

The Chinese State, Incomplete Proletarianization and Structures of Inequality in Two Epochs 中国国家、不完全なプロレタリア化、二つの時期における不平等の構造

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The Chinese State, Incomplete Proletarianization and Structures of Inequality in Two Epochs¹

Mark Selden and Wu Jieh-min

Revolutionaries in the 1950s offered this prospect to the Chinese people: a highly egalitarian society, the product of land reform, collectivization and nationalization, with low but gradually rising income and welfare provisions for all, would chart a course toward mutual prosperity on foundations of socialist development. The key lay in restriction of markets and transfer of the surplus to the state for investment centered in heavy industry in the cities and collective agriculture in the countryside, eventually enabling China to overcome poverty and underdevelopment. This paper assesses the nature and impact of that low consumption socialist regime then and the subsequent strategies that have sustained low consumption *for labor* in city and countryside in the subsequent market and capitalist transition. We locate the discussion in relation to theories of original accumulation, proletarianization, wage stagnation, and low consumption in the emerging capitalist world economy of which China has been a part since the 1970s.² We hope to add to that discussion by exploring a range of structures that have produced incomplete proletarianization and inequality during two periods of socialist transition (1950s to 1970) and capitalist transition (1970s to present).

Following three decades during which China

experienced the world's most rapid growth, and in which billionaires emerged at a record rate in 2010, hundreds of millions of urban laborers, particularly the more than one hundred million migrant laborers, continue to receive not only a low but even a relatively declining share of the gross domestic product, leaving many at subsistence levels, with meager welfare benefits and bereft of basic citizenship rights.³ We use the term "laborers" to highlight the conditions of the laboring poor—rural migrant workers (*nongmingong*), farmers, the urban underclass, recently joined by redundant state-owned enterprise workers—examining their situation in relative as well as absolute terms. We particularly emphasize the widening income and opportunity gap separating the mass of laborers from the *nouveau riche* and seek to provide a structural analysis of the roots of this phenomenon. To be sure, many other nations have experienced rising social inequality in this epoch of neo-liberalism, notably the United States and Japan, but Chinese inequality has assumed distinctive forms consonant with its class structure, population control arrangements, and differential welfare policies and citizen rights. We trace and analyze these changes from the epoch of socialist transition to that of capitalist transition, while paying due attention to important continuities including the central, if changing, role of the state in shaping economic and social outcomes.

Income and opportunity inequalities in the era of capitalist transition have taken distinctive new forms while growing rapidly over the last

three decades. This can be clearly observed in the changing Gini coefficient and other measures of class and spatial divergence.⁴ But exploration of the nature of citizenship provides an important vehicle for examining broader ramifications of structures of inequality. Indeed, as in many countries, citizenship legally determines access to opportunities for income, welfare, security, education and a range of benefits presided over by the state. We dwell, however, on the distinctive forms this has taken, and continues to take, in China. The Chinese household registration system (*hukou*) has played a pivotal role in the “regulation” of the formation of the working class under conditions of free and unfree markets, in ways that invite comparison with the Act of Settlement in England prior to the era of the Speenhamland system, which hindered the movement of rural labor.⁵ The *hukou* regime has imposed conditions of severe inequality on migrants and their families, initially in the years 1960 to the late 1970s when rural to urban migration and market activity were virtually foreclosed, but also in the subsequent era when the state encouraged migration and market activity, while maintaining differential access to education, health care, retirement pensions etc., distinguishing those “sojourning” in the cities from those with full urban citizen rights on the basis of *hukou*.⁶

Less studied, but equally important, in our view, is the interrelationship between inequality, on the one hand, and savings and underconsumption, on the other. We consider the mechanisms that have led to high savings and resource transfer to the state during both the revolutionary era (1949-1970s) and the era of capitalist transition (1970s-present). We probe mechanisms that led to high savings and low consumption for Chinese working people during both periods, including those imposed by the state and those that are market driven and/or the consequence of a paucity of welfare benefits, particularly as these impinge on the

laboring poor in city and countryside. Specifically, we explore the relationship between high savings and structures of inequality and consider their consequences for Chinese trajectories of development, incomplete proletarianization, and social polarization.

I. Two Epochs

The problem of underconsumption has assumed new forms since the start of the capitalist transition in the 1970s. Between 1955 and the 1970s, the Chinese state presided over large-scale transfer of agricultural surpluses to urban industry primarily through a “price scissors” based on high compulsory grain sales to the state at low prices under conditions of scarcity of consumer goods, collective controls, and market suppression.⁷ This system of high extraction/low consumption was the key to the Party’s strategy of accelerated industrialization and economic growth, and constraints on consumption applied not only to farmers and workers but to the cadre elite as well. Discipline was primarily maintained through a collective order in rural China. From 1960, it was reinforced by a *hukou* system of population control that prevented migration and reinforced the authority of collective leadership. Urban consumption prior to the 1970s was similarly circumscribed by a low wage system, shortage of consumer goods, and ideological norms that prioritized social welfare and job security while restricting consumption not only of workers, but also of cadres and administrators. Significant, but largely invisible, city-countryside and industry-agriculture differentials were the product of state prioritization of industry over agriculture, heavy industry over light industry, and tight market controls. In this system, some of the largest income, consumption and opportunity inequalities were between urban citizens who held state sector jobs and villagers who lived and worked in predominantly agricultural collectives. This constituted a unique Chinese

approach to original accumulation in a poor agrarian nation.

Table 1: Structural Foundations of Inequality in Two Epochs: A Conceptual Map

| | <i>Major Mechanism for Accumulation and Control</i> | <i>Function of Hukou</i> | <i>Role of the Chinese State</i> |
|-------------------|---|---|--|
| 1955 - late 1970s | Price scissors, collective leadership, hukou, market controls | Rigid rural-urban divide (1960-), spatial segregation. Preserve rural population in place | Promote high savings and investment and restrict consumption through state and collective sectors |
| Late 1970s - 2010 | Low wages, labor insecurity, differential welfare benefits | Free migration, new urban protectionism divides urban citizens from rural migrants | Facilitate EOI, spur internal, global markets and foreign investment; SOE contraction; slash and commodify welfare |

In the era of China's guided capitalist transition since the 1970s, suppressed consumption has taken place in a milieu of expansive market mechanisms and revised hukou policies that assure a cheap and vulnerable rural labor supply to fuel urban and coastal industry while urban-rural distinctions continue to divide labor. Where the hukou system between 1960 and the early 1980s bound villagers to their local communities and collectives, the new hukou system channels labor to industry and the cities, often in distant provinces, while preserving income, welfare benefits and differential citizenship benefits. The reconfiguration of economic, political and institutional mechanisms—above all the end of collective agriculture in the eighties and the dismantling of much state industry from the nineties—changed the structure, but not the core reality, of underconsumption of labor as China emerged as the workshop of the world measured by industrial production and exports.⁸ In the new millennium, underconsumption by workers, bolstered by the incomplete proletarianization of rural migrant workers goes hand and hand with vast surpluses maintained in part by keeping the value of the yuan low while exports and export surpluses boom and by the structure of industry which encourages high corporate savings. But underconsumption is no longer for everyone. Now *superconsumption* by an

emergent Chinese nouveau riche, and superprofits for enterprises as measured by their soaring savings, goes hand in hand with low consumption by laborers, particularly the growing ranks of rural migrant workers who must save from their meager incomes in the absence of welfare, health and retirement benefits, and to pay for their children's education and marriage. However, this is not only a problem for hundreds of millions of laborers. In the final section of the paper we consider evidence that China's leaders may now be looking beyond their low consumption strategy, making possible significant gains for labor, perhaps for the first time even including migrant labor, through access to higher incomes and welfare benefits at a time when the state seeks to upgrade the quality of the nation's industry and exports and recognizes the limits of the low consumption strategy.

We show that in the era of capitalist transformation underconsumption has been a product of government- and market-suppressed wages and denial of minimal social welfare benefits for the laboring poor. In recent years, unemployed state workers have joined rural producers and rural migrants to form an expanded and diverse underclass. The massive layoffs in state industries that have been privatized since the 1990s, together with those in private industry since the world recession of 2008, have resulted in a situation in which workers with urban hukou for the first time must compete with migrants for low-end jobs. The combination of high income inequality with suppressed wage rates and low welfare levels for labor, can be explained by the following factors:

First, since the 1970s, the state has prioritized exports in order to accumulate the world's largest foreign exchange reserve, a measure of national power and a lever that has redefined China's place in the world in general and the US-China relationship in particular. This export-oriented industrialization (EOI) strategy

has been predicated on keeping both the Renminbi and labor costs, wages and benefits low, with the result that the consuming power of workers has been severely restricted even as Chinese and foreign enterprises secured super profits. This has made it possible for China to emerge as a world financial power and the world's second largest economy, measured by its accumulated trade surpluses, its unparalleled investment in US treasuries as well as in resources and enterprises around the world, by its consumption of natural resources, and by the size of GDP.



