

CHINA'S CHANGING CLASS STRUCTURE AND NATIONAL INCOME DISTRIBUTION, 1952–2015

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This article evaluates the evolution of China's class structure and the distribution of China's national income between different social classes from 1952 to 2015. As China becomes the world's leading industrial producer, China's social structure has been fundamentally transformed. China's existing social system struggles to reconcile the economic and social demands from the urban proletariat and other laboring classes (such as the rural semi-proletariat and the urban middle class) and the capitalist imperative to accumulate capital on increasingly large scales. To the extent that the development of capitalism continues to produce an increasingly larger and more powerful working class but fails to meet its economic and political demands, China is being placed on an inevitable collision course.

In *The Communist Manifesto*, Marx made the famous proposition that capitalist development was going to create a new social class—the proletariat—that eventually would become the “grave-diggers” of capitalism (Marx and Engels 1978[1848], 469–500). By the early twentieth century, the “proletariat” did emerge as a powerful social and political force that challenged the western capitalist system.¹ However, by the mid-twentieth century, in all advanced capitalist countries, the working classes were effectively accommodated through institutions of liberal democracy and welfare state. Social reformism dominated the labor movement in the core of the capitalist world system.

It did not take long before the “social democratic” capitalism created its own contradictions. Rising working class power led to falling profit rate that undermined capitalist accumulation (Armstrong, Glyn, and Harrison 1991; Gordon, Weisskopf, and Bowles 1987). The capitalist classes responded to the crisis of the 1970s and 1980s with the neoliberal counter-revolution. Attacks on labor unions, privatization, financial liberalization, and monetarist macroeconomic policy led to redistribution of national income from labor to capital (Kotz 2015, 14–26). In the early twenty-first century, sectors of the western working classes experienced “absolute immiseration” (decline of material living standards) that was analyzed by Marx in the nineteenth century.²

A large proportion of the world industrial production has been relocated to Asia (especially China) in search for new supply of cheap labor force. As China becomes the world's leading industrial producer, China's social structure has been

fundamentally transformed. The formation of the world's largest industrial working class has taken place as hundreds of millions suffer from super exploitation in industrial sweatshops. Although real wage has grown rapidly in recent years, it fails to meet the rising working class demand for decent living standards and a package of legitimate social rights. China's existing social system struggles to reconcile the economic and social demands from the urban proletariat and other laboring classes (such as the rural semi-proletariat and the urban middle class) and the capitalist imperative to accumulate capital on increasingly larger scales.

One of the most important questions for the global class struggle today has to do with whether China will emerge as the center of the global working class movement. Perhaps, Marx's thesis on the working class being the "grave-diggers" of capitalism will be tested and proved by the Chinese working class in the twenty-first century.

In this context, it will be of great interest to study the evolution of class structure in modern China and how the evolution has been reflected by the changing pattern of national income distribution (distribution of national income between different social classes). By "modern China," it refers to China since the establishment of the People's Republic in 1949. For statistical purpose, the current study covers the period from 1952 to 2015 (1952 was the year when most of China's economic indicators reached or exceeded prewar peak levels; most national economic statistics begin with 1952).

The next section discusses the concept of "class" and alternative methods of class analysis in the Marxist and the world system literature. Section "China and the Capitalist World System" reviews the interactions between China and the capitalist world system from the nineteenth century to the twenty-first century and discusses successive phases of social development in modern China. Section "China's Changing Class Structure, 1952–2014" measures and discusses China's changing class structure from 1952 to 2014 using official statistics on employment categories. Section "China's National Income Distribution, 1952–2015" measures and discusses the changing pattern of China's national income distribution from 1952 to 2015. The last section concludes the article.

Class Analysis: Marxist and World System Theory Concepts

The classical Marxist definition of "class" was given by Lenin. Celebrating the workers' "Communist *Subbotniks*" as the first step toward the eventual abolition of classes, Lenin gave the following definition of class that was often quoted by Marxists later: "Classes are large groups of people differing from each other by the place they occupy in a historically determined system of social production, by their relation (in most cases fixed and formulated in law) to the means of production, by their role in the social organization of labor, and, consequently, by the dimensions of the share of social wealth of which they dispose and the mode of acquiring it. Classes are groups of people one of which can appropriate the labor of another owing to the different places they occupy in a definite system of social economy." (Lenin 1972[1919])

Thus, Lenin defined a “class” as a social group that enters into certain relationship (relations of production) with other social groups depending on whether it owns the means of production, controls the organization of labor, or appropriates a society’s surplus product (appropriates the other people’s labor).

Modern Marxist class analysis emphasizes both the ownership of the means of production and control of labor processes as two different dimensions in determining a society’s class structure. According to Wright (1997, 1–34), in addition to the capitalist class (capitalist employers who own the means of production and exploit the workers by appropriating the surplus value produced by the latter), the working class (or the “proletariat,” the workers who typically do not own the means of production and have to sell their labor power to make a living), and the “petty bourgeoisie” (or the “self-employed,” producers who work with their own means of production and generally do not exploit others), there is the modern wage-earning “middle class” (such as professionals, technicians, and managers) that plays a special role in the modern capitalist society.

Professionals, technicians, and managers are highly skilled workers who perform important economic and social functions for the capitalist system and have a greater control over their own labor processes. To ensure their loyalty, the capitalists often pay them a “loyalty rent,” keeping their incomes substantially above the incomes of other workers. The “loyalty rent” makes the “new middle class” one of the relatively privileged classes in the society (Wright 1997, 21).

As China underwent radical social changes in the late twentieth century, there was strong interest in understanding China’s changing social structure for both political and academic reasons. In 2002, the Chinese Academy of Social Sciences (CASS) published a report on “the Current Structure of Social Strata in China.” The report was conducted by a special research group set up at the instruction of the Communist Party leadership.

The CASS report attempted to reconcile Marxist class analysis with mainstream sociological concepts and divided the Chinese society into ten social strata based on their different access to “organizational, economic, and cultural resources.” The ten social strata were: state and social managers (government and Communist Party officials), business managers, private entrepreneurs, professional and technical workers, clerical workers, self-employed, services sector workers, industrial workers, agricultural laborers, and the unemployed (CASS 2002).

According to the world system theory, the capitalist world system consists of nation-states located in three different structural positions: the core, the semi-periphery, and the periphery. The core countries specialize in monopolistic, high value-added economic activities; the peripheral countries specialize in highly competitive, low value-added economic activities. Surplus value is transferred from the periphery to the core through unequal exchange. The semi-peripheral countries have a mixture of core-like activities and periphery-like activities (Wallerstein 2007, 28–9).

From the world system perspective, a social group’s condition depends not only on its relative position within the social structure of a nation-state but also on its position vis-à-vis similar groups in other parts of the capitalist world

system. A peripheral country often has a large social group known as “peasants” that account for the great majority of the population. “Peasants” in a peripheral country are agricultural petty commodity producers who may or may not own the means of production (especially land) with which they work. Although “peasants” may own some means of production and seem to meet the technical definition of “petty bourgeoisie,” their real incomes often fall substantially below what is necessary to sustain a normal life even by the standard of a peripheral country’s rural areas. As a result, some members of the peasant household usually have to work as wage workers in the capitalist sector to provide the indispensable supplemental income. Thus, in a peripheral country, the social group of “peasants” may be better defined as the rural semi-proletariat (Wallerstein 1979, 102–7).

