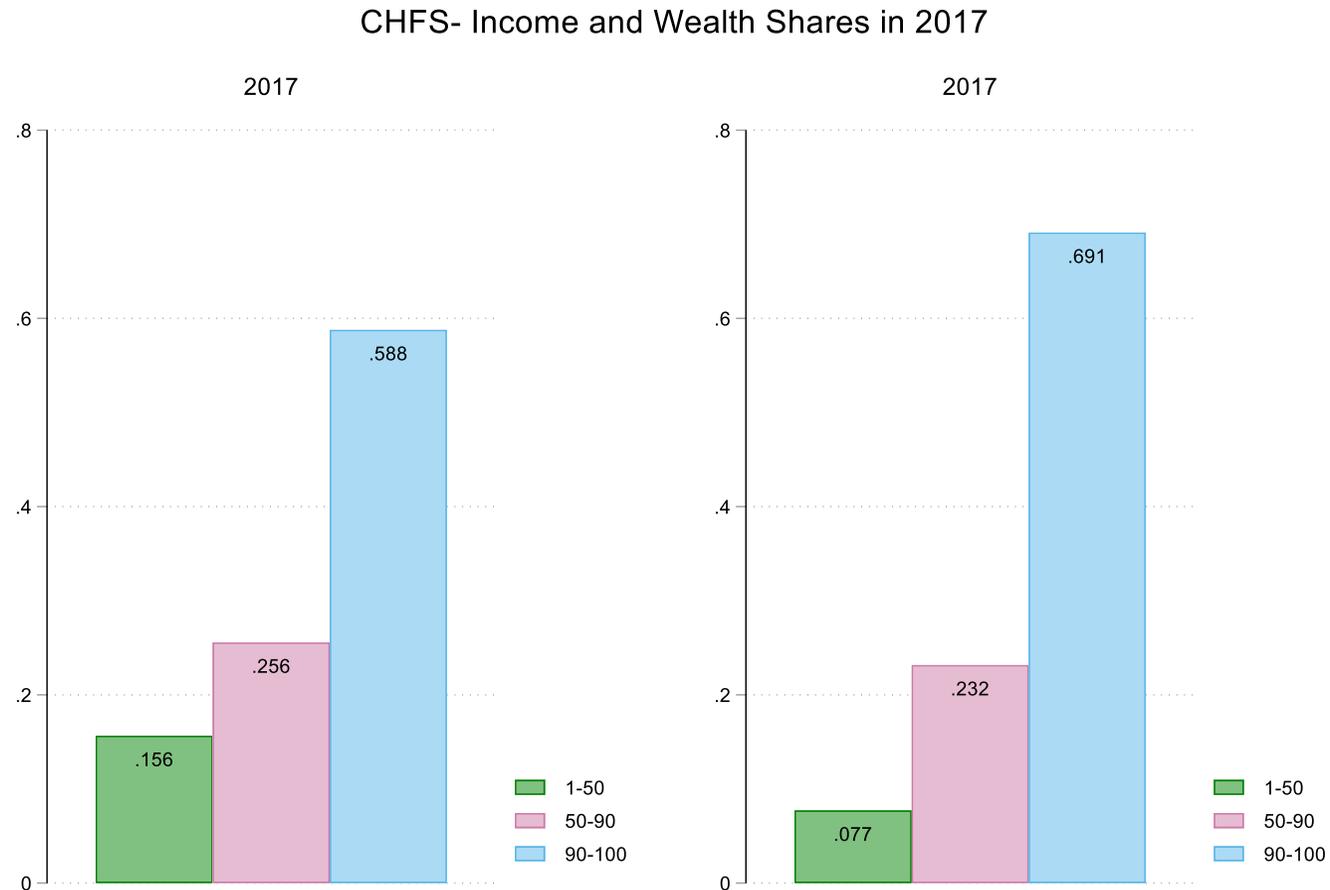
- Political status and connections might have key value in exploring inequalities in both developed and developing countries (Johnson and Mitton, 2003;; Khwaja and Mian, 2005; Faccio, 2006).
- In the context of China:
  - Emerging literature measuring the economic returns on **labor income** of Chinese Communist Party (CCP)
    - Li et al. 2007; Appleton, 2009; McLaughlin (2016); Gu, Zheng (2018), Guo, Sun (2019), Nikolov et al. (2019)
  - However the heterogeneity between CCP and non-CCP in capital income, capital gain, as well as wealth accumulation has never been studied.
- Research outline:
  - ➔ Different wealth portfolio and income structure between CCP and non-CCP.
  - ➔ Heterogenous returns on different assets of CCP and non-CCP
  - ➔ Wealth accumulation strategies between CCP and non-CCP and its implication for the dynamics of wealth inequality.
- Contribution
  - First regarding literature with a focus on China: add research on heterogeneity in returns on wealth and wealth accumulation between CCP and non-CCP .
  - Global wealth return and wealth accumulation literature: add evidence for a very large country China (e.g. Kuhn & Schularick, 2020; Fagereng et al., 2020; Bach et al., 2020,; Garbinti et al. 2017) with unique political background (one-party system country vs. most evidence on Western countries with multiple party systems)
  - We speak to the political economy literature on the value of political connections in the China, with a special focus on inequality issues. (Fan et al. 2007, Li et al. 2008, Calomiris et al. 2010, Nee and Oppen 2010, Guo et al. 2014, Chen and Kung 2018, etc.)

# Data - China Household Finance Survey (CHFS)

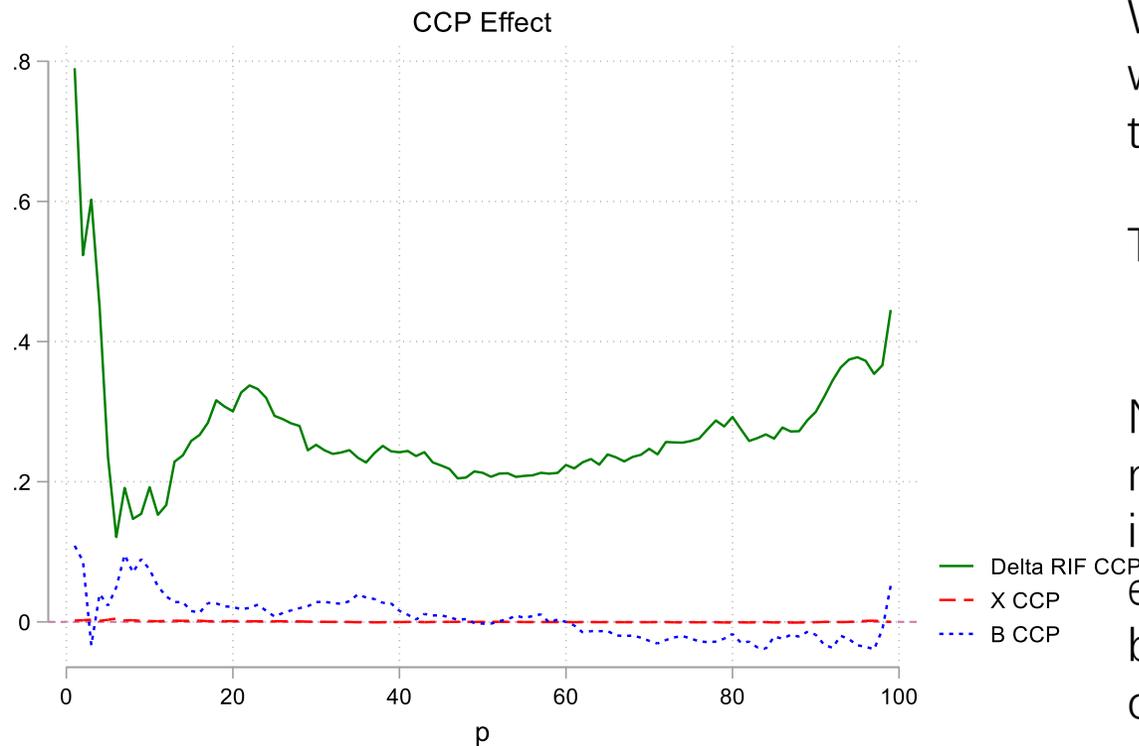
- Panel representative of urban and rural China
- Population of  $\geq 15$  years old

