

Distribution pattern of household consumption and income

School of Economics and Management,
Tsinghua University

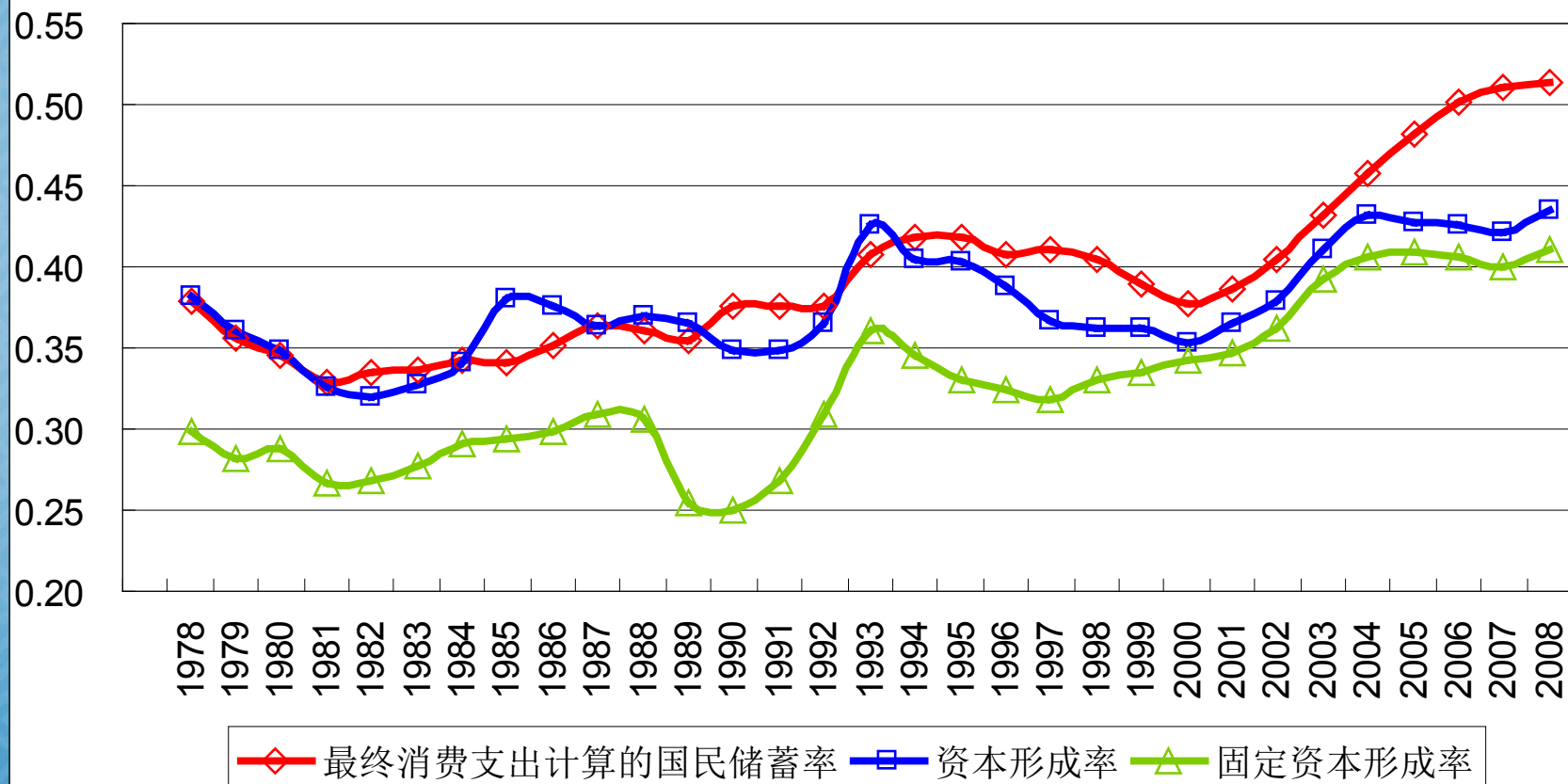
Bai Chong'en Qian Zhenjie

Outlines


- Consumption and saving rates
- Savings of household, corporate and government
- Reasons for decreasing share of household sector's disposable income
- Reasons for decreasing share of labor compensation
- Policies