In the core countries, the wage-earning workers (including both the proletarianized working class and the modern middle class) often account for the great majority of the labor force. Compared to the rural semi-proletarian workers, both the proletarianized working class and the modern middle class have much stronger organizational capacity and bargaining power. Historically, a prolonged period of economic expansion (sometimes known as the “A-phase” of a long wave) tended to drive up labor costs in the core countries, depressing capitalist profitability. To restore profitability and overcome the structural crisis (also known as the “B-phase” of a long wave), capitalists in the core countries often responded by relocating production to new geographic areas with comparatively cheap labor force (Wallerstein 2007, 30–2).

The semi-peripheral countries tended to be the main recipients of industrial production relocated from the core. In the short run, this could lead to a sudden acceleration of economic growth in the semi-peripheral countries where production was relocated (sometimes known as “economic miracles”). However, in the long run, expansion of industrial production had inevitably led to the formation of a large industrial working class that demanded higher wages and a broad package of social rights. Squeezed between rising working class demands and their inability to compete with the core countries on the technology frontier, many semi-peripheral countries became vulnerable to economic and political instabilities after several decades of seemingly decent economic growth. In the mainstream development literature, this has become known as the “middle-income trap” (World Bank 2013, 12).

China and the Capitalist World System

According to the historical statistics compiled by Angus Maddison (2010), in 1820, China was still the world’s largest economy, accounting for 33 percent of the gross world product (the world economic output). By 1950, China’s share of global economic output was reduced to less than 5 percent. In 1820, China’s per capita gross domestic product (per capita GDP) was 90 percent of the world average, 48 percent of the U.S. per capita GDP, and 35 percent of the United Kingdom (UK) per capita GDP. By 1950, China was reduced to one of the

poorest countries in the world. China's per capita GDP in 1950 was 21 percent of the world average, 5 percent of the U.S. per capita GDP, and 6 percent of the UK per capita GDP. In term of absolute levels, China's per capita GDP (measured in constant 1990 international dollars) declined from \$600 in 1820 to \$448 in 1950.

From the mid-nineteenth century to the mid-twentieth century, successive ruling regimes (from the Manchurian Qing dynasty, early Republican warlords, to *Guomindang* or the Nationalist government) failed to respond effectively to the challenge imposed by the global expansion of the capitalist world system. By the early twentieth century, China was reduced to a peripheral member of the system with weak state structure and incomplete national sovereignty.

According to Carl Riskin's classical study of China's national income distribution in the 1930s, despite low levels of per capita income, China's economic surplus (the part of national income that was over and above the population's subsistence) was 27 percent of the national income. However, about two-thirds of the total economic surplus (19 percent of the national income) was agricultural surplus that was mostly used by landlords for land purchase, luxury consumption, or various traditional social rituals (such as worship of ancestors). The urban economic surplus was mostly used for the elites' consumption. Overall, personal consumption accounted for 94 percent of the national expenditures, leaving only 6 percent of national income for everything from military expenditures, education, public health, to productive investment (Riskin 1975).

Riskin's study demonstrated that without a fundamental transformation of the social structure, it was not possible for China to mobilize economic surplus to accumulate productive capital and build a viable nation-state. The Chinese Revolution (led by the Chinese Communist Party) accomplished this historical task by mobilizing the lowest social classes (especially the peasants) and rebuilding the entire state structure.

The post-revolutionary Chinese state mobilized economic surplus to pursue capital accumulation and industrialization. Urban workers and peasants were expected to contribute their labor to "socialist construction" while accepting low levels of material consumption. In return, the state and the collectives (such as the "people's communes") would provide a minimum but comprehensive social safety net (known as the "iron rice bowl" to the urban working class). In addition, the Communist Party and government officials (the "cadres") were supposed to share the material sacrifices with the "masses" rather than taking advantage of their "leading" positions to enjoy material privileges. In the long run, it was promised that the short-term material hardship would eventually pay off by transforming China into a highly egalitarian and materially prosperous communist society. These post-revolutionary arrangements in effect constituted a "socialist social contract" (Li 2015, 17–8).

However, even in the 1950s, significant inequalities already emerged. Rather than sharing material sacrifices with the masses, many Party and state officials demanded a widening range of privileges to distinguish themselves from the

masses. In 1955, a new wage and salary system was implemented that divided the urban workers and cadres into 26 ranks with monthly wage ranging from 30 to 560 Yuan (Meisner 1999, 119).

By the early 1960s, serious conflicts emerged between Mao Zedong on the one hand, and Liu Shaoqi and Deng Xiaoping on the other. While Mao argued for “continuing revolution under the dictatorship of the proletariat,” Liu and Deng talked about “developing the material productive forces” as the Party’s top priority. The real question was about whether the Communist Party should honor the “socialist social contract” and continue to work toward a more egalitarian society, or accept a greater degree of inequality in the name of prioritizing economic growth.

The fundamental historical fact was that China remained a part of the capitalist world system. For both economic and geopolitical reasons, China was compelled to play the game of economic growth. The goal was to “catch up with the West.” Since the mid-nineteenth century, it had become an overwhelming national objective for successive generations of politically conscious Chinese.

In the 1970s, it became clear that despite two decades of national effort in basic industrialization, China was still in desperate need for western technology if China wanted to match the economic growth miracles of its East Asian neighbors. But to import western capital and consumer goods, China had to find ways to capture a bigger share of the global capitalist market.

By the early 1980s, the Party and state elites were increasingly convinced that the “socialist social contract” established in the 1950s was incompatible with the new economic reality that required globally competitive export-oriented industries. China was obviously unable to compete with the western capitalist economies in core-like economic activities. Moreover, with the exception of a small revenue from oil exports (which disappeared completely by the early 1990s when China turned into a net oil importer), China could not count on an export rent generated from high-value commodities. A cheap labor force was basically China’s only “comparative advantage” in the global capitalist market.

In the 1990s, most state owned enterprises were privatized and tens of millions of state workers were laid off. They were replaced by more than a hundred million migrant workers employed in capitalist sweatshops. By the beginning of this century, China had become the world’s leading platform of manufacturing exports.

China’s transition to capitalism took place at a crucial world historical conjuncture.³ In response to the structural crisis of the 1970s and 1980s, the world’s leading transnational corporations were searching for new production sites that could be integrated into the global division of labor with a fraction of the labor and regulation costs that prevailed in the core countries. The massive supply of cheap labor force from China created the opportunities of “global labor arbitrage” (in the words of Stephen Roach, former Morgan Stanley chief economist) that possibly played a decisive role in the global profit rate recovery in the 1990s (Roach 2004).

China's Changing Class Structure, 1952–2014

As China's economic and social conditions evolve, China's social structure has been transformed.

Table 1 shows the evolution of China's labor force by employment categories from 1952 to 1978.