<b>Year</b>	<b>N in Year</b>	<b>Entry in 2011</b>	<b>Entry in 2013</b>	<b>Entry in 2015</b>	<b>Entry in 2017</b>
2011	8438	8438	0	0	0
2013	28141	6846	21295	0	0
2015	37289	5753	16022	15514	0
2017	40011	4752	12084	9988	13187

# Inequality Facts: Income and Wealth Share of bottom 50%, mid 40% and top 10%



# Regression Analysis – Urban + Rural China

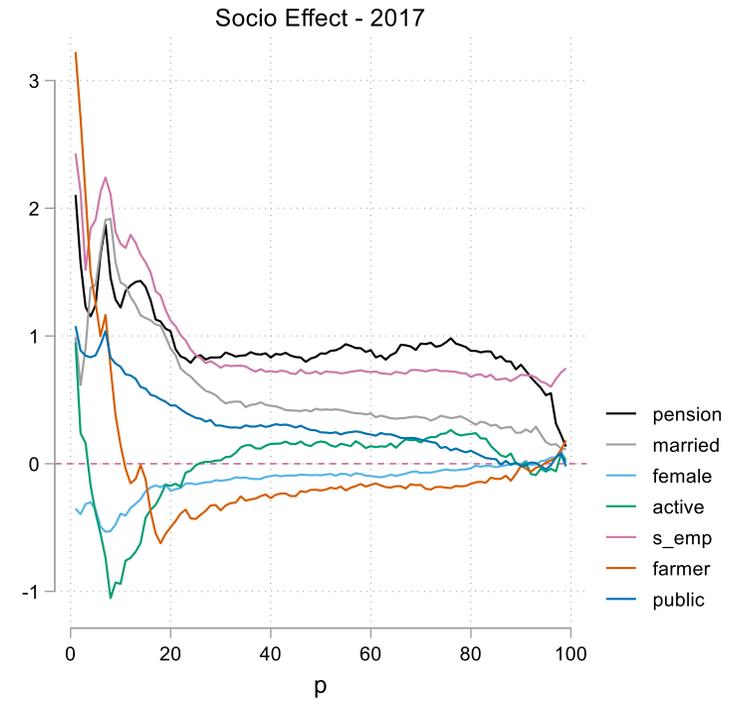
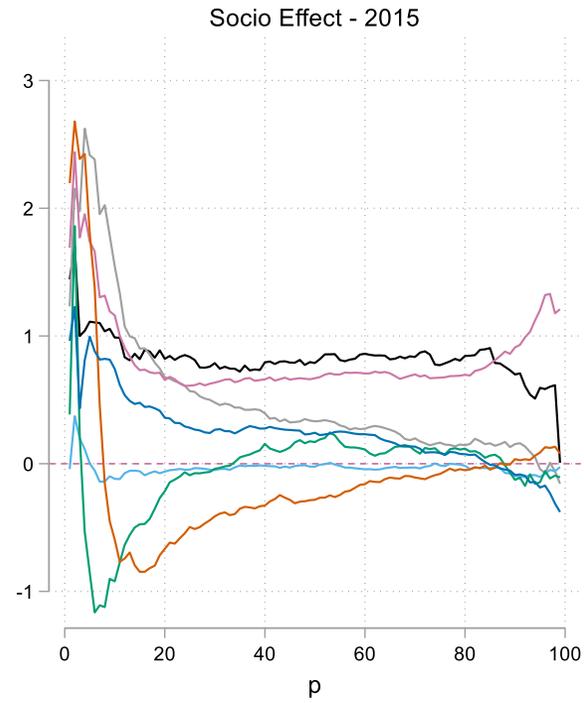
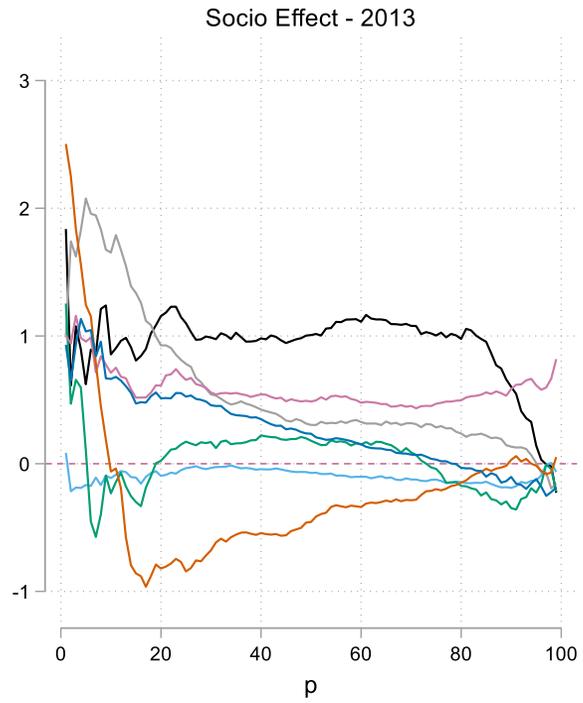


We perform Quantile decompositions **over time** within the balanced sample (those that remained in the sample from 2013 till 2017). Urban China only:

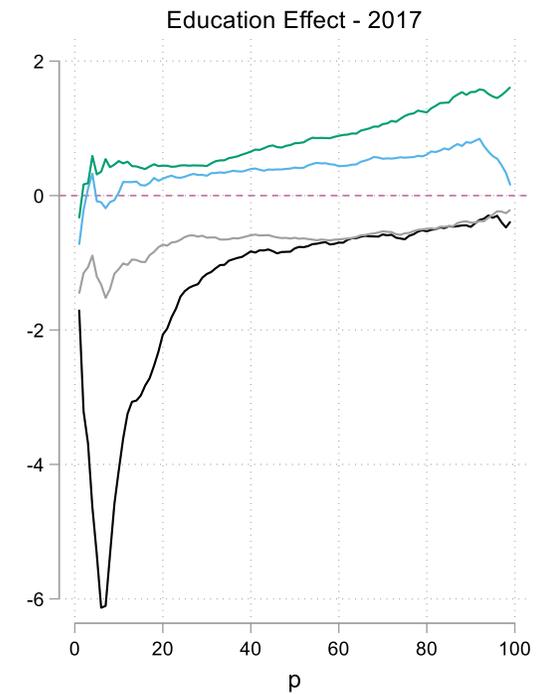
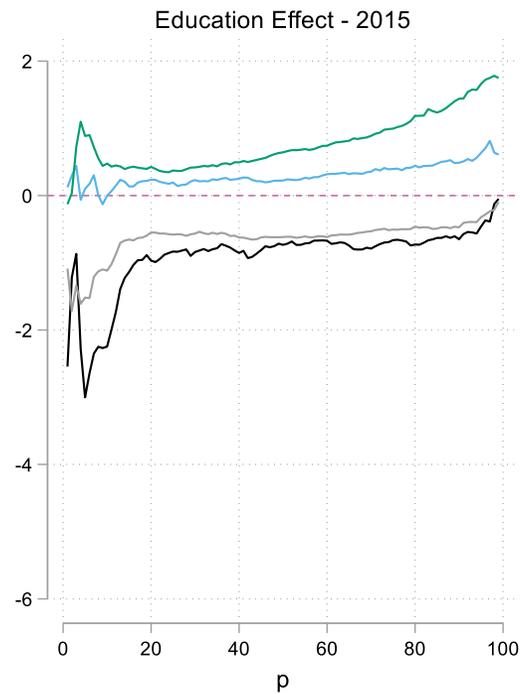
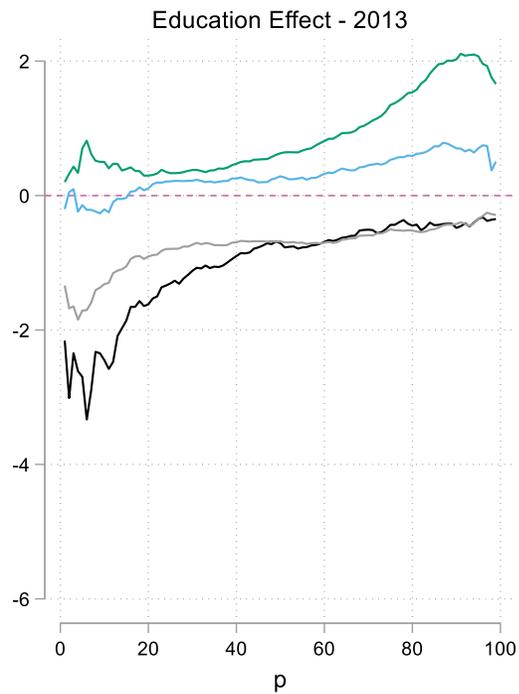
Too small variation!!

Not great impact of CCP! (4 years, same persons, not much variability in CCP satuts!!). Nevertheless it is interesting to see (green line) that overall China experienced a polarization pattern, with top and bottom tail quantiles growing faster than middle ones.

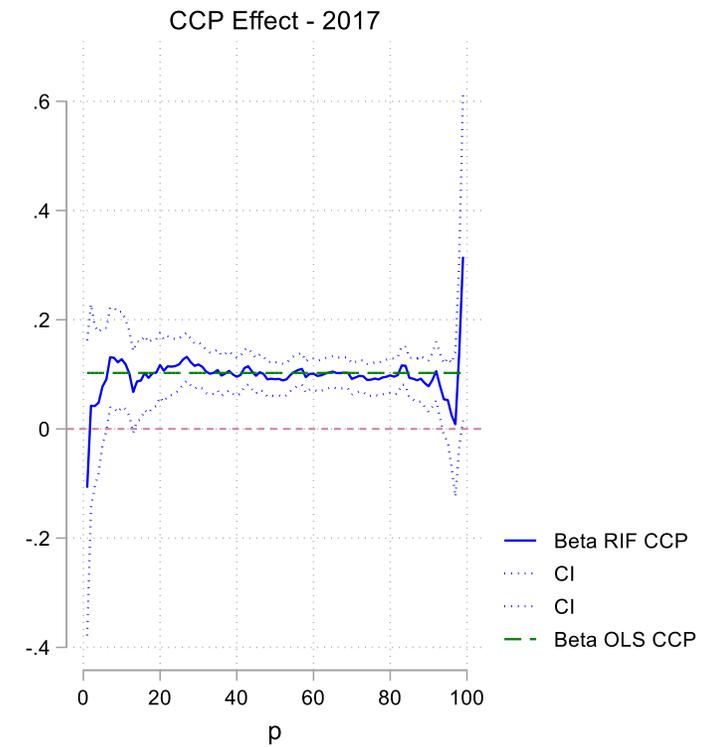
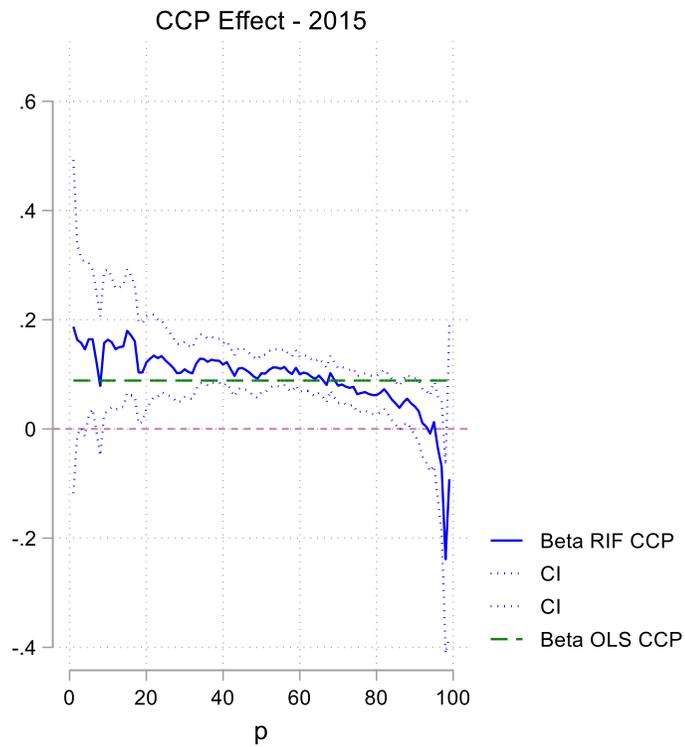
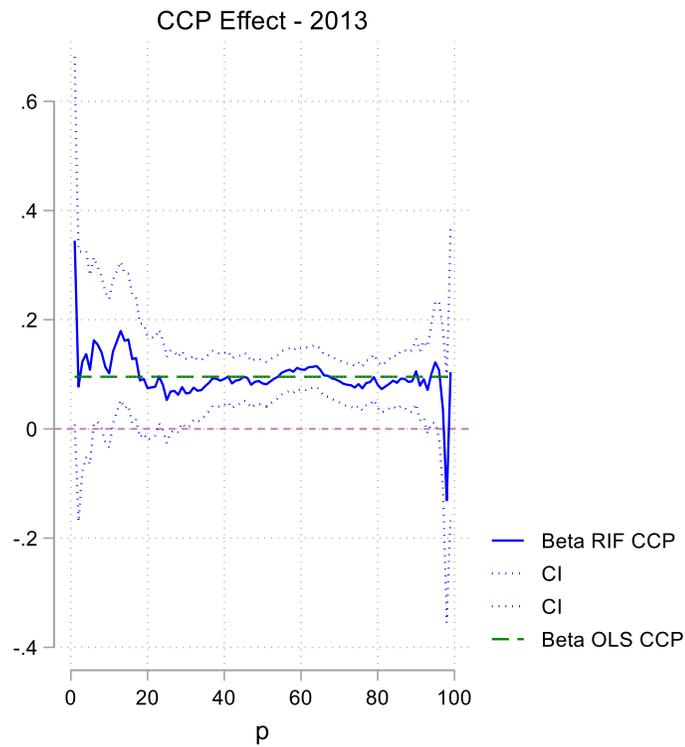
# NW Regression Analysis - other controls



# NW Regression Analysis - other controls



# Regression Analysis on GROSS HH INCOME Urban + Rural China



# CCP Effect on Net Wealth

**Hypothesis 1:** CCP members might have **better chances** to get an **house** with respect to non members.

**Test:** Probit Model on the probability of **having at least one house** controlling for HH information as in Gradin (2016).