China's national savings rate since 1978

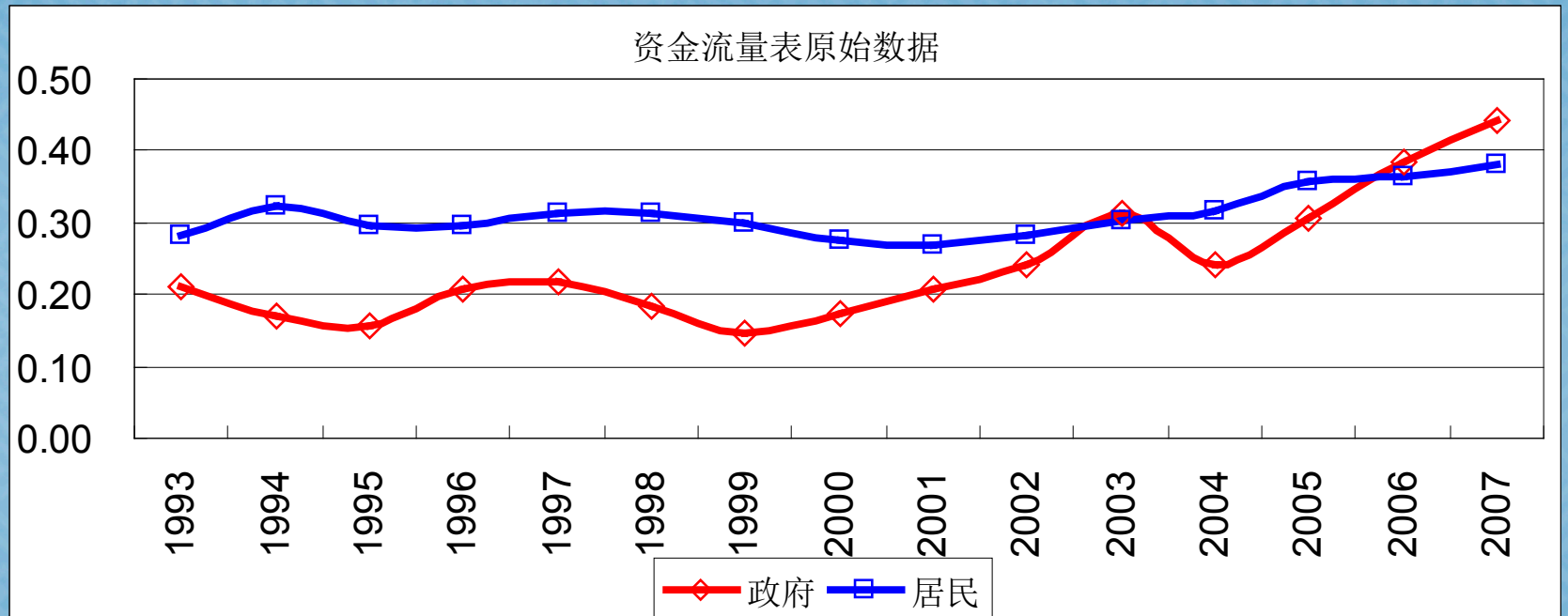
1978年以来的国民储蓄率



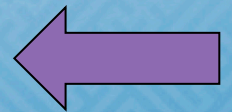
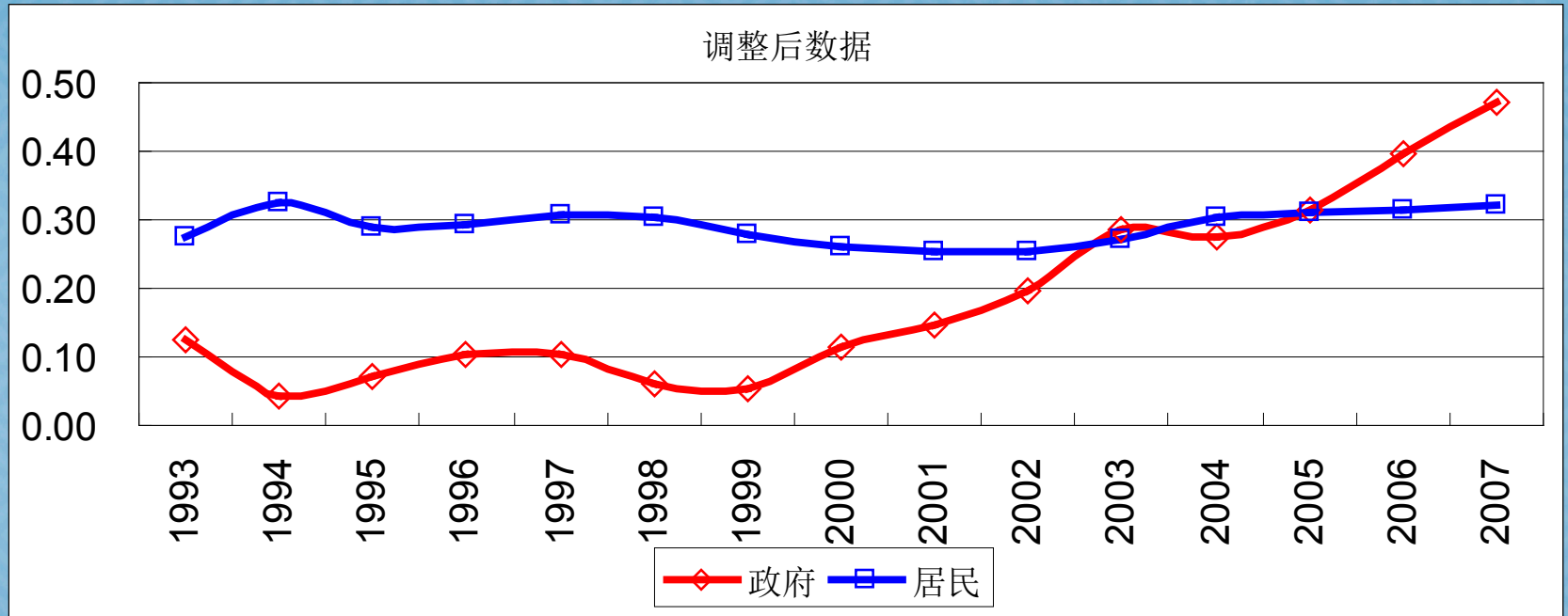
Conclusions on saving