From 1952 to 1978, China's employment structure had certain features that were typical for a peripheral country in the capitalist world system. Agricultural laborers accounted for the great majority of the employment. In 1952, 84 percent of the Chinese labor force was in the agricultural sector. In 1978, agricultural employment still accounted for 71 percent of China's total employment.

From 1949 to 1952, land reform was implemented. Rural land owned by the landlord class was confiscated and redistributed to the poor peasants. For a few years, the Chinese rural economy was dominated by agricultural petty commodity producers who owned small pieces of land and other means of production (such as cattle and tools). From 1956 to 1958, the Chinese peasants joined village-size agricultural cooperatives that were to merge into township-size people's communes (Meisner 1999, 90–102, 129–54).

After the major disasters in the early 1960s, the people's communes stabilized. Land and other means of production were owned collectively by the communes and the production teams. Communes and production teams sold the agricultural "surplus" to the state according to state quota and distributed the incomes among the "commune members" in accordance with their labor contribution. The system was particularly effective in mobilizing labor force for large public projects (such as irrigation works) and delivered basic public services in health care and education. By the 1970s, many small industrial enterprises were created by the communes and the production teams that became the famous "township and village enterprises" by the 1980s (Meisner 1999, 355–63).

Table 1. China's Employment Structure, 1952–1978 (Million Workers)

	1952	1957	1965	1978
Agricultural Laborers	173	193	234	283
Rural Wage Workers	9	13	1	23
Urban Staff and Workers ^a	13	27	45	86
Professional and Technical Workers	0.4	1	2	5
State, Political Parties and Social Groups	3	3	3	4
Self-Employed	9	1	2	0.2
Total Employment	207	238	287	402

Sources: Total employment, urban employment, rural employment, agricultural laborers (employment in primary industry) and total urban "staff and workers" from 1952 to 1978 are from China Data Center (2016a). Number of rural wage workers is the difference between rural employment and the number of agricultural laborers. Professional and technical workers in 1952 and 1978 are from National Science and Technology Committee (1992, Table 1–16 and Table 1–18). Staff and workers in state institutions, political parties and social groups in 1952, 1957, 1965, and 1978 are from National Bureau of Statistics (1985, 218). Self-employed persons from 1952 to 1978 are from National Bureau of Statistics (2016a); ^aExcluding professional and technical workers and staff and workers in state institutions, political parties and social groups.

Table 2. China's Employment Structure, 1990–2014 (Million Workers)

	1990	2000	2010	2014
Agricultural Laborers	389	360	279	219
Rural Wage Workers	73	98	104	108
Urban Informal Sector Workers	23	81	111	42
Urban Private Units Workers	0.6	10	48	76
Urban Units Workers ^a	118	76	88	136
Professional and Technical Workers	11	29	28	31
Public Administration and Social Organization	11	11	14	16
Self-Employed	21	51	70	106
Private Investors	n.a.	4	18	30
Total Employment	647	721	761	775

Sources: Total employment, urban employment, rural employment, agricultural laborers (employment in primary industry) from 1990 to 2014 and urban “staff and workers” in 1990 are from China Data Center (2016a). Number of rural wage workers is calculated as rural employment less agricultural laborers, rural self-employed, and rural private investors. Number of urban units workers is calculated as urban units employment less professional and technical workers and employed persons in public administration and social organizations. Urban units employment from 2000 to 2014 is from National Bureau of Statistics (2016a). For 1990, number of urban “staff and workers” is used as proxy for the urban units employment. Number of urban private units workers is calculated as urban private units employment less urban private investors (National Bureau of Statistics 2016a). Number of urban informal sector workers is calculated as urban employment less urban units employment, urban private units employment, and urban self-employed. Number of professional and technical workers in 1990 is from National Science and Technology Committee (1992, Tables 1–16, 1–18). Professional and technical workers from 1995 to 2013 are from National Bureau of Statistics (2016a). Number of professional and technical workers in 2014 is estimated to be 16.7 percent of the urban units employment (the same percentage as in 2013). Employed persons in public administration and social organization from 2003 to 2014 are from National Bureau of Statistics (2016a). For 1990 and 2000, number of staff and workers in state institutions, political parties and social groups is used as proxy for employed persons in public administration and social organization (National Bureau of Statistics 2005, Table 5–7). Urban and rural self-employed and urban and rural private investors from 1990 to 2014 are from National Bureau of Statistics (2016a); ^aExcluding professional and technical workers and employed persons in public administration and social organizations.

China's urban employment from 1952 to 1978 demonstrated certain features that were characteristic of a socialist economy. With the exception of a small self-employed sector, almost the entire urban labor force worked in the formal sector known as the “staff and workers.” The staff and workers in the state sector (including both the public sector and the state owned enterprises) enjoyed job security and a comprehensive package of welfare covering housing, health care, and pensions. In addition, there were “collective owned enterprises” which were small industrial and services cooperatives owned by local communities. The staff and workers in the “collective owned enterprises” accounted for about one-fifth of the urban labor force.

Table 2 shows the evolution of China's labor force by employment categories from 1990 to 2014.

By the early twenty-first century, China became the center of world industrial production and China's employment structure demonstrated characteristics that were typically found in a semi-peripheral country. Share of agricultural laborers in the total employment declined from 60 percent in 1990 to 30 percent in 2014.

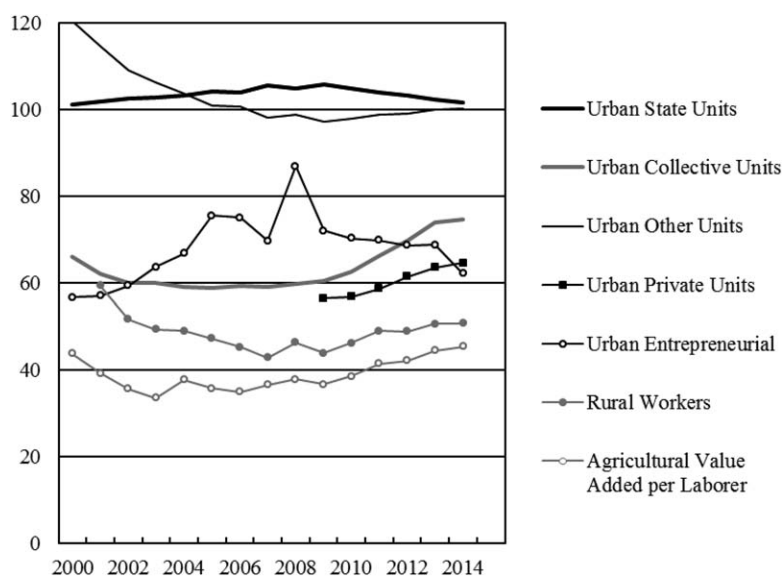


Figure 1. China's Wage Indexes, 2000–2014 (Urban Units Average Wage = 100).