Countries by foreign currency reserves and gold minus external debt based on 2009 data from CIA Factbook

Second, repressive state-corporatist and market measures have been systematically deployed to control the official trade unions and curb unofficial worker advocacy groups and worker demands for higher wages, improved working conditions, regular payment of wages, and secure benefits. Not only have the welfare and security benefits associated with state sector jobs during the socialist period been eliminated or reduce, but low wage rural migrant workers, whose wages remain a fraction of those of urban citizens, have thus far made little progress in securing either living wages or even rudimentary health, welfare and retirement benefits.

Third, the state-capital alliance, the new face of the authoritarian state, has played a critical role in suppressing labor's share of output.⁹ The state, especially the local state, colludes with Chinese and foreign investors in

the profitable export sector to hold down wages and maximize profits for capital by suppressing workers' organization, reducing labor costs and creating conditions that maximize profits for both the local state and capital.¹⁰ Fierce international competition for the consumer and electronic goods that China produces, assembles or re-assembles, and exports, exacerbates the situation.

Finally, new forms of urban protectionism that marginalize rural migrants reinforce hukou divisions.¹¹ The large cities that hire migrant workers continue to deny the same level of welfare protection and access to education and urban services as those with local urban hukou, particularly to workers from other provinces. This, in turn, is facilitated by the legally sanctioned rural-urban divide. Although the dualistic hukou system is under review and many provinces have begun to reduce the intra-provincial rural-urban divide through subsidies to rural areas, this has not slowed the large inter-provincial migration (except briefly in the economic downturn of 2008) because of the slender opportunities for earnings in remote inland regions. Most migrants from inland areas are still systematically excluded from the welfare system and urban services in the coastal industrial centers including Beijing, Tianjin, Shanghai, Shenzhen and Guangzhou, each with several million migrants. Thus, while the character of the rural-urban divide is changing, in part as a result of remittances to the countryside, it continues to shape migrant working class formation along dualistic lines. What is true of the scores of millions of inter-provincial migrants is even truer of the myriad unregistered migrants. Moreover, the new urban welfare regime does not merely exclude or marginalize migrants; the new urban poor are also drawn from the ranks of local residents who lose state jobs and are also excluded from welfare programs.

In what follows, we flesh out this analysis step by step, drawing on aggregate statistical data,

governmental archives and policy discourses. Finally, we reflect on contemporary events such as worker suicides at Foxconn and the Honda strikes to consider whether major changes now underway in the dual structure could break sharply with the pattern of overproduction, low income and underconsumption for labor.

II. The interface of Inequality, Incomplete Proletarianization and Underconsumption in Two Periods

Historically, original accumulation, or the early phases of industrialization, presupposed the divorce of the producer from the means of production (Marx) and transfer of the rural surplus to industry (Preobrazhensky) as prerequisite for creating an industrial labor force and assuring low or deferred consumption with the promise of future prosperity to make possible the accumulation of capital required for sustained industrialization.¹² The Chinese approach to original accumulation, refined in the course of two periods, was fundamentally different. Rather than drive rural producers from the land, its genius during the period of socialist industrialization lay precisely in maintaining the vast majority of rural producers on the land during the period of socialist transition while using the combination of collective organization and the price scissors to transfer the surplus to industry and the state. In the subsequent period of capitalist transition, the state preserved the rural heartland through a system of equal access to contracted land that made possible a process of incomplete proletarianization in which migrant workers retained a stake (and registration) in native villages: in the event of economic downturn, given their ambiguous legal status, they could be sent home with the injunction to secure subsistence on the land, while their partial proletarian status in cities would be defined by low wage labor and denial or limited access to benefits such as pensions, unemployment, and

health insurance while bereft of such fundamental citizenship rights as access to free education for their children.¹³ As growing numbers of *nongmingong* become second-generation labor migrants with more education, higher aspirations, and a clear vision of an urban future, the fetters imposed by the dual social order become more intolerable and labor tensions rise.¹⁴

We analyze several measures that facilitated transfer of a substantial portion of the surplus to the state for investment while maintaining low income for laborers resulting in a pattern of protracted underconsumption that extended across the two periods while paying due attention to the characteristic patterns of inequality that distinguished them. During the period of socialist transition (1950s-1970s) the state was able, first, to capture a substantial portion of the surplus previously appropriated by landlords, estimated by Victor Lippit to account for 45 percent of the 11.3 billion yuan net investment in 1952.¹⁵ Following collectivization and nationalization, the state, prioritizing heavy industrial development, presided over a regime predicated on collective agriculture and nationalized industry. The First Five Year Plan (FFYP) (1953-57) rested on state-centered accumulation achieved primarily through compulsory sale at low prices of agricultural commodities, a process that in turn rested on the constriction of markets. The result was a regime in which high state accumulation and investment was made possible by low but relatively stable incomes for all in city and countryside while the state assured social welfare and security, notably in the cities. During the FFYP the state extracted 80 to 90 percent of the rural surplus above subsistence.¹⁶ Following collectivization, it increased accumulation and investment in heavy industry while curbing consumption. The accumulation rate, that is the ratio of gross domestic capital formation to gross domestic product, increased from 18.2 percent in 1952 to 24.9 percent in 1957. Rural net

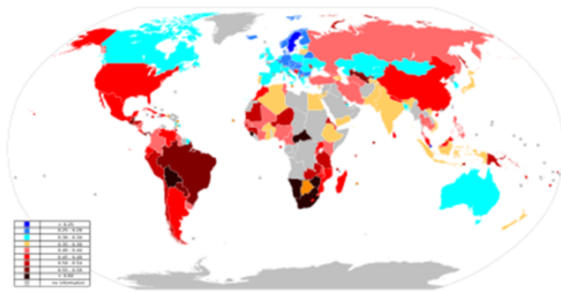
accumulation increased from 2.6 percent in 1953-54 to 5.4 percent in 1957 with agricultural resources channeled to industry and the cities while rural consumption remained flat.¹⁷ Industry received 52.4 percent of state investment, of which 89 percent was allocated to heavy industry, while agriculture received 7.8 percent. Among the results were rapid industrial growth rates for the years 1953-57 of 18 percent, with modern industry growing at 20.3 percent.¹⁸

While revolutionary changes associated with land reform, collectivization and nationalization of industry all reduced class inequality measured in income terms, other inequalities deepened along two primary axes. One of these was the growth of urban-rural inequality as a direct consequence of the combination of collectivization, the hukou system and state investment strategies. In barring rural to urban migration after 1960, the hukou system froze the conditions of labor in city and countryside to the detriment of the latter while the state suppressed consumption and invested overwhelmingly in heavy industry and the cities. The other development was the nomenklatura system that privileged cadres over laborers in both city and countryside, albeit within a low income and consumption regime.

During capitalist transition since the 1970s, the state presided over a regime that guaranteed high savings rates: it transformed the hukou system to promote large-scale internal migration, making possible China's industrial growth with abundant supplies of labor, while sustaining divisions between rural migrant workers and registered urban dwellers. The continued salience of the hukou system was critical to preserving a low wage labor regime centered on migrants. One particularly telling factor is contracts. According to a 2006 State Council report, 46.3 percent of rural migrant workers lacked the protection of a labor contract.¹⁹ By promoting the market and

private investment and suppressing wages, and then, from the 1990s, dismantling much of the state industrial sector, the state facilitated capital accumulation and rapid growth centered in the private sector. In the era of a flourishing market and expansive capital, the population was divided between a low-consuming laboring force comprised both rural migrant workers and urban workers on the one hand, and, on the other, a high flying minority which engaged in lavish consumption on a scale that highlighted the growing social inequality in Chinese society. These divides must be understood in both class and spatial terms.

The most widely used measure of income inequality is the Gini coefficient, a measure in which 0 is total equality and 1 is total inequality. According to the World Bank, the Gini coefficient in China was 0.28 in 1983; it had increased to 0.473 in 2009, placing China among the nations with the most unequal income distribution in the world.²⁰ The CIA's 2009 mapping of world inequality is striking for highlighting the position of the United States and China as having the most skewed distribution among large countries in the range of .45-49, a measure of their commonality that tends to be ignored both in red carpet summit visits and in the critiques of China by American human rights activists whose eyes are exclusively trained on China.²¹ In both nations the last three decades have been notable for concentrating wealth and income in the hands of the top 1-5 percent of the population. As Robert Frank puts it with reference to the United States, "The share of total income going to the top 1 percent of earners, which stood at 8.9 percent in 1976, rose to 23.5 percent by 2007, but during the same period, the average inflation-adjusted hourly wage declined by more than 7 percent."²²



World Gini coefficients 2009 (CIA World Factbook)

In the early 2000s, the income gap between China's city and countryside was approximately 3:1, a very high level by world standards. As Terry Sicular and others have shown, however, the actual gap was less. Adjusting for regional price differences in 2002 reduced the difference by 29 percent; moreover, if migrants are included in the urban population, this further reduces the difference by 7 percent. Overall, these adjustments reduce the gap from 3.18 to 2.12 for 2002, still high, but only at the high end viewed in Asian regional perspective.²³ The continued flow of rural migrant workers provides eloquent testimony to the fact that the differences remain robust.

