Chapter II

The State of Equity in China: Income and Wealth Distribution

The reason why people are restless is because among them there are the rich and the poor. When the poor people are so poor as to be unable to sustain life while the rich people, often complaining about being sought after, come up with mean measures to avoid giving them aid, the poor set their minds on scrambling for wealth.
　　——Quoted from *Ri Zhi Lu (Records of Things Knowledgeable in a Day),* Volume 6. by Gu Yanwu (1613-1682), the Ming Dynasty

The framework for analysis

To analyze the particularities of Chinese society today, this report proposes an analytical framework to answer two questions: who is the subject of equality, and what is the object of equality? (see Table 2.1). The subject of equality can be divided into three major classifications: urban and rural residents, residents in different regions, and different population groups. The population groups include males vs. females, rural migrants vs. local urban residents, and vulnerable groups vs. ordinary groups. The object of equality comprises the following major variables: income, wealth, job opportunity and wage, education, health, social security, and government fiscal spending. The subject and the object of equality together constitute a matrix, which clearly indicates the dimensions of the inequality highlighted by this report.

Table 2.1 The Analytical Framework for Inequality	(1) Between urban & rural areas	(2) Between regions	(3) Between population groups			
			(3a) Between rural migrant people & urban residents	(3b) Between genders	(3c) Vulnerable groups	(3d) Others
Distribution outcome						
1. Income distribution	△	△	△		△	△
2. Wealth distribution	△	△			△	△
Opportunities and Capabilities						
3. Job opportunities & remuneration		△	△	△	△	△
4. Educational attainment & public education resources	△	△	△	△	△	△
5. Physical health & public medical care	△	△		△	△	△
Rights and others						
6. Social security	△	△	△	△	△	△
7. Taxation system & fiscal revenue and expenditure system	△	△		△	△	△

The report analyzes three dimensions of current inequality and inequity. The first is inequality of distributional outcome, which includes a description and analysis of inequality in income and wealth distribution. The second dimension is inequality in the capabilities of different population groups. Here we shall discuss inequality problems in the labor market, including restrictions on labor flow, lack of equal right to employment, and loss of the right to "equal pay for equal work." We will also concentrate on two related inequalities, namely inequalities in compulsory education and in basic medical care, for these two areas constitute the basic prerequisite to ensure the basic capabilities of people in a modern society. To a certain degree, these deficits are often related to inequality in distribution outcome. The third dimen-

sion is inequality in the right to social security and inequity in the underlying fiscal system, such as inequity in paying taxes and benefiting from fiscal expenditure, and the situation of the vulnerable groups whose right to survival is not properly ensured.

As an exploration of these inequalities requires considerable in-depth analysis, we shall discuss them in three chapters. This chapter is primarily devoted to the description and analysis of the inequality in distribution outcome in China, while Chapter III and Chapter IV will concentrate on inequality in other aspects.

Inequality in income distribution

Since China's reform and opening-up, its

economy has witnessed rapid growth together with a substantial increase in household income. Sustained rapid economic growth has led to an increasingly larger "pie" for distribution, while economic reform has also brought about changes to the distribution mechanism. As a result, remarkable changes have occurred in the distribution pattern and income inequality among the Chinese citizens. This chapter analyzes the characteristics of income inequality between urban and rural areas, within rural and urban areas, and across the entire country.

Income inequality under traditional system

Before reforms began, China had a planned economy where the means of production and some means of livelihood were nationalized. Urban factories, shops, and other means of production as well as residential housing were basically state-owned or collectively owned. In rural areas, land and all other means of production were owned by people's communes and the production teams under them. In cities, people received low wages and enjoyed rudimentary yet universal welfare including basic healthcare and compulsory education. In the countryside, the state monopolized the purchase and sale of grain, cotton, and other key agricultural products with implementation of an even income distribution system among members of production teams or communes.

Egalitarianism was not only the dominant ideology, but also a goal that the government pursued actively. To minimize income inequality, government adopted policies on income distribution and redistribution that carried distinctive planning and administrative features. In the urban economy, workers' wages were centrally planned and administered, with the central government setting unified wage standards and scales. As the concept of egalitarianism gained increasing popularity, differences between high and low wage scales diminished.

As a result, income inequality in urban areas was

very low. According to estimates by the National Bureau of Statistics, the Gini coefficient for income inequality among urban residents at the end of the 1970s was about 0.16.[30] The income-setting mechanism in rural areas, however, was different from that in urban areas. The people's commune system and the related distribution system could only guarantee a limited equality in income distribution within villages and communes. Income distribution mechanisms for residents between localities were simply nonexistent. Consequently, there were relatively large income gaps between villages, between townships, between counties, or between provinces. Compared with urban areas, income inequality in rural areas was far greater in the planned economy.[31] To pursue industrialization, the government invested substantial funds in urban industries and regarded rural areas as a base for the supply of grain. To accumulate more funds for industrialization, authorities deliberately suppressed the price of grain and other farm products, aggravating the urban-rural income gap. In 1978, urban per capita income was 2.6 times rural per capita income.[32]

At the time, China's overall level of economic and social development was low: Approximately 250 million rural people lived below the poverty line. While egalitarianism figured prominently in income distribution in cities, it did not apply nationwide. There was considerable income inequality within rural areas and a clear income gap between urban and rural areas. [33] This meant China's reform and transition did not begin from an egalitarian pattern of distribution and that today's widening income inequality is more or less tied to past income inequality.

Between 1979 and the early 1990s, China carried out a series of economic reforms. The "production responsibility system" linking remuneration with output was introduced for agricultural production. A "dual-track" pricing system was adopted for industrial and agricultural products. The government followed a policy of "profit-sharing and decentralization"

by allowing local governments and state-owned enterprises to retain part of their revenue/profits. Meanwhile, the central government opened the country wider to the rest of the world by designating Shenzhen and three other cities Special Economic Zones. Over time the opening-up policy was extended to all coastal regions, which consequently saw rapid economic growth and a widening development gap with interior regions. In the early days of the economic transition, market forces were immature and resulted in some economic distortion. Some commodities and services were in short supply and the "dual-track" pricing system induced rent-seeking activities. Various flaws in the tax system allowed some people to become wealthy by exploiting them. Farmers and private firms who took the lead in assuming market risks also saw their income rise significantly. Moreover, as the "revenue-sharing" scheme and contract system were phased in, there were continuous drops in the share of government revenue in the national income and in the percentage of fiscal revenue going to the central government. These moves compromised the government's ability to reduce income disparities and enforce social policies.