Sources: Average wages of urban units, urban state units, and urban other units from 2000 to 2014 and average wages of urban private units from 2009 to 2014 are from National Bureau of Statistics (2016a). “Urban Entrepreneurial” refers to urban entrepreneurial income per self-employed person. Urban entrepreneurial income is calculated using urban households’ per capita net entrepreneurial income multiplied by urban population (China Data Center 2016a). Urban per capita net entrepreneurial income from 2000 to 2012 is from National Bureau of Statistics (2016a). Urban per capita net entrepreneurial income in 2013 and 2014 is from National Bureau of Statistics (2015a, Table 6–7). Number of urban self-employed persons is from National Bureau of Statistics (2016a). Rural workers’ annual income is assumed to be ten times monthly income. Rural workers’ monthly income from 2001 to 2007 is from Lu (2011, Appendix, Table 1). Rural workers’ monthly income from 2008 to 2014 is from National Bureau of Statistics (2010, 2012, 2013, 2014, 2015b). Agricultural value added per laborer is calculated as the primary industry’s gross domestic product divided by the primary industry’s employment. The primary industry’s employment and GDP are from China Data Center (2016a,b).

After the dismantling of the people’s communes, a growing proportion of the rural labor force worked in industry and services. In the 1980s, most of the rural non-agricultural workers were employed by the township and village enterprises. In the 1990s, most township and village enterprises were privatized. Many rural workers became “migrant workers” employed by urban capitalist enterprises.

Figure 1 compares wage rates for workers in different sectors of the Chinese economy from 2000 to 2014. All wage rates (or incomes per worker) are shown in indexes with the “urban units” average wage being 100 (the “urban units” is a Chinese official statistical concept, to be explained below).

Using the agricultural sector labor productivity as a proxy for the labor income per agricultural laborer, an agricultural laborer’s income has been around 40 percent of the “urban units” average wage. In recent years, rural workers’ average wage has been about 50 percent of the “urban units” average wage. According to *China Statistical Yearbook 2015*, in 2014, wage income and net entrepreneurial income (primarily from farming) each accounted for about

40 percent of the rural residents' disposable income (the rest came from property income and transfer income) (National Bureau of Statistics 2015a, Table 6–12). Most rural households depend both on wage income and farming income from their private plots to meet their basic needs (under the “household responsibility system” implemented after the dismantling of the people's communes, rural land is technically owned by village collectives but is distributed to households who have the “right to use” and make independent operating decisions). Thus, both the agricultural laborers and the rural wage workers constitute a part of the rural semi-proletariat.

The “urban units” (*chengzhen danwei*) is a Chinese official statistical concept. The “urban units” include state owned units, collective owned units, and “other units.” Collective owned units are technically owned by urban local communities, although some of them are in fact disguised private enterprises. “Other units” include mixed-ownership corporations (including state-controlled corporations, defined as corporations in which one or more state owned units keep a controlling stake, and non-state-controlled corporations), enterprises with investments from Hong Kong, Macau, and Taiwan, and enterprises with foreign investment.

The “urban units” constitute China's formal economic sector. The “urban units” workers (used to be called “staff and workers”) have relatively high wages and better benefits. They are usually covered by social insurance schemes and regulated by labor laws. Excluding the employees in public administration and professional and technical workers, the rest of the “urban units” employment constitutes the upper echelons of the urban proletariat.

The “urban private units” (*chengzhen siying danwei*) is another Chinese official statistical concept. “Urban private units” are not a part of the “urban units.” They are defined as profit-making, labor-hiring enterprises set up by “natural persons” or incorporated enterprises in which a “natural person” has a controlling stake (National Bureau of Statistics 2006). In recent years, workers in the “urban private units” have received wages about 60 percent of the “urban units” average wage. In addition to workers in the officially recognized urban private enterprises, there are workers employed in the urban informal sector (the part of the urban economy i.e., classified as neither “urban units,” nor “urban private units,” nor self-employed in the official statistics). By 2010, the urban informal sector employment expanded to 111 million. However, in 2013, there was a change in statistical coverage and some township enterprises were re-classified as “urban units” or “urban private units” (National Bureau of Statistics 2015b, Table 4-1, footnote 2). By 2014, the urban informal sector employment fell to 42 million.

Workers employed in the “urban private units” and the urban informal sector constitute the lower layers of the urban proletariat.

Following Wright and Wallerstein, the urban middle class is defined in its modern sense as the social class consisting of highly skilled professional and technical workers (such as engineers, technicians, scientific researchers, doctors, and professors) (see section “Class Analysis: Marxist and World System Theory

Concepts”). Petty bourgeoisie is defined in its classical sense to mean producers who work with their own means of production and do not exploit others. It includes the urban and rural self-employed.

In the early years of the People’s Republic, there was an officially recognized “national bourgeoisie.” In 1953, about two million workers worked in private industrial enterprises that accounted for 37 percent of China’s industrial output value. By 1956, all private enterprises were nationalized with compensation. The national bourgeoisie officially ceased to exist (Meisner 1999, 83–87).

In the 1980s, private capitalism re-emerged and grew rapidly. But it was not recognized by official statistics until the 1990s. The officially recognized private investors grew from 300,000 in 1992, 3.95 million in 2000, 17.9 million in 2010, to 29.6 million in 2014 (see Table 2). This is the capitalist class currently recognized by China’s official statistics.

In 2014, there were 16 million employed persons in the sector of public administration and social organization, accounting for 2.1 percent of China’s labor force. Back to the 1950s, the state and the Communist Party officials already emerged as a privileged social class. In the years of capitalist transition, many of them have accumulated enormous amount of personal wealth and become members of capitalist elites.

According to one estimate, during the process of privatization and market liberalization, about 30 trillion Yuan (5 trillion U.S. dollars) of state and collective assets were transferred to individuals with strong government connections (Qi 2006). In 2006, China had about 3,200 people with personal property worth greater than 100 million Yuan (about 15 million U.S. dollars). Of the 3,200 people, about 2,900 or 90 percent were family members of senior Party and state officials. Their combined assets were estimated to be 20 trillion Yuan (about 3 trillion U.S. dollars), about the same size of China’s GDP in 2006 (Zhang and Jiang 2010).

I use the employment in the sector of public administration and social organization as a rough estimate of the size of Party and state elites. This sector includes not only Party and state officials but also low-rank public sector employees. Thus, it overstates the true size of the elites. Conversely, the low-rank public sector employees represent the part of the urban middle class that directly serve the Party and state elites and therefore have stronger connections with the elites (including greater opportunities to be selected into the elites).

Figure 2 shows China’s changing class structure from 1952 to 2014.

The Party and state elites and the capitalists constitute the upper classes in the Chinese society. In 2014, the two classes combined accounted for about 6 percent of the economically active population. The urban middle class accounted for 4 percent.

In 2011, the rural semi-proletariat for the first time fell below 50 percent of the labor force. By 2014, it fell to 44 percent of the labor force. At this rate, it could fall below 30 percent of the labor force in about a decade. In term of absolute level, the rural semi-proletarian labor force peaked at 465 million in 1992. It declined to 459 million in 2000, 383 million in 2010, and 336 million in 2014. In recent years, it has declined at an average annual rate of 12 million.

