research brief

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The missing billionaires

– correcting the data on top incomes in China

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FINDINGS

Inequality in China is much higher than indicated by official statistics; inequality measures based on household surveys under-estimate top incomes

The Gini coefficient of income inequality would jump from 0.46 to 0.65 if data on top incomes would be included

Top incomes are also distributed unequally across regions and industries; they are concentrated in the eastern part of China and large cities

WHAT IS THE GINI COEFFICIENT?
It is an index that measures the extent of inequality and is often used for the analysis of income inequality prevailing in a country. It takes the value of 0 in the case of perfect equality (everybody has the same income), and 1 (or 100) in the case of perfect inequality (all national income accrues to a single person). Estimates of the Gini coefficient for income nationwide range between around 0.25 (such as in some of the Nordic countries) to around 0.60 (in parts of Eastern and Southern Africa and, formerly, in Brazil).

China has experienced fast economic growth over the last forty years. The number of Chinese billionaires has grown exceptionally fast and their wealth has increased enormously. At the same time, official statistics report decreasing inequality over the most recent decade. However, correcting data with the missing top incomes suggests rising rather than falling inequality.

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Rich households are likely to under-report their income and therefore it is not easily captured in household surveys. As a result, income inequality is in most cases under-estimated when it is based on household survey data. Data on reported incomes and taxes paid by high-income individuals has been collected by the tax administration since 2006, but the data are not open to the public.[1]

To deal with the problem of under-estimated income inequality due to the under-representativeness of super-rich households in household survey data, we collected income and wealth information on China's super-rich individuals from different public sources, such as media lists of billionaires, payments of CEOs of listed companies, and the Chinese Private Enterprise Owner Survey. Combining the new dataset of super-rich individuals with Chinese Household Income Project (CHIP) data, we re-estimated the income inequality in China in 2016.

Rising inequality

The results indicate that the Gini coefficient of income inequality would jump from 0.46 to 0.65 if the data on top incomes was included. This means that China now has much higher income and wealth inequality than what is shown in official publications. The results also strongly suggest rising rather than falling income inequality in the last decade.

Top incomes are also distributed unequally across regions and industries. They are concentrated in large cities and in the eastern region where the economy is much more developed than in other parts of

[1] China's State Taxation Administration (STA) required individuals with annual income above CNY120,000 to report their incomes and taxes paid since 2006. STA published only the number of reports every year till 2011. It is not clear why it stopped publishing this information after that.

Photo: Aaron Sorrell

China. Most incomes are from the real estate sector and the information technology industry, such as electronic commerce.

Government should make the data public

It is very important to collect data on top incomes in China, as well as other developing countries. The data can be used to correct the bias in estimated income and wealth inequality and this kind of estimations should become an important reference for policy-making.

To foster more reliable data on inequality, China should build up a dataset of taxpayers. The dataset should have detailed information on income and its components, taxes and basic information on the personal and household characteristics of taxpayers. Most importantly, the data should be made open to the public or at least be accessible to researchers.

As a first step, the government is recommended to publish the already existing information held by the tax administration and make the data available for researchers. At least, the tax administration should publish some aggregated data such as the total number of individuals reporting high-income, divided in different income groups and regions (provinces).

More redistributive taxation is needed

The Chinese government should pay more attention to the results from top income studies. Inequality has become less of a priority since official data incorrectly indicated a falling trend in income inequality in recent years. Hopefully, the corrected results would change the government's judgment on the current level of income inequality.

The fast-increasing number of billionaires is associated with a weak-functioning tax system and income distribution in China. Indirect taxes such as value-added tax, business tax and tariffs dominate government revenue. It is well known that the indirect taxes are generally regressive.

China has a personal income tax, which accounts for a small percentage (less than 9% in 2016) of government tax revenue. Moreover, a large part of personal income tax comes from wage earners, so it plays a weak role in redistribution. Therefore, China should strengthen the redistributive impact of its tax system.

It has been widely discussed whether property tax should be introduced as a means to reduce income inequality in China. Our findings imply that property tax is necessary and should be introduced and implemented as soon as possible. Inheritance tax may not be necessarily introduced in the near future, but it should be considered in the next 5–10 years as the first generation of China's billionaires will finish accumulating wealth.

Most important for China is to carry on with reforms which help to sever the abnormal linkage between business and government officials. Political reform is obviously the best way to effectively curb corruption and rent-seeking in economic activities.

IMPLICATIONS

China should strengthen the redistributive impact of its tax system. Property tax is necessary, and should be introduced and implemented as soon as possible

Inheritance tax should be considered in the next 5–10 years as the first generation of Chinese billionaires will finish accumulating wealth

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As a first step, the government is recommended to publish the already existing information held by the tax administration and make the data available for researchers.

This Research Brief results from the Inequality in the Giants project and is based on the WIDER Working Paper 2018/183 'Top incomes in China' by Qinghai Li, Shi Li and Haiyuan Wan.