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Financial Development and Per Capita Household Income

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Abstract. Since the founding of the People's Republic of China, the financial industry has experienced significant development, leading to a substantial increase in per capita household income. This paper uses data on per capita household income nationwide from 2010 to 2022, along with the number of financial institutions across various regions from 2010 to 2022, to study how financial development impacts per capita household income. Empirical findings reveal a positive correlation between the number of financial institution outlets and per capita disposable income, with noticeable differences between urban and rural areas. The increase in the number of urban financial institutions has a greater effect on improving per capita household income. The study concludes that developing inclusive finance, digital finance, and other approaches to provide efficient and convenient financial services to more people can promote social and economic development.

Keywords: financial development, per capita household income, urban-rural differences

1. Introduction

1.1. General Background of the Research Question

The historical background of the development of the financial industry in China encompasses several significant phases and reforms since the founding of the People's Republic of China.

Since the convening of the Third Plenary Session of the 11th Central Committee of the Communist Party of China in 1978, the curtain on financial industry reform has been officially raised. During this period, the reform and development of the financial industry became an integral part of China's economic system reform. With the deepening of both external opening-up and internal reforms, China's financial system gradually transitioned from a monolithic model to a modern financial system, achieving the transformation from a major financial power to a financial powerhouse.

Dismantling and Rebuilding the Financial System: In 1979, with the establishment of the State Administration of Foreign Exchange and the founding of China International Trust Investment Corporation, as well as the convening of the National Insurance Work Conference, China's financial system began to be dismantled and rebuilt. This led to the revival of the trust and insurance sectors, which had been suspended for many years.

Establishment and Development of Financial Markets: In the 1990s, China's capital market started from scratch. The opening of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, along with the establishment of the Zhengzhou Commodity Exchange, marked the initial formation and development of China's financial markets.

Improvement of the Financial Regulatory System: As the financial markets rapidly developed, the financial regulatory system continuously improved. From the monolithic regulatory model of the People's Bank of China to the separate regulatory model of "one bank, three commissions" and later to the comprehensive regulatory model of "one committee, one bank, two commissions," China's financial regulatory system has continuously adjusted and self-improved in tandem with market developments.

Financial Marketization Reform: Since the reform and opening-up, financial marketization reform has not only enhanced resource allocation efficiency but also increased the complexity of the financial system's operations. The Central Committee implemented a series of reform measures to strengthen regulation through regulatory system reforms, rigorously crack down on capital arbitrage behavior, and use structural monetary policy tools to unblock monetary policy transmission channels, guiding credit funds to enter the real economy.

Innovative Applications of Financial Technology: Innovations in financial technology, such as electronic payments, digital currencies, and blockchain, have transformed the infrastructure and operational logic of the financial ecosystem, driving changes in traditional financial institutions like banks. These historical backgrounds and development phases together form a rich tapestry of the development of China's financial industry, showcasing its core role and contributions to China's economic development and social progress.

1.2. Statement of Specific Research Questions

The impact of financial development on household income is primarily reflected in the following aspects:

Increase in Employment Opportunities:

The vigorous development of the financial industry creates a large number of employment opportunities. From banking, securities, and insurance to financial technology, all fields require professional talents to support their operation and development. Therefore, with financial development, family members have more opportunities to find jobs in the financial sector, thereby increasing household income.

Broadening of Investment Channels:

The continuous maturation and diversification of financial markets provide households with more investment channels. Families can increase their property income by purchasing financial products such as stocks, bonds, and funds to share the fruits of economic development. At the same time, with the popularization of financial knowledge and the simplification of investment tools, more and more families are beginning to participate in financial investments.

Popularization of Financial Services:

The development of inclusive finance makes financial services more widespread and convenient, especially for rural areas and low-income groups. By providing microloans, insurance, wealth management, and other financial services, these families can increase their income sources, reduce risks, and improve their living standards.

1.3. Structure of the Paper

The structure of the paper is as follows: Chapter 1 Introduction, Chapter 2 Literature Review, Chapter 3 Research Methodology, Chapter 4 Results and Analysis, Chapter 5 Conclusion and Recommendations.

2. Literature Review

1. The development of inclusive finance relies heavily on government guidance and support. The lower the level of government support, the weaker the positive impact of inclusive finance on household income, and vice versa. Furthermore, this moderating effect exhibits regional and urban-rural heterogeneity. In the western and rural areas, the moderating effect of government support is higher, indicating that higher levels of government support in these regions are more conducive to promoting household income growth (Liu Ruyu, 2023) [1].

2. We analyzed the link between financial development and income inequality for a broad unbalanced dataset of up to 138 developed and developing countries over the years 1960–2008. our results reject theoretical models predicting a negative impact of financial development on income inequality measured by the Gini coefficient. We find that financial development increases income inequality (Sebastion.et al, 2016) [2].