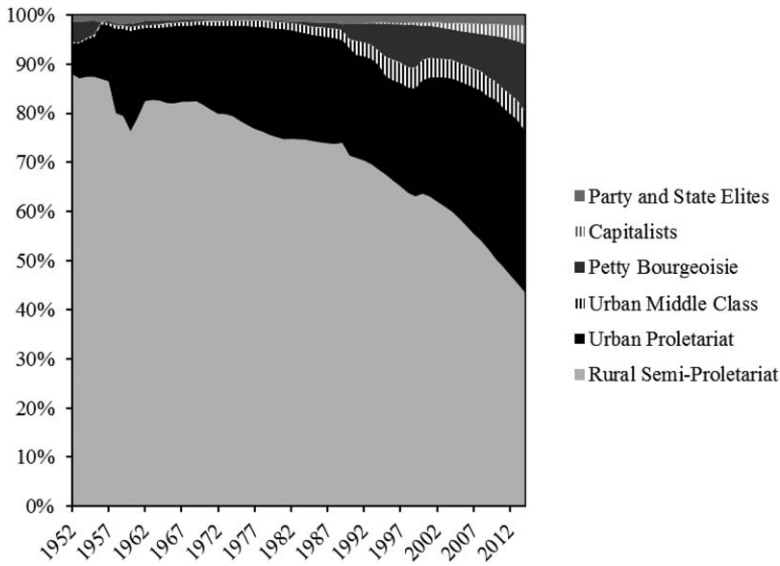


Figure 2. China's Class Structure, 1952–2014 (% of Total Employment).

Sources: China Data Center (2016a); National Bureau of Statistics (1985, 2005, 2016a); National Science and Technology Committee (1992, 1998). See the main text and Tables 1, 2 for details.

The urban proletariat was only 6 percent of China's labor force in 1952. It gradually increased to 21 percent of the labor force in 1978. Since then its share had fluctuated around 21–22 percent until 2000. After 2000, China's proletarianized working class expanded rapidly. From 2000 to 2014, the urban proletariat increased from 168 million to 254 million. It accounted for 33 percent of China's labor force in 2014 and could overtake the rural semi-proletariat to become China's largest social class in a few years.

In 1952, the self-employed accounted for about 4 percent of China's labor force. In the socialist era, it was reduced to a negligible sector of the economy. In the 1980s, it recovered strongly. It increased to 7 percent of the labor force in 2000 and 9 percent of the labor force in 2010, and then it surged to 14 percent in 2014.

Figure 1 compares the urban entrepreneurial income per self-employed person with urban wages. The urban entrepreneurial income per self-employed person was about 60 percent of the "urban units" average wage in the early 2000s. The ratio surged to 87 percent in 2008. Since then it has fallen back to about 60 percent, roughly comparable to the "urban private units" workers' average wage.

China's National Income Distribution, 1952–2015

China's changing class structure has been reflected by the changing pattern of national income distribution. How national income is distributed between different social classes (in particular, how large is the labor income share and the

surplus value share) provides important information regarding the relative strength of the capitalist class and the working class as well as the developing contradiction of a capitalist economic system.⁴

In the conventional measurement of GDP by income approach, GDP consists of compensation of employees, net operating surplus, government indirect taxes less subsidies, and depreciation of fixed capital. Net operating surplus includes entrepreneurial income, corporate profits, net interests, and rental income.

In theory, entrepreneurial income includes both labor income and capital income. However, in the Chinese context, the urban entrepreneurial income per self-employed person is roughly comparable to private sector workers' wage. The rural entrepreneurial income per agricultural laborer is substantially below the urban workers' wages. Thus, I treat all entrepreneurial income in the Chinese economy as labor income.⁵

The conventional GDP by income approach is based on the "primary distribution" of national income (payments to factors of production and increase in prices due to government indirect taxes). To evaluate the economic resources available for each social class to spend on consumption and investment, one should take into account not only the primary distribution but also redistribution in the form of income taxes and transfer payments. In this section, I evaluate China's national income distribution by considering how GDP is divided into depreciation of fixed capital, government taxes and net receipts from transfer payments, disposable labor income, and "surplus value." Surplus value is what is available for capital accumulation and public welfare in the socialist era and what is available for capitalist investment and consumption in the period of capitalist transition.

Depreciation of fixed capital from 1993 to 2014 is calculated as the sum of depreciation of fixed capital of all provinces taken from the provincial GDP by income approach (National Bureau of Statistics 2016b). Depreciation of capital in 2015 is assumed to have the same share in China's GDP as in 2014 (13.7 percent).

Depreciation of fixed capital from 1952 to 1992 is calculated as the difference between gross fixed capital formation and "accumulation of fixed assets." China's gross fixed capital formation is from China Data Center (2016b). "Accumulation of fixed assets" refers to the part of national income used for net investment in fixed assets based on the socialist net material product accounting. China's "accumulation of fixed assets" from 1952 to 1992 is from National Bureau of Statistics (1993, Table 2–28).

The government sector's disposable income is calculated as follows:

Government Taxes and Net Receipts from Transfer Payments = Government Tax Revenue + Social Insurance Contributions – Social Insurance Payments

Total government tax revenue from 1952 to 2015 is from China Data Center (2016c). China started implementing capitalist-style social insurance system to

replace the socialist labor insurance and welfare system in 1989. Total receipts from social insurance contributions and total social insurance payments from 1989 to 2014 are from National Bureau of Statistics (2016a). For 2015, social insurance contributions and payments are assumed to have the same share in China's GDP as in 2014 (6.2 and 5.1 percent, respectively).

Total disposable labor income from 1952 to 2014 is calculated as follows:

Disposable Labor Income = Rural Labor Income + Urban Entrepreneurial Income + Urban Private Units and Informal Sector Wages + Urban Units Wages + Urban Units Insurance and Welfare Expenses + Receipts from Social Insurance Payments – Social Insurance Contributions – Individual Income Tax

Total disposable labor income in 2015 is estimated separately (to be explained below).

Rural Labor Income

Rural labor income from 1952 to 2014 is calculated as rural population multiplied by rural per capita labor income. Rural population from 1952 to 2014 is from China Data Center (2016a).

For the period 1978–2014, rural per capita labor income is the sum of rural per capita net entrepreneurial income and wage income. Rural per capita net entrepreneurial income and wage income (from rural household surveys) from 1978 to 2012 are from National Bureau of Statistics (2016a). Rural per capita net entrepreneurial income and wage income in 2013 and 2014 are from National Bureau of Statistics (2015a, Table 6–12).

For years before 1978, there is no data for rural per capita income. However, *China Statistical Yearbook 1986* published rural household per capita consumption levels from 1952 to 1985 (National Bureau of Statistics 1986, 646). As rural households derived almost all of their incomes from labor income and nearly all of their incomes were consumed, it is reasonable to assume that the rural households' labor incomes were roughly comparable to their consumption levels. In 1978, the rural per capita labor income was 94 percent of the rural per capita consumption level. I assume that from 1952 to 1977, the rural per capita labor income was 94 percent of the rural per capita consumption level.