During the early years of reform, although an uneven strategy of regional development was pursued, economic reforms and growth affected most people's lives. Although gains varied from person to person and income gaps widened within rural areas, within urban areas and nationwide, the level of inequality was acceptable to most people.[34]

Starting from the mid-1990s, urban China saw deeper economic reforms and the effects of market forces were felt more broadly. The state sector witnessed steady drops as a percentage of the overall economy, while the non-state sector experienced dramatic growth. Prices of most products, including grain and coal, were determined by the market as the "dual track" system was dismantled. In 1994, reforms were undertaken in the fiscal system, introducing a "tax-sharing" scheme between the central and local

governments. From the mid-1990s, the government reformed the state sector by privatizing small and medium-sized state-owned enterprises. Owing to competitive pressures, state-owned enterprises across the board resorted to cutting payrolls to improve efficiency. As a result, hundreds of thousands of workers were laid off. Due to lagging reform of the social security system, urban poverty loomed large. On one hand, there was a booming economy in urban areas and more opportunity to earn high income. This was especially true for elite groups who profited from their political and economic power, and for a small number of people who took advantage of loopholes in the system. On the other hand, there was a decline in income for the unemployed and laid-off workers.

The same period saw fluctuations in growth in rural incomes. In 1994 and 1995, the government substantially raised the price of agricultural produce, resulting in rapid income growth in rural China. From 1997 onwards, however, a steady decline in grain prices slowed income growth for rural households. The widening urban-rural income gap emerged as the leading factor contributing to China's growing income inequality.

Recent changes in urban-rural income gap

Since the beginning of reform and opening up, there has been rapid growth in the incomes of both urban and rural residents. From 1979 to 2003, both urban and rural per capita income increased more than four-fold. But this income growth for urban and rural residents took place in different periods. As a result, the income gap between urban and rural residents remained volatile on occasion. Figure 2.1 indicates that the growth rate of income of rural households since the 1990s has clearly been lower than that of urban residents, and that the gap in absolute income between the two has been widening year after year. At current prices, urban per capita income was 824 yuan higher than that of rural residents in 1990. It was 1,578 yuan

higher in 1995, 4,027 yuan higher in 2000, and 5,850 yuan higher in 2003. In other words, the difference in the absolute amounts of income between urban and rural residents rose more than six-fold over the past 13 years.

Figure 2.2 shows changes in the income ratio between urban and rural residents. Since the 1990s, the ratio has undergone a widening-narrowing-widening process. If we use it to represent income inequality between urban and rural residents, we can see that inequality widened from 1990 to 1994, with the ratio rising from 2.2-fold to 2.6-fold. After that, inequality narrowed for only three years, with the ratio dropping from 2.6-fold in 1994 to 2.2-fold (the 1990 level) in 1997. But from 1998 on, the ratio rose sharply, from 2.2-fold in 1997 to 2.5-fold in 2000 to 3.23-fold in 2003.

The continuous widening of the urban-rural income gap was also manifested in the concentration of high-income residents in urban areas and destitute people in rural areas. According to data from an income survey conducted in 2002 by the Institute of Economics under the Chinese Academy of Social Sciences,[35] urban and rural residents accounted for 93 percent and 7 percent respectively of the highest decile nationwide and 1.3 percent and 98.7 percent respectively of the lowest decile. This is an exceptionally sharp contrast.[36] There is evidence that this urban-rural divide between the rich and the poor is more striking than in the past.[37]

The widening income gap between urban and rural areas depends to a large extent on the growth of rural household income. This is because the income growth in urban households has always been high,

