

From Communism to Capitalism: Private vs. Public Property and Inequality in China and Russia

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Introduction

- Dramatic economic transformation in China (from 1978) and Russia (from 1990/1)
- From public to private wealth: gradual transition in China versus 'big-bang' in Russia
- How has changing balance between public and private wealth affected inequality patterns? Role of policies and institutions?
- Which income and wealth classes have gained from the transition to the market economy, and in what proportions? (who has benefited from the astonishing growth in China (living standards rose 9 times in real terms since 1978))
- How do Russia's and China's inequality levels compare to those in Western capitalist countries, developing countries, and ex-communist Eastern European countries?

New income and wealth series for China and Russia

- We combine national accounts, survey, wealth and fiscal data to produce new series on the accumulation and distribution of income and wealth in China and Russia
- Balance sheets:
 - Private vs public wealth
 - Estimates of hidden offshore wealth in Russia
- Income inequality series:
 - Household income survey data
 - Combined with official income tax data
 - Need for more detailed and usable income tax statistics
- Tentative wealth inequality series:
 - survey combined with rich lists China (Hurun); Forbes, Finanz data in Russia

Main results

The transition to market economy resulted in the substantial increase in inequality in China and Russia

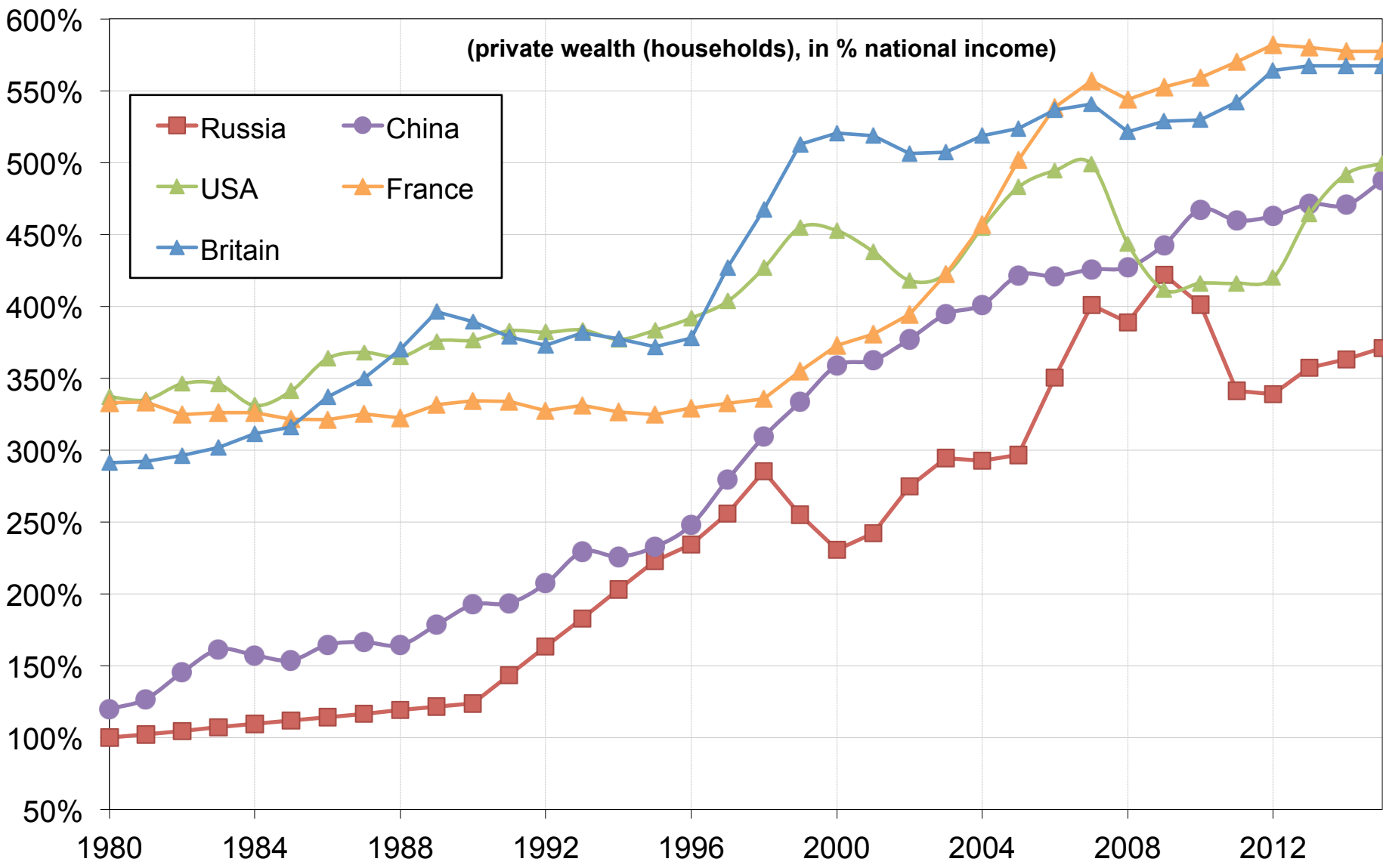
- Different transition & privatization strategies (and their magnitude and speed) have led to different aggregate wealth and inequality patterns
- Surveys vastly underestimate inequality (miss top of distribution) in both China and Russia
- Inequality has increased substantially more in Russia than in China
 - Extreme level of inequality in Russia and concentration of rent-based resources: top income shares at least as high as in the US, with a top 1% income share around 20-25%.
 - Substantial rise of inequality in China, top 1% doubled in size since 1978, from 6% to 14%; today above European levels but still below Russia/US levels
- About half of household financial wealth in Russia is held offshore