Urban Entrepreneurial Income

For 1985–2014, urban entrepreneurial income is calculated as urban population multiplied by urban per capita net entrepreneurial income. Urban population is from China Data Center (2016a).

Urban per capita net entrepreneurial income from 2000 to 2012 is from National Bureau of Statistics (2016a). Urban per capita net entrepreneurial

income in 2013 and 2014 is from *China Statistical Yearbook 2015* (National Bureau of Statistics 2015a, Table 6–7).

Urban per capita net entrepreneurial income in 1998 and 1999 is from *China Statistical Yearbook 2000* (National Bureau of Statistics 2000, Table 10–4). Urban per capita net entrepreneurial income for 1995–1997 is from *China Statistical Yearbook 1998* (National Bureau of Statistics 1998, Table 10–4). Urban per capita net entrepreneurial income for 1992–1994 is from *China Statistical Yearbook 1995* (National Bureau of Statistics 1995, Table 9–6). Urban per capita net entrepreneurial income for 1985 and 1987–1991 is from *China Statistical Yearbook 1992* (National Bureau of Statistics 1992, Table 8–9). Urban per capita net entrepreneurial income in 1986 is assumed to be the average of that in 1985 and 1987.

From 1952–1984, urban entrepreneurial income is calculated as the number of urban self-employed persons multiplied by the estimated income per self-employed person. Number of urban self-employed persons is from National Bureau of Statistics (2016a).

For 1985, income per self-employed person is calculated using total urban entrepreneurial income divided by the number of urban self-employed persons. It was 49.5 percent of the urban staff and workers average wage in 1985. For 1952–1984, I assume that income per self-employed person was 50 percent of the urban staff and workers average wage.

Urban Private Units and Informal Sector Wages

Urban “private units” and informal sector total wages are calculated to be total employed persons in the “urban private units” and the urban informal sector multiplied by their estimated average wage.

For 1990–2014, total employed persons in the urban “private units” and informal sector are calculated as total urban employment less total employed persons in the “urban units” and the urban self-employed persons. Total urban employment is from China Data Center (2016a). Total employed persons in the “urban units” from 2000 to 2014 and total urban self-employed persons from 1990 to 2014 are from National Bureau of Statistics (2016a). For 1990–1999, total urban staff and workers are used as proxy for total employed persons in the “urban units.”

For 1990–2008, I assume that workers in the “urban private units” and the urban informal sector received the same wage as the “urban collective units” average wage (workers in these sectors had similar employment conditions). Urban “collective units” average wage from 1990 to 1999 is from *China Statistical Yearbook* (National Bureau of Statistics 2000, Table 5–20). Urban “collective units” average wage from 2000 to 2008 is from National Bureau of Statistics (2016a).

For 2009–2014, I assume that workers in the “urban private units” and the urban informal sector received the same wage as the “urban private units” average wage (National Bureau of Statistics 2016a).

For years before 1990, there is no data for the “urban private units” and the urban informal sector employment.

Urban Units Wages

Urban staff and workers total wages from 1952 to 1999 (used as proxy for “urban units” total wages) are from China Data Center (2016d).

“Urban units” total wages from 2000 to 2014 are from National Bureau of Statistics (2016a).

Urban Units Insurance and Welfare Expenses

In addition to wages, the “urban units” provide a wide range of benefits such as reimbursements for medical expenses, training expenses, public bathhouse, laundry services, child care, and other miscellaneous benefits. Before the 1990s, workers’ pensions were paid directly by the “urban units.”

China Statistical Yearbook 1999 provides “labor insurance and welfare expenses” from 1978 to 1998 (National Bureau of Statistics 1999, Table 21–54).

After 1998, *China Statistical Yearbook* stopped publishing data for labor insurance and welfare expenses. In 1998, labor insurance and welfare expenses were 36.2 percent of the “urban units” total wages. For 1999–2014, I assume that labor insurance and welfare expenses were 36 percent of the “urban units” total wages.

China Statistical Yearbook 1985 provides “labor insurance and welfare expenses” in 1952, 1957, and 1962 (National Bureau of Statistics 1985, 560). In 1952, labor insurance and welfare expenses were 13.9 percent of the urban staff and workers total wages. In 1957, labor insurance and welfare expenses were 14.6 percent of the urban staff and workers total wages. I assume that between 1952 and 1957 the ratio of labor insurance and welfare expenses to the urban staff and workers total wages changes on a “straight line” (rising by a constant amount of 0.14 percentage point each year). The ratios so calculated are used to multiply the urban staff and workers total wages to derive the estimated labor insurance and welfare expenses in 1953, 1954, 1955, and 1956. Similar method is used to estimate the labor insurance and welfare expenses in the years between 1957 and 1962 and between 1962 and 1978.

Workers’ receipts from social insurance payments (assumed to be the same as the total social insurance payments) and workers’ and employers’ contributions to social insurance (assumed to be the same as the total social insurance revenues) are from National Bureau of Statistics (2016a).

China started to collect individual income tax in the urban sector in the 1980s. Individual income tax revenue from 1990 to 2014 is from National Bureau of Statistics (2016a). In 2014, government revenue from the individual income tax was only 1.1 percent of China’s GDP. Most of it has been paid by working class households. For simplicity, I assume that all individual income tax is paid from labor income.

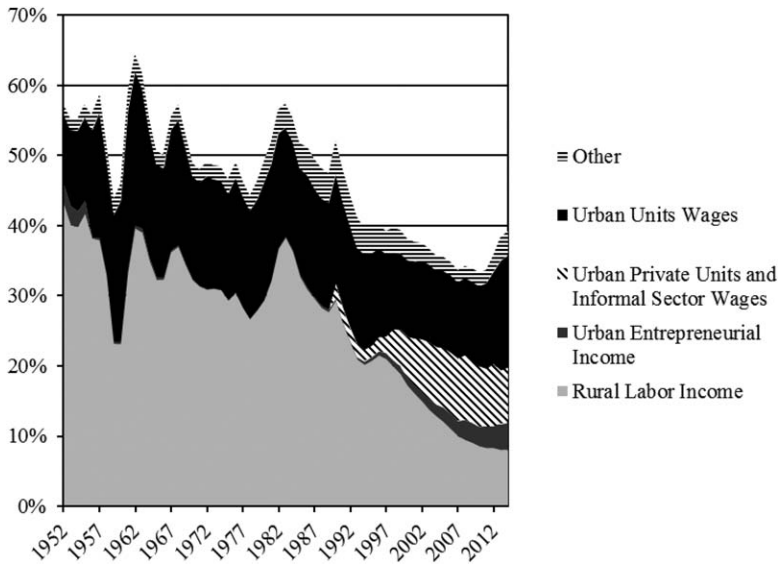


Figure 3. China's Labor Income, 1952–2014 (% of GDP) "Other" refers to "urban units" labor insurance and welfare expenses plus receipts from social insurance payments less social insurance contributions and individual income tax.

Sources: China Data Center (2016a,b,d); National Bureau of Statistics (1985, 1986, 1992, 1995, 1999, 2000, 2015a, 2016a). See the main text for details.

Figure 3 shows China's labor income by different categories as share of China's GDP from 1952 to 2014.