Figure 2.1 Trends in per Capita Income Changes of Urban and Rural Residents 1990-2003 (at variable prices)
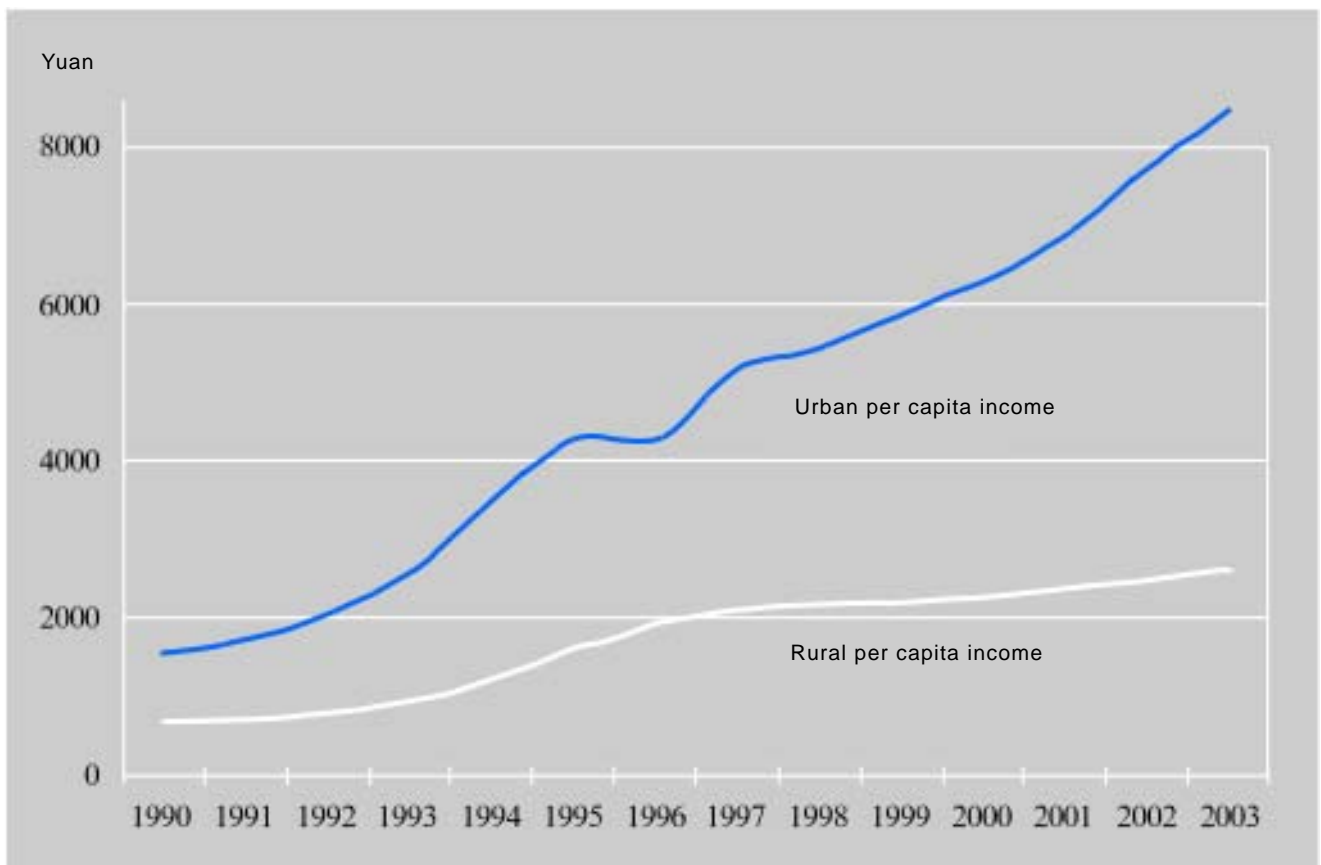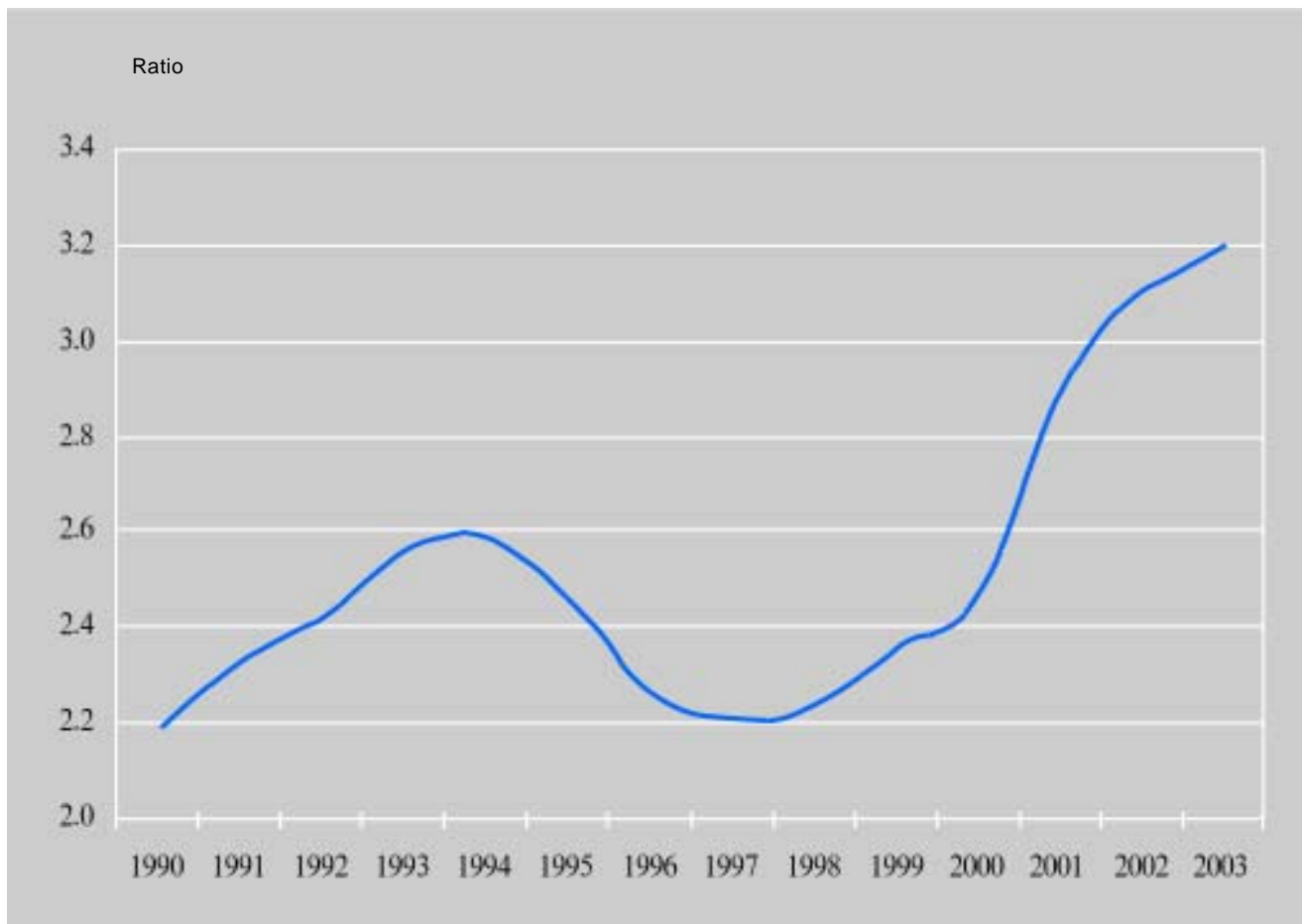

Source: Based on data of National Bureau of Statistics, 2004: 357.

largely in step with the macroeconomic growth rate,[38] while the growth of rural household income basically tracks changes in the price of farm products and changes in the farmers' opportunity to work outside their place of origin. When the price of farm products goes up, rural income increases and the urban-rural income gap becomes smaller. If the prices of farm products remain unchanged or decline, the urban-rural income gap will widen. In addition, if farmers receive less income from farming, they can make up for the loss by taking up non-farm occupations. But if farmers face restrictions on working elsewhere and if alternative occupations are insufficient to cover the decline in the income from farming, rural incomes inevitably drop.

We should note that per capita income of urban residents in 2003 was more than three times that of rural residents, a fairly big gap. But as many scholars point out, this gap is underestimated. This is in part because the income of urban residents defined by China's National Bureau of Statistics (NBS) excludes all types of subsidies in kind enjoyed by urban residents, which are beyond the reach of rural residents. For example, many urban residents are entitled to free medical care, which is denied to rural residents. Urban primary and middle schools may receive large state subsidies, while subsidies to rural schools are minimal and farmers themselves often must raise funds for school operations. Urban workers are entitled to pensions, unemployment insurance, and a minimum living allowance. These are a luxury to rural laborers. Some experts believe that if all these factors were taken into account, the urban-rural in-

Figure 2.2 Changes in China's Urban-Rural Income Inequality, 1990-2003

Source: Based on data of National Bureau of Statistics, 2004.

come gap would be much wider. In fact, recent research indicates that if public housing subsidies, private housing imputed rent, pension, free medical care, and educational subsidies were included, the actual per capita income of urban residents in 2002 would increase by 3,600 to 3,900 yuan, bringing the urban-rural income ratio to about four-fold instead of the 3.2-fold acknowledged by official figures.[39]

Thus, China's urban-rural income gap is at a fairly high level and constitutes the most striking feature of China's pattern of income distribution. It is also the most important factor contributing to the continuous widening of income inequality in China overall. China's Gini coefficient is lower than in some Latin American and African countries, but its urban-rural income inequality is perhaps the highest in the world.[40]

Rural income inequality

Since the beginning of the reform era, income inequality among rural residents generally has widened. The rural Gini coefficient dropped 1 percentage point in 1995 over the previous year, and 1 percentage point again in 1997 over 1996. But since 1997, rural income inequality has widened continually, with the Gini coefficient rising from 0.33 in 1997 to 0.37 in 2002. Relevant studies indicate that the Gini coefficient for rural income distribution was 0.22 in 1978, when reforms first began. That means that during the

past 25 years of economic transition and development, rural income inequality has increased by two-thirds.

