

The fundamental logic and framework of mechanisms for accumulating wealth

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Abstract: *The mechanism of wealth accumulation was proposed for the first time with the convening of the 20th Party Congress. This marked the modernization interpretation of common wealth and shifted the focus towards the distribution system. As a result, the mechanism of wealth accumulation gradually gained attention in the research field. Various perspectives on wealth accumulation emerged at this stage, all of which ultimately tackled the issue of distribution inequality. These perspectives were developed based on the flow of wealth, stock of wealth, and intergenerational wealth, with the goal of achieving common wealth through Chinese-style modernization. By drawing on domestic research in these three areas and the experience of exploring wealth accumulation mechanisms at the village level, the wealth accumulation mechanism is defined and its underlying logic is clarified.*

Keywords: *wealth accumulation mechanisms; flow wealth; stock wealth; intergenerational wealth; distributional inequality*

1. Introduction

The completion of the goal of building a moderately prosperous society in China has paved the way for the pursuit of common prosperity. Reform and opening up were initiated to rejuvenate the economy and unleash the potential of the social productive forces, resulting in an increase in both efficiency and fairness. After more than forty years of reform, the concept of "cake" has taken shape. Initially, the focus was on the wealthy becoming rich, but now the emphasis has shifted to the task of enriching the entire population. Accumulating wealth and fostering development, both at the national and individual levels, are crucial aspects of the mechanism for wealth accumulation that require careful attention and resolution of existing challenges.

2. Early research on the mechanism of wealth accumulation

Before 2015, academic research on the mechanism of wealth accumulation in rural areas in China primarily focused on the village level. Xu Jingyi, Ma Mingyu (2007)^[1] and Ji Zhifang (2011)^[2] both emphasized the importance of using market means to revitalize existing collective assets and enhance the continuous increase in the value of collective wealth. This approach is seen as a solution to problems such as farmers' debt at the village level, as well as a catalyst for social harmony and stability. Consequently, the establishment of a village wealth accumulation mechanism is considered a fundamental task in rural areas, as it introduces innovative approaches to address various challenges.

Some good experiences have emerged in the process of establishing the village wealth accumulation mechanism. Leaders at all levels have attached great importance to it, actively coordinating and cooperating with the relevant work. The establishment of a joint mechanism has combined reform and innovation with the standardization of work. At the same time, efforts have been made to improve the village organization by combining the strengthening of leadership and team building, and playing the role of democracy. Additionally, the village has been divided into packages, which are organized and implemented. This approach has proven to be a typical drive and has been comprehensively spread (Sun Zhonghua et al., 2010^[3]).

Fifteen years ago, the problem of rural collective wealth was more pronounced. Although this issue is no longer the central focus of current research, the experiences and suggestions regarding wealth accumulation mechanisms at the village level may still be relevant today. Consequently, these experiences and suggestions can be extended to current research and applied at the social and national

levels, albeit on a smaller scale through the village level.

3. The current stage of research on the mechanism of wealth accumulation

After the 20th National Congress of the Party, scholars have predominantly examined the mechanism of wealth accumulation by employing theoretical interpretations grounded in economic and ethical perspectives. This research focuses on regulating the mechanism of wealth accumulation, which eventually relates to the issue of income inequality.

3.1. Research on the accumulation mechanism

3.1.1. Research on the mechanism of wealth accumulation from the economic perspective

3.1.1.1. Analyzing the mechanism of wealth accumulation from the perspective of asset accumulation

Zhang Xiaojing (2022)^[4] and Huang Yaqing (2022)^[5] analyze the wealth accumulation situation from the perspective of asset accumulation through the ratio of the rich and poor to the social assets. The results show that although the total amount of social wealth is growing rapidly, the domestic wealth accumulation exhibits a polarization effect. This is mainly reflected in the fact that the high-income group benefits from substantial capital factor income and rapid growth in financial assets. Conversely, the low-income group faces limited capital mobility due to reliance on a single factor of production. Based on the current situation, it is recommended to strengthen property income for urban and rural residents by diversifying their sources of income. This approach will enable residents to facilitate healthier wealth accumulation. Additionally, it is suggested to enhance transfer payments to support low-income individuals.

3.1.1.2. Analyzing the mechanism of wealth accumulation from the perspective of taxation

Bai Yanfeng (2022)^[6] and Yue Ximing, Hu Yifan (2022)^[7], and all argue for the regulation of wealth accumulation through taxation. They emphasize the importance of tax fairness as a means to regulate wealth accumulation. They believe that the government should leverage taxation to regulate market player behavior and improve the tax system. Implementing a standardized tax system for emerging industries should be prioritized. Furthermore, they assert that the property tax is crucial in both the current and future development, particularly considering China's unique development path. They suggest intensifying and improving the tax system, ensuring timely implementation of tax policies for real estate and emerging industries of public concern, addressing gaps in existing laws. Additionally, they propose a gradual implementation of inheritance and gift taxes to optimize income allocation, adjust the income of high-income individuals, and curb the concentration of wealth accumulated through savings.