1. Public versus private capital

Aggregate wealth patterns in former communist countries

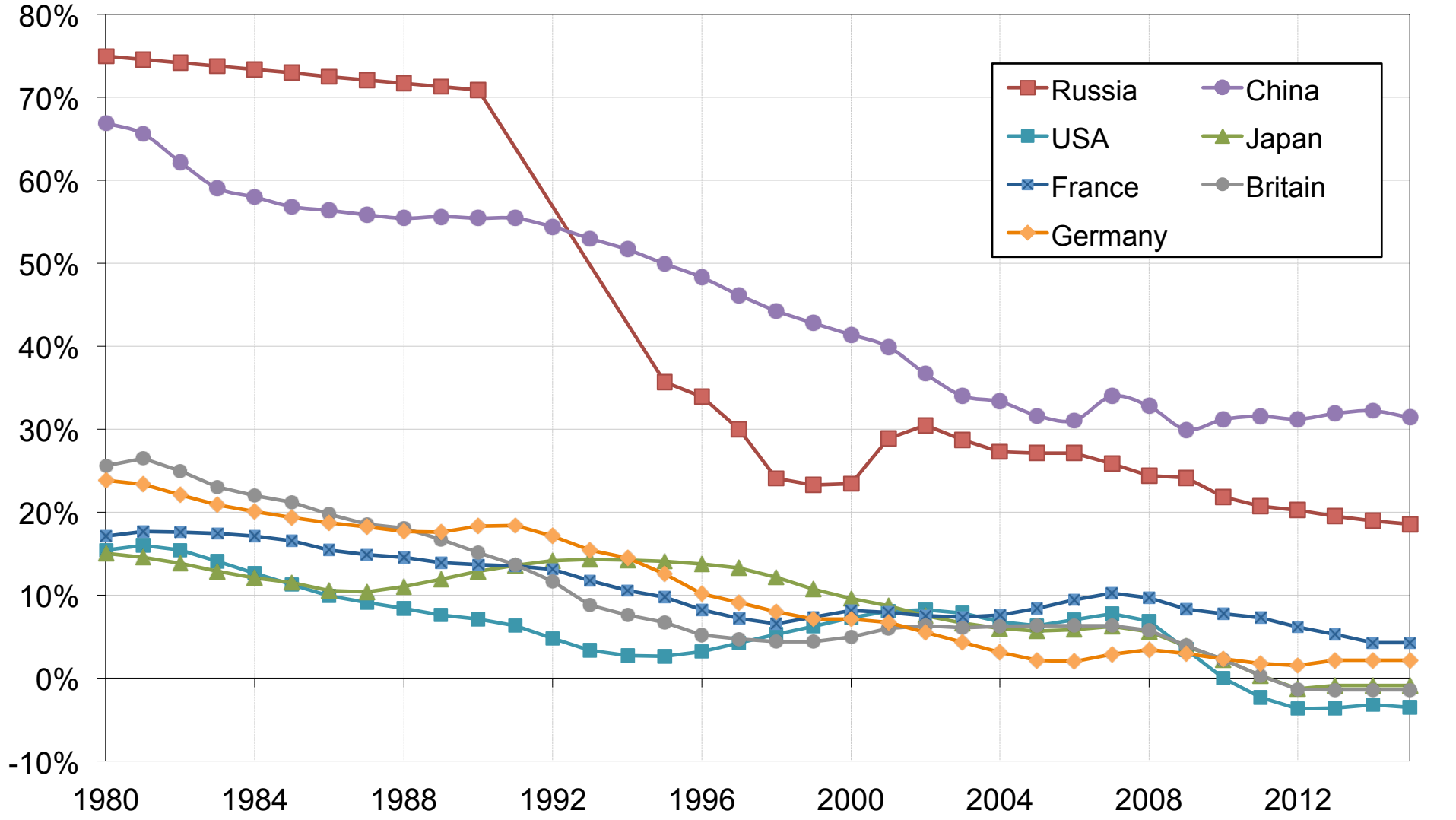
- General rise of private wealth relative to national income in developed countries since the 1970s-1980s; accompanied by the fall of public property
 - High saving rates, growth slowdown, privatization of public assets; rise of asset prices
- The evolution of aggregate wealth in Russia, China and other ex-communist countries = extreme case of these general trends
- Private wealth-income ratio in China and Russia approaching levels of developed countries
- Falling share of public property: from 70-80% in the 1980s to 20-30% by 2015
 - still higher than in developed countries (low public debt and more significant public assets)

Rise of private wealth in China and Russia



The decline of public property

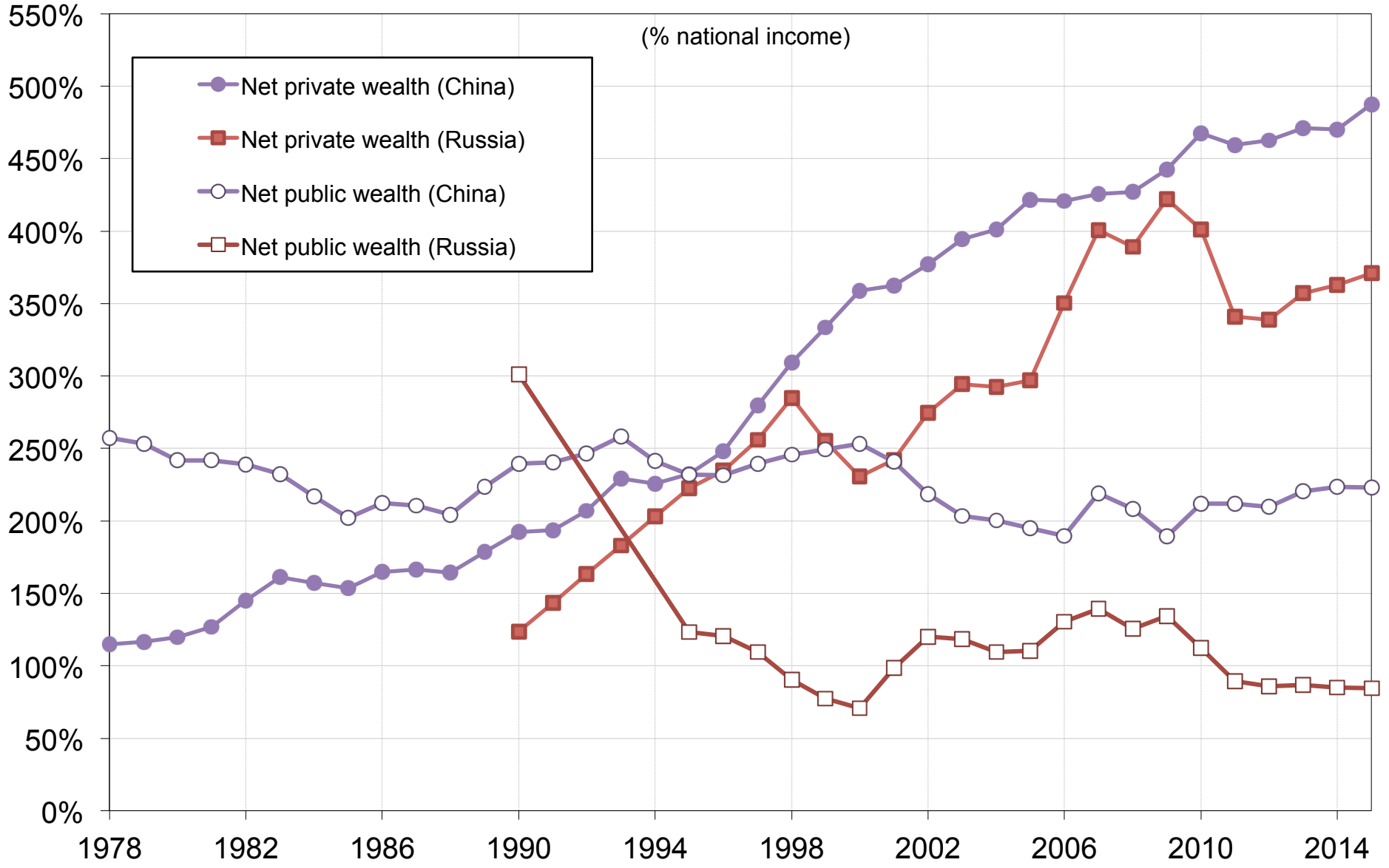
(share of net public wealth in net national wealth)