Based on household survey data collected in 2002 by the Institute of Economics of the Chinese Academy of Social Sciences (CASS), it is possible to calculate the relative income shares of different groups. From Table 2.2 we can see that in 2002, the richest one percent of rural residents earned six percent of the total rural income. The richest five percent earned 18 percent of the total rural income and the richest 10 percent earned 28 percent. On the other hand, the poorest five percent earned only one percent of total rural income, while the poorest 10 percent earned just 2.5 percent. This indicates that the average income of the richest five percent was nearly 18 times that of the poorest five percent, while that of the richest 10 percent was more than 11 times that of the poorest 10 percent.
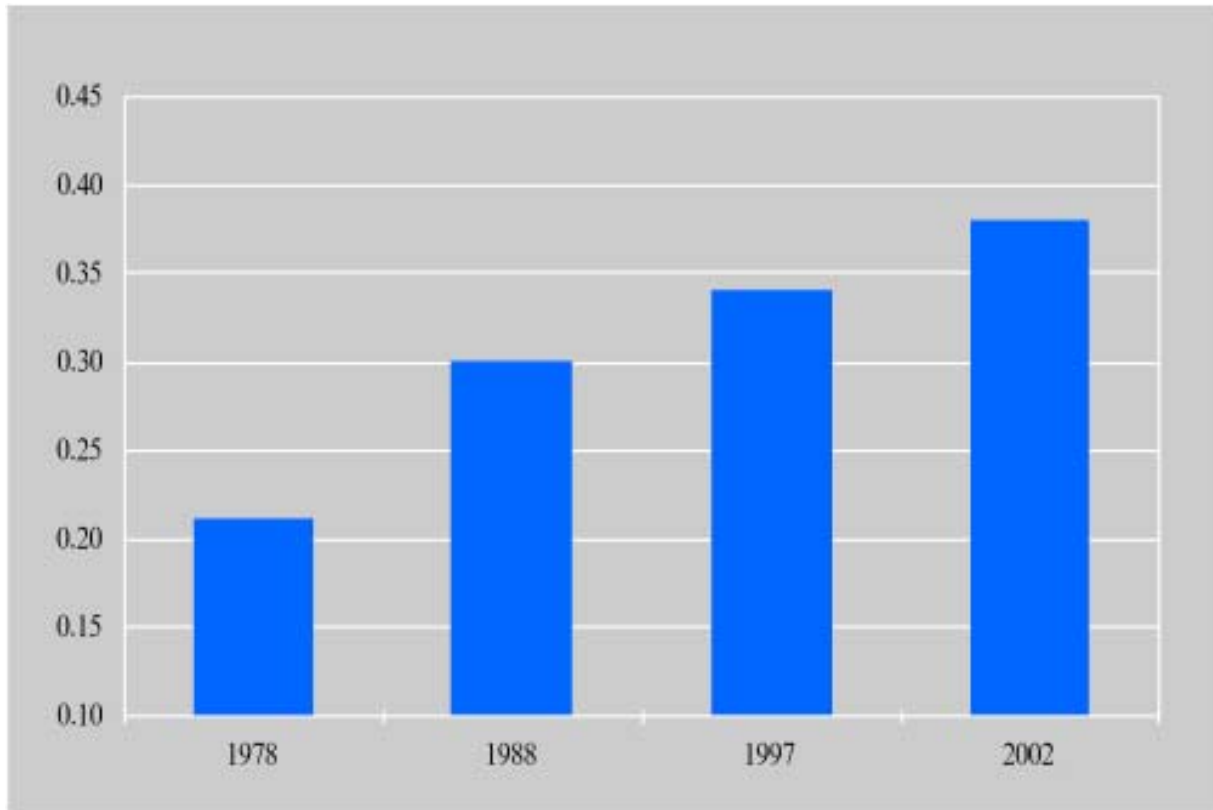
The widening of rural income inequality is also manifested in widening inequalities across regions. The pace of rural income growth in the central region has been slow, resulting in a widening income disparity with the east region. The ratio of rural income between the central and east regions was 1:1.42 in 1997, 1:1.44 in 1998, 1:1.46 in 1999, 1:1.47 in 2000, 1:1.49 in 2001, 1:1.50 in 2002, and 1:1.52 in 2003.

Table 2.2 National, Urban & Rural Income Shares of Different Income Groups in 2002						
	Income share of highest-income group (%)			Income share of lowest-income group (%)		
	National	Urban	Rural	National	Urban	Rural
1%	6.1	4.4	6.0			
5%	19.8	14.8	17.8	0.6	1.2	1.0
10%	31.9	24.4	28.1	1.7	3.0	2.5
25%	57.2	46.1	50.0	6.2	10.3	9.1
50%	81.0	71.8	74.5			

Source: Li and Yue, 2004.

Figure 2.3 Changes in China's Rural Income Inequality (Gini Coefficient)

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS; Calculation of the National Bureau of Statistics.

The widening of rural income inequality is thus mainly due to changes in the share of agriculture and the components of rural income. As more rural laborers move to non-farm sectors—either by finding employment in rural enterprises, starting their own businesses, or migrating to the urban industrial, construction, or service sectors—the proportion of non-farm income in rural income will continue to rise. Because non-farm job opportunities are mainly in wealthier regions such as the coastal areas, households that have certain opportunities and operational capacity will find it easier to benefit. For this reason, the growth of non-farm income will widen rural income inequality at the initial stage of rural industrial development. According to the household survey data collected in 2002 by the Institute of Economics, CASS, the wage income of rural households accounted for 29 percent of their total annual income. As this income dis-

tribution was more unequal, its contribution to the total income inequality was as high as 36 percent. By contrast, net farming income accounted for 39 percent of farmers' total income. But as the distribution of farming income was more equal, its contribution to the total income inequality was only 27 percent.[41] Therefore, the widening of rural income inequality is more closely linked to the development of the rural economy.