Consider wages. We note that in recent years, China's *officially regulated minimum wage rates* have increased in absolute terms substantially. According to the ILO's World Wage Report 2008/9, China enjoyed a real (inflation adjusted) 8.26% wage increase in the years 2001-2007, while the developing countries overall gained 6.5%. Our data point to a similar conclusion. Nevertheless, in China, as in many other countries, working people's share of GDP or national output has consistently declined since the early to mid 1990s, a period of high economic growth that is frequently described as the heyday of neoliberalism. That is, the increase in workers' incomes has not kept pace with national economic growth. This is central to the problem of income inequality and underconsumption for

labor at a time when consumption, and conspicuous consumption at that, among the rich has soared. We will return to this after analyzing saving rates.

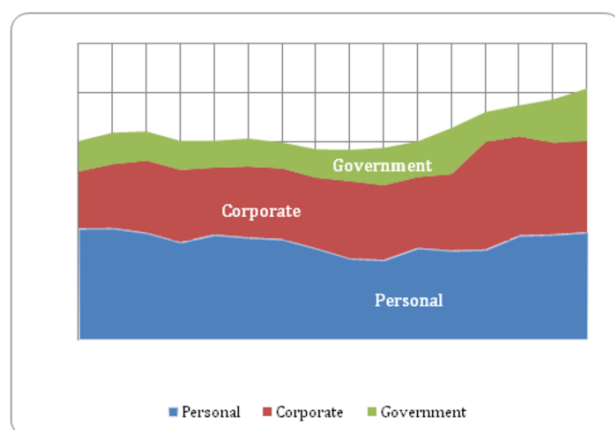
Chinese patterns of income inequality in general, and the wages of workers in particular are highlighted by comparison with wage patterns over time in the industrializing Asian Tigers, South Korea, Taiwan, Hong Kong and Singapore during their respective periods of takeoff. As Ho-fung Hong has noted, Taiwan and South Korea were modestly egalitarian societies in the 1960s and 1970s in the wake of dynamic growth, with Ginis in the .3-.4 range. Indeed, Taiwan's Gini dropped from high levels in the .5-.6 range in the 1950s to .3-.4 in the 1970s. By comparison, China's Gini soared from .33 in 1980 to .47 in 2005, in this respect more closely resembling the outcomes of such Latin American nations as Brazil and Mexico than the East Asian developmental states. Another telling measure of worker income is the comparison of wages in these countries to those in the United States. The wage levels of the Asian Tigers as a group rose from approximately 8% of US manufacturing wages in 1975 to approximately 38% by 1995 before dropping slightly to 33% by 2005. By contrast, Chinese manufacturing wages over the years 1980 to 2005 remained flat at approximately two to three percent of US manufacturing wages.²⁴ Together with China's export efficiency, we find important parts of the explanation here not only for the maintenance of the low wage regime in China but the flight to China of US (and Japanese and European) manufacturing jobs over the last three decades. We will return to issues of inequality below, with particular attention to the position of China's more than two hundred million migrant laborers.

High Savings/Low Consumption

China's aggregate saving rate rose from approximately 40% in the early 1990s to 50% in

2007 with personal savings hovering at around 22%, while both corporate and government savings accounted for the major increases. While personal savings exceeded combined corporate and government savings in the early 1990s, fifteen years later combined corporate and government savings far exceeded personal savings. Figure 1 shows the general trend.

Figure 1: Saving Rates by Sectors in China, 1992-2007*



* The method of cash flow statements was used to calculate the figures.

Sources: China Statistical Yearbooks, various years.

Table 2. Chinese Savings Rate by Sector 1992-2007.

| | Personal | Corporate | Government | Aggregate |
|------|----------|-----------|------------|-----------|
| 1992 | 22.6% | 11.6% | 6.1% | 40.3% |
| 1993 | 22.7% | 12.9% | 6.4% | 41.9% |
| 1994 | 21.7% | 14.6% | 5.9% | 42.2% |
| 1995 | 19.8% | 14.6% | 5.8% | 40.3% |
| 1996 | 21.3% | 13.6% | 5.4% | 40.3% |
| 1997 | 20.8% | 14.4% | 5.6% | 40.8% |
| 1998 | 20.4% | 14.3% | 5.3% | 40.0% |
| 1999 | 18.5% | 14.3% | 5.8% | 38.6% |
| 2000 | 16.5% | 15.6% | 6.4% | 38.5% |
| 2001 | 16.2% | 15.1% | 7.6% | 38.9% |
| 2002 | 18.6% | 14.3% | 7.2% | 40.2% |
| 2003 | 18.1% | 15.5% | 9.3% | 42.9% |
| 2004 | 18.3% | 21.8% | 6.0% | 46.1% |
| 2005 | 21.2% | 20.0% | 6.3% | 47.5% |
| 2006 | 21.4% | 18.5% | 8.8% | 48.7% |
| 2007 | 21.8% | 18.4% | 10.6% | 50.9% |

Sources: *China Statistical Yearbooks*, various issues, 1998-2009.

A number of factors may cause a high savings rate. In the category of personal savings in particular, the demographic structure, the tax structure, consumption priorities, the level of health and welfare provision by the state or enterprise, and retirement options all contribute to the variation in savings rates. Several points stand out in the Chinese data. First, the personal savings rate was high by comparison with many other countries, although with a rate of 24% in 2007, the figure was similar to that of India with a personal saving rate of 22%. Second, in contrast to India, the Chinese government saving rate increased from 6.1% in 1992 to 10.6% in 2007, whereas India's government saving rate remained a low 4% in the latter year. Among the emerging major economies, only South Korea had a comparable level of government saving, far exceeding even China at 11%. Third, the corporate sector accounted for a large share of national savings: rising from 11.6% in 1992 to 18.4% in 2007. This pattern of corporate savings was akin to that of Japan

(21%), Taiwan (19%) and to a lesser degree (14%) South Korea in 2007.²⁵

We suggest, first, that China's high national savings rate is central to the continued pattern of suppressed consumption. Second, although the personal sector's savings rate is high by international standards, the savings situation for China's laboring underclass remains precarious. This is both because lack of welfare provision requires high savings to achieve mere subsistence and because a large portion of personal savings is held by the rich.

In other words, a small group of high-income families account for a large share of personal savings. This means that there is a large amount of "idle cash", which presumably takes the form of savings by the rich or prosperous. Moreover, a significant part of both corporate and government savings is invested in real estate bubbles which contribute little to development and remain a source of high instability. The state controls huge assets in the form of foreign exchange gained through China's trade surplus, enabling it to buy hundreds of billions of dollars of US treasury bonds, of which it is the largest holder, to invest internationally, and to respond vigorously to emergencies such as the 2008 international recession touched off by the U.S. financial implosion. In general, we find a situation of "rich and powerful state, poor laboring people." The Chinese state is a strong state with abundant financial assets, and China's nascent bourgeoisie is large, powerful and closely intertwined with state powerholders, whereas laboring people experience relative deprivation as a result of the low income strategy in a society characterized by high social inequality. There is, in short, an intricate relationship between underconsumption, high savings rate, and income and opportunity inequality. Within this pyramidal structure, the bottom layers are comprised of rural inhabitants and rural migrant laborers.

Worker Wages and Share of GDP

Worker wages in the state sector (mainly in the cities) remained suppressed at low levels throughout the socialist period, compensated by a system of "work unit-centered" benefits (*danwei gongji*) including housing subsidies, comprehensive health care, fringe benefits, retirement provisions and lifetime employment. In short, workers' actual "consuming power" was substantially enhanced by state subsidies that were lacking for rural residents, the vast majority of the population, and cannot be evaluated exclusively as a parameter of wage incomes. However, in the era of capitalist transition, and particularly following the massive privatization of industry since the late 1990s, the state has largely withdrawn from the welfare sphere in the cities, while the unit system has been dissolved or restructured. Moreover, China's modest rural welfare programs, in the absence of state financing, came to an end with decollectivization in the early 1980s. Not only have worker wages remained suppressed, but they have not even been compensated for the loss of welfare provisions or in response to rising living standards and higher prices in the commodified economy in such areas as health care, which was once provided free to state sector workers and their families. Most important as we have noted, since the late 1990s, large portions of the state sector have been privatized and millions of workers fired, frequently with the loss of pensions and little prospect of finding secure positions. Former state workers thus joined migrant workers to form the urban underclass and, for the first time, they find it necessary to compete with rural migrant workers for low paying jobs. Suppressed wage rates, in conjunction with the shrinkage of state welfare provisions and massive layoffs in the state sector thus result in a pattern which combines low consumption for the laboring classes and high savings at the national level.

According to the ILO's Global Wage Report,

real wages in China grew at an average rate of 9.43% during 1995-2000, and 12.93% during 2001-07.²⁶ However, these shining numbers should be interpreted in light of at least three factors. First, the starting point in China was low. Second, real wage growth did not keep pace with the growth of the corresponding industrial sector, which expanded faster than the real wage growth. In other words, the share of worker income in total output remains relatively low by world standards, and during this period it declined further. Third, the distribution of wages among different groups of wage earners is highly unequal. The first point is obvious, so we can go to the second point immediately. According to a Chinese researcher, the percentage of wages to total output in the large-scale manufacturing sector was as low as 3.2% in 2007 in China, based on a survey by The All-China Federation of Trade Unions (ACFTU). By comparison, the percentage of wages to industrial output was 16.2% (2002) in the US, 9.6% (2002) in Japan, 11% (2003) in Russia, 4.7% (2002) in India, and 4.5% (1998) in Venezuela, respectively.²⁷ This is strong evidence that Chinese working people's income is very low in comparison not only to that in developed economies, but even to many developing economies.