3. From the perspective of internet wealth management, using 2019 China Household Finance Survey data, we examined the difference in the impact on total income between all households and low-to-middle-income households. Empirical evidence shows that internet wealth management can significantly increase total household income. Overall, due to factors such as limitations in digital financial capability, the positive effect of internet wealth management on different groups' household income varies, and it is notably insufficient in raising the income of low-to-middle-income households. Therefore, in the next stage of economic development, China should enhance residents' digital financial capabilities and improve their efficiency in utilizing internet wealth management products to better their property income status (Su Fang & He Jing, 2023) [3].

4. Both basic and advanced financial literacy among Chinese households is relatively lacking, and the financial literacy of low-income households is significantly lower than that of non-poor households. Digital inclusive finance and financial literacy have a significant negative impact on both absolute and relative income poverty of households, meaning both can alleviate household income poverty. The poverty alleviation effect of digital inclusive finance is superior to that of financial literacy. The poverty alleviation effect of digital inclusive finance mainly exists among households in the central and western regions, while the effect of advanced financial literacy is primarily seen in households in the eastern regions (Zou Jing & Deng Xiaojun, 2022) [4].

5. Financial deepening and greater physical access is beneficial in reducing the proportion of people below the poverty line. Using alternative measures of financial instability, that it may increase the incidence of poverty. The results remain robust even when controlling for mobile money (Johan, 2017) [5].

3. Empirical Design

3.1. Data Source

The table introduces the per capita household income nationwide from 2010 to 2022 and the number of financial institutions across various regions from 2010 to 2022. The data is sourced from CSMAR (China Stock Market & Accounting Research Database).

3.2. Variable Definitions

Explanatory Variable:

FinNum: The number of financial institutions in each provincial administrative region.

Explained Variables:

Income1: The per capita household income of all residents in each provincial administrative region.

Income2: The per capita household income of urban residents in each provincial administrative region.

Income3: The per capita household income of rural residents in each provincial administrative region.

3.3. Descriptive Statistics

This table describes the per capita household income across various regions nationwide and the number of financial institutions in these regions from 2010 to 2022. Income1 describes the per capita household income of all residents in each provincial administrative region. The average value lies between Income2 and Income3, with the maximum value equal to Income2 and the minimum value equal to Income3. The standard deviation is slightly smaller than that of Income2. Income2 describes the per capita household income of urban residents in each provincial administrative region. It has the highest average and median values. The maximum value is the same as Income1, and the minimum value is the highest among the three datasets, with the highest standard deviation. Income3 describes the per capita household income of rural residents in each provincial administrative region. All data points in this dataset are the lowest among the three groups.

The per capita household income of urban residents is higher than that of rural residents. The maximum value of the per capita household income of urban residents is about 45,000 higher than that of rural residents, while the minimum value of the per capita household income of rural residents is about 6,000 lower than that of urban residents.

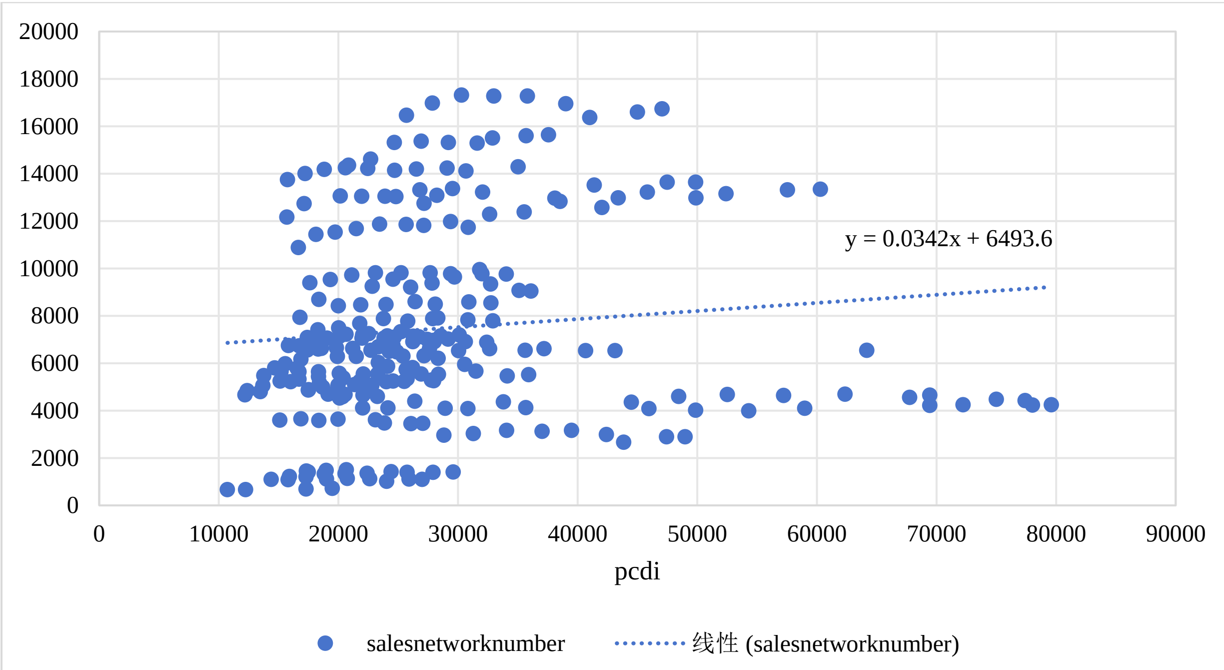
There is significant variation in the number of financial institutions across different provincial administrative regions. The region with the most financial institutions has about 10,000 more than the region with the fewest.