**Results:** CCP members at the bottom 50% of the net wealth distribution have statistically significant higher probability of owning their house.

Such advantage fades away in the upper tail of the distribution.

CCP Effect on the Probability of Having an House

Year	Bottom 50%		Mid 40%		Top 10%
2013	0,076	***	-0,002		-0,004
2015	0,048	***	0,000		0,001
2017	0,056	***	0,007	**	-0,005

## *Take home message 2:*

At the bottom of the distribution CCP members have greater advantages with respect to non members to enter the house market.

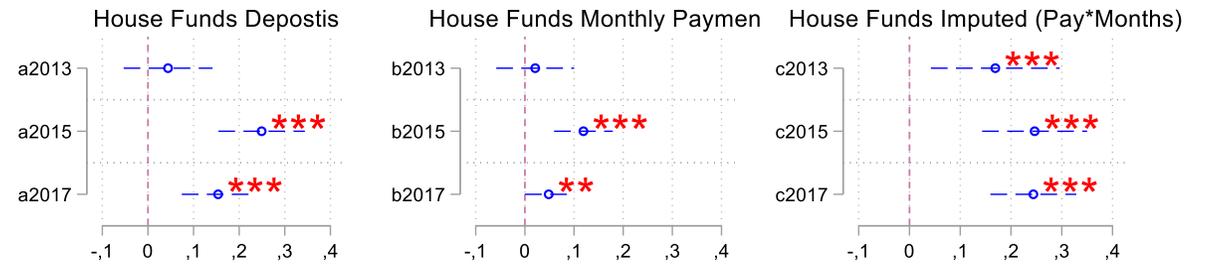
# CCP Effect on Net Wealth

**Hypothesis 2:** CCP members might enjoy **larger Housing Funds**

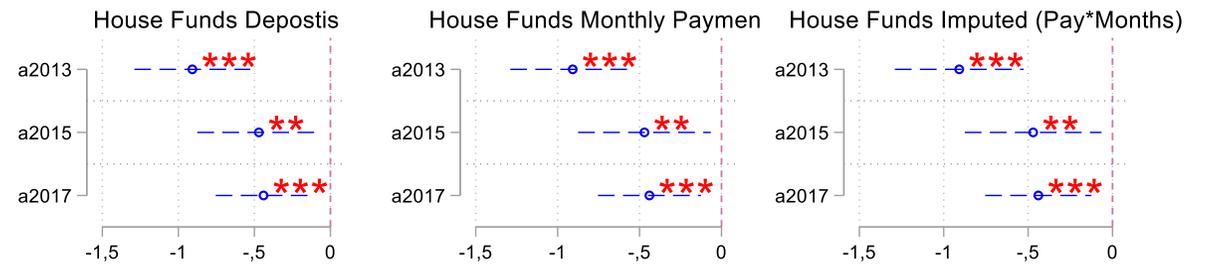
Selection issue might be problematic: CCP are more likely to be employed, and having better jobs

→ so we run the same model including the Heckman sample selection correction on the probability of having some housing funds.

CCP effect



IMR



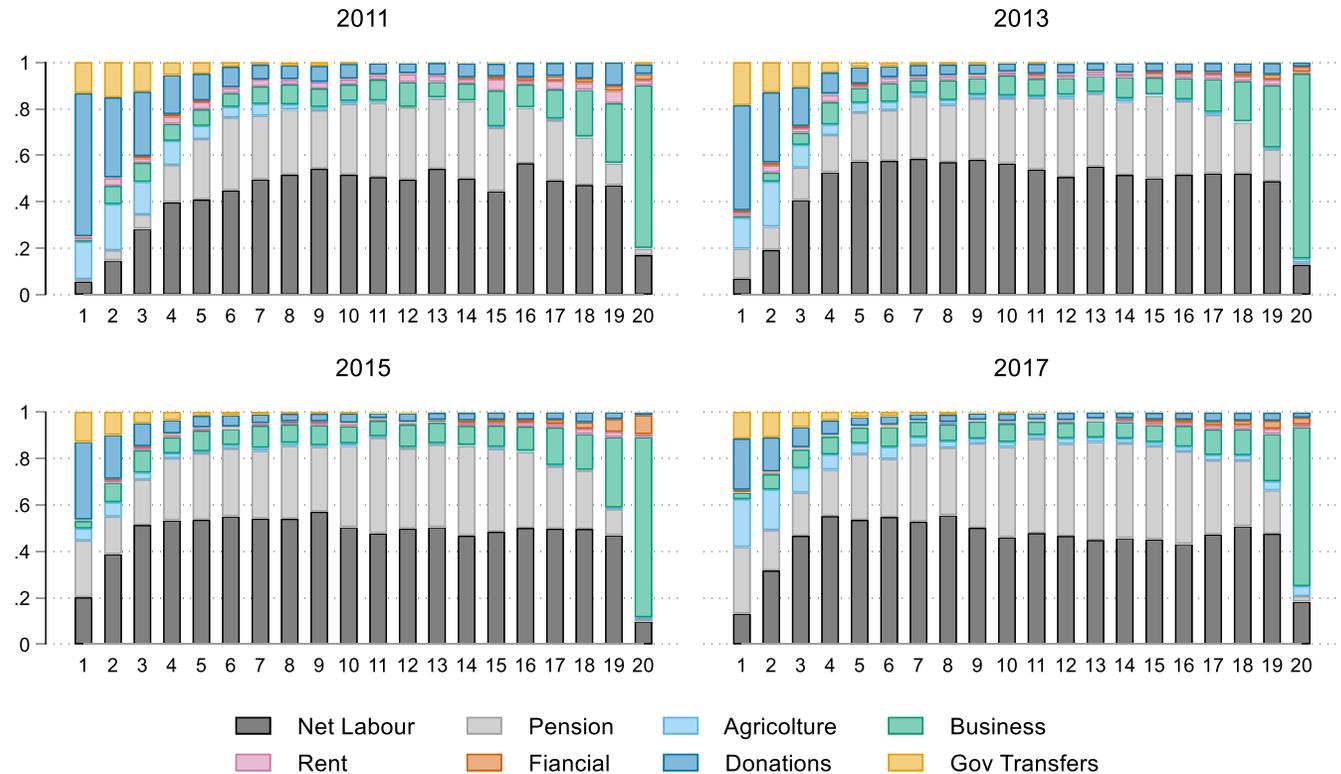
# Income Composition in Urban China

The Graph shows Total HH income composition across the income distribution in Urban China.