It is common knowledge that Chinese GDP has grown at high speed over the last three decades. As a result, the size of the industrial labor force and labor's total income from wages has increased accordingly. But the share of labor remuneration to GDP has actually declined over the years. According to an official of the ACFTU, the ratio of labor remuneration to GDP peaked at 56.5% in 1983; thereafter, the ratio plummeted steadily, reaching 36.7% in 2005. According to the same source, "23.4% of interviewed employees had not received a wage raise over the last five years."²⁸ This account was disputed by an official of the Ministry of Finance who asserted that the actual ratio of labor remuneration to GDP was much higher than the above estimate; however,

he acknowledged that "the ratio of labor remuneration to GDP indeed tended to decline over the years." He called on the government to "increase the weight of wages in the primary distribution."²⁹

Let's examine GDP figures for the years 1994-2007. The data show that the ratio of labor remuneration to GDP was 53.57% in 1996 – the highest during the years under investigation; since then the ratio steadily decreased to 39.74% in 2007. Our estimate is close to that of the ACFTU official as shown in Figure 2. Table 2 below shows that the national average of monthly labor remuneration – after being adjusted for inflation with CPI – increased from 346 yuan in 1994 to 977 yuan in 2007.³⁰

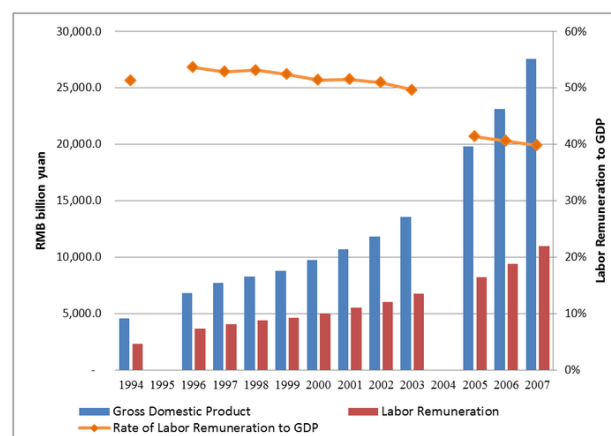


Figure 2: Chinese GDP and Labor's Share: 1994-2007

Table 3: Labor's Share of GDP and Adjusted Average Labor Remuneration, 1994-2007

| Year | Ratio of labor remuneration to GDP | Adjusted Average Labor Remuneration (base year=1994, RMB yuan/per month) |
|------|------------------------------------|--|
| 1994 | 51.2% | 346 |
| 1995 | N/A | N/A |
| 1996 | 53.6% | 419 |
| 1997 | 52.8% | 448 |
| 1998 | 53.1% | 486 |
| 1999 | 52.4% | 504 |
| 2000 | 51.4% | 541 |
| 2001 | 51.5% | 584 |
| 2002 | 50.9% | 637 |
| 2003 | 49.6% | 698 |
| 2004 | N/A | N/A |
| 2005 | 41.4% | 789 |
| 2006 | 40.6% | 884 |
| 2007 | 39.7% | 977 |

Sources: Data compiled from *China Statistical Yearbooks*, various years. National Bureau of Statistics.

Trends in Minimum Wages and Wage Differences

China has long been subjected to international criticism for its “sweat shops” in the export sector. Low wages in this sector reflect the employment of enormous numbers of migrant workers who receive minimum wages in host cities without local citizenship rights, and who are bereft of welfare benefits of all kinds. Indeed, the overwhelming majority of migrants work at the legal minimum wage in perpetuity. According to the ILO, the ratio of minimum wages to GDP per capita, 46.28%, is far below the average of 68% for the developing world, despite the fact that annual wage gains of 8.26% for this sector in the years 2001-07 were among the highest in developing countries and five times those of India. The Chinese ratio is slightly lower than that of India, but well above that of Brazil.

Table 4: Trends in Minimum Wages: China and the World; ILO Report

| | Real Growth in Minimum Wage (2001-2007) | Minimum Wage/Average Wage (2004-2007) | Minimum Wage/GDP per capita (2004-2007) |
|----------------------|---|---------------------------------------|---|
| Developed Countries | + 3.8% | 39% | 37% |
| Developing Countries | + 6.5% | 40% | 68% |
| China | + 8.26% | 37.54 %* | 46.28%* |
| India | + 1.51% | 22.84%* | 50.92%* |
| Brazil | + 6.48% | 42.41%* | 33.07%* |

* 2007 or latest. Sources: Data compiled from Global Wages Report 2008/09, ILO, Geneva, Table 2 Trends in minimum wages, p. 36; and Statistical appendix Table A2: Minimum wages, pp.85-92.

Recently, Chinese scholars have challenged the ILO statistics. Liu Zhirong asserts that the actual ratio of Chinese minimum Wages to GDP per capita is just 25%, much lower than that estimated by the ILO report.³¹ However, Liu himself does not explain how he obtained the figure of 25%. We know that Chinese minimum wages are regulated by local governments and vary by city and region. In July 2010, for example, the minimum wage in Shenzhen, a booming export center close to Hong Kong, was 1,100 yuan/month, approximately \$165 at official exchange rates. Each province, city and district enacts its own wage policy, subject to the approval by the center. This makes it difficult to estimate average minimum wage rates at the national level.

In order to gauge the relationship between minimum wages and gross regional product (GRP), we selected for analysis three major industrial centers in coastal China, each with export orientation: Shanghai, Suzhou (Southern Jiangsu), and Shenzhen (Guangdong). The figures in Table 4 demonstrate, first, that the ratios of minimum wage to GRP are low by international standards; most significantly, second, the ratios in all three cities decreased significantly over the years between the early 1990s and 2008. In Shanghai, the ratio decreased from 23.5% in 1993 to 15.8% in 2008; in Suzhou, from 17.5% in 2000 to 9.5% in 2008; in Shenzhen, from 22.9% in 1992 to

13.4% in 2008. This set of figures forcefully displays the super low share of migrant workers' wage income as a share of Gross Regional Product (GRP) or GDP in major urban areas, and is sharply at odds with the conclusions of the above-mentioned ILO report. This is not necessarily representative of the entire coastal industrial area, but it is indicative of trends in EOI regions. Comparative international data suggests that by this measure, too, China's income distribution is grossly inequitable and that it has been exacerbated over the last fifteen years.

Table 5: Ratio of Minimum Wage to Gross Regional Product (GRP) and Average Wage in Three EOI Cities, 1992-2008 (unit: yuan)

| Year | Shanghai | | | Suzhou | | | Shenzhen (Special Economic Zone) | | |
|------|---------------------------|--------------------|-------|---------------------------|--------------------|-------|-------------------------------------|--------------------|-------|
| | GRP per capita, per month | MW/ GDP per capita | MW/AW | GRP per capita, per month | MW/ GDP per capita | MW/AW | GRP per capita, per month | MW/ GDP per capita | MW/AW |
| 1992 | 721 | N/A | N/A | 530 | N/A | N/A | 1,069 | 22.9% | 49.6% |
| 1993 | 894 | 23.5% | 44.6% | 772 | N/A | N/A | 1,250 | 22.9% | 42.1% |
| 1994 | 1,151 | 19.1% | 35.7% | 1,053 | N/A | N/A | 1,413 | 23.9% | 38.4% |
| 1995 | 1,419 | 19.0% | 34.9% | 1,315 | N/A | N/A | 1,629 | 23.3% | 37.1% |
| 1996 | 1,648 | 18.2% | 33.8% | 1,456 | N/A | N/A | 1,875 | 20.3% | 31.4% |
| 1997 | 1,882 | 16.7% | 33.1% | 1,643 | N/A | N/A | 2,140 | 19.6% | 30.5% |
| 1998 | 2,043 | 15.9% | 32.3% | 1,811 | N/A | N/A | 2,308 | 18.6% | 28.1% |
| 1999 | 2,211 | 16.7% | 31.4% | 1,966 | N/A | N/A | 2,479 | 22.1% | 31.7% |
| 2000 | 2,473 | 18.0% | 34.6% | 2,224 | 17.5% | 39.7% | 2,733 | 20.0% | 28.5% |
| 2001 | 2,683 | 18.3% | 33.1% | 2,532 | 17.0% | 37.7% | 2,902 | 19.8% | 26.6% |
| 2002 | 2,944 | 18.2% | 33.0% | 2,978 | 15.4% | 34.7% | 3,364 | 17.7% | 25.3% |
| 2003 | 3,261 | 17.5% | 30.9% | 3,974 | 13.6% | 32.7% | 3,919 | 15.3% | 23.5% |
| 2004 | 3,862 | 16.4% | 31.2% | 4,833 | 12.8% | 33.1% | 4,520 | 13.5% | 22.9% |
| 2005 | 4,294 | 16.1% | 30.9% | 5,564 | 12.4% | 33.1% | 5,067 | 13.6% | 25.5% |
| 2006 | 4,808 | 15.6% | 30.4% | 6,567 | 11.4% | 32.1% | 5,788 | 14.0% | 27.7% |
| 2007 | 5,531 | 15.2% | 29.0% | 7,659 | 11.1% | 32.5% | 6,637 | 12.8% | 26.3% |
| 2008 | 6,094 | 15.8% | 29.2% | 8,905 | 9.5% | 28.3% | 7,485 | 13.4% | 27.6% |

* The monthly GRP per capita is calculated on the basis of the resident population (*changzhu renkou*) including migrants without local citizenship who had resided in the city over six months. This new statistical practice better reflects reality. Yet it continues to exclude large number of unregistered migrant in the data.