Table 1. Per Capita Household Income (2010-2022) and Number of Inclusive Financial Institutions (2010-2022)

	Average Value	Median	Maximum Value	Minimum Value	Standard Deviation
Income1	28242.19	25240.75	84034.00	6276.59	12542.83
Income2	32767.64	31125.73	84034.00	13188.55	12712.53
Income3	15548.28	14030.89	39729.42	6276.59	6154.42
Financial Institutions	7037.37	6296.50	17322.00	617.00	4145.64

4. Empirical Results

Figure 1. Per Capita Household Income of All Residents in Provincial Administrative Regions (2014-2022)

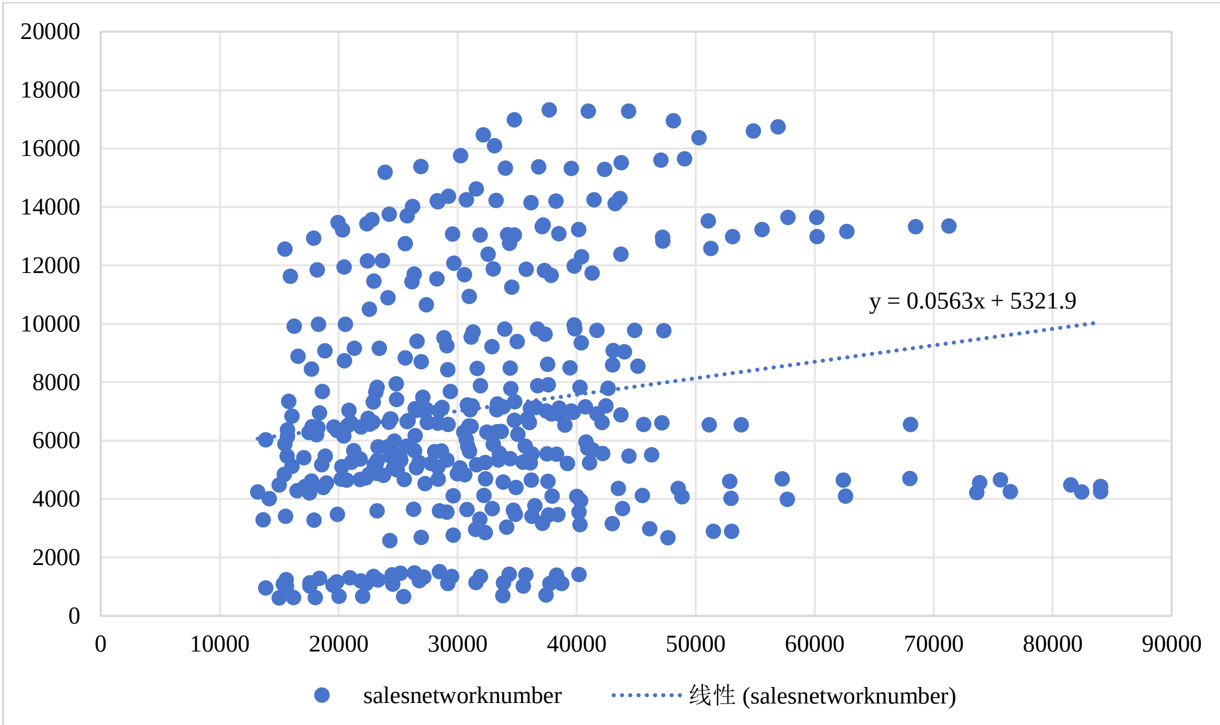


This figure describes the per capita household income of all residents in various provincial administrative regions from 2014 to 2022. It shows a positive correlation between the number of financial institution outlets and per capita disposable income. The fitted regression equation is:

(FinNum = Income1*0.0342+6493.6)

Economically, this means that for every increase of 100 in per capita income, the number of financial institutions increases by approximately 4.

