Since 1980, many economies around the world have experienced two trends: rising aggregate private wealth-income ratio and increasing income inequality (Piketty and Zucman 2014; Piketty 2014). These trends have been particularly spectacular in China and Russia since their transitions from communism to more capitalist orientated economic systems (Piketty, Yang, and Zucman 2017; Novokmet, Piketty, and Zucman 2017). The transition to a mixed economy has taken different economic and political forms in China and Russia—with different privatization strategies for public assets, in particular. These different strategies have had a large impact on inequality and wealth ownership. In China, the transition has involved gradual but nevertheless wide-ranging reforms. The reforms were implemented progressively, from special economic zones in coastal cities toward inland provincial regions, and in sectoral waves. By contrast, Russia opted for a “big-bang” transition after the fall of the Soviet Union in 1990–1991, with a rapid transfer of public assets to the private sector and the hasty introduction of free market economic principles.

In this paper, we compare our recent findings on private and public wealth accumulation in China and Russia, and discuss the impact of the different privatization strategies followed in the two countries on income inequality.
led to a slight overall fall in the value of public
wealth as a proportion of national income, from
just over 250 percent of national income in 1978
to approximately 230 percent in 2015, in a con-
text of rapidly rising asset prices (see [Figure 1]).

B. Composition of Private Wealth

In both China and Russia, housing played a
critical role in the rise of private wealth (Figure 2).
In China, following the privatization and liber-
alization of the housing market, housing prices
have increased substantially. As a result, the
value of the private housing stock has increased
from 60 percent of national income in 1991 to
182 percent of national income in 2015 [Figure 2,
panel A]. In Russia, the value of private housing
increased from less than 50 percent of national
income in 1990 to 250 percent of national income
in 2008–2009 (at the peak of its housing bubble),
before falling to about 170 percent of national
income by 2015 (Figure 2, panel B). In addition
to real estate price movements, the gradual rise of
private housing wealth in Russia between 1990
and 2015 can be accounted for by the relatively
slow rate at which citizens took-up their options
to cash-in public housing vouchers, compared
to the sale of vouchers for shares in previously
state-owned enterprises.

The value of households’ financial assets dif-
fers markedly in China and Russia. According to

The officially published balance sheets, Russian
households own little financial wealth—always
less than 90 percent of national income through-
out the 1990–2015 period, and in most years less
than 50 percent of national income. In effect, it
is as if the privatization of Russian companies
had not lead to any significant long-run rise in
the value of household financial wealth, despite
the fact that the private sector now owns a large
proportion of Russian firms’ equities.

In comparison, households’ financial wealth
has increased much more significantly in
China since 1978. As a result of the reform of
state-owned enterprises (SOEs) and the estab-
lishment of a stock exchange, 30 percent of
China’s corporate equities are now held by the
Chinese private sector. The accumulation of

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**Figure 1. Public versus Private Property in China and Russia 1978–2015 (Percent national income)**

*Sources:* China: Piketty, Yang, and Zucman (2017); Russia: Novokmet, Piketty, and Zucman (2017).

**Figure 2. Composition of Private Wealth (Percent national income)**

*Sources:* China: Piketty, Yang, and Zucman (2017); Russia: Novokmet, Piketty, and Zucman (2017).
other forms of financial assets (bank deposits, bonds, etc.) was also particularly strong, from 17 percent of national income in 1978 to 140 percent in 2015.

One major explanation for the widely divergent patterns of financial asset accumulation in Russia and China is the accumulation of unrecorded offshore assets by a small subset of Russian households. Offshore wealth has gradually increased since 1990, to reach about 85 percent of national income by 2015, i.e., roughly as much as the recorded financial assets of Russian households. It is harder to pin down an accurate number for China’s offshore private wealth (which would require a careful treatment of Hong Kong and Macao, in particular), but it is likely to be smaller than Russia’s, due to tighter capital controls.

C. The Decline of Public Property

Figure 3 compares the evolution of the share of public wealth in national wealth in China, Russia, and other countries. In developed countries, the share of public wealth in national wealth was significantly positive in the post-World War II decades up until about 1980. It was around 15–25 percent, reflecting low public debt and significant public assets. Net public wealth has declined significantly since the 1980s, due both to the rise of public debt and the privatization of public assets. By 2015 net public wealth had turned negative in Britain, Japan, and the United States, and was barely positive in Germany and France.

Ex-communist countries like Russia and China have experienced the same decline in the share of public property, but starting from a much higher level of public wealth. The share of net public wealth was as large as 70–80 percent in both countries in 1980, and fell to 20 percent (Russia) and 30–35 percent (China) in 2015. The Chinese share is higher but not incomparable to that observed in Western high-income countries during the “mixed economy” period (1950–1980). In other words, China and Russia have ceased to be communist in that public ownership is no longer the dominant form of property. However, these countries still have much

more significant public wealth than Western high-income economies, due largely to lower public debts and greater public assets.