Sources: Shanghai Statistical Yearbook ([internet version](#)), Suzhou Statistical Yearbook 2002-2009 ([internet version](#)), Shenzhen Statistical Yearbook ([internet version](#))

Let us further examine the ratio of minimum wage to average wage in the three cities. The trend again is one of significant decrease in all three cities. In Shanghai, the ratio of minimum to average wage dropped from 44.6% in 1993 to 29.2% in 2008. Shenzhen, the earliest city that was opened for foreign capital and has been one of the major export-processing centers, displays an even more dramatic trend: the ratio decreased from 49.6% in 1992 to just 22.9% in 2004, and then slowly increased to 27.6% in 2008, which was still the lowest in the three regions under comparison. The moderate upward turn in Shenzhen during 2004-2008 obviously was due to the rise in minimum wage from 610 to 1,000 yuan per month during that period (see Table 5 below). The data for Suzhou is less complete, but it shows a similar trend with the ratio declining from 39.7% in 2000 to 28.3% in 2008. In short, the ratio of minimum wage to average wage was under 30% in all three regions by 2008 and far below the estimate of 37.5% (national average 2004-7) by the ILO report (see Table 3 above). Moreover, according to the Global Wage Report Update 2009, "the most frequent scenario is that most countries set their minimum wages at about 40 per cent of average wages."³² The data make clear that the situation in China was far worse than the international standard, particularly when we recall that in China virtually all rural migrant workers earn the minimum wage regardless of years of service and skills.

Estimating Real Growth in Minimum Wages and Wage Differences

Finally, it is often pointed out that wage increases for migrant workers have not kept pace with inflation in recent years. Investigating three major industrial cities (Shanghai, Suzhou, and Shenzhen), we find that this statement should be qualified both in light of new data and by locating migrant worker wage increases in other frameworks. In Shanghai, the real minimum wage adjusted by consumer price index (CPI, with 1990 as base

year) grew by 132% during 1993-2008. However, the average urban employee wage grew by 256% in real terms during the same period. Therefore, although migrant worker wages increased significantly in real terms, they experienced relative decline compared to employees with urban hukou. By the same token, the ratio of average urban wage to minimum wage widened from 2.2 times in 1993 to 3.4 times during 1993-2008 (see Table 5). Moreover, this difference merely reflects the wage disparity. Differences in welfare entitlement deepen the pattern of inequality since it is rural migrant workers, with the lowest wages who are also those with the weakest safety net. We hypothesize that the wage difference of 2.2 to 3.4 times, adjusted upward for differences in welfare and other benefits, is essentially the difference between urban hukou workers on the one hand and migrant workers, and perhaps laid-off SOE workers on the other.

Table 6: Comparison of Minimum Wage and Average Urban Employee Wage, Nominal and CPI Adjusted, 1992-2008 (unit: yuan/per month; 1990 = 100)

| Year | Shanghai | | | | | Suzhou | | | | | Shenzhen (SEZ) | | | | |
|----------------------------|-------------|------|-------------|-------|----------|-------------|------|-------------|-------|----------|----------------|------|-------------|-------|----------|
| | Min | Adj. | Avg. | Adj. | Ratio of | Min | Adj. | Avg. | Adj. | Ratio of | Min | Adj. | Avg. | Adj. | Ratio of |
| | Wage | Wage | Wage | Wage | AW/MW | Wage | Wage | Wage | Wage | AW/MW | Wage | Wage | Wage | Wage | AW/MW |
| 1992 | N/A | N/A | 356 | N/A | N/A | N/A | N/A | 283 | 237 | N/A | 245 | 222 | 494 | 447 | 2.0 |
| 1993 | 210 | 144 | 471 | 322 | 2.2 | N/A | N/A | 355 | 241 | N/A | 286 | 215 | 679 | 511 | 2.4 |
| 1994 | 220 | 122 | 617 | 341 | 2.8 | N/A | N/A | 493 | 272 | N/A | 338 | 215 | 881 | 562 | 2.6 |
| 1995 | 270 | 126 | 773 | 360 | 2.9 | N/A | N/A | 579 | 270 | N/A | 380 | 215 | 1,023 | 580 | 2.7 |
| 1996 | 300 | 128 | 889 | 379 | 3.0 | N/A | N/A | 645 | 272 | N/A | 380 | 200 | 1,209 | 637 | 3.2 |
| 1997 | 315 | 131 | 952 | 395 | 3.0 | N/A | N/A | 704 | 295 | N/A | 420 | 214 | 1,378 | 702 | 3.3 |
| 1998 | 325 | 135 | 1,005 | 417 | 3.1 | N/A | N/A | 801 | 339 | N/A | 430 | 221 | 1,532 | 786 | 3.6 |
| 1999 | 370 | 151 | 1,179 | 482 | 3.2 | N/A | N/A | 882 | 376 | N/A | 547 | 283 | 1,726 | 892 | 3.2 |
| 2000 | 445 | 170 | 1,285 | 512 | 2.9 | 390 | 166 | 982 | 419 | 2.5 | 547 | 275 | 1,920 | 965 | 3.5 |
| 2001 | 490 | 195 | 1,480 | 590 | 3.0 | 430 | 184 | 1,139 | 488 | 2.6 | 574 | 295 | 2,162 | 1,111 | 3.8 |
| 2002 | 535 | 212 | 1,623 | 643 | 3.0 | 460 | 196 | 1,327 | 567 | 2.9 | 595 | 302 | 2,352 | 1,195 | 4.0 |
| 2003 | 570 | 226 | 1,847 | 731 | 3.2 | 540 | 229 | 1,649 | 699 | 3.1 | 600 | 303 | 2,551 | 1,287 | 4.3 |
| 2004 | 635 | 246 | 2,033 | 789 | 3.2 | 620 | 250 | 1,876 | 757 | 3.0 | 610 | 304 | 2,661 | 1,325 | 4.4 |
| 2005 | 690 | 265 | 2,235 | 859 | 3.2 | 690 | 272 | 2,085 | 822 | 3.0 | 690 | 338 | 2,706 | 1,327 | 3.9 |
| 2006 | 750 | 285 | 2,464 | 935 | 3.3 | 750 | 291 | 2,334 | 905 | 3.1 | 810 | 389 | 2,926 | 1,403 | 3.6 |
| 2007 | 840 | 309 | 2,892 | 1,065 | 3.4 | 850 | 316 | 2,617 | 974 | 3.1 | 850 | 392 | 3,233 | 1,490 | 3.8 |
| 2008 | 960 | 334 | 3,292 | 1,145 | 3.4 | 850 | N/A | 3,008 | 1,063 | 3.5 | 1,000 | N/A | 3,621 | N/A | 3.6 |
| Annual real average growth | 6.0% | | 8.9% | | | 9.7% | | 12.9% | | | 4.2% | | 8.4% | | |
| | (1993-2008) | | (1993-2008) | | | (2000-2007) | | (2000-2007) | | | (1992-2007) | | (1992-2007) | | |

Sources: Data compiled from Shanghai Statistical Yearbooks, Suzhou Statistical

Yearbooks, and Shenzhen Statistical Yearbooks, various years.

The two other cities display a similar trend. In Suzhou, the real minimum wage adjusted by consumer price index (CPI, with 1990 as base year) grew by 90% during 2000-2007, whereas the average urban employee wage grew by 133% in real terms during the same period. In Shenzhen, the figures were 77% and 233% respectively during 1992-2007; the gap between minimum wage growth and average wage growth in Shenzhen was the largest among the three regions under comparison. And the figures of wage differentials were 3.5 times in Suzhou and 3.6 times in Shenzhen respectively in 2008. The pattern for both is similar to Shanghai.

Further, we look at average annual growth rates in real terms. Minimum wage real growth was 6.0% during 1993-2008, while average wage grew at a significantly higher rate of 8.9% during the same period. In Suzhou, the rates were 9.7% and 12.9% respectively during 2000-2007. In Shenzhen, the real wage growth for migrant workers (who earn the minimum wage) was remarkably low, just 4.2% during 1992-2007, whereas employees with urban hukou enjoyed a far more robust 8.4% wage growth during the same period (see Table 5). Interestingly, Shenzhen presently appears to offer the highest minimum wage (after being adjusted with CPI) among the three cities, but it is still very low and far below a decent and reasonable living wage. In April 2010, Shanghai increased the minimum monthly wage to 1,120 yuan. For the first time Shanghai surpassed Shenzhen, with 1,100 yuan (current price), in the category of minimum wage.