Figure 2. Per Capita Household Income of Urban Residents in Provincial Administrative Regions (2014-2022)

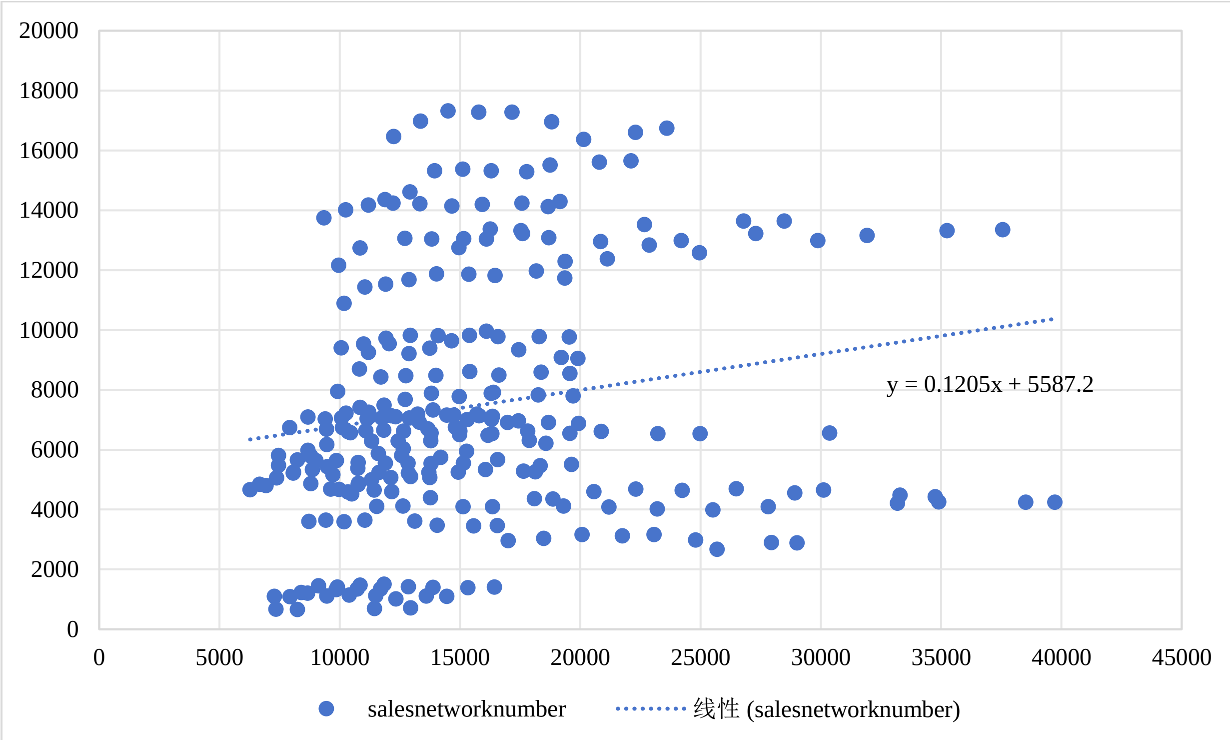


This figure describes the per capita household income of urban residents in various provincial administrative regions from 2014 to 2022. It shows a positive correlation between the number of financial institution outlets and per capita disposable income. The fitted regression equation is:

(FinNum = Income2*0.0563+5321.9)

Economically, this means that for every increase of 100 in per capita income, the number of financial institutions increases by approximately 6.

Figure 3. Per Capita Household Income of Rural Residents in Provincial Administrative Regions (2014-2022)



This figure describes the per capita household income of rural residents in various provincial administrative regions from 2014 to 2022. It shows a positive correlation between the number of financial institution outlets and per capita disposable income. The fitted regression equation is:

(FinNum = Income3*0.1205+5587.2)

Economically, this means that for every increase of 100 in per capita income, the number of financial institutions increases by approximately 12.

Research Conclusions

We described and statistically analyzed the per capita household income from 2010 to 2022 and the number of inclusive financial institutions from 2010 to 2022. We plotted data showing a positive correlation between the number of financial institutions and per capita disposable income in various provincial administrative regions from 2014 to 2022. The more developed the financial sector, the higher the per capita income. Finally, I believe that financial development should focus on inclusiveness. By developing inclusive finance, digital finance, and other means, more people can enjoy efficient and convenient financial services, thereby promoting social and economic development.

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