Urban income inequality

Income inequality in urban China began widening in the mid-1980s, coinciding with the early stage of urban economic reforms. But international comparison indicates that income inequality among China's urban residents was still at a fairly low level.[42]

Widening inequality in urban personal income became dramatic after 1992, when Deng Xiaoping made his famous tour of southern China, spurring another wave of economic reform. Estimates from the Institute of Economics based on a second sample house-

Figure 2.4 Changes in China's Urban Income Inequality (Gini Coefficient)
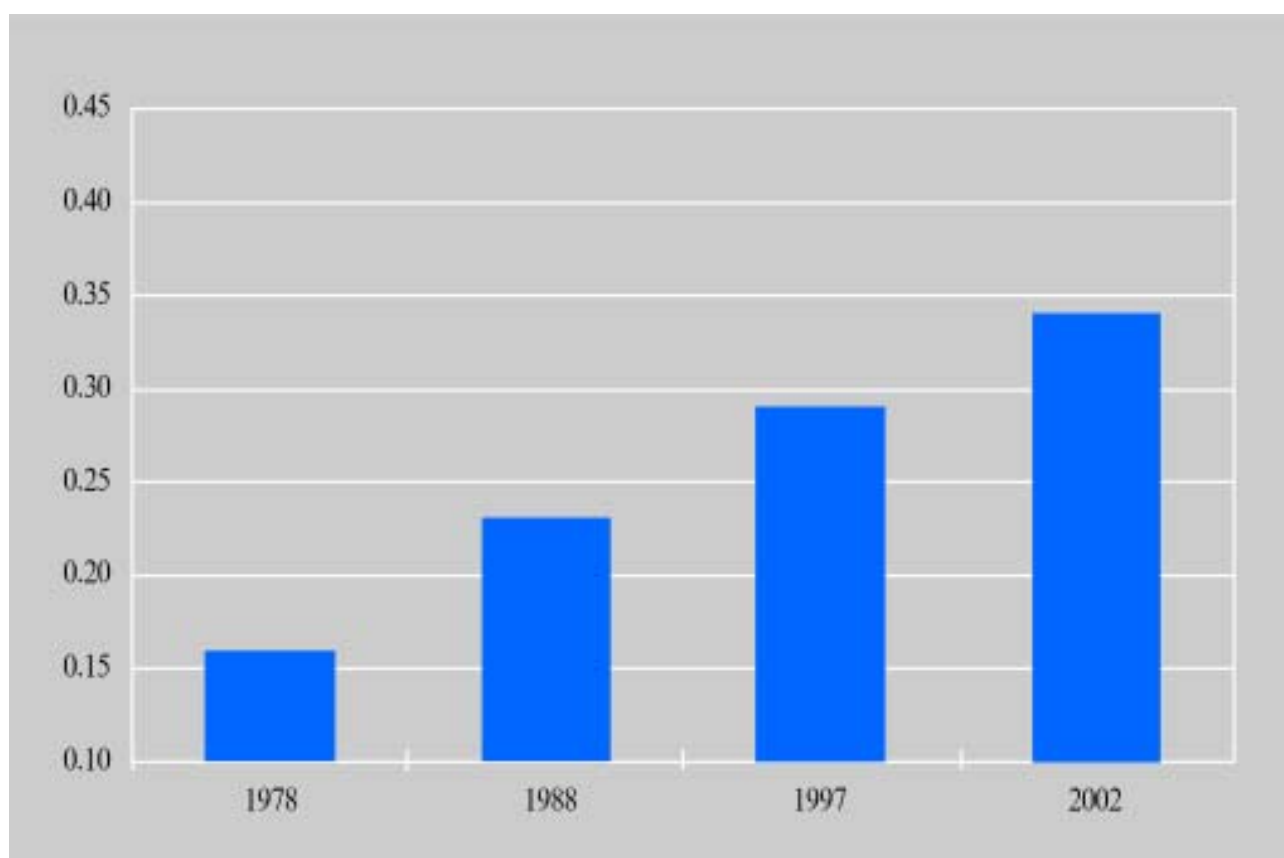
Source: Based on data from household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS; Calculation of the National Bureau of Statistics.

hold survey indicate the Gini coefficient for personal income in 1995 rose to 0.33, 10 percentage points higher than in 1988. This widening trend was also reflected in the estimates made by the National Bureau of Statistics.[43]Table 2.2 indicates that in 2002, the richest one percent of urban residents earned 4.4 percent of total urban income; the richest five percent earned

15 percent, while the richest 10 percent earned 28 percent. By contrast, the poorest five percent earned 1.2 percent of the total, while the poorest 10 percent made less than three percent. This means that the income of the richest five percent of urban residents was nearly 13 times that of the poorest five percent, while the income of the richest 10 percent of residents

was nearly 10 times that of the poorest 10 percent.

Inequality in urban incomes is also reflected regionally, manifested most strikingly in wage disparities among different provinces. As of 2003, the highest average provincial wages was 2.6 times the lowest, and the gap continues to widen.

Many scholars believe actual urban income inequality is even larger than the estimates based on household survey data because when the household surveys were conducted, most high-income households were reluctant to participate. Under-representation of these households in the survey may have led to an underestimation of income inequality. This is not a phenomenon unique to China, but insufficient legal protection of private properly made some people reluctant to reveal their incomes, whether they had earned their money legitimately or not.

National income inequality

The national income inequality and changes to it can only be treated on the basis of some research estimates. According to data from the first household survey conducted by the income distribution research team of the Institute of Economics, CASS, the national Gini coefficient was estimated at 0.382 in the late 1980s. At that time, income in kind and housing subsidies given to urban households as well as imputed rent of private houses were included in disposable income.[44] Based on the national samples, the income share of the highest-income group in 1988 was 7.3 times that of the lowest-income group.[45] The same research team conducted another national household survey in 2002, showing the national Gini coefficient for that year was