- Labour and Transfer Income represent the highest shares in each ventile
- Top 5% → income from business represent the highest income source.

Income sources are normalized by the number of adults in each HH.

Total Income Composition by Ventiles



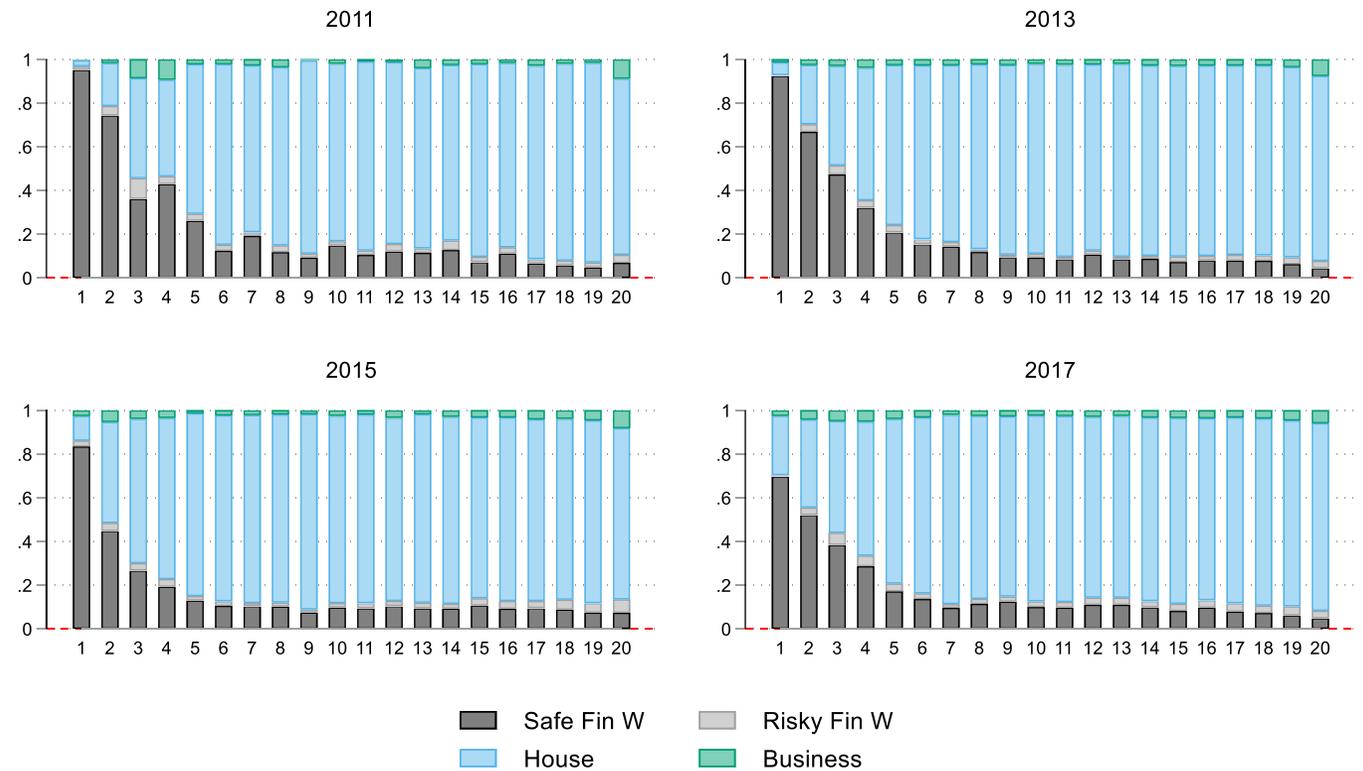
# Wealth Composition in Urban China

The Graph shows Gross Wealth composition across the wealth distribution in Urban China.

- Housing is the key wealth component
- Increasing **business** wealth shares at the top of the wealth distribution.

Wealth sources are normalized by the number of adults in each HH.

## Gross Wealth Composition



# CCP Wealth Portfolio differences

We now try to see whether exist differences between CCP members and non in Income and Wealth Portfolio

To do so we decompose total income and net wealth owned by sources and CCP status, as:

$$W = W^{CCP} + W^{No} = \sum_i^{CCP} \sum_k^K w_{ki} + \sum_i^{No} \sum_k^K w_{ki}$$

We can then easily compare the share of each income or wealth component  $K$  (*savings, housing, business ...*) held by CCP and non CCP members.

$$\Delta_{housing} = \frac{House\ Wealth^{CCP}}{Gross\ Wealth^{CCP}} - \frac{House\ Wealth^{No}}{Gross\ Wealth^{No}}$$

$\Delta_{housing} > 0 \rightarrow$  CCP invests more than non members.

We then explore these differences at different **parts** of the income and wealth distribution.

# Income Composition in Urban China

$$\Delta_v = \left( \frac{y_{j_v}^{CCP}}{Y_v^{CCP}} - \frac{y_{j_v}^{NO}}{Y_v^{NO}} \right) * 100$$

Differences particularly big at the top 10%.

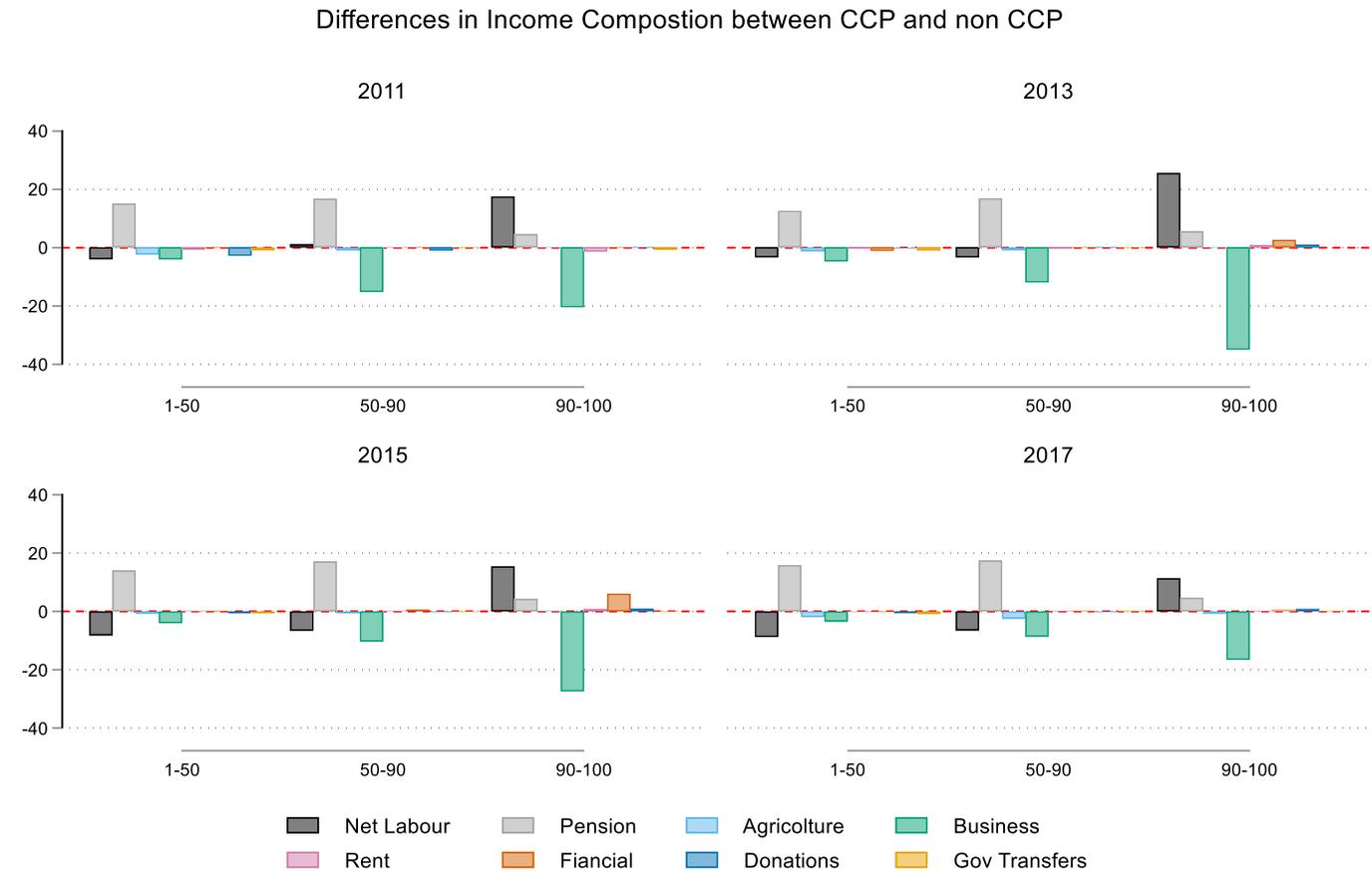
CCP members have:

- Higher pension shares
- Higher Labour income shares
- Lower Business income Shares

Differences particularly big at the top.

CCP **earn** more via labor and transfer.

(Incomes are equalized for N of family members)



# CCP Wealth Portfolio differences

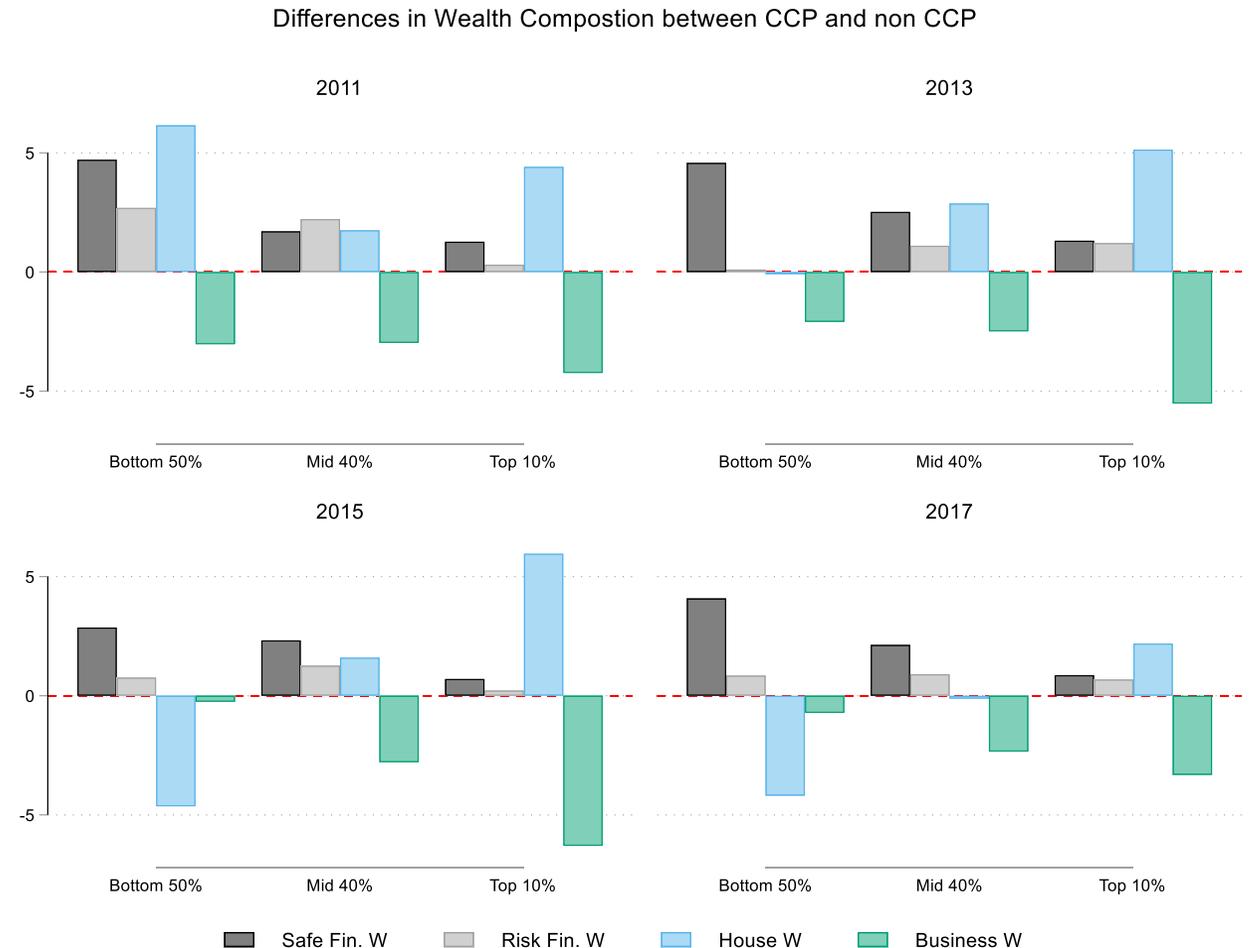
$$\Delta_v = \left( \frac{House_v^{CCP}}{W_v^{CCP}} - \frac{house_v^{NO}}{W_v^{NO}} \right) * 100$$

Differences particularly big at the top 10%.

CCP members have in general:

- Higher Housing shares
- Lower Business Wealth Shares

CCP **invest** more in housing, less in business.