In the early 1950s, rural labor income accounted for about 40 percent of China's GDP. By the 1970s, it fell to about 30 percent of GDP. In the early 1980s, the rural labor income grew rapidly as the government dramatically increased the state procurement prices for agricultural goods, amounting to a large transfer of income from the urban sector to the rural sector. The rural labor income share of GDP surged from 27 percent in 1978 to 38 percent in 1983. Since then the rural labor income share has tended to fall. By 2014, it fell to 8 percent of GDP.

The "urban units" total wages accounted for 10 percent of China's GDP in 1952. It increased to about 15 percent of GDP by the 1970s. Its share fell sharply in the 1990s. From 1998 to 2010, it fluctuated around 11 percent. However, after 2010, the "urban units" wages grew more rapidly than GDP. By 2014, its share of GDP rose to near 16 percent.

The urban "private units" and informal sector total wages accounted for 2 percent of China's GDP in 1990. Its share of GDP rose to near 6 percent by 2000 and peaked at 9 percent in 2008. By 2014, its share of GDP fell below 8 percent.

The total urban wages (including the "urban units," the "urban private units," and the informal sector) were 18 percent of China's GDP in 1990. By 1997, the total wage share fell to 14 percent. The large fall of wage share reflected the collapse of the working class bargaining power in the midst of

massive privatization in the 1990s. The wage share recovered to 19 percent in 2003 and stayed around 19–20 percent until 2010. By 2014, total wages surged to about 24 percent of GDP.

For 2015, wages and incomes data are still incomplete. In a news release published on January 19, 2016, China's National Bureau of Statistics reported national average per capita disposable wage income and entrepreneurial income in 2015 (National Bureau of Statistics 2016c). The sum of the per capita disposable wage income and entrepreneurial income rose by 8.3 percent from 2014 to 2015. China's national population rose by 0.5 percent from 2014 to 2015. It can be calculated that the total disposable wage and entrepreneurial income increased by 8.9 percent. I assume that China's total labor income also grew by 8.9 percent from 2014 to 2015.

Figure 4 shows the distribution of China's GDP between depreciation of fixed capital, government taxes and net receipts from transfer payments, disposable labor income, and surplus value from 1952 to 2015.

In the early 1950s, depreciation of fixed capital accounted for less than 4 percent of China's GDP. As the Chinese economy became more capital intensive, the share of depreciation increased steadily. By the early 2000s, it rose to about 15 percent of China's GDP.

In the 1950s, government tax revenue fluctuated around 15 percent of GDP. In the early 1980s, tax revenue was about 13 percent of GDP. In 1985, a tax reform redefined some state owned enterprise profits as business income tax, leading to a surge of tax revenue to 22 percent of GDP. The tax share of GDP then declined, falling to about 10 percent by the mid-1990s. During the economic boom of early 2000s, China's tax share rose strongly, reaching 20 percent of GDP by 2012.

In the early 1950s, the labor income share of GDP was about 55–57 percent. It fell sharply in the "Great Leap Forward" years and then surged to 64 percent in 1962 when China began to recover from the famine and economic catastrophes. In the first half of the 1970s, it settled around 48–49 percent but fell to 44 percent by 1978.

In the early 1980s, increase in state procurement prices of agricultural goods led to a transfer of income from the state to the agricultural laborers. Labor income share surged to 57 percent in 1983. From the late 1980s to the early 2000s, capitalist transition led to dramatic increase in inequalities. From 1983 to 2010, labor income share suffered long-term, sustained declines, losing by 24 percentage points over 27 years (with the exception of 1990 when the statistical inclusion of urban informal sector workers led to an artificial increase in the labor income share).

After 2010, the long-term trend of falling labor income share was reversed. From 2010 to 2015, labor income share rose from 33 percent to 40 percent. The current development of labor income share suggests that the relations between the capitalist class and the working class in China may have reached a turning point. As the rural surplus labor force becomes depleted, the urban working class has been gaining bargaining power. A new generation of migrant workers has

higher expectations of income and consumption levels. They are better educated, more conscious of political and social rights, and more likely to take militant actions.

From 2007 to 2013, there were several strike waves that affected many coastal provinces. Capitalists were compelled to raise wages and benefits. Local and provincial governments also made concessions by raising the official minimum wages. For example, from 2010 to 2014, Shenzhen's local minimum wage surged from 900 Yuan (about \$150) per month to 1808 Yuan (about \$301) per month; Shanghai's local minimum wage rose from 960 Yuan (about \$160) per month to 1820 Yuan (about \$303) per month (*Gongpingshe* 2014).

Can this trend toward rising labor income share be sustained, and for how long?

Conclusion

Table 3 reports the distribution of China's GDP between depreciation of fixed capital, government taxes and net receipts from transfer payments, disposable labor income, and surplus value for selected years from 1952 to 2015.

Total surplus value was about 25 percent of China's GDP in the early 1950s. This was followed by violent fluctuations in the late 1950s and early 1960s. It surged to 38 percent in 1959 and then collapsed to 15 percent in 1962. In the 1970s, surplus value stabilized around 31–33 percent of GDP as China returned to the course of industrialization and re-established relations with the global capitalist market.

In response to the political crisis and economic challenges in the post-Mao years, the Chinese ruling elites adopted the strategy of capitalist transition. Initially, there was a sharp decline of urban-rural income gap as the agricultural terms of trade improved. By 1985, surplus value fell to 15 percent of GDP.

Table 3. Distribution of China's Gross Domestic Product, 1952–2015 (% of GDP)

	Depreciation of Fixed Capital (%)	Taxes and Net Transfer Receipt (%)	Disposable Labor Income (%)	Surplus Value (%)
1952	3.5	14.4	57.4	24.7
1957	4.4	14.5	58.6	22.5
1962	6.8	13.9	64.4	14.8
1965	5.6	11.8	50.7	31.9
1970	5.6	12.3	48.8	33.3
1975	7.6	13.3	46.6	32.5
1980	9.9	12.5	49.2	28.5
1985	10.6	22.4	51.8	15.2
1990	8.6	15.1	52.0	24.2
1995	11.3	10.1	39.5	39.2
2000	14.9	12.8	38.1	34.2
2005	15.8	16.2	35.5	32.5
2010	13.6	18.8	33.3	34.3
2015	13.7	19.3	40.2	26.8

Sources: See Figure 4 and the main text.