The data show that migrant workers' real wage incomes in all three cities have improved in real terms over the last ten to eighteen years. Nevertheless, their wages have lagged behind those of workers with urban hukou with the result that wage inequalities in the cities on a

scale of more than 3:1 have increased or remained stable. These patterns of inequality are exacerbated when we factor in the differential benefit structure to the detriment of migrant workers.



Migrant construction Workers on the job

Paucity of Welfare Benefits as Underconsumption

Inequality of wages is merely an aspect of socioeconomic inequality in China. Due to the rural-urban divide, the hukou system, and its social and economic consequences, income inequality is exacerbated by an extreme disparity in citizen rights, or what we will call *differential citizenship* (*gongmin shenfen chaxu*).³³ The hukou system has in significant ways defined the social order throughout the two epochs covered by this research, even as its form has changed in recent decades to foster and direct large-scale migration where once it had prevented it. Unchanged is its function in shaping opportunity structures for various groups or classes of citizens to the detriment of the rural. In this section we examine inequality in the form of differential welfare benefits. In most prosperous large cities, notably the East Coast EOI cities, migrant workers and their families are treated as second-class citizens or non-citizens under the urban welfare regime. For simplicity, we focus on social insurance and education with

the understanding that this is part of a wider picture of bifurcated access to citizenship rights.



Plastic recycling, another migrant worker monopoly

Inequality in Social Insurance

Unlike urbanites, migrant laborers are virtually unprotected by the urban welfare regime. According to an official source, by the end of 2006 nationally there were 140 million employees in addition to 46 millions retirees, totaling 186 millions, enrolled in the state's old-age pension program, and 157 million (including 42 millions retirees) in the state's health care program.³⁴ About half of all employees with urban hukou are covered by a pension program.³⁵ This does not include millions of party and government officials or quasi-governmental employees, who are covered separately by superior programs, financed by their work units and the state. There are primarily two groups of people with urban hukou who are not covered by health care insurance – students under the age of 18 and the unemployed. Over the last few years, the central government has pushed for a new policy to cover both groups. Hence local governments have begun to launch insurance programs to cover urban youth; as yet the actual outcomes remain to be observed. In any case, the great majority of residents with an urban *hukou* are protected by the state's safety

net.

Social insurance coverage for migrants pales by comparison. The percentage of migrant workers covered by the four major types of insurance – pension, health care, unemployment, and injury – are 7.6%, 12.2%, 3.9%, and 21.8% respectively, according to a 2009 report by the National Bureau of Statistics, leaving 80% with no insurance of any kind.³⁶ The report reveals that migrant workers are everywhere at risk. Such figures may actually overestimate migrant workers access to benefits since enormous numbers of migrants are undocumented and not covered by such data. Moreover, even migrants with insurance usually have access only to inferior schemes especially designed for them.

Let us look more closely at social insurance as an instance of institutionalized discrimination, indeed, to the extent that urban administrations view *nongmingong*, including those who have lived and worked in the city for decades, as permanent outsiders, this may be categorized as a form of institutionalized racism. Shanghai's multilayered insurance program, which other cities have emulated, is typical. For analytical simplicity, Table 6 provides information about two major Shanghai programs. Each applies to a specific status group defined by *hukou*. The urban program applies to enterprise workers (*qiye zhigong*) from urban areas; the small-town program to residents of suburban townships and new transfers from rural to urban *hukou*; and the rural migrant worker program to villagers who lack a Shanghai *hukou*. *Hukou* status determines which program a worker is eligible for, with differential payments by the employer depending on the program. Several points should be noted. First, differences in employer contribution rates are substantial. The employer pays a combined total of 37-39.5% of each worker's basic wage for pension and insurance under the urban scheme, 24.5-27% under the small town scheme, and just 12.5%

under the rural migrant scheme. In short, the employer contribution for workers with urban *hukou* is three times greater than that for rural *hukou* workers, and worker benefits are similarly skewed by *hukou*. This is one important reason why employers prefer migrants. And one large reason why official calculations of income differential fail to capture important dimensions of the phenomenon.

Second, the "insured wage rate", the amount of wage taken as a basis for calculating the employer's and worker's contributions, also reflects differential treatment. The amount under the program for urban *hukou* workers is set between 60% and 300% of average monthly wages, while those of the small-town and migrant programs are fixed at 60% of average monthly wages.³⁷ Here again, the employer can save insurance costs by hiring suburban residents and migrants. A lower wage rate also, of course, means thinner benefits. Combining the contribution rates and the insured wage rates, the disparity between urban residents and rural migrants is huge. For example, in the case in which an employee with an urban *hukou* earns 1,500 yuan a month, the employer has to pay 592.5 yuan ($1,500 \times 39.5\%$) for the employee's social insurance every month. However, if the employee has a small-town residency *hukou*, the employer pays 362 yuan ($1,341 \times 27\%$); and if the employee is a migrant without local *hukou*, the employer only pays 167.6 yuan ($1,341 \times 12.5\%$). Besides having an inferior pension program, migrants are thinly covered by health insurance.³⁸

Third, at least until recently, migrant workers were unable to transfer their pensions in the event that they moved to other localities, or retired to their home villages. With 169 million Chinese reaching age 60 by 2009, the state mandated that pensions under social security were transferable. If effectively enforced, this will provide a significant benefit for migrant workers, particularly those who retire to the

countryside.³⁹ However, enforcement has always been a problem in protecting the rights of rural migrant workers.

Table 7: Differential Social Insurance Schemes and Contribution Rates in Shanghai, 2006

| | Urban Scheme | | Small-Town Scheme | | Migrant Scheme | |
|----------------------------|---|--------|---|------------------|---|----------------|
| | Employer | Worker | Employer | Worker | Employer | Worker |
| Pension Insurance | 22% | 8% | 17% | Non-Compulsory** | 7% | Non-compulsory |
| Health & Other Insurance* | 15-17.5% | 3% | 7.5-10% | | 5.5% | |
| Range of Insured wage rate | Fluctuating between 60%-300% of average monthly wage = 1,341 - 6,705 yuan | | Fixed at 60% of average monthly wage = 1,341 yuan | | Fixed at 60% of average monthly wage = 1,341 yuan | |

Sources: Adapted from various official documents and publications.

Inequality in Children's Education

Our research reveals that many migrants leave their children in their hometowns for schooling; others send their children back to the countryside after a brief period of education in the city, and in virtually all cases prior to high school. It is difficult for the children of migrants to enter local public schools in the city because of, among other things, the fact that city regulations bar entry of migrant children into city high schools, high tuition fees and extra charges, and discrimination by classmates and their parents. According to a 2006 National Bureau of Statistics investigation, just 5,065 of the 29,425 surveyed migrant families have their school-age children stay with them in the city. Of these children, 72% were enrolled in public schools, 22% in private schools, and 5% in poorly equipped migrant schools. The high enrollment in public schools may have reflected the central government's action in recent years.⁴⁰ In 2003, the State Council issued an "opinion" to local governments, requiring that host governments allocate funds for the compulsory education of migrants' children.⁴¹



Headline proclaims Chinese government intention to assure free public education for migrant worker children. Implementation has been slow at best.

However, as with so many programs emanating from Beijing and designed to improve the lot of migrants, no central government funds were allocated to pay for the program. Public schools now have an obligation to admit migrant children without discrimination – as long as they hold valid documents – and are no longer legally entitled to charge extra fees. Local government's rent-seeking behavior, however, persists in ingenious forms. In fact, nearly 50% of migrants still have to pay extra fees in order to enroll their children in public schools – the fees averaging 1,226 yuan a year per child, which amounts to half of the annual education expenses and 10% of total yearly expenses of the families surveyed.⁴² Moreover, it is difficult even for legally registered migrants to obtain all the required "valid documents" required to enroll their children, since they are not residing in their *hukou*-registered hometown. No wonder that, in response to a question about their grievances, the migrants replied that their children's education and *hukou* status are their top two concerns.⁴³



Migrant worker housing, Dongguan, Guangdong province

III. The Chinese State, Developmental Strategy, and Inequality in Urban-Rural Perspective

This paper has examined structures of inequality in China during the epochs of socialist and capitalist transitions with particular reference to the impact of state strategies of incomplete proletarianization, suppressed consumption, structured spatial differentiation (hukou) and citizenship rights (and their denial). We have highlighted important continuities in structuring inequality in the two eras even as fundamental pro-urban policies changed in the course of the double transitions, first to socialism and then to capitalism, in such realms as hukou and state welfare. In both instances, even as the forms changed, rural people experienced severe discrimination at the hands of both state and society. The paper documents and critiques the patterns of structural inequality ranging from income and welfare differentials to fundamental citizenship rights in the period of capitalist transition. It also suggests that development strategies predicated on low consumption and high inequality may be approaching their limits and that as China seeks to move up the value added chain, low domestic consumption and low industrial wages may turn from an asset to a liability. The future

of Chinese industry will surely rest more heavily with domestic markets.