Figure 2.5 Changes in National Income Inequality (Gini Coefficient)
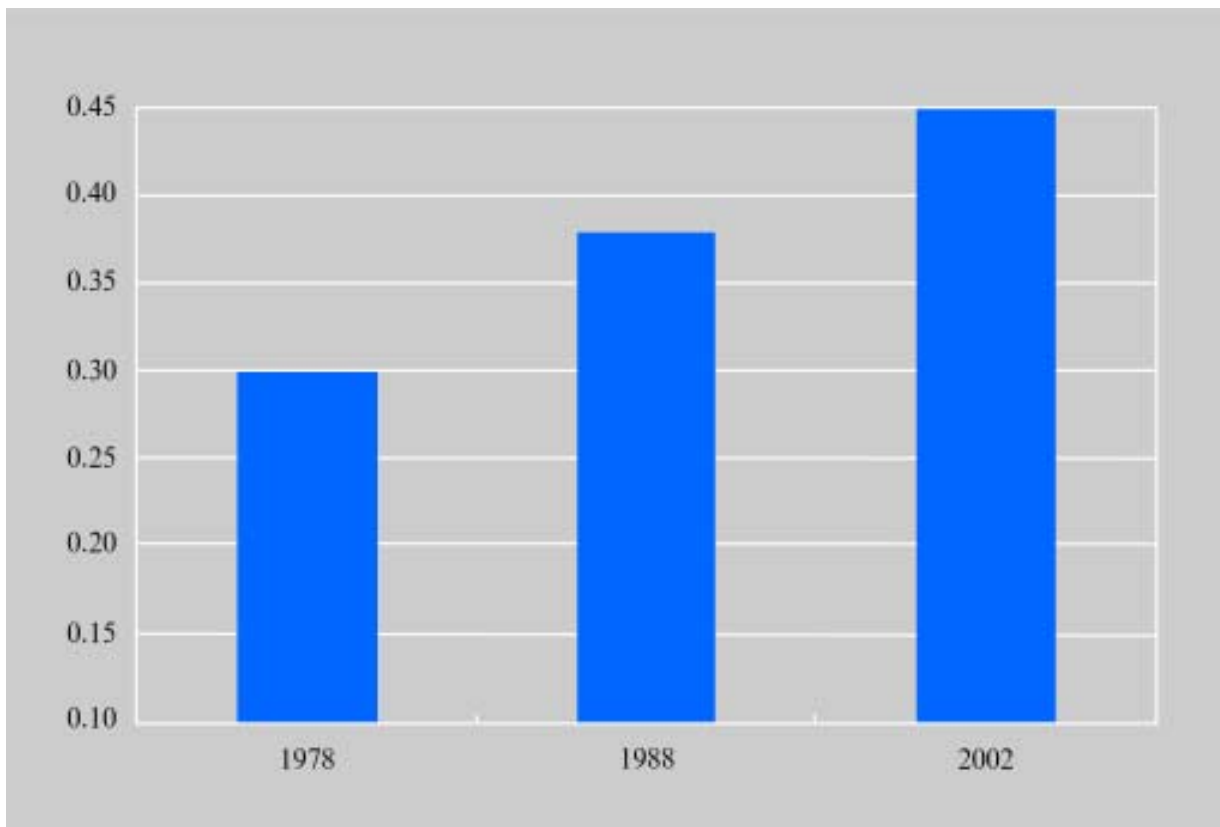
Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS; Calculation of the National Bureau of Statistics.

close to 0.46. When comparing the income shares of different income groups in 2002, as seen in Table 2.2, the one percent with the highest income controlled 6.1 percent of the total. The top five percent controlled nearly 20 percent of total income, while the top 10 percent controlled nearly 32 percent. The average income of the highest decile was 11 times that of the lowest.

Using the Theil index, national income inequality is divided into three parts: urban, rural, and urban-rural. The first two parts are called within-group inequalities; the last, a between-group inequality. As seen in the estimates presented in Table 2.3, from 1988 to 2002, within-group inequalities in the absolute value

of the Theil index rose by nearly one-third, but their contributions to the national inequality declined by nearly five percentage points. By contrast, the contribution of between-group inequality (the urban-rural gap) to national inequality rose from 38 percent to 43 percent. This means two-fifths of national income inequality in 2002 came from the urban-rural income gap.

Based on estimates made by some scholars about the national income inequality during the early years of reform, the Gini coefficient was 0.30. Today it has reached 0.46, which means the national income inequality has widened by more than 50 percent in the last two decades. The widening was more evident in rural income inequality in the late 1980s, in urban in-

Table 2.3 Urban-Rural Breakdown of National Personal Income Inequality in 1988 & 2002		
	Intra-urban & Intra-rural	**Urban-rural**
2002		
Theil index (a=0)	0.209	0.157
Contribution rate (%)	57.0	43.0
1988		
Theil index (a=0)	0.160	0.099
Contribution rate (%)	61.8	38.2

Source: The 1988 data originated from Gustafsson and Li (2001) and the 2002 data from Li and Yue (2004).

come inequality in the early 1990s, and in urban-rural income gap since the late 1990s.

Inequality in wealth distribution

Wealth distribution in rural areas

Wealth of rural households is measured in this report in terms of six items: land, housing, financial assets, production assets, durable consumer goods, and non-housing debt. Housing value is calculated on the basis of the total value of housing minus outstanding housing debt. The non-housing debt refers

to all debts other than the housing debt. The total value of all these items, after non-housing debt is deducted, constitutes the net wealth value.

Data from the 2002 rural household survey indicate that wealth per household was more than 50,000 yuan and wealth per capita was close to 13,000 yuan. Wealth per household was equivalent to 5.3 times per capita net income and 3.9 times per capita disposable income in the same year.[46] In terms of wealth composition, land and housing were the two largest items, accounting for about 74 percent. Research done on rural wealth in the 1980s and 1990s[47] indicates that since the late 1980s and especially since the mid-

Table 2.4 Level & Composition of Rural per Capita Wealth in 2002

Wealth & components	Average value (yuan)	Percent
Total wealth (net value)	12937.8	100
Land value	3974.3	30.72
Housing value	5565.0	43.01
Financial assets	1592.6	12.31
Production assets	1181.6	9.13
Value of durable consumer	793.3	6.13
goods	−169.0	−1.31
Non-housing debt		

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

1990s, the scale and structure of rural household wealth have undergone notable changes. First, the scale of total household wealth has expanded rapidly. The real growth rate of total household wealth was 86 percent from 1988 to 2002, but only 19.6 percent from 1995 to 2002. This implies that the real growth rate (55 percent) from 1988 to 1995 was far higher. This result is consistent with changing trends in rural income growth over the same period.

Next, the land value of rural households declined by 26 percent from 1995 to 2002. As a result, the proportion of land value in relation to total wealth fell sharply, from 59.9 percent in 1988 to 50.3 percent in 1995, and further to 32.7 percent in 2002. At the same time, the proportion of net housing value to total wealth rose from 30.9 percent to 33.4 percent and then to 45.8 percent, while the proportion of financial assets to total wealth rose from 2.8 percent to 10.8 percent and then to 13.1 percent. Reasons for the declining value of land are as follows. First, the use of farmland for industrialization and urbanization dramatically reduced per capita land possession in rural areas. Second, the decline in the prices of farm products led to lower income from land: Farmers could make virtually no gains from farming in the late 1990s.