# Big vs. Small Business

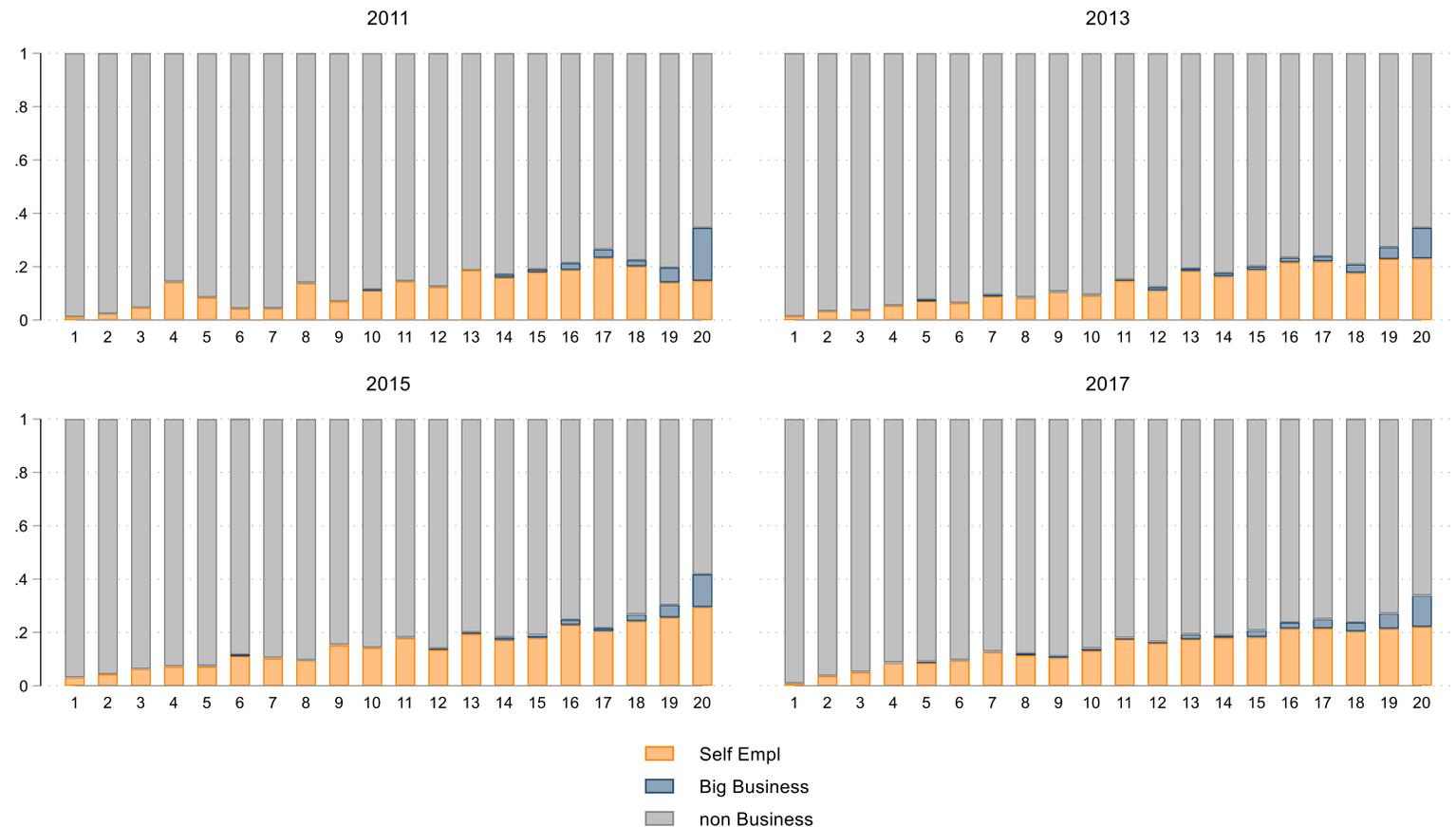
We now focus only on HH running Business.

Note that, Business Income and Wealth comes from:

- Orange - Self-Employment
  - “Small” Businesses
  
- Blue - Private Equity
  - “Big” Businesses

How CCP membership relates to big and small business?

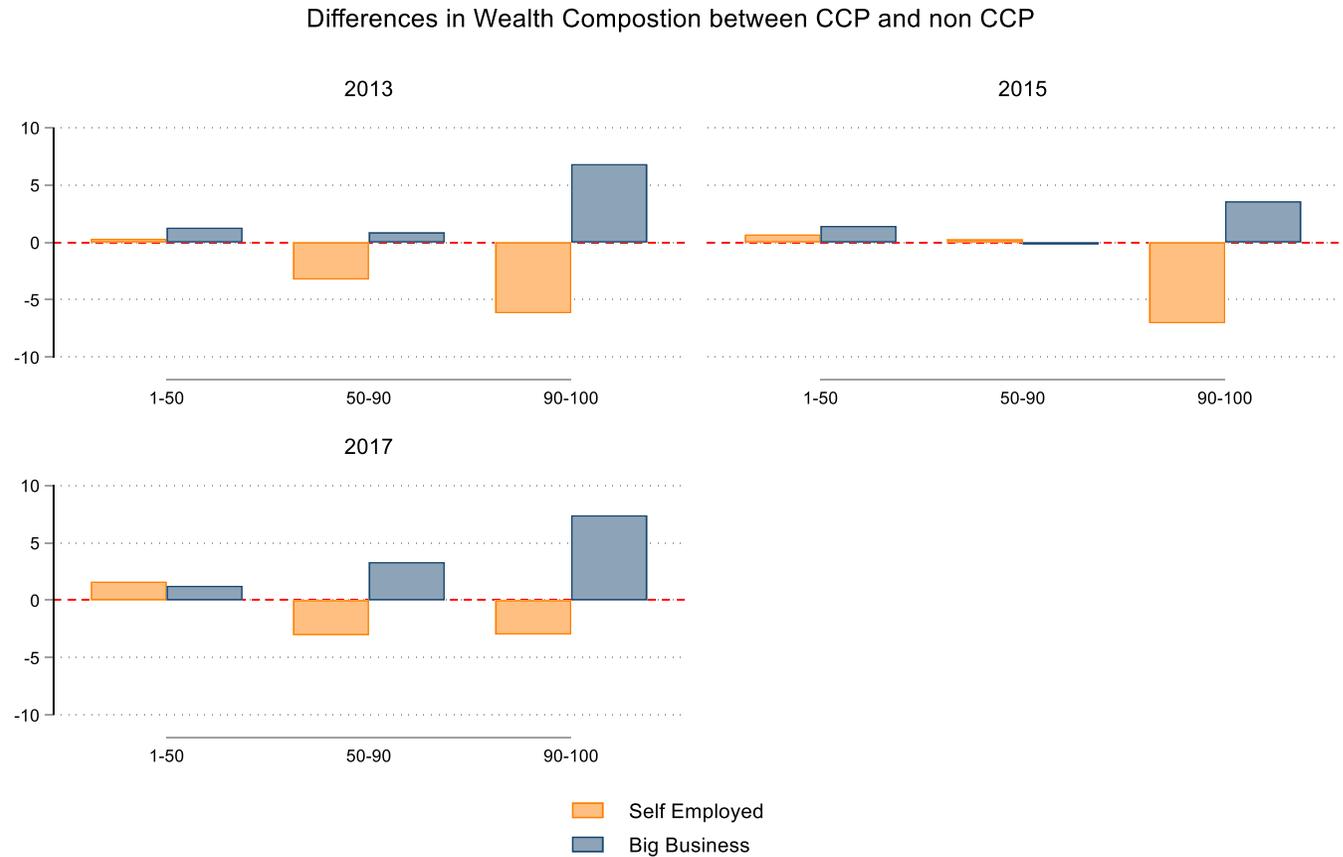
Self Employed and Big Business Population Shares in Gross Wealth Distribution