From public to private wealth

- From communism to capitalism: from dominantly public to private wealth
- More radical regime shift in Russia than China: ‘big-bang’ vs. gradual
 - more rapid and thorough (‘voucher’) privatization and “shock therapy” liberalization policies in Russia
 - China started reforms in costal zone and spread in waves
- Gradual transformation in China:
 - China’s private wealth has strongly increased (from 100% in 1978 to 500% of national income) and has driven the rise of national wealth (from 350% to 700%)
 - Still substantial public wealth (around 200-250%)
- ‘Big bang’ transformation in Russia:
 - the rise of Russian private wealth (from 100% in 1990 to 350% by 2015) has been almost exclusively at the expense of public wealth (from 300% to 100% of national income)
 - i.e., national wealth almost did not increase relative to national income (from 400% to 450%)

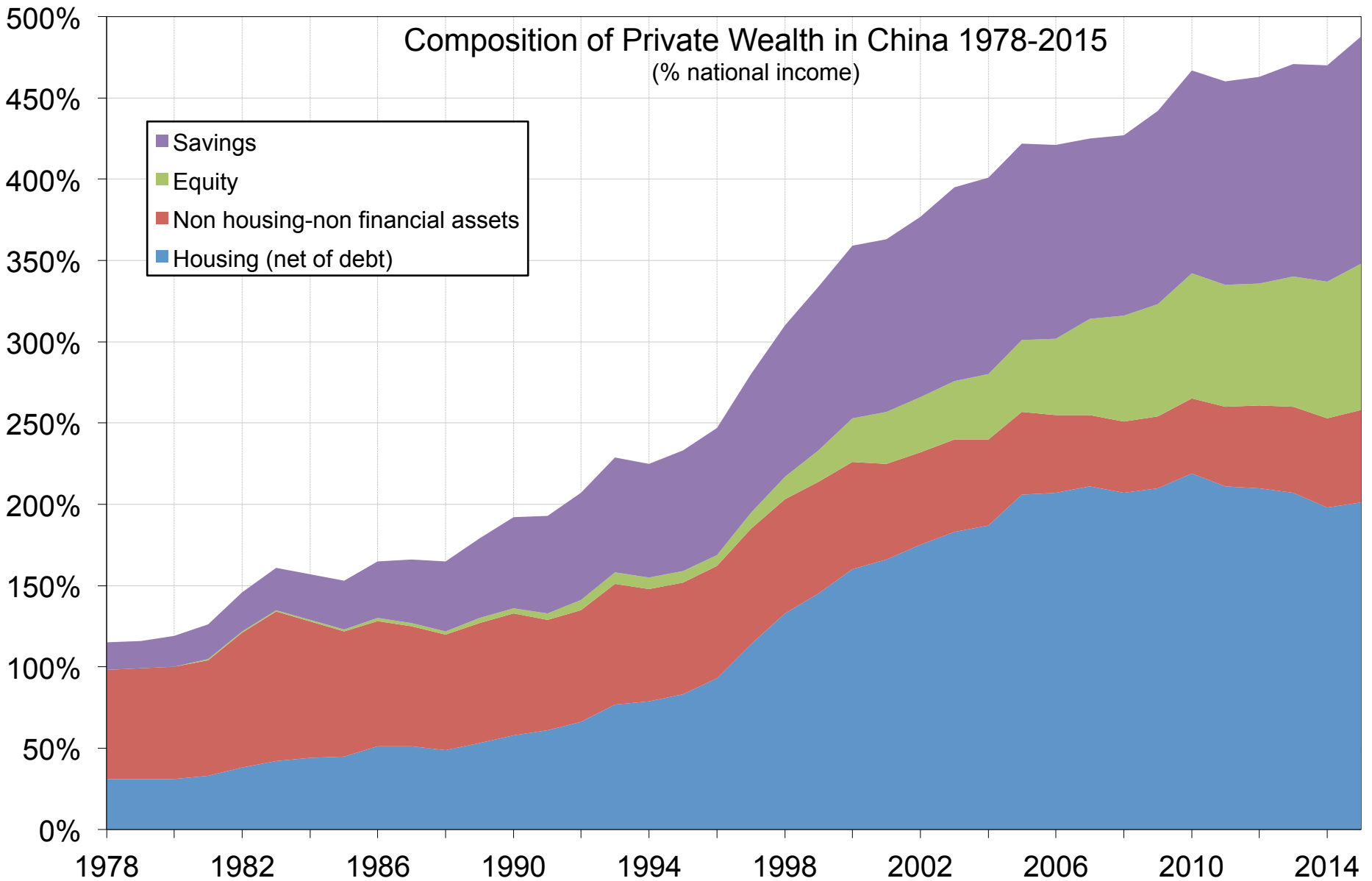
Public vs private wealth in China and Russia