The inequality in rural wealth distribution can be measured with the Gini coefficient, which was 0.40 for rural personal wealth in 2002. Compared with a coefficient of 0.31 in 1988, [48] rural wealth inequality clearly widened from 1988 to 2002. Table 2.5 indicates that the poorest 10 percent owned only 2 percent of the total wealth while the richest 10 percent owned as much as 30 percent of the total wealth in rural areas. Of all wealth items, financial assets were most unevenly distributed. The richest 20 percent owned 55.3 percent of the total financial assets, while the poorest 20 percent owned only 4.5 percent. The ratio between the two groups was 12.2:1. The distribution of housing value was also unequal. The richest 20 percent accounted for 50.9 percent of the total housing value and the poorest 20 percent accounted for only 4.7 percent. The ratio was 10.8:1. Of all wealth items, land distribution was most equal. This means that the equality in China's rural land distribution has offset the inequality in wealth distribution among rural households, and has been frequently cited by international scholars as a positive policy for economic equality. [49]

To have a deeper understanding of the distribution of wealth in rural areas, we need to further examine the relationship between the distribution of total wealth and that of various wealth items. Methodologically,

Table 2.5 Proportions of Wealth Held by Deciles of Rural Population in 2002 (%)

Deciles	Total wealth (net value)	Land value	Net housing value	Financial assets	Production assets	Value of durable consumer goods	Non-housing debts
1 (Lowest)	2	3	2	2	3	3	33
2	4	5	3	3	4	4	10
3	5	7	4	4	5	6	7
4	6	8	5	5	5	6	5
5	7	9	6	6	7	7	8
6	8	10	8	7	8	8	6
7	10	11	9	9	10	9	7
8	12	13	12	11	12	11	5
9	16	15	16	16	14	15	7
10 (Highest)	31	19	35	39	32	31	11

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

the Gini coefficient for total wealth inequality can be expressed by shares of wealth items and their distribution.[50] Table 2.6 shows the shares of various assets in the total wealth and their respective Gini coefficients and concentration rates. In contrast to land distribution, the concentration rates of financial assets and housing value are far higher than the Gini coefficient for total wealth. This is an indication that the distribution of the two wealth items clearly widens the inequality in the distribution of total wealth.

Table 2.6 Inequality in Distribution of Rural per Capita Wealth in 2002

Wealth	Average value (yuan)	Proportion (%)	Gini coefficient	Concentration rate	Contribution rate (%)
Total wealth (net value)	12937.8	100	0.399		100
of which : Land value	3974.3	30.72	0.452	0.260	20.02
Net housing value	5565.0	43.01	0.538	0.456	49.15
Financial assets	1592.6	12.31	0.681	0.492	15.18
Production assets	1181.6	9.13	0.665	0.394	9.02
Value of durable consumer goods	793.3	6.13	0.659	0.377	5.79
Non-housing debts	−169.0	−1.31	0.950	−0.246	0.81

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Wealth distribution in urban China

The scale and composition of urban household wealth is examined first.[51] Per capita wealth in 2002 was 46,133 yuan, nearly six times per capita income. The two largest of the six wealth items (housing, financial assets, production assets, durable consumer goods, other assets, and non-housing debt) were housing and financial assets, which accounted for 90.3 percent of the total wealth. In particular, housing accounted for as much as 64.4 percent. This indicates that in recent years, urban households have converted more savings into housing. It also indicates the thriving real estate market in urban areas and the steady rise in housing prices.[52]

Table 2.7 Urban per Capita Personal Wealth and Its Composition		
Wealth & components	**Average value (yuan)**	**Ratio (%)**
Total wealth (net value)	46134	100
of which: Financial assets	11958	25.92
Net housing value	29703	64.39
Productive fixed assets	816	1.77
Value of durable consumer goods	3338	7.24
Estimated present value of other assets	620	1.34
Non-housing debt	−301	−0.65

Source: Based on the data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.8 shows that the highest decile held 34 percent of the total wealth. Moreover, the wealth share of the lowest quintile was only 3.2 percent, while that of the highest quintile was 51 percent, the latter being 16 times that of the former. In terms of the distribution of specific wealth items, housing distribution was most unequal. The highest quintile claimed a share of 52.4 percent of the total housing value, while the share for the lowest quintile was only 1.5 percent. With regard to the distribution of financial assets, Table 2.8 indicates that this distribution is not as unequal as imagined. The share of financial assets for the highest quintile was 50 percent.

Next, data from the 2002 household survey indicate that the Gini coefficient for the distribution of wealth was 0.475 for the year. Table 2.9 also indicates that of all wealth items, housing value had the greatest unequal distribution. The net value of housing per capita was 29,703 yuan, accounting for 64 percent of total wealth. Its concentration rate was 0.499, also higher than the Gini coefficient of 0.475 for total wealth. This means that housing distribution widened the inequality of total wealth. The concentration rate of financial assets was 0.444, lower than the Gini coefficient for total wealth, and generating an equalizing effect on the distribution of total wealth.

Compared with the distribution of wealth in 1995, the Gini coefficient for 2002 declined slightly from 0.496 to 0.465. The reason is probably the changes in the impact of public housing reforms. In 1995, housing reform was still in its initial stage with few households benefiting from privatization. By 2002 widespread privatization of urban public housing had led to a decline in inequality in the distribution of housing value, which considerably reduced inequality in the distribution of total wealth.

| Table 2.8 Proportions of Wealth Held by Deciles of Urban Population in 2002 (%) | | | | | | |
Group (from low to high)	Total wealth (net value)	Financial assets	Net housing value	Productive fixed assets	Value of durable consumer goods	Estimated present value of other assets	Non-housing debt
1 (Lowest)	0.2	2	−1	0	4	2	32
2	3	3	2	4	5	4	10
3	4	4	4	5	5	4	12
4	5	5	5	5	7	6	4
5	7	6	7	4	8	6	3
6	8	8	8	7	9	9	8
7	10	10	10	9	10	13	9
8	13	12	13	16	11	11	6
9	17	18	17	14	14	16	4
10 (Highest)	34	32	35	36	27	28	11

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.9 Inequality in Urban per Capita Wealth Distribution in 2002					
	Average wealth value (yuan)	Proportion (%)	Gini coefficient	Concentration rate	Contribution rate (%)
Total wealth (net value)	46134	100	0.475	0.475	100
Of which: Financial assets	11958	25.92	0.596	0.444	24.22
Net housing value	29703	64.39	0.544	0.499	67.62
Value of durable consumer goods	3338	7.24	0.984	0.323	4.92
Production assets	816	1.77	0.502	0.484	1.80
Other assets	620	1.34	0.915	0.383	1.08
Non-housing debt	301	−0.65	0.978	−0.260	0.36

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

National wealth inequality

As indicated in the previous two sections, wealth per capita was 46,134 yuan in urban areas in 2002; in rural areas it was 12,638 yuan. The ratio of the former to the latter was close to 3.7:1. Clearly there was a significant wealth gap between urban and rural China.