# Big vs. Small Business

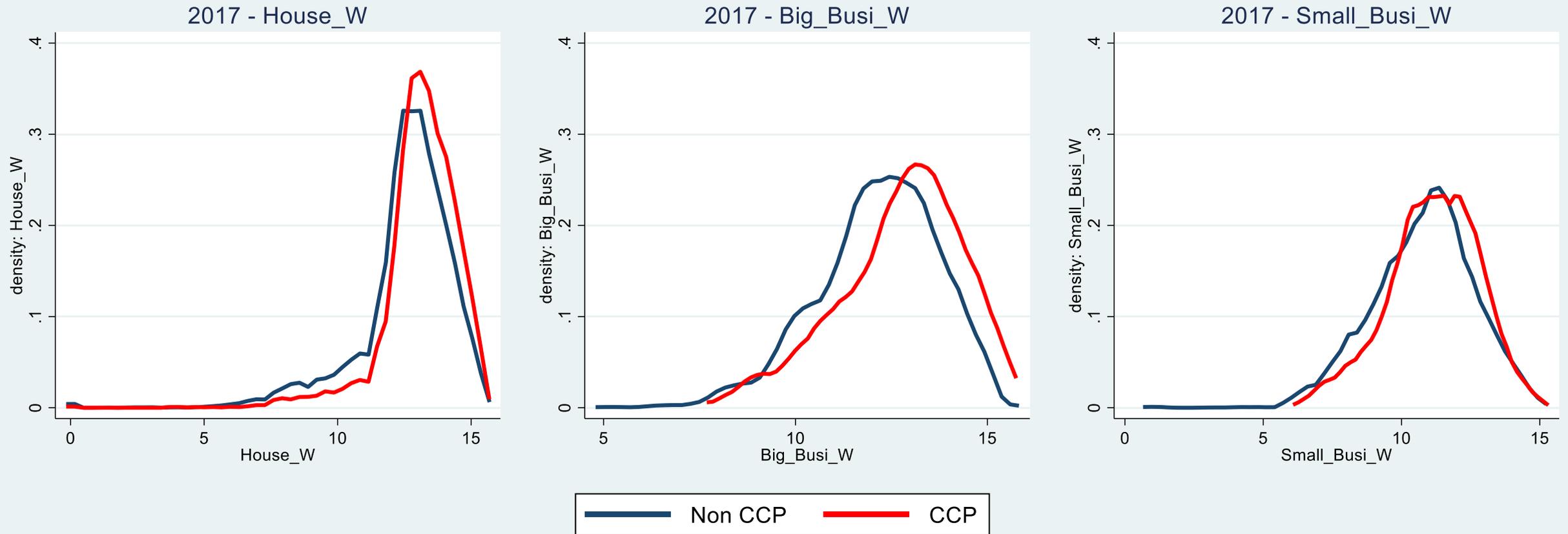
How CCP membership relates to big and small business?

CCP members doing business are more likely to be big Private Equity owners.



# CCP vs. Non-CCP Wealth Values

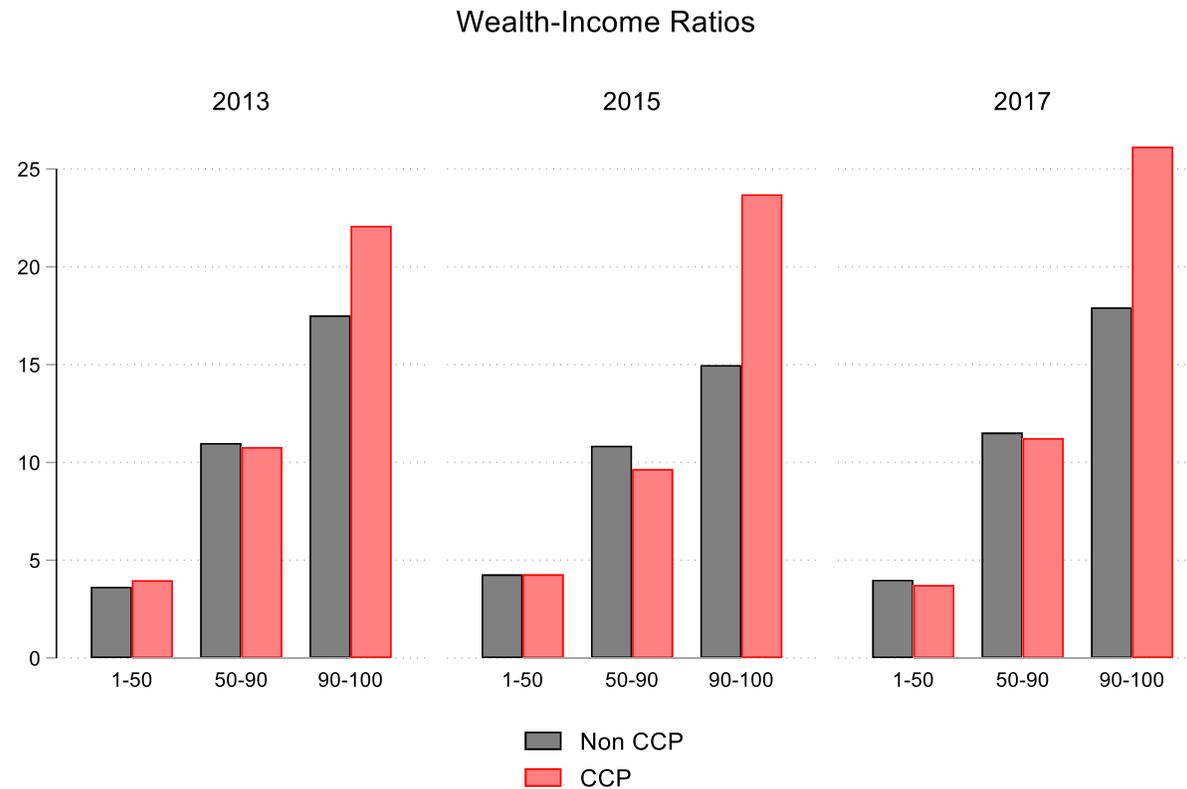
K-density at the Top 5% of Wealth Distribution



Notes: Fig 1 (housing wealth) is based on full sample; Fig 2 and 3 (big business and small business) is based on subsample including only business households.

# Wealth-Income Ratios – Panel

The different income and wealth composition between CCP members and non-members, has consequences for the **accumulation** mechanisms.



# Recap

So far we understood that:

- **CCP** members are more likely:
  - to rely on labor and transfer incomes
  - to accumulate wealth through Housing
- Non **CCP members** are more likely to be involved in business activities.
- Nevertheless, CCP members doing business are more likely to be big Private Equity owners
- **Substantial Wealth Differences are located at the top of the distribution** →

# Housing Policy

- [Affordable Housing \(经济适用房\)](#): Affordable housing in China, commonly known as “economical and comfortable housing,” is designed to be available to middle- to low-income households, including public-sector employees, to encourage home ownership.
- [Price-restricted commercial housing \(限价商品房\)](#): A type of commercial housing with price-restriction. It is designed to solve the housing difficulties for low- and middle-income families. It is a temporary measure to limit housing prices. Based on the idea of "fixing land price by housing price", price-restricted housing is already limited in housing prices, construction standards, and sales targets when the land is listed for sale. After the government calculates the development costs and reasonable profits of the developers, it sets the price range for land transfer and regulates the house prices from the source.
- [Housing-reform house \(房改房\)](#) refers to the product of the urban housing system reform implemented by the State Council in 1994. It is a transitional policy for the China's urban housing to transform from the former unit allocation to the market economy. Now it can also be called the purchased public housing (已购公有住房), which was purchased by urban employees at cost or standard price in accordance with the relevant urban housing system reform policies and regulations.
- [Welfare housing \(福利房\)](#) refers to the housing where the employee unit sells the public housing to the employees in the form of wage currency distribution, and the employee buys it at the standard price or cost price, thereby enjoying part or all of the property rights of the purchased house.

# Wealth Accumulation: 2013-2017 Panel