The logic of original accumulation with its imposed austerity was to lay the foundations of accumulation to spur continued growth and industrialization. But no such case can be made for China in the year 2010, a nation with not only formidable and growing industrial prowess but the world's largest balance of payments and financial surplus. The targeting of China's 200-plus million rural migrants for super-exploitation and exclusion from fundamental rights of citizenship reflects the interests of urban power holders whose primary concerns are securing international and domestic capital investment and orders, not protecting the interests of workers, above all the nongmingong, China's rural migrant workers. As the once privileged core of the industrial working class confronts plant closures and layoffs, its interests may more closely align with those of its rural fellow workers. Or, as in the anti-migrant backlash in the post-2008 depression United States, will the division between urban and rural hukou people widen?

We have shown that the hukou system lies at the heart of China's incomplete proletarianization, if by this we mean the denial to nongmingong of the fundamental economic, welfare and citizenship rights won by the Chinese proletariat in the 1950s, and the underlying discriminatory premises of state policies toward rural workers over two epochs. In February 2010 a rare joint editorial by 13 Chinese newspapers led by *The Economic Observer* sharply criticized the hukou system for its discriminatory policies and its role in perpetuating social inequality. The papers called for its abolition.⁴⁴ If the statement is extraordinary in its boldness, there have been numerous criticisms of the hukou system and calls for reform have been advanced over the decades by rural migrants, officials at all levels, and public intellectuals.

For a variety of reasons, China's state leaders, who presided over the hukou strategy through both the socialist and capitalist epochs, in recent years have sought to modify it in the face of waves of worker protest: by raising minimum wages, by legislating expanded benefits for rural migrant workers and pressing local governments to provide unemployment, health care and pension benefits for them and education for their children. They have sought to modify, not eliminate the hukou system, which has proved to be highly effective as a bastion of state power. With the loss since the 1990s of state jobs by millions of urban workers long accustomed to lifetime employment and benefits, the ranks of the dispossessed have expanded and the differential between rural migrant workers and a substantial portion of the urban labor force has narrowed. Nevertheless, large gaps of consciousness and culture between migrant workers and laid off urban workers, including many rural migrants, remain.



Migrant workers on the move following 2008 layoffs

The logic of China's leaders is surely driven by more than concern about the well being of migrant workers, or possible unrest if their problems continue to fester. The world recession of 2008 also sent a strong message concerning excessive reliance on export

markets in general, and the US market in particular. Perhaps more important, the once seemingly "unlimited supplies of rural labor" have, in the new millennium, begun to dry up, both as a result of the large migration of recent decades and declining fertility, even as international investors move their factories from higher wage coastal areas to inland locations.⁴⁵ The future of China's development surely hinges on tapping the domestic market of 1.3 billion people, and the suppressed consumption of the countryside, including its highly productive and urban-oriented migrant workers, remains a major obstacle to prosperity as well as to equity. This, together with the ability to chart a course of environmentally sound development, is the central challenge facing the Chinese nation.

Can the strikes of 2010 at the Taiwan-owned Foxconn,⁴⁶ whose Shenzhen plants produce or assemble many of the electronic products that Apple, HP and Nokia distribute, and where more than a dozen migrant workers committed suicide, and at Honda, signal a moment when China's planners will be forced to go further in permitting rising labor incomes and benefits for rural migrant workers that reverse the stark inequality of power and rights between labor and capital, and between workers with urban and rural hukou?

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Notes

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² Robert Brenner, *The Boom and the Bubble: The US in the World Economy*, London: Verso, 2006; [R. Taggart Murphy](#), "In the Eye of the Storm: Updating the Economics of Global Turbulence, an Introduction to Robert Brenner's Update," *The Asia-Pacific Journal*; [Robert Brenner](#), "What is Good for Goldman Sachs is Good for America: The Origins of the Current Crisis."

³ *The Forbes 2010 China Rich List* notes that China added 49 new billionaires in 2010 for a total of 128: [link](#).

⁴ See the contributions in Martin King Whyte, ed., *One Country, Two Societies. Rural-Urban Inequality in Contemporary China*, Cambridge: Harvard University Press, 2010, particularly Wu Jieh-min, "Rural Migrant Workers and China's Differential Citizenship: A Comparative Institutional Analysis," pp. 55-84; Wang Feng, "Boundaries of Inequality: Perceptions of Distributive Justice among Urbanites, Migrants, and Peasant," pp. 219-40; and Fei-ling Wang, "Renovating the Great Floodgate: The Reform of China's Hukou System," pp. 335-64.

⁵ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Boston: Beacon Press, 1975, pp. 77-78; 86-88. See also Wu Jieh-min's "Rural Migrant Workers and China's Differential Citizenship: A Comparative Institutional Analysis."

⁶ See Dorothy Solinger, *Contesting Citizenship in Urban China: Peasant Migrants, the State, and the Logic of the Market*, Berkeley: University of California Press, 1999.

⁷ Mark Selden with Ka Chih-ming, "Original Accumulation, Equality and Late Industrialization: The Cases of Socialist China and Capitalist Taiwan," in Mark Selden, ed.,

The Political Economy of Chinese Development, Armonk, M.E. Sharpe, 1993, 109-36.

⁸ The economist Hama Noriko offers a critical perspective on this question in an interview. "China is said to be the world's factory, but it is not an accurate depiction of what is happening. Rather, the world is making China its factory. An overwhelming majority of factories in China are not Chinese; they are coming from all over the world. This is unprecedented. When Great Britain used to be called "the factory of the world," the factory had British technologies and they were capitalized by the British. In the postwar period, America was the world's factory, and Ford was the most symbolic company icon of American technology as the production-line manufacturing invented by Ford increased production volumes dramatically. Then Japan became the world's factory, with its major players being Toyota, Nissan, Honda, Sony and Panasonic — and they are all Japanese. But China today is different — because the manufacturers there are the likes of General Motors, Ford, Toyota and Volkswagen." Tomoko Otake, "Scholar Brings Economics to Life," *The Japan Times*, November 7, 2010. Hama makes an important distinction between China as workshop and the US and Japan as workshop in an earlier era. But she also misses important dimensions of the Chinese phenomenon. The overwhelming majority of factories in China, including many large and advanced factories, are of course Chinese owned and operated. Yet it is true that many cutting edge factories producing for export are foreign enterprises whose names read like a Who's Who of the world's advanced technology industries. And that it is the multinational enterprises that capture the lion's share of profits. Missing from discussion, however, is the recognition of the steady advance both of China's technological prowess and its own enterprises. China then both is, and shows every sign of becoming, the workshop of the world. For an interesting, if mistitled, take on contemporary underconsumption see

Nouriel Roubini, "The Confucian Consumer: Seven reasons why the Chinese save, when they really should be spending," *Newsweek* January 24, 2011, p. 31.

⁹ "Inequality and Its Enemies in Revolutionary and Reform China," Ching Kwan Lee and Mark Selden, *Economic and Political Weekly*, XLIII No 52, December 27, 2008. Reprinted in *China After 1978. Craters on the Moon*, Bombay: Orient Blackswan Books, 2010.

¹⁰ Wu Jieh-min, 1997, "Strange Bedfellows: Dynamics of Government-Business Relations between Chinese Local Authorities and Taiwanese Investors," *Journal of Contemporary China* 6 (15): 319-346.

¹¹ Wu Jieh-min, 2010, "Three Worlds of Migrant Workers: Comparing Local Citizenship Regimes in Globalized China," unpublished paper presented on the international conference "Breaking Down Chinese Walls: The Changing Faces of Labor and Employment in China," Cornell University, Ithaca, New York, September 26-28, 2008.

¹² For Marx, Bukharin, Preobrazhensky and Gerschenkron's approaches to original accumulation see Selden with Ka, "Original Accumulation, Equality, and Late Industrialization: The Cases of Socialist China and Capitalist Taiwan," pp. 109-14.

¹³ Pun Ngai, Chris King Chi Chan and Jenny Chan, "The Role of the State, Labour Policy and Migrant Workers' Struggles in Globalized China," *The Global Labour Journal*, I, 1, January, 2010, pp. 132-51. The authors explore what they describe as the "unfinished proletarianization" of migrant workers, "turning rural bodies into industrial waged labour," p. 136 ff. The *Global Labour Journal* is accessible [online](#). See also Tiejun Cheng and Mark Selden The origin and social consequences of China's *hukou* system. *The China Quarterly* (1994) 139, pp.644-68. Kam Wing-chan, "The Global Financial Crisis and

Migrant Workers in China: 'There is No Future as a Labourer; Returning to the Village has No Meaning,'" *International Journal of Urban and Regional Research* (2010), pp. 1-23.

¹⁴ Pun Ngai and Lu Huilin, "Unfinished Proletarianization: Self, Anger, and Class Action among the Second Generation of Peasant-Workers in Present-Day China," *Modern China* 36(5), 2010, pp. 493-519. The authors see the second generation as far more prone to collective action than their predecessors.

¹⁵ Victor Lippit, *Land Reform and Economic Development in China*, White Plains: International Arts and Sciences Press, 1974), p. 123.