Moreover, in terms of the distribution of urban and rural population in different wealth groups, most urban residents were in the high-wealth groups while most rural residents were in low-wealth groups. Figure 2.6 indicates that one-fourth of the lowest decile

were urban residents[53] and three-fourths were rural residents. In the highest decile, urban residents accounted for 94 percent and rural residents accounted for only six percent.

Table 2.10 shows wealth per capita, specific wealth items, and their overall proportions in China.

The table indicates that wealth per capita was 25,897 yuan in 2002. The most important three items were housing, financial assets, and land, which combined to make up 89 percent of the total wealth. Housing and financial assets together accounted for 80 percent of the total wealth.

Figure 2.6 Proportions of Urban & Rural Residents in the Wealth Deciles in 2002
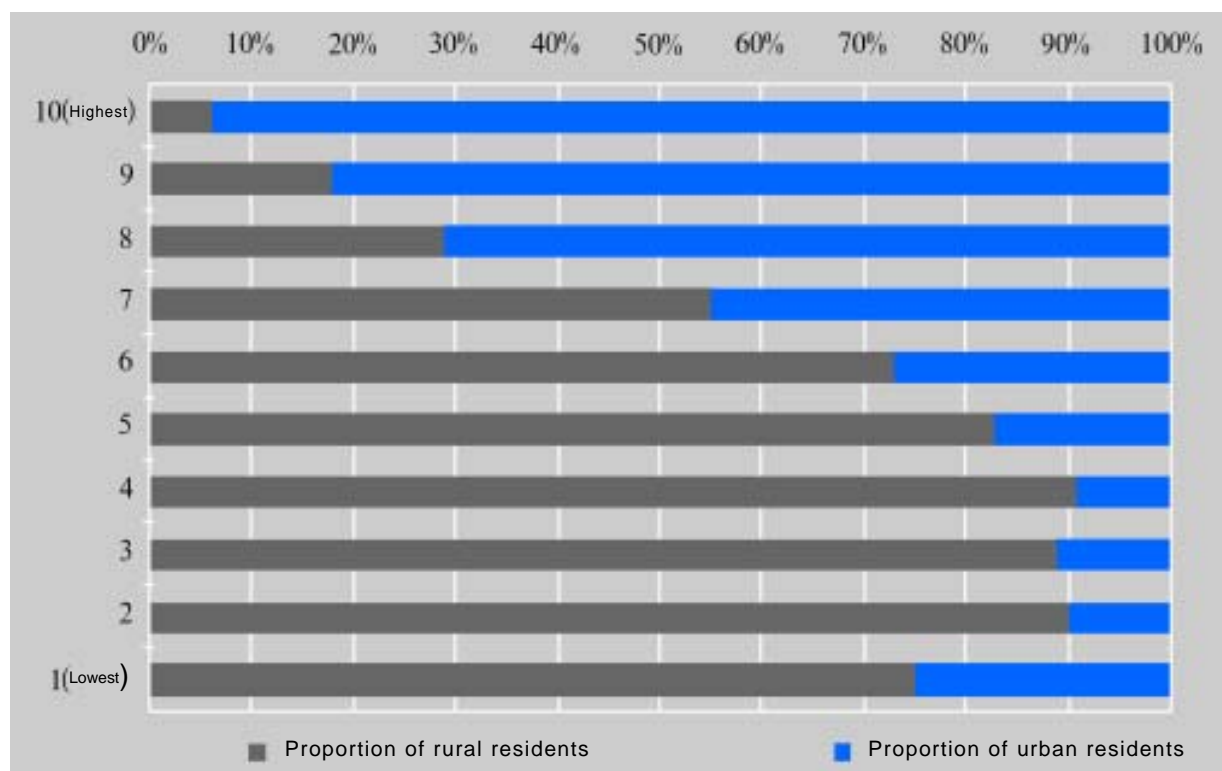
Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.10 Per Capita Wealth and Its Composition in China as a Whole in 2002

Wealth & components	Average value (yuan)	Proportion (%)
Total wealth (net value)	25897	100
of which: Land value	2421	9.35
Financial assets	5643	21.79
Net housing value	14989	57.88
Production assets	1037	4.01
Value of durable consumer goods	1784	6.89
Other assets	242	0.93
Non-housing debt	−219	−0.84

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.11 Proportions of Wealth Held by Decile Groups in 2002 (%)							
Group	Total wealth (net value)	Land value	Financial assets	Net housing value	Production assets	Value of durable consumer goods	Other assets	Non-housing debt
1 (Lowest)	1	4	1	0	3	3	1	30
2	2	9	1	1	5	3	1	9
3	3	11	2	2	5	3	1	6
4	4	14	2	3	8	4	1	6
5	5	15	3	4	9	5	2	7
6	6	16	4	5	12	6	3	7
7	8	14	7	8	11	9	7	9
8	12	8	12	12	10	13	12	5
9	18	6	19	19	14	18	24	11
10 (Highest)	41	3	48	47	24	36	49	11

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.

Table 2.12 Inequality in Wealth Distribution in China as a whole in 2002					
	value per capita (yuan)	Proportion (%)	Gini coefficient	Concentration rate	Contribution rate (%)
Total wealth (net value)	25897	100	0.55	0.55	100
of which : Land value	2421	9.35	0.67	−0.05	−0.77
Financiol assets	5643	21.79	0.74	0.63	24.92
Net housing value	14989	57.88	0.67	0.63	66.32
Production assets	1037	4.01	0.84	0.30	2.16
Value of durable consumer goods	1784	6.89	0.64	0.48	6.01
Other assets	242	0.93	0.97	0.69	1.16
Non-housing debt	−219	−0.84	0.97	−0.17	0.27

Source: Based on data of the household survey conducted in 2002 by the income distribution research team of the Institute of Economics, CASS.