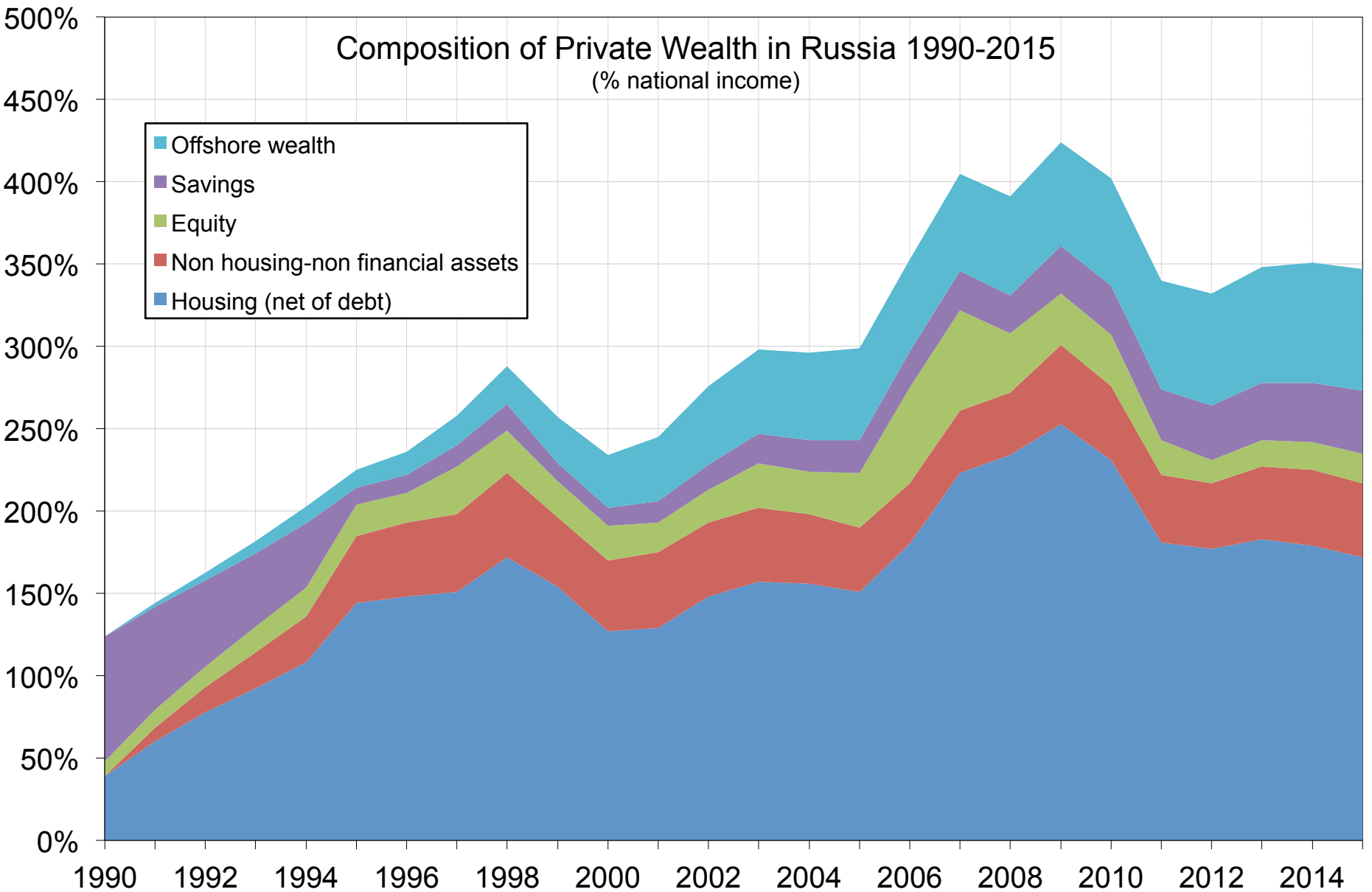
The rise of private wealth

- Critical role of housing for the rise of the private wealth
 - volume effects: new investment and free privatization (especially in Russia)
 - and price effects: rise of real estate prices
- Very low recorded private financial wealth (financial savings and equity) in Russia versus a huge increase in China
 - actually no increase from the Soviet era – despite mass privatization in Russia / higher private equity holdings in China, where govt. is still the dominant corporate owner
 - very high Chinese savings / hyperinflation wiped all Soviet savings
 - persistently low market valuation of equity and unrecorded offshore wealth in Russia

The rise of private property in China



The rise of private property in Russia



Higher private financial wealth in China

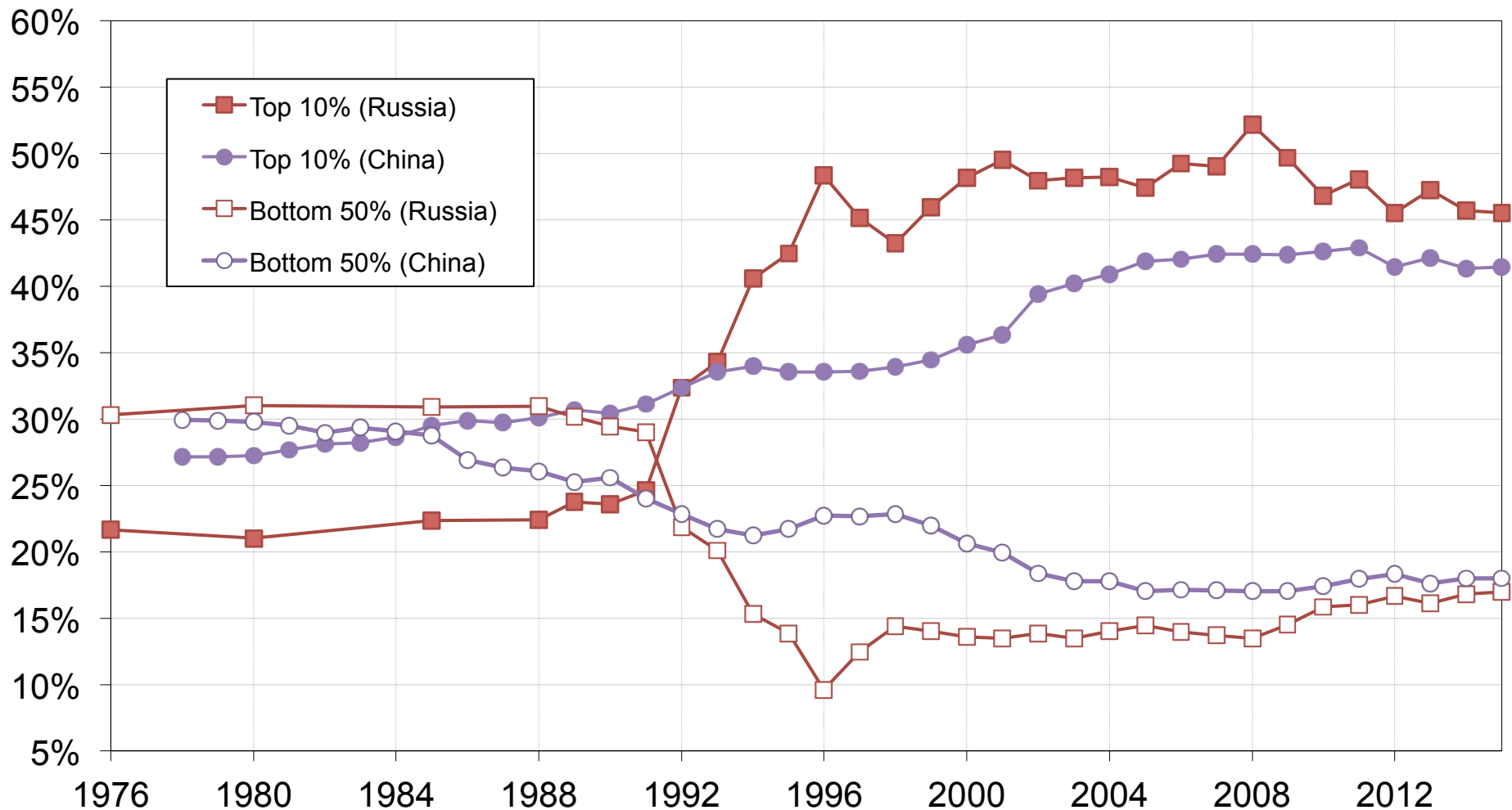
- China has higher saving: these are mainly used for domestic investment, while half of Russian saving used for foreign investment and dissipates
- Higher market valuation of corporations in China (Tobin's $q=1$) than in Russia
- Huge problem of offshore wealth in Russia
 - China and Russia accumulated similar NFA, despite much higher trade surplus in Russia (more efficient management of foreign reserves in China, capital controls – political issue)
 - Our offshore wealth estimate in Russia $\approx 75\%$ of national income (three times larger than official NFA)
 - Rich Russians holds as much financial wealth abroad (UK, Switzerland, Cyprus, etc.) as the entire Russian population holds in Russia itself

