IS CHINA REACHING THE LEWIS TURNING POINT? AGRICULTURAL PRICES, RURAL-URBAN MIGRATION AND THE LABOUR SHARE

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The market transition process has resulted in a deep transformation of the pattern of income distribution in China. According to a recent review by Xie and Zhou (2014) 'Gini coefficient in China was around 0.30 in 1980, but by 2012 it had nearly doubled to 0.55, far surpassing the level of 0.45 in the United States' (Xie and Zhou 2014: 6930). Income distribution in China has many faces: it has taken the shape of a rural-urban divide, and of an interregional division; it has a very relevant social class component, and a gender one, too; and, although absolute poverty has been substantially reduced in rural areas, income inequality has caused new forms of urban poverty to emerge. All these phenomena are directly related to the Chinese economy becoming 'the world's factory'.

In particular, falling labour/wages share of GDP has turned into one of the most relevant features of the Chinese economy's recent development. After reaching its peak in 1982 (53.6 per cent of GDP), the labour share fell to 42.5 per cent in 2007.[1] This decline became a key factor of China's impressive GDP expansion during the 1978-2007 period (Molero-Simarro, 2015). However, the decreasing share of wages also caused a significant increase in the share of top incomes of urban households in available income (from 16.5 in 1985 to 25.5 per cent in

[1] Own calculations based on National Bureau of Statistics of China (various years (a) and 2007).

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2007 in the case of the top 10 per cent). [2] Thus, it decisively contributed to the severe worsening of both the urban-rural income gap, and the Gini inequality index (Molero-Simarro 2016).

Labour's share seems to have recovered after the onset of the current world crisis that started in 2008. It has risen to 46.5 per cent in 2014. Consequently, the share of the lowest income households in urban available income has slightly increased (from 7.4 in 2007 to 8.0 per cent in 2013 in the case of the bottom 20 per cent). Therefore, according to the latest data released by the National Bureau of Statistics of China (National Bureau of Statistics of China, 27th January 2016), the Gini index has fallen (from 48.4 in 2007 to 46.2 points in 2015). Nevertheless, independent measurements show an even higher index, above 50 points (see, for example, Xie and Zhou 2014).

Most analyses that have attempted to account for the deep decline of the labour share in China have explained it by means of the Kuznets Curve. They have characterised the evolution of the share with a U-shaped curve following the process of structural transformation of the economy. According to those views, this transformation is determined by the existence of an unlimited supply of rural labour which naturally flows to the urban area looking for higher incomes. As China will soon reach the so-called Lewis Turning Point, where the traditional transfer of workers, through internal migration, between the agricultural and industrial sectors is complete, the flow of rural-urban migration will be reduced and industrial wages will be pressed upwards. Thus, the labour share will recover and inequality will decline mechanically.

In this paper we try to establish an alternative explanation of the evolution of the labour share by analysing the reasons behind internal migration. As we will explain in the fourth section, the meagre improvement of agricultural prices since 1990s has driven the flow of rural migrants and restrained the growth of industrial wages well below productivity, so reducing labour share. This is not a natural phenomenon. Despite market transition, agricultural prices are still influenced by the Chinese government. In addition, the maintenance of the *hukou* system of household registration (which serves to control the distribution of population between rural and urban areas, or nowadays within each city) (see Chan n.d.: 2) keeps rural migrant workers worse-off than urban

[2] Own calculations based on National Bureau of Statistics of China (various years (b)).

formal workers. However, these are also negatively affected by the lack of rights for the so-called *nongmingong* (the rural migrant workers without urban *hukou*) (see Chan 2012: 