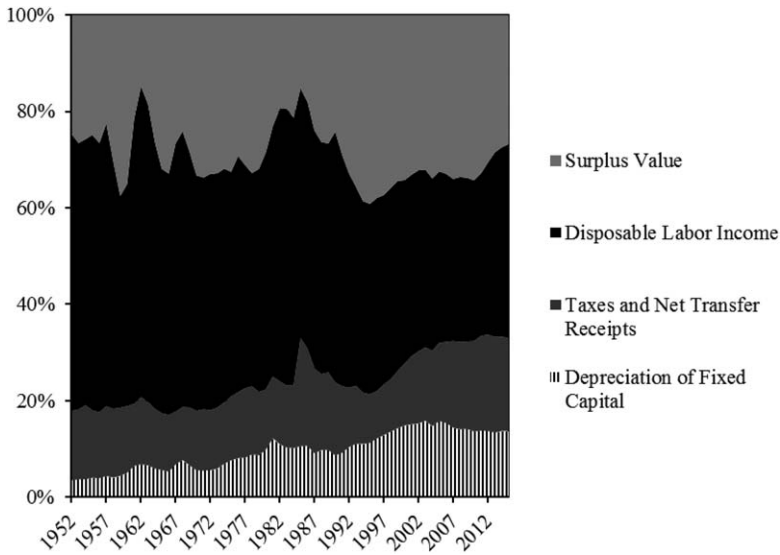


Figure 4. China's National Income Distribution, 1952–2015 (% of GDP).

Sources: China Data Center (2016a,b,c,d); National Bureau of Statistics (1985, 1986, 1992, 1993, 1995, 1999, 2000, 2015a, 2016a, 2016b). See the main text for details.

Eventually, the dismantling of the socialist social contract would destroy the urban workers' bargaining power. As tens of millions of state sector workers were laid off, they were replaced by hundreds of millions of rural workers who were readily available for sweatshop exploitation by transnational capitalists.

By 1995, surplus value in the Chinese economy surged to 39 percent of GDP. Through the first decade of this century, as the government tax share of GDP increased, labor income share continued to fall. As a result, the surplus value stabilized around the relatively high level of 33–34 percent of GDP.

In 2014, China surpassed the United States to become the world's largest economy measured by purchasing power parity (based on GDP measured in constant 2011 international dollars reported by World Bank 2016). In term of per capita GDP (in constant 2011 international dollars), China's per capita GDP was 88 percent of the world average and 24 percent of the U.S. per capita GDP in 2014.

As China rises into the semi-peripheral layer of the capitalist world system, China's internal social structure has been fundamentally transformed. In 2014, the urban proletariat accounted for about one-third of the Chinese labor force and about three-fifths of the urban labor force. All wage workers (including the urban proletariat, rural wage workers, professional and technical workers, and the workers in the public administration sector) reached 409 million or 53 percent of the Chinese labor force. Thus, the broadly defined wage-earning working class is already the majority in China's working population.

As the Chinese working class expands, the relations of forces between the workers and the capitalists have passed a turning point. From 2010 to 2015, as

the labor income share of GDP rose from 33 percent to 40 percent, the surplus value share of GDP fell from 34 percent to 27 percent.

Currently, China is perhaps the only major economy in the world that is experiencing a rising labor income share and a falling surplus value share. Within the limit of the capitalist institutional framework, these trends cannot go on indefinitely. The Chinese capitalism continues to depend on super exploitation of a large “cheap” labor force to maintain its status as the world’s main manufacturing platform. As labor cost and other social costs continue to rise, sooner or later the capitalist economy’s global competitiveness will be fatally undermined.

Despite isolated successes in individual high-tech areas (such as the famous *Huawei* company), the overwhelming majority of the Chinese workers continue to work in super exploitative capitalist factories such as the Taiwanese owned *Foxconn*; thousands of capitalist enterprises like *Foxconn* depend on sweatshop exploitation to maintain their thin profit margins (*Foxconn* is the largest subcontractor for the Apple Corporation; on the relationship between *Foxconn*, Apple, and China’s cheap labor regime, see Selden, Pun, and Chan 2013).

In 2015, Lou Jiwei, China’s Finance Minister, explicitly argued that rising labor cost threatened to take China down the path of “middle-income trap” and the Chinese government should take policies to keep the wage growth rate below the labor productivity growth rate (in other words, to lower the labor share of GDP and raise the surplus value share) (Lou 2015; Xu 2015). In effect, China is now following the footsteps of other semi-peripheral countries, squeezed between its inability to compete with the core countries on the high-value added technology frontier and its growing difficulty to accommodate the growing economic and political demands from the working class.

Conversely, the Chinese workers’ desires for decent living standards as well as a wide range of political and social rights are far from being satisfied. To the extent that the development of capitalism continues to produce an increasingly larger and more powerful working class but fails to meet its economic and political demands, China is being placed on an inevitable collision course. The end-game will be economic and political explosions.

In the late twentieth century, China’s capitalist transition created conditions for the global labor arbitrage that turned the global balance of power to the favor of neoliberal capitalism. In the early twenty-first century, as China emerges as the new center of working class movement, will it again fundamentally change the terms of the global class struggle, this time to the favor of the global working classes?⁶

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Notes

1. In *The Communist Manifesto*, Marx and Engels defined the “proletariat” as “a class of laborers, who live only so long as they find work, and who find work only so long as their labor increases capital . . . who must sell

- themselves piecemeal, are a commodity” (Marx and Engels 1978[1848], 478–79). In the modern class analysis, it is widely recognized that the “wage workers” in a modern capitalist society include not only the proletarianized working class but also other sectors of workers. See section “Class Analysis: Marxist and World System Theory Concepts” of this article for details.
2. The stagnation and decline of the U.S. workers’ real wage and other aspects of living standards have been well-documented. For example, see Magdoff and Foster (2014). On the rising inequality and deterioration of living standards for some sectors of the European working classes, see Pfefferkorn (2015).
 3. There is a growing consensus among Marxist as well as non-Marxist scholars that the Chinese economy today is dominated by capitalist dynamics. See Burkett and Hart-Landsberg (2005); Cheng (2016); Coase and Wang (2013); Hart-Landsberg (2011); and Li (2008, 60–5).
 4. The analysis of national income between different social classes has been an important component of Marxist as well as non-Marxist political economy. For example, in his famous book, *Capital in the Twenty-First Century*, Thomas Piketty studied the long-term movement of the capital income share and the labor income share in several leading capitalist economies (Piketty 2014, 164–236). Immanuel Wallerstein argued that there had been long-term tendencies for wage cost and taxation cost to rise as shares of economic value of output, contributing to the “structural crisis” of the capitalist world system (Wallerstein 2007, 76–90). On the importance of concepts such as “profit share” and “wage share” for Marxist analysis of capitalist accumulation and economic crisis, see Devine (1987).
 5. In conventional national income accounting, “entrepreneurial income” refers to business income of non-incorporated business enterprises. In the Chinese official statistics, “entrepreneurial income” refers to the income of self-employed persons; private enterprise profits are not included in the “entrepreneurial income.”
 6. In *China and the Twenty-First Century Crisis*, Minqi Li argues that China is likely to emerge as a key battleground in the coming global class struggle. Given China’s central position in the global capitalist division of labor, a Chinese workers’ revolution could destroy the entire global commodity chains and pave the way for global progressive change (Li 2015, 170–92). In the past, successful global capitalist restructuring has required the effective intervention from a new hegemonic power. In the current world historical conjuncture, as the American hegemonic power is in decline, none of the other big powers (including China) is in a position to replace the U.S. to function as an effective hegemonic power (to regulate and promote the common interest of the system) (Li 2008, 113–33). This will increase the likelihood that the current structural crisis can no longer be resolved within the historical framework of global capitalism.

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