- There is no significant increase in household sector's propensity to save.
- There also is no significant increase in the share of household sector's saving on GDP.
-  The decreasing share of household consumption is mainly due to the decline in disposable income of household.

The average propensity to save

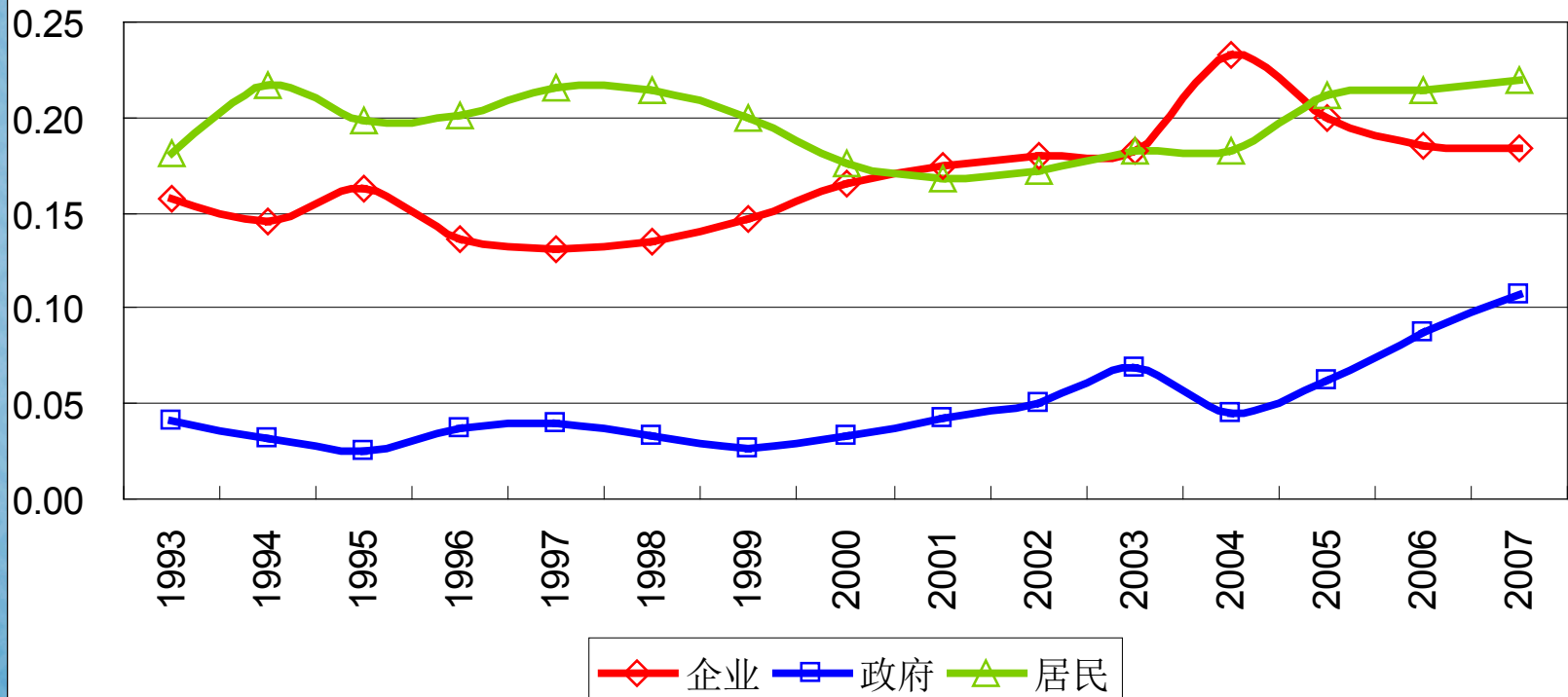


The average propensity to save

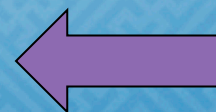
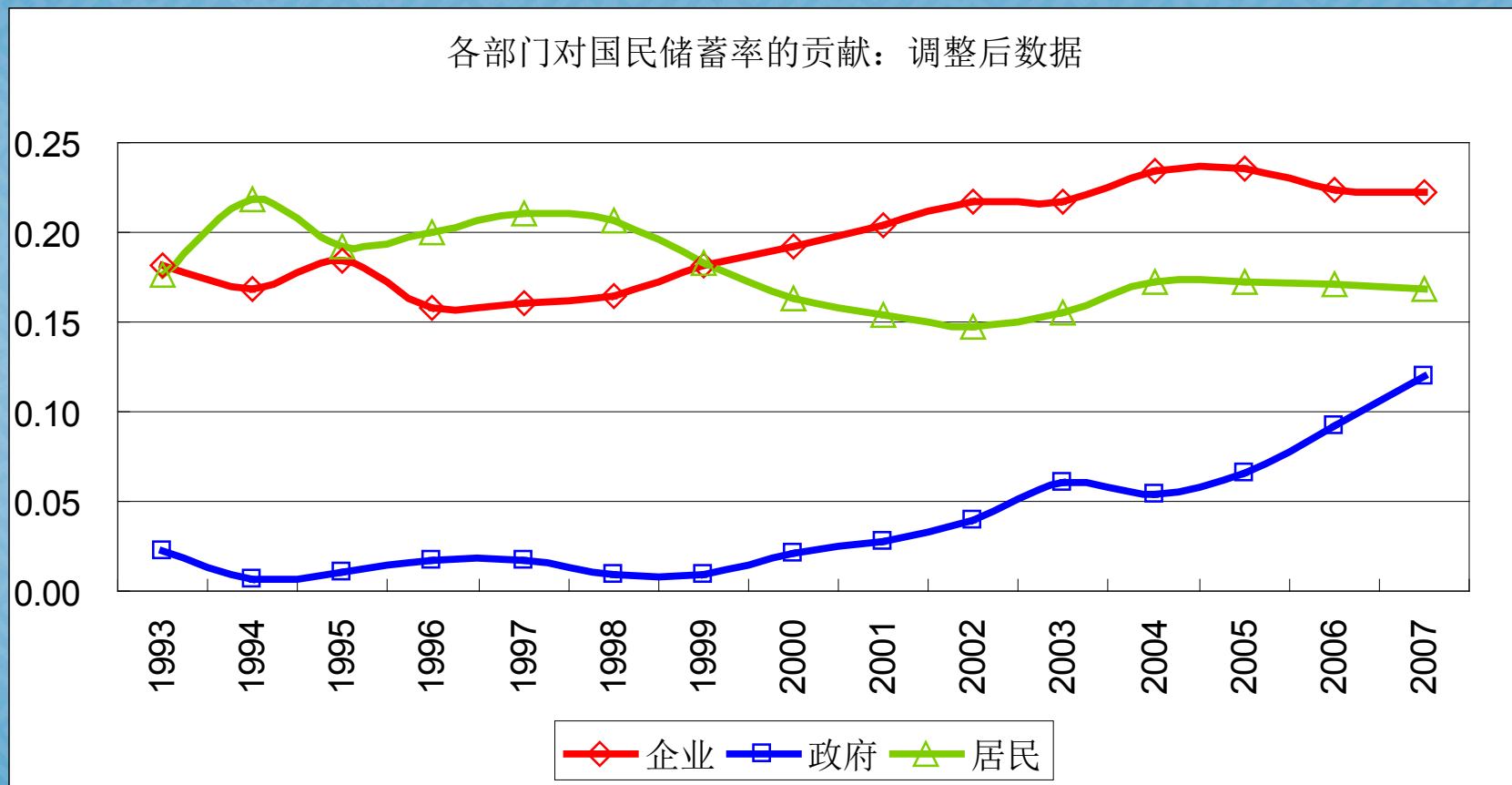


The proportion of different sectors' saving rate on GDP

各部门对国民储蓄率的贡献：原始资金流量表



The proportion of different sectors' saving rate on GDP



Reasons for decreasing disposable income of household sector

- The most important factor is the decline share of labor compensation.
- Business retention and share of property income for household sector has decreased.
- Redistribution process also reduces the share of household sector income.

Reasons for changes in national income distribution pattern

—analyses of real changes between 1996 and 2007

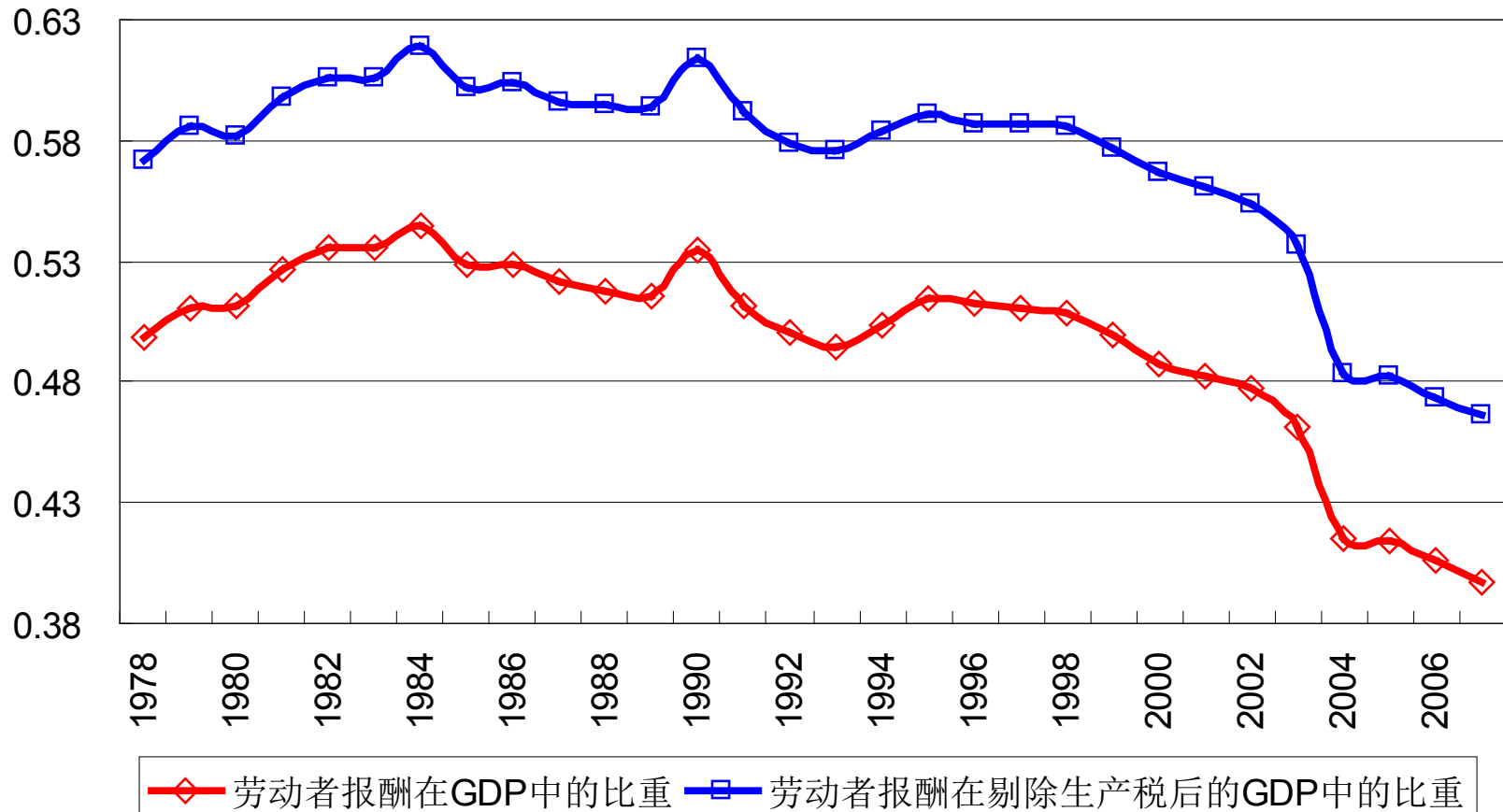
	原始资金流量表					
	企业部门		政府部门		住户部门	
	绝对值	贡献率	绝对值	贡献率	绝对值	贡献率
劳动者报酬	—	—	—	—	-0.0459	42.01%
生产税净额	—	—	0.0235	31.48%	—	
财产收入	0.0248	71.25%	0.0028	3.77%	-0.0180	16.43%
经营性留存	0.0319	91.64%	0.0027	3.57%	-0.0217	19.88%
小计：初次分配	0.0567	162.89%	0.0289	38.82%	-0.0856	78.32%
收入税	-0.0227	-65.17%	0.0323	43.41%	-0.0097	8.84%
社保净付款	—	—	0.0090	12.05%	-0.0090	8.21%
其中：社保缴款	—	—	0.0244		-0.0244	
社保福利	—	—	-0.0154		0.0154	
社会补助	0.0008	2.28%	0.0043	5.73%	-0.0051	4.63%
小计：再分配	-0.0219	-62.89%	0.0456	61.18%	-0.0237	21.68%
可支配收入	0.0348	100%	0.0745	100%	-0.1093	100%

Reasons for changes in national income distribution pattern

—analyses of real changes between 1996 and 2007

	调整后					
	企业部门		政府部门		住户部门	
	绝对值	贡献率	绝对值	贡献率	绝对值	贡献率
劳动者报酬	—	—	—	—	-0.0948	59.57%
生产税净额	—	—	0.0551	51.16%	—	
财产收入	0.0303	58.83%	0.0034	3.15%	-0.0188	11.80%
经营性留存	0.0431	83.61%	0.0036	3.33%	-0.0219	13.75%
小计：初次分配	0.0735	142.44%	0.0620	57.64%	-0.1355	85.11%
收入税	-0.0227	-43.97%	0.0323	30.05%	-0.0097	6.07%
社保净付款	—	—	0.0090	8.34%	-0.0090	5.64%
其中：社保缴款	—	—	0.0244		-0.0244	
社保福利	—	—	-0.0154		0.0154	
社会补助	0.0008	1.54%	0.0043	3.96%	-0.0051	3.18%
小计：再分配	-0.0219	-42.44%	0.0456	42.36%	-0.0237	14.89%
可支配收入	0.0516	100%	0.1076	100%	-0.1592	100%

Labor income share: different definitions

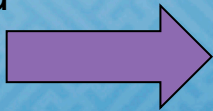


The remuneration which is calculated based on income/GDP excluding production tax

- 1978-1984: a slight increase
- 1984-1994: fluctuations decreased slightly
- **1995-: sharp drop**
 - 1995-2007: 12.45 percentage point
 - 1995-2004: 10.73 percentage point
 - 2003-2004: Sudden drop 5.25 percentage point

Main results

- 2003 and 2004: Sharp fall in the share of labor income is caused entirely by the change of accounting method.
- 1978-2004: The reform of industrial structure and the fall in the share of labor income in industrial –based sectors took effect together.
- 1995-2003: The main reasons of changes in labor income are as follows:
 - Industrial structure changed from agriculture to service industry (explain 61%)
 - The fall in the share of labor income in industrial-based sectors
 - Industrial sector, restructuring state-owned economy
 - Industrial sector, market monopoly increases
 - In industrial sector, labor, wage changes in relative prices and technological advances are not the main reasons for the changes in labor income share.
 - The substitution elasticity of elements of the industrial sector did not significantly deviate from 1.



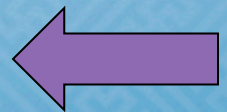
Facts: Changes in 2003-2004

- From 2004, GDP accounting method with income approach changed as follows:
 - The income of non-agricultural sector workers totally calculated as labor income ,but as capital income from 2004. The share of labor income in non-agricultural sector declined sharply.
 - State Statistics Bureau announced that the operating surplus of all state-owned and collective farms were not be calculated from 2004. This item was calculated as payment of labor. The share of labor income in agricultural sector sharply rose.

年份	总体	农业	工业	建筑业	第三产业
2003	0.5362	0.8607	0.4444	0.6810	0.4900
2004	0.4837	0.9222	0.3823	0.5975	0.4098

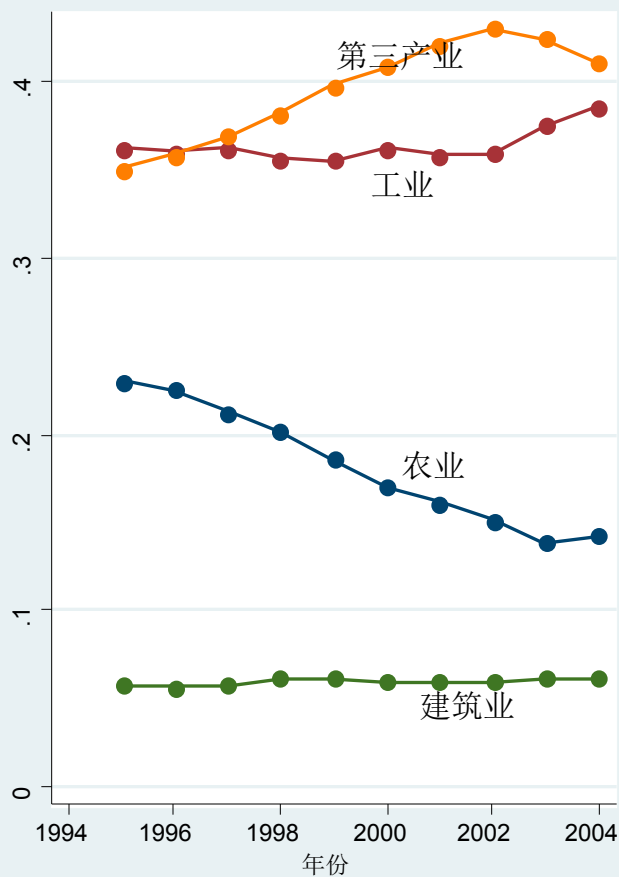
Facts: Changes in 2003-2004

- Adjustment
 - We estimated the income of the individual economic owners and adjusted the data of GDP accounting method with income approach in non-agricultural sector in 2004 according to China Economic Census Yearbook 2004;
 - We estimated all operating surplus of state-owned and collective farms and adjusted the data of GDP accounting method with income approach in agricultural sector in 2004.

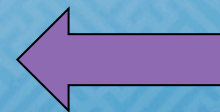
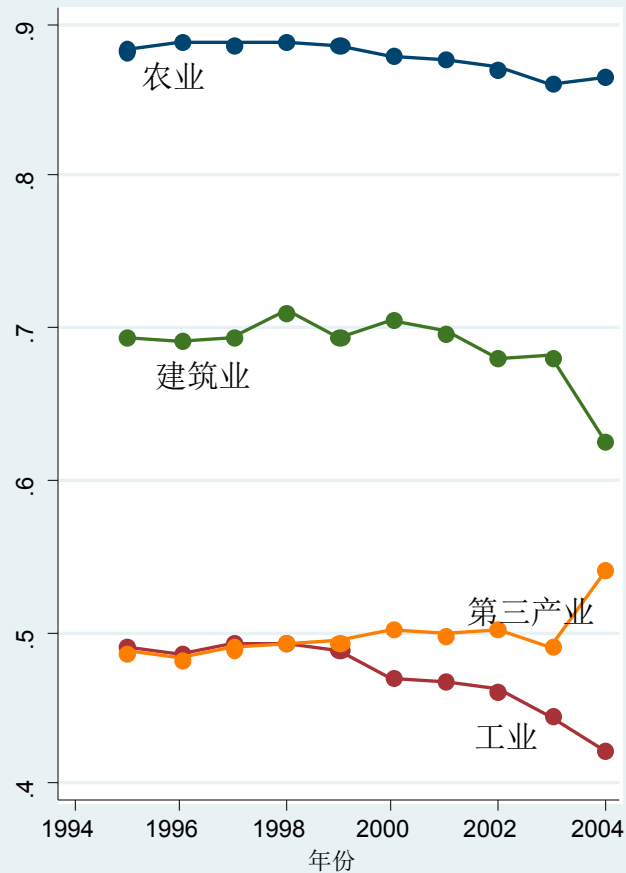


Changes in the overall labor share of income : 1995–2004

各行业在经济中所占比重



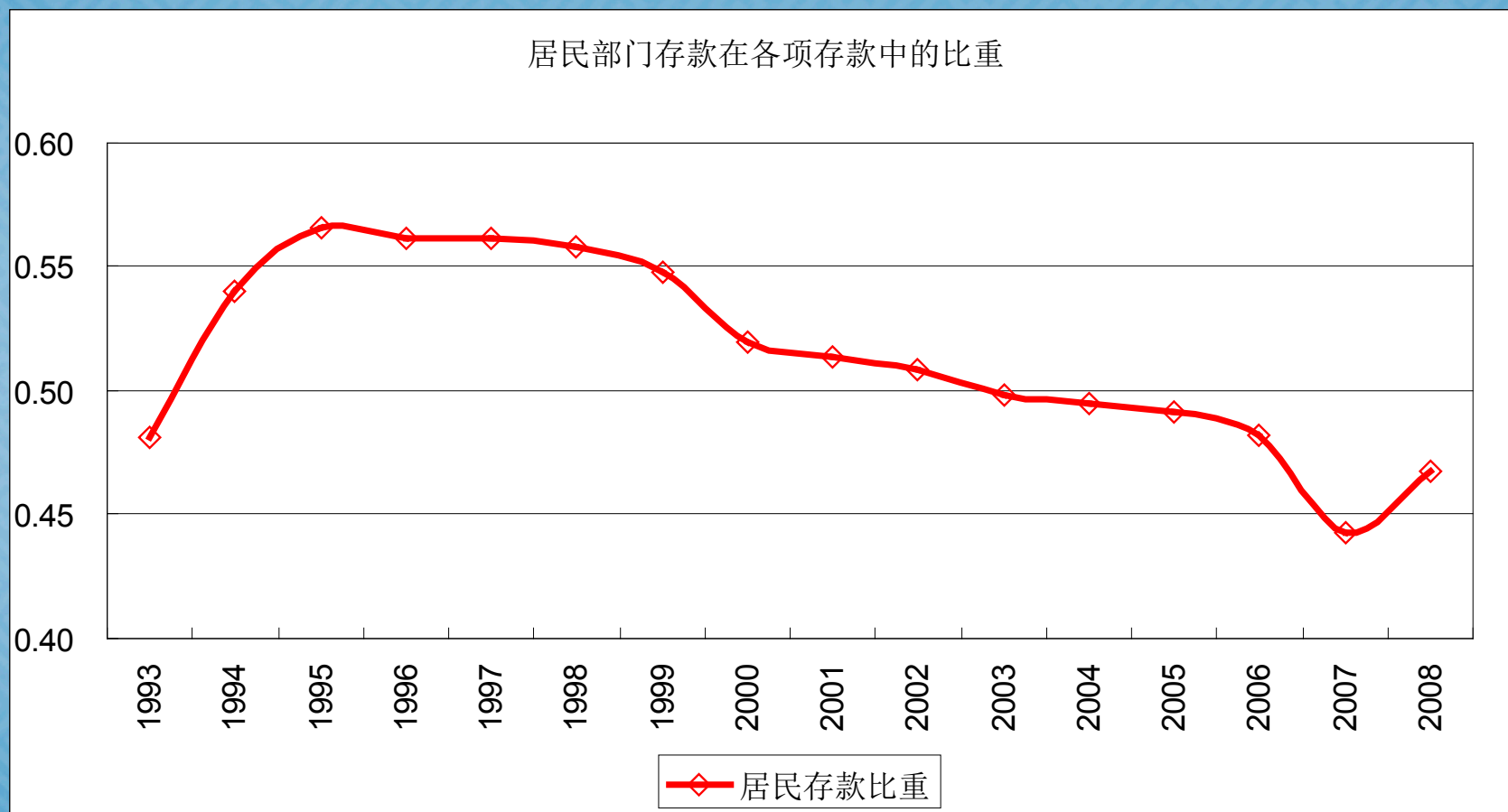
各主要产业的劳动收入份额



Reasons for changes in labor income shares from 1995 to 2004

1995-2004 期间劳动收入份额下降原因, N1	百分点	贡献率, N2	
	-10.73	100%	
1995-2003 年劳动收入份额下降原因	-5.48	51.1%	100%
其中: (1)结构转型带来的影响	-3.36	61.31%	
(2)产业部门劳动收入份额变化的影响	-2.12	38.69%	100%
其中: (2.1)工业部门的影响	-1.65	77.83%	100%
其中:国有企业改制, N3	-0.70		42%
垄断程度增强, N3	-0.35		21%
其他模型因素, N3, N4	-0.12		7%
未能解释的残差, N3, N4	-0.48		30%
(2.2)农业、建筑业和第三产业的影响	-0.47	22.17%	
2003-2004 年劳动收入份额下降原因	-5.25	48.9%	100%
其中: (1)统计核算方法改变的影响	-6.29	120%	100%
其中: (1.1)个体业主收入改计为营业盈余的影响	-7.09		113%
(1.2)国有和集体农场不计营业盈余的影响	0.81		-12.9%
(2)结构转型带来的影响	0.28	-5.33%	
(3)产业部门劳动收入份额变化带来的影响	0.77	-14.7%	100%
其中: (3.1)农业部门	0.11	14.29%	
(3.2)工业部门	-0.81	-105%	
(3.3)建筑业部门	-0.32	-41.6%	
(3.4)第三产业	1.79	232%	

Reasons for decreasing share of household income - property income



数据来源：《中国统计年鉴》各年，作者计算

Main results

- The decreasing influences of labors and labor force surplus can not mainly account for the decline share of labor income.
- After analyzing the provincial data, we got the same results as before and we also found that:
 - The share of labor income is higher in these areas with a higher open degree;
 - The share of labor income is lower in these areas with a heavier tax burden.
- International division formed during opening up is not an important reason for decline share of labor income.

Solutions

- Initial distribution:
 - As the substitution elasticity of capital and labor is 1, the higher wages will lead to reducing employment, rather than the higher share of labor income in the total output.
 - Vigorously developing the service industry is conducive to increasing labor income. Either the tax system or monopoly is not conducive to development of service industries.
 - Eliminating monopoly。
 - Heavy taxes have a greater negative impact on labor income.
 - Opening up is good to increase the labor income.
 - To increase people's income and property : rising deposit rate

Solutions

- Redistribution:
 - Household: to reduce the social security contribution rates
 - the attribution of social security contributions
 - the impact of income redistribution among the different age groups brought by social security
 - Corporate: to rise the dividends, especially for the SOE's
 - Government: to increase the input to social security
 - Government: to reduce the construction investment

Other measures to improve income distribution

- We only took elements' income distribution and the distribution of disposable income among residents, businesses and government into account to discuss the influence of income distribution and household consumption. And there also exist some other perspectives.
- Income inequity between urban and rural: to increase the relation of farmers' income and urbanization, education problems for the farmers' children and other welfare of the farmers
- Income inequity among regions: public service parity, overall effect of corporate taxes and transfers
- Income inequity among households: monopoly, corruption, welfare, personal income tax and heritage tax

Thank you !