3.1.2. Research on the mechanism of wealth accumulation from an ethical perspective

In his work, Wang Zengwu (2022)^[8] highlights the ethical nature of regulating the wealth accumulation mechanism and advocates for an ethically driven approach to wealth management. He introduces the concept of universality in wealth management, which suggests that wealth management should strive for a dialectical unity between personal wealth management and national wealth management, as well as between intrinsic value and extrinsic value. This means achieving a balance between the goodness of ends and the goodness of means. By focusing on maximizing the benefits on the income side, both individuals and institutions can effectively optimize their performance and contribute to the maximization of social value. Ultimately, the maximization of social value represents the highest stage in maximizing the interests of individuals and institutions.

Not many studies have focused on the wealth accumulation mechanism within the academic community. In the early 21st century, research primarily revolved around establishing village-level wealth accumulation mechanisms as a means to revitalize townships and enable them to resolve their own debt issues. At that time, the attention paid to studying the wealth accumulation mechanism from a national perspective was limited, with more emphasis placed on the Party's twentieth congress, which aimed to regulate the accumulation mechanism. Consequently, numerous scholars and researchers were attracted to explore and analyze this mechanism. The existing research on wealth accumulation can be categorized into economic and ethical perspectives; however, both of these perspectives ultimately concentrate on the issue of distribution inequality. Therefore, it is evident that finding a viable solution to the distribution problem is crucial for the realization of a sustainable and high-quality wealth accumulation mechanism.

3.2. Research on wealth accumulation

3.2.1. Research on flow wealth under wealth accumulation

This paper categorizes the flow of wealth into two levels: social level flow wealth, which encompasses enterprise production and accumulation, and personal level flow wealth, which includes personal income.

3.2.1.1. Research on flow wealth at the social level

The flow of wealth in enterprises is primarily derived from their production and operational activities, as well as their financing activities (Pujiang, 2001)^[9]. It is closely intertwined with the financial management of enterprises, meaning that any changes in financial management will also impact the accumulation of flow wealth. According to Yang Zhen and Hao Rui (2011)^[10], there is a positive correlation between the free cash flow of enterprises and their performance, resulting in the generation of more flow wealth. However, it is important to note that an increased free cash flow also raises the likelihood of discretionary spending, which may not be immediately perceptible but ultimately reduces flow wealth. Li Qiao (2022)^[11] emphasizes that behind the orderly flow of enterprise wealth is the crucial role played by the enterprise fund management department in efficiently allocating resources. On the other hand, SMEs face challenges in borrowing, leading to difficulties in attaining a virtuous circle of flow wealth (Gao Baozhong, 2014)^[12].

3.2.1.2. Research on flow wealth at the individual level

The level of individual income, which is a key indicator of individual wealth, is influenced by various factors such as education level, Internet use, region, and age (Yu Jiao et al., 2022)^[13]. Education is considered crucial as it acts as an investment in human capital, thereby affecting individuals' skills and subsequently determining their income level (Chen Jie et al., 2023)^[14]. Nonetheless, due to differences in the extent of educational investment among individuals, disparities in income are inevitable. Internet use is another significant influencer of personal income, particularly among younger age groups, where it has a more pronounced and stable positive effect (Li Mengfan, 2022)^[15]. Moreover, personal income is also influenced by whether an individual resides in a rural or urban area, as urban locations generally offer more job opportunities and higher minimum wage rates in comparison to rural areas.

The accumulation of business flows in the social dimension is influenced by management, production and business activities, and financing activities. SMEs borrowing is driven by the social environment.

3.2.2. Studies on stock wealth

The issue of stock and distribution of wealth has been noticed by scholars as early as the middle of the 18th century. Anne Robert Jacques Turgot (1727-1781), one of the most important representatives of the French agrarian school, began to study the problem of stock of wealth and published his masterpiece "An Examination of the Formation and Distribution of Wealth" in 1766. The so-called stock of wealth refers to individual and corporate assets at the micro level as well as social and national assets at the macro level.

3.2.2.1. Research on stock of wealth at micro level

According to Guo Jie, Tao Lingfeng (2022)^[16], Xiao Hailian, Zhao Ying, and Zhou Meihua (2022)^[17], individual heterogeneous asset returns are the core element that leads to the concentration of wealth at the top, making it the most important influencing factor of individual stock assets. Without individual heterogeneous asset returns, it is difficult to generate sufficient concentration of wealth at the top. Among bottom-tier households, the use of digital finance can significantly contribute to stock wealth accumulation. The wealth creation effect generated by the use of digital finance is greater for households with smaller wealth sizes. Moreover, the use of digital finance in the central and western regions, among the elderly, those with low education, low income levels, agricultural household group households, and rural households can generate even greater wealth creation (Qiang Guoling, Shang Cheng, 2022^[18], Luo Hehua, Ye Yifeng, 2022^[19]).