¹⁶ Zhonghua renmin gongheguo fagui huibian (Collection of Laws of the People's Republic of China) 12 Vols., Beijing: Guowuyuan, 1955. I, 579; Vivienne Shue, *Peasant China in Transition. The Dynamics of Development Toward Socialism, 1949-1956*, Berkeley: University of California Press, 1980, pp. 235-45; Jean Oi, *State and Peasant in Contemporary China: The Political Economy of Village Government*, Berkeley: University of California Press, 1989, pp. 13-65. Oi provides detailed data on rural grain procurement from 1952-86 in relationship to the total harvest and subsistence consumption, espec. Tables 6, 11 and 18.

¹⁷ Peter Schran, *The Development of Chinese Agriculture, 1950-1959*, Urbana: University of Illinois Press, 1969, pp. 142-45; John Wong, *Land Reform in the People's Republic of China*, New York: Praeger, 1973, p. 246

¹⁸ Yang Jianbai and Li Xuezheng, "China's Historical Experience in Handling the Relations Between Agriculture, Light Industry and Heavy Industry," *Social Sciences in China* 1, 3, pp. 31-62; Nicholas Lardy, "Regional Growth and Income Distribution in China," in Robert Dernberger, ed., *China's Developmental*

Experience in Historical Perspective, Cambridge: Harvard University Press, 1980, p. 130. Carl Riskin, *China's Political Economy. The Quest for Development Since 1949*, Oxford: Oxford University Press, 1987, pp. 55-60.

¹⁹ Pun, Chan and Chan, "The Role of the State, Labour Policy and Migrant Workers' Struggles in Globalized China," pp. 137, 143-44. Presumably the State Council's survey did not include the tens of millions of unregistered migrant workers, so that the actual percentage of workers working without a legal contract is much higher. The Labour Contract Law of 2008 stipulated mandatory labor contracts for all new employees. It remains to be seen whether the law is being widely implemented and with what consequences.

²⁰ Add World Bank source.

²¹ [Link](#).

²² Robert Frank, "Income Inequality. Too Big to Ignore," *The New York Times*, October 16, 2010. The direction of change has, if anything, accelerated since 2007.

²³ T. Sicular, Ximing Yue, Björn Gustafson and Li Shi, "The Urban-Rural Gap and Income Inequality," in Guanghua Wan, ed., *Understanding Inequality and Poverty in China: Methods and Applications*, Basingstoke: Palgrave Macmillan, 2008; Carl Riskin, "Inequality: Overcoming the Great Divide," in Joseph Fewsmith, ed., *China Today, China Tomorrow. Domestic Politics, Economy and Society*, Lanham: Rowman and Littlefield, 2010, pp. 93-97. See also [Jenny Chan and Ngai Pun](#), "Suicide as Protest for the New Generation of Chinese Migrant Workers: Foxconn, Global Capital and the State," *Asia-Pacific Journal* 37-2-10, September 13, 2010.

²⁴ Ho-fung Hong, "Rise of China and the global overaccumulation crisis," *Review of International Political Economy* 15:2, May 2008, 149-79, especially pp. 162-63.

- ²⁵ The above country figures were taken from a Goldman Sachs Report, except those of China. "The Saving Rates in China and Its Long-term Trends," (Chinese) *Quanqiu Jingji Yanjiu Baogao* (Global Economic Research Report), No. 191, 2009.
- ²⁶ Global Wage Report 2008/09: Minimum wages and collective bargaining: Towards policy coherence, Statistical appendix Table A1, p. 80, ILO.
- ²⁷ Wang Canli, "Dissecting the 'Ratio of Labor Remuneration to GDP' Interpreted by the Ministry of Finance," *Fenghuang Wang* (Phoenix Net), May 21, 2010.
- ²⁸ "Numbers show that the ratio of labor remuneration to GDP had dropped for consecutive 22 years (1983-2005)," *Zhongguo Jingji Wang* (Chinese Economic Net), May 12, 2010, [link](#).
- ²⁹ "Ministry of Finance Official Says the Ratio of Labor Remuneration to GDP Is Underestimated," *Zhongguo Pinglun Xinwenwang* (China Review News), May 18, 2010, [link](#).
- ³⁰ The bottom seems to have fallen out after 2003. Further investigation is required to determine why.
- ³¹ Liu Zhirong, "Is the Chinese Labor Remuneration Underestimated?" *Da Jiang Wang* (Big River Net), May 19, 2010; cf. Liu Zhirong "Statistics in Wages Should not Dispose of the 85%," *Zhongguo Gaige Bao* (China Reform News), Jan. 07, 2010.
- ³² *Global Wage Report Update 2009*, ILO, Geneva. p.10.
- ³³ Wu Jieh-min, "Rural Migrant Workers and China's Differential Citizenship: A Comparative Institutional Analysis."
- ³⁴ "PRC Statistical Bulletin on National Economic and Social Development, 2006" (*Zhonghua Renmin Gongheguo 2006 Nian Guomin Jingji he Shehui Fazhan Tongji Gongbao*), released by the National Bureau of Statistics, Feb. 28, 2007.
- ³⁵ Wang Dewen, director of Research Center for Social Security, Chinese Academy of Social Sciences. Quoted in a report by First Financial Daily (*Diyi Caijing Ribao*), August 22, 2007.
- ³⁶ Rural Division, National Bureau of Statistics, Monitoring and Investigation Report on the Migrant Workers, (2009 Nongmingong diancha jiance baogao) March 19, 2009, [link](#).
- ³⁷ "Average monthly wage" is calculated and published by the local government according to an officially-announced formula. To put it simple, it is the number of the aggregate urban wages over the total urban employees.
- ³⁸ Of course, from another angle, this means that workers with urban hukou who have been laid off or are seeking jobs for the first time face difficulties due to the fact that employers will be required to pay higher wages and to provide more costly benefits when hiring them. An important future research theme is the competition for jobs between laid-off workers with urban hukou and nongmingong.
- ³⁹ "The Provision for the Transfer and Continuation of Old-Age Pension for City and Township Enterprise Employees," [link](#), [China Labor News Translation](#), 24 March 2010. We thank Jenny Chan for drawing this to our attention.
- ⁴⁰ Service Sector Investigation Center of the National Bureau of Statistics (hereafter, SSIC), "Survey on migrant workers' quality of life," 2006, [link](#).
- ⁴¹ "Opinion regarding further improvement of peasant workers' children compulsory education," State Council, October 1, 2003.

⁴² SSIC, "Survey on migrant workers' quality of life."

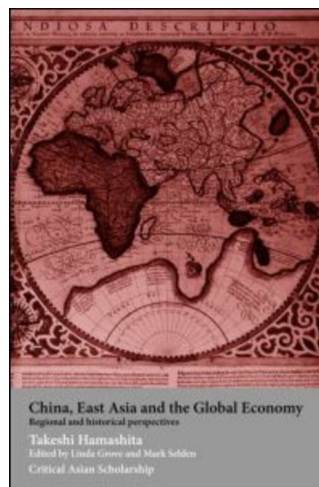
⁴³ SSIC, "Survey on migrant workers' quality of life."

⁴⁴ Jamil Anderlini, "Call to end China citizen registration system," *The Financial Times*, March 1, 2010.

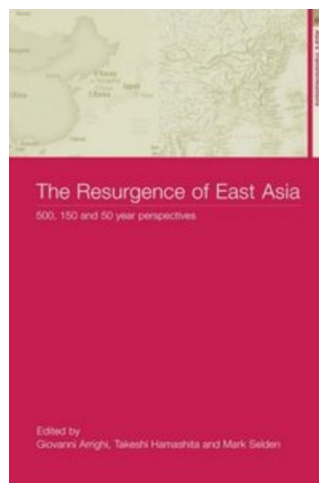
⁴⁵ John Knight, Deng Quheng and Li Shi, "The Puzzle of Migrant Labour Shortage and rural Labour Surplus in China," Department of Economics Discussion Paper Series, University

of Oxford Number 494, July 2010, esp. pp. 5-6, 23-27. The authors draw on National Bureau of Statistics household surveys for 2002 and 2007 supplemented with later surveys to 2010. They project 292 million migrant workers in cities by 2020, comprising 60 percent of the urban labor force in that year, together with a continued fall in rural employment by 2.5 percent a year.

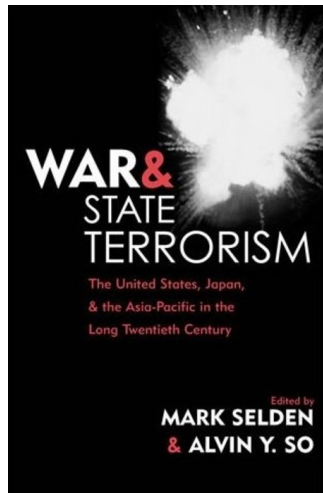
⁴⁶ [Jenny Chan and Ngai Pun](#), "Suicide as Protest for the New Generation of Chinese Migrant Workers: Foxconn, Global Capital, and the State," *The Asia-Pacific Journal*, Vol 8 Issue 37 No. 2, September 13, 2010.



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