2. The rise in income and wealth inequality in China and Russia

Rise in income and wealth inequality

- New inequality series show much higher levels of inequality than official data
 - surveys vastly underestimate inequality (by missing the top of the distribution)
 - correction with income tax data:
 - top 1% income share jumps from 10% (survey-based) to 20% (combination of survey and tax data) in Russia in 2015
 - from 6% (survey-based) to 14% (combination of survey and tax data) in China in 2015
- Immediate and sharp rise in inequality in Russia ('big-bang')
 - Top 10% income share doubled between 1991 to 1996 (from 24% to 48%)
 - bottom 50% share collapsed from 30% in 1991 to 10% in 1996
- Gradual and more limited increase in China

'Big Bang' versus 'gradual' increase in inequality after market reforms



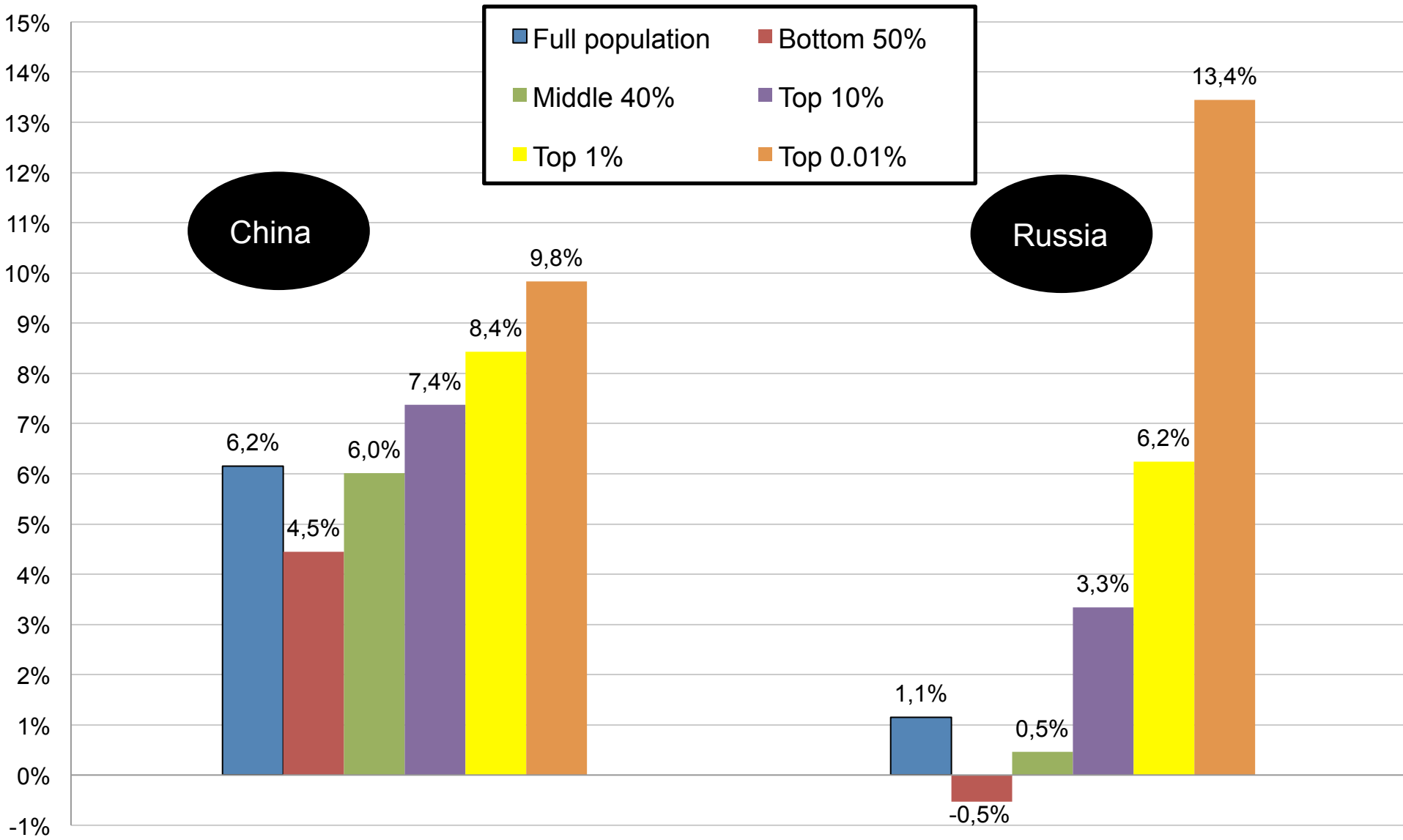
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates combine survey, fiscal, wealth and national accounts data. Raw estimates rely only on self-reported survey data. Equal-split-adults series (income of married couples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