3.2.2.2. Research on macro-level stock of wealth

After 20 years of development in the 21st century, China's stock wealth has risen significantly. In 2000, it stood at less than 39 trillion yuan, but by 2019, it had reached 675.5 trillion yuan (Liu Lei et al., 2021)^[20]. This increase in stock wealth has surpassed the growth rate of China's GDP. During this 20-year period, the compound average annual growth rate of GDP was 12.8%, while the net social assets experienced an average annual growth rate of 16.2%. As GDP is a flow indicator and wealth is a stock

indicator, it indicates that China's "stock catching up" has outpaced its "flow catching up". However, despite this impressive growth, the issue of disparity in internal stock distribution has become more severe. In order to address this disparity and bridge the gap between the rich and the poor, it is crucial to focus on maintaining the proportion of social wealth stock and directing the distribution of social wealth increment towards the poor (Chen Shanpei, 2009)^[21].

3.2.3. Research on intergenerational wealth

Intergenerational wealth primarily encompasses household-level inheritance and subsequent upward mobility in social class.

3.2.3.1. Research on inheritance

Family wealth can be acquired through two means: social labor and inheritance within the family organization.

Scholars have identified several influential factors associated with intergenerational wealth accumulation. These factors include intergenerational transfers (such as inter vivos gifts and inheritance), human capital (such as educational attainment and health), income (including labor income and asset income), marriage (including cohabitation history and divorce), investment (such as stocks and bank savings), and consumption behaviors (including necessary living expenses and socialization) (Arrow & Levin, 2009^[22]; Vespa & Painter, 2011^[23]). It is evident that intergenerational wealth transfers contribute to household wealth; however, scholars hold different perspectives on the motives behind these transfers. Dong Changrui and Guo Jianjun (2021)^[24] found that legacy gifting, as opposed to inheritance, is motivated by altruism among parents with multiple children, aiming to achieve intra-family equity. On the other hand, Luo Ying (2019)^[25] argues that downward intergenerational transfers result from dependence and are driven by varying altruistic or exchange motives in different family situations. Moreover, upward intergenerational transfers are motivated by both selfless concerns for parents and certain forms of exchange reciprocity. According to Liu Yan's (2015)^[26] empirical examination of Chinese family microdata, children transfer wealth to their parents to repay their investment in the children's education, express gratitude for their parents' help, and set an example for their own offspring. Taking an objective and microscopic perspective, Wei Hongyao et al. (2019)^[27] indicate that factors such as age, education, party membership, income, and decisions to migrate have a significant impact on the accumulation and distribution of family wealth. Additionally, Guo Shengnan (2022)^[28] finds that urban-rural geographical differences play a substantial role in family wealth generation and accumulation.

3.2.3.2. Research on class mobility

Intergenerational class mobility, as pointed out by Hao Xiao-Jing (2023)^[29], can be divided into two types: human capital, which is represented by education, and social capital, which includes occupation, political capital, and social relationship networks. This form of mobility signifies social change and is essential for maintaining social equity, particularly in the face of substantial income disparities. Weak intergenerational mobility implies that income inequality may be perpetuated from one generation to another, fueling social inequality and leading to "class solidification". Research by Cao Yali et al. (2021)^[30] reveals a strong intergenerational transmission of income, where parents' income directly impacts their children's income, explaining over 50% of the inequality. Furthermore, Yang Jiahuan's (2021)^[31] life cycle theory suggests that family members allocate family wealth to maximize overall utility. In this theory, a young father invests in his offspring's human capital, while the next generation may transfer wealth to support their fathers' consumption during old age.

Based on the existing literature in China, it is evident that empirical research on inheritance as a means of family wealth accumulation is relatively scarce. Therefore, it is worthwhile to conduct a theoretical analysis and empirical test using data from the China Health and Aged Care Tracking Survey (CHARLS) to examine the impact of inheritance on household wealth accumulation of Chinese residents from a micro perspective.

4. Conclusion

The proposed wealth accumulation mechanism in the academic community during the twentieth congress has generated considerable attention and discussion. However, a clear definition has yet to emerge. In this paper, we aim to address this gap by examining the historical research on the early village wealth accumulation mechanism. We find that, at this stage, scholars primarily focus on the distribution of inequality as the mechanism for wealth accumulation. Building upon this understanding, we analyze

the wealth accumulation process by categorizing wealth into flow, stock, and intergenerational wealth. This allows us to uncover the underlying logic and fundamental framework of the wealth accumulation mechanism. From the establishment of the village-level wealth accumulation mechanism and its purpose, to income inequality and the process of wealth accumulation, the ultimate objective remains consistent: to achieve sustainable and high-quality development. Taking into account this underlying logic, the paper offers a clear definition of the wealth accumulation mechanism. It is defined as a mechanism that aims to preserve the value of people's assets and increase wealth accumulation on a national and societal level, while simultaneously regulating the distribution gap to maintain a normal and healthy state. The ultimate goal is to achieve sustainable, high-quality, fair, and rapid growth in the flow, stock, and intergenerational wealth.

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