II. Income Inequality

Income inequality has increased markedly in both China and Russia since the beginning of their respective transitions toward market-orientated economies. Figure 4 displays the income inequality dynamics in China and Russia since 1978 by looking at the evolutions of the top 10 percent and the bottom 50 percent income shares (panel A) and the evolution of the top 1 percent income share (panel B). According to our estimates, inequality was somewhat higher in China than in Russia in 1978, but has now become substantially higher in Russia. In particular, it is striking to note the strikingly fast increase in income inequality in Russia after the fall of the Soviet Union. The top 10 percent income share in Russia rose from less than 25 percent in 1990–1991 to more than 45 percent in 1996, and has remained around 45–50 percent since then. This enormous rise came together with a massive collapse of the bottom 50 percent share, which dropped from about 30 percent of total income in 1990–1991 to less than 10 percent in 1996, before gradually returning to about 18 percent by 2015.

In China, the rise in income inequality has been substantial between 1978 and 2015. The

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1 Novokmet, Piketty, and Zucman (2017) estimate the magnitude of Russia’s offshore wealth by exploiting the large discrepancies between trade surpluses (in the first place, from oil and gas exports) and net foreign assets accumulation.
Russia has experienced a dramatic concentration at the top is markedly higher in Russia than in the United States. The top 1 percent income share in China is closer to what one observes in France, a country broadly representative of Western Europe.

The evolution of income inequality in China and Russia partly reflects the different privatization strategies pursued in the two countries. The gradual privatization process in China—where the government is still the majority owner of corporate assets—has limited the rise of income concentration. We also observe a much higher increase in top income shares in Russia than in the other ex-communist Eastern European countries, that have followed more gradual privatization strategies than Russia (Novokmet 2017). This highlights the importance of post-communist transition policies and institutions in shaping income and wealth inequality dynamics. In Russia, the uncoordinated and rapid shock therapy transition process was particularly abrupt. Within the chaotic monetary and political context of the Russian transition, small groups of individuals were able to amass large quantities of vouchers at relatively low prices, and obtained highly profitable deals with public authorities (e.g., via the loans-for-shares agreements). Together with capital flight and the rise of offshore wealth, this process is likely to have led to the extreme levels of income and wealth concentration we now see in Russia. This finding is consistent with Forbes billionaire data, which show a much greater concentration of wealth in the hands of billionaires in Russia than in China and Western countries.

A further insight can be obtained by looking at the distributional impact of growth in income. The economic transformation has produced much higher growth in China than in Russia. Although in both countries growth has not been equally shared, the outstanding growth experienced in China has very substantially lifted the living standards of the poorest. On the contrary, the bulk of the post-communist growth in Russia has been captured by the top. Over the 1989–2016 period, the top 1 percent captured more than two-thirds of the total growth in Russia, while the bottom 50 percent actually saw a decline in its income.

Russian capitalism places few constraints on top incomes (partly coming from outright plundering of the country’s natural resources and increase in top-end inequality since 1990, and despite a fall in the aftermath of the 2008–2009 financial crisis, income inequality is approaching the extreme levels observed in the United States.

Notes: Distribution of pretax national income (before taxes and transfers, except pensions and unemployment insurance) among adults. Corrected estimates combine survey, fiscal, wealth, and national accounts data. Raw estimates in China and Russia rely only on self-reported survey data. Equal-split-adults series (income of married couples divided by two).
Sources: China: Piketty, Yang, and Zucman (2017); Russia: Novokmet, Piketty, and Zucman (2017); United States and France: WID.world.

top 10 percent income share rose from 27 percent to 41 percent and the bottom 50 percent income share declined from 27 percent to 15 percent. But it has occurred in a much more gradual manner than in Russia.

Although their top 10 percent income shares are relatively similar, China’s and Russia’s top 1 percent income shares are not. Income concentration at the top is markedly higher in Russia (panel B). Russia has experienced a dramatic
A survey of China and Russia. The development model of China is subject to stronger ideological constraints that may limit the rise in inequality to extreme levels in the future.

III. Conclusion

The dramatic economic transformations in Russia and China have resulted in substantial increases in inequality. However, the rise of inequality was much more pronounced and immediate in Russia, and was more limited and gradual in China. Markedly divergent post-communist inequality patterns suggest that the rise in inequality is not inevitable and point to the importance of policies, institutions, and ideology in shaping inequality.

REFERENCES