The distribution of growth after Communism

- Distributional National Accounts (DINA) allow us to analyze the distribution of macroeconomic growth across income classes
- Astonishing growth in China (+831%) since 1978; modest in Russia (+41%) since 1989
 - unequally shared – higher income groups have experienced higher growth rates
 - Key difference is the growth experience of the bottom 50%:
 - China: bottom 50% also benefited greatly from growth (+401%)
 - Russia: negative real growth of the bottom 50% (-20%)
 - Growth in China probably makes rising inequality more acceptable
 - In Russia, top 1% captured almost two-thirds of growth since 1989 (in China top 1% captured 15% of growth since 1978)

The distribution of growth after Communism

Average annual growth rate of real per adult pre-tax national income, 1978-2015



Distribution of growth, 1980-2016

Share of growth captured by income groups, 1980-2016

Income group	China	Russia	US-Canada
Full Population	100%	100%	100%
Bottom 50%	13%	-24%	2%
Middle 40%	43%	7%	32%
Top 10%	43%	117%	67%
incl. Top 1%	15%	69%	35%
incl. Top 0.1%	7%	41%	18%
incl. Top 0.01%	4%	20%	9%
incl. Top 0.001%	2%	19%	4%

Source: World Inequality Report 2018, Tab.2.1.2.

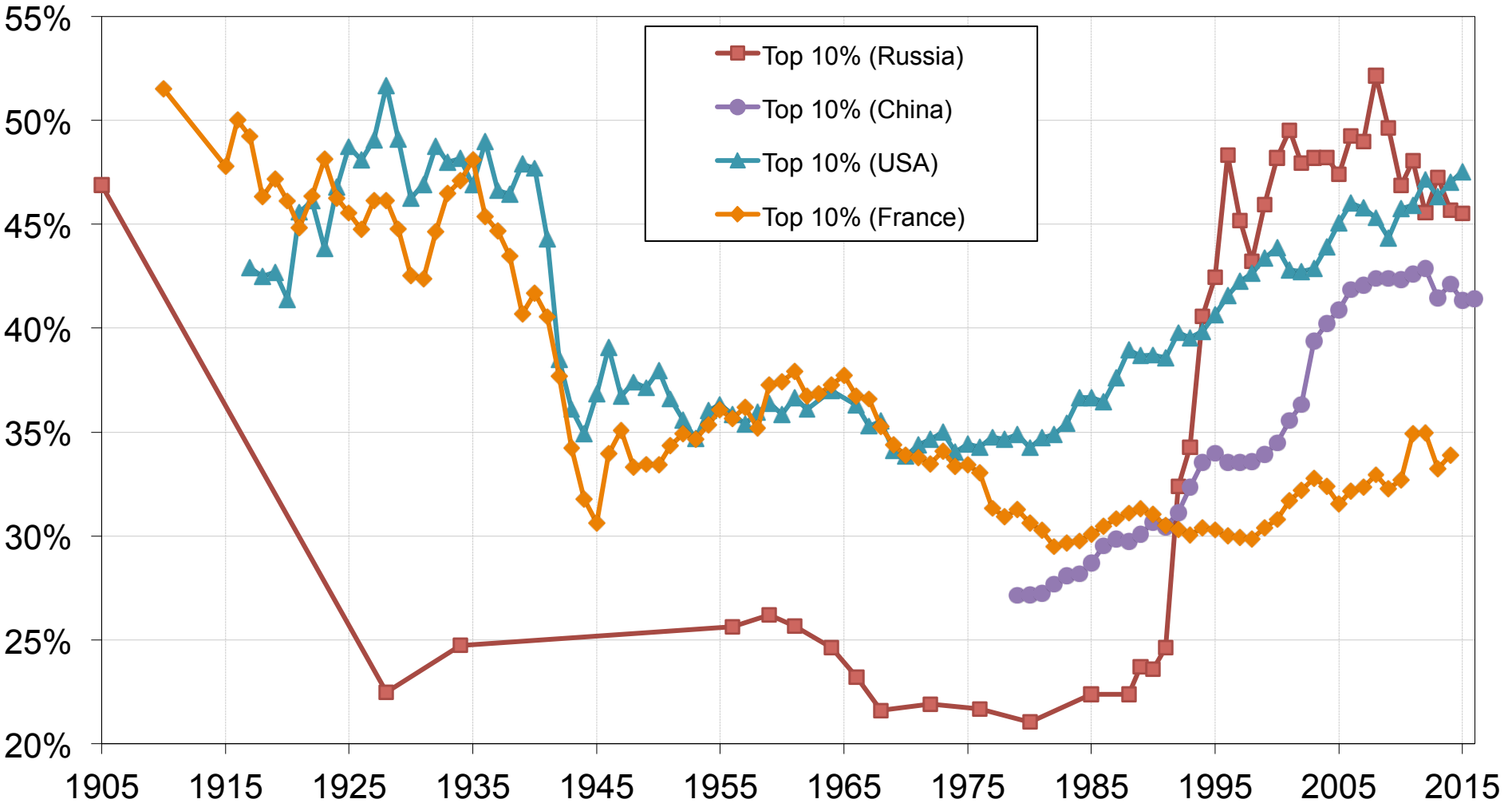
The distribution of growth after Communism

- Russian capitalism places few constraints on top incomes – political and ideological reversal of enormous proportions (‘convergence’ to the US):
 - pro-rich rapid mass privatization; emergence of ‘oligarchs’ in institutional and legal vacuum (e.g. ‘loans-for-shares’), offshore wealth, low tax progressivity, declining transfer system, etc.
- Chinese model plausibly more subject to political and ideological constraints (e.g. inequality turnaround around mid-2000s, Kanbur, Wang, and Zhang 2017; ‘New development paradigm’)

Inequality in international perspective

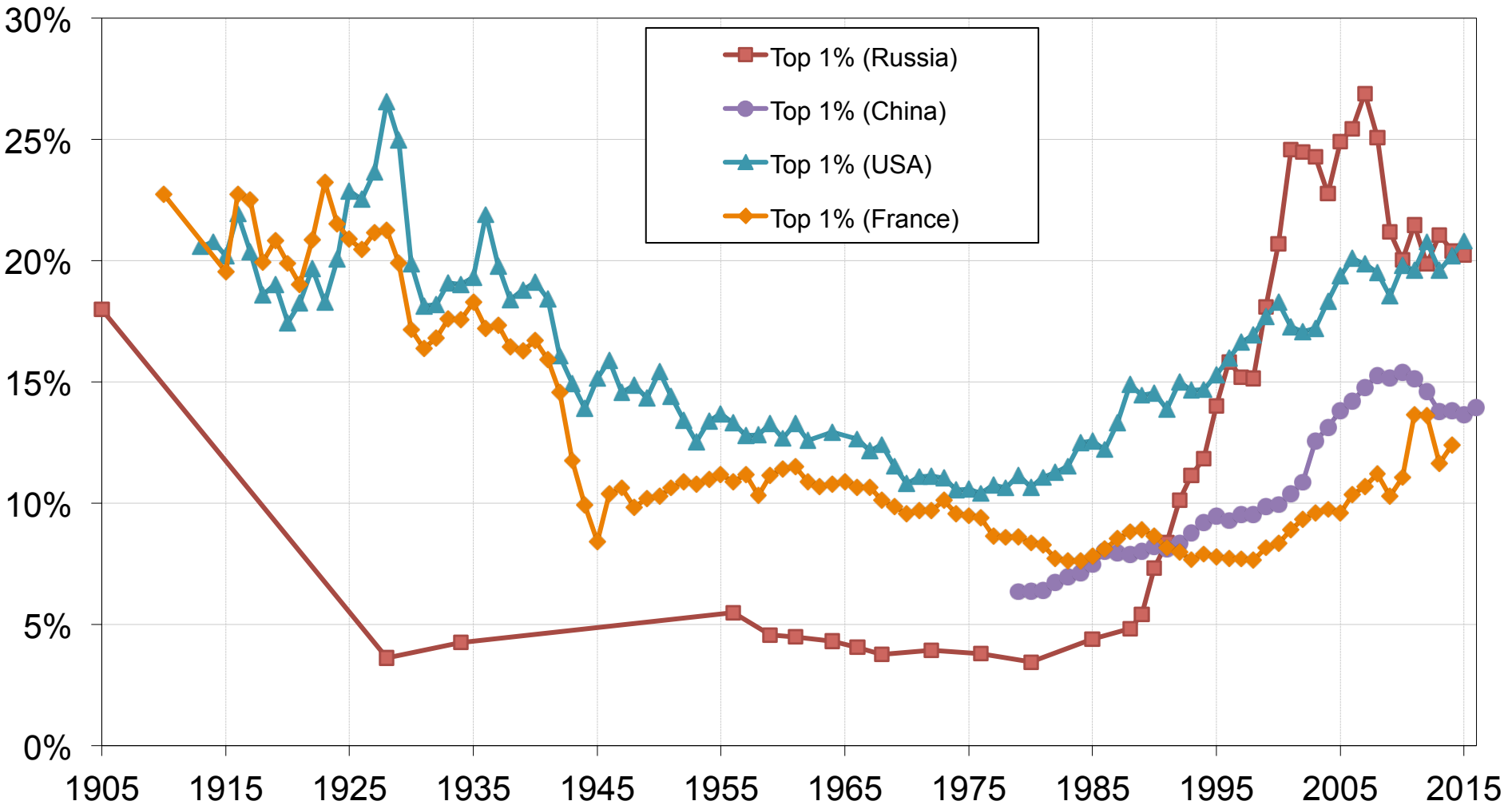
- Russia's inequality like an extreme version of the long-run U-shaped pattern observed in the West during the 20th century
 - Convergence to US inequality levels
- China's inequality still lower than Russia/US but higher than in France (representative of the West European pattern)
- Divergent post-communist patterns:
 - Much higher rise of inequality in Russia than in other ex-communist countries in Eastern Europe
 - The rise of inequality is not inevitable: policies and institutions matter; (e.g. anchor of EU-accession – institutional argument)
- Credit Suisse Global Wealth Report – Russia among the highest levels of wealth inequality

Comparison to western countries – Top 10% income share



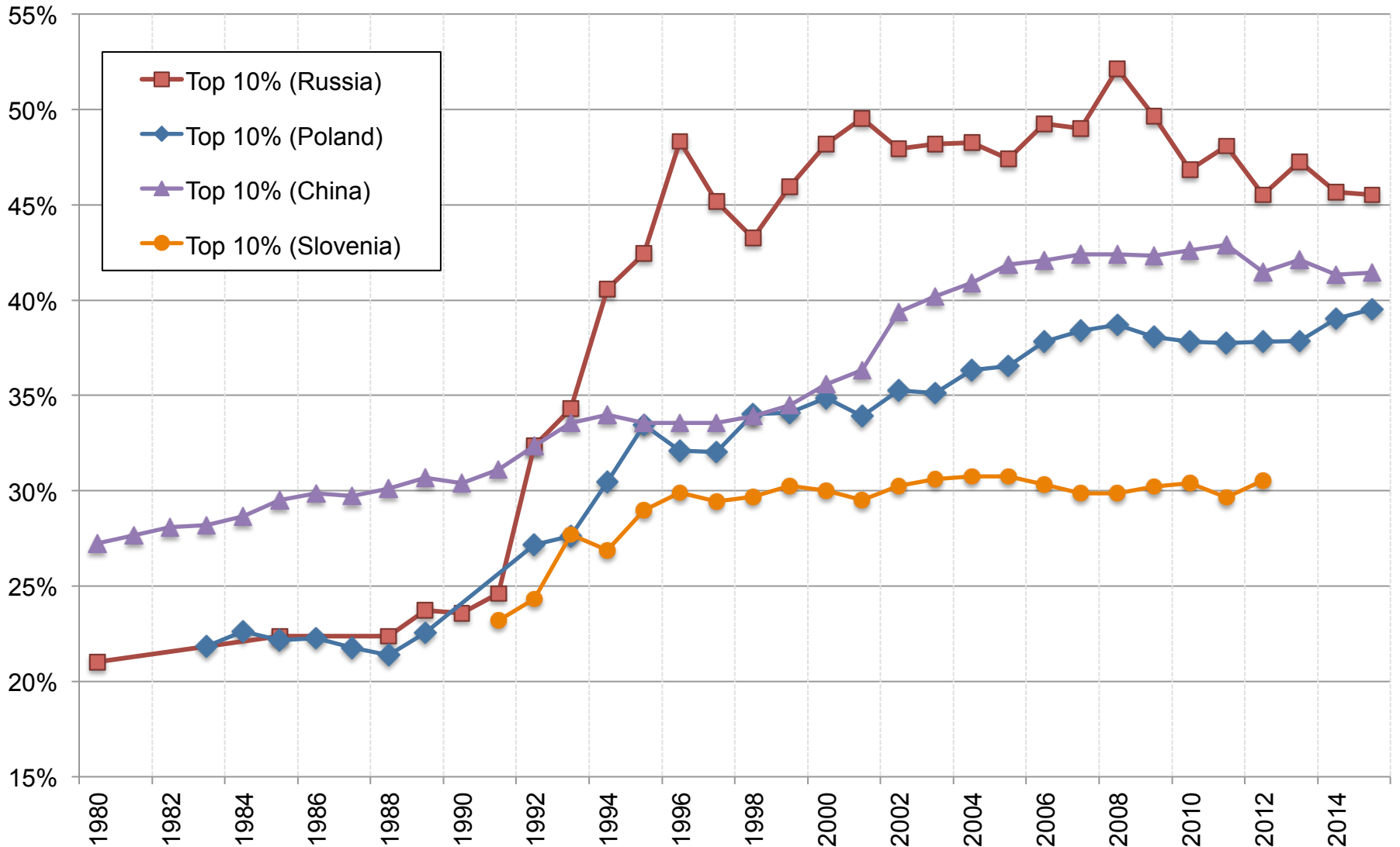
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among equal-split adults (income of married couples divided by two). Sources for USA and France: WID.world.

Comparison to western countries – Top 1% income share



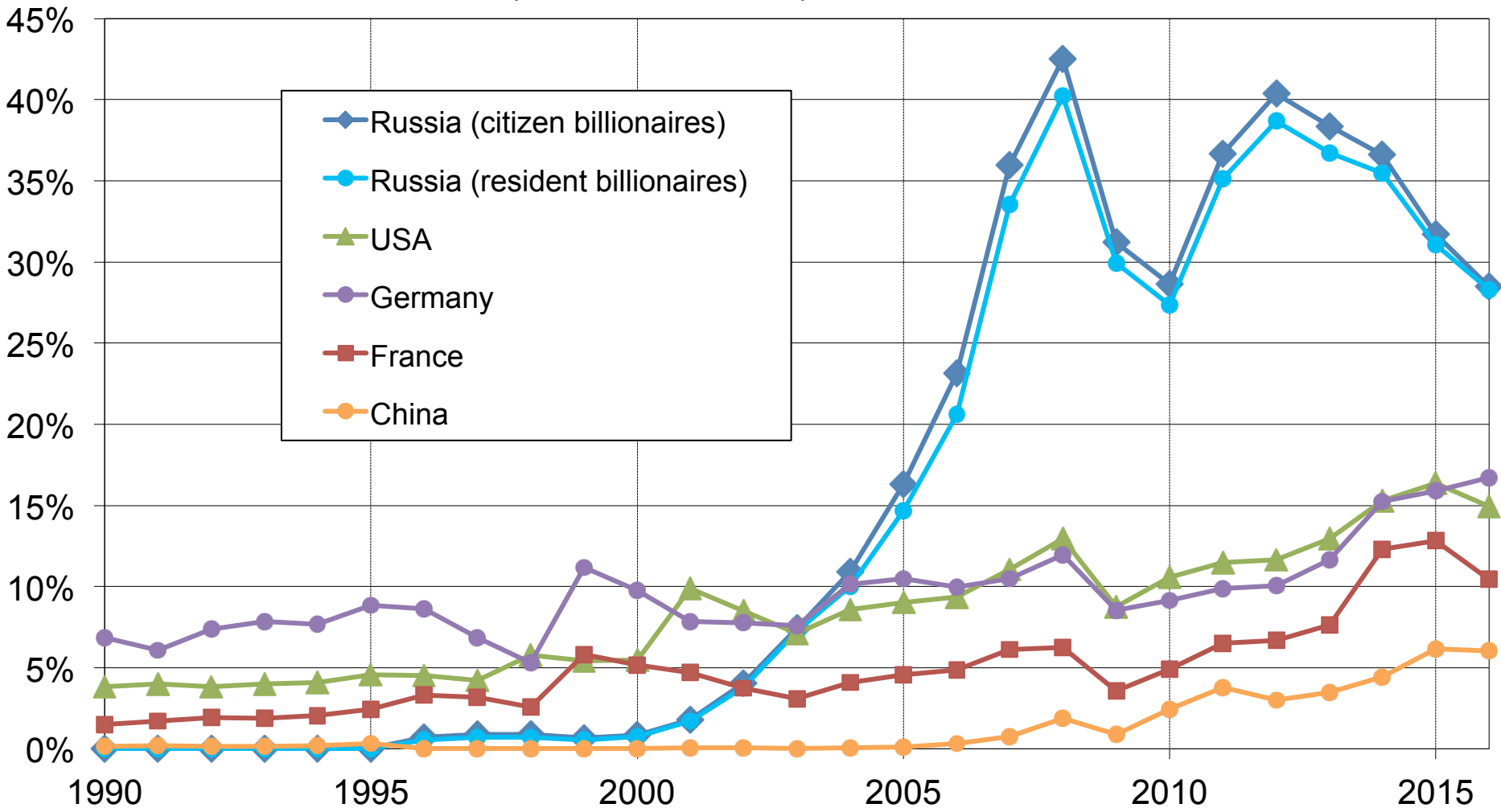
Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among equal-split adults (income of married couples divided by two). Sources for USA and France: WID.world.

Divergent post-communist inequality patterns



Total Forbes billionaire wealth

(% national income); 1990-2016



Total billionaire wealth (as recorded by Forbes global list of dollar billionaires) divided by national income (measured at market exchange rates). For other countries, we only report citizen billionaires (numbers for resident billionaires are virtually identical).

Conclusion

- Our estimates show a sharp rise of income and wealth inequality in China and Russia after the fall of communism
- Much higher top income and wealth concentration in Russia
 - extreme inequality levels in international comparison
 - major issue of offshore wealth / plunder of country's national resources and foreign reserves
 - failure of communism has probably led to higher tolerance for inequality (as long as elites are seen as loyal to State and perceived national interest)
- Substantial increase in inequality in China, but astonishing growth may have made rising inequality more acceptable
 - Challenges with growth slowdown and pressures for inclusive growth
- Different transition and privatization strategies (and its magnitude and speed) have led to different aggregate wealth and inequality patterns
 - also apparent in comparison to Eastern Europe - indicates that post-communist policies and institutions matter
- Access to better data needed to improve the current estimates and to understand particular mechanisms

Thank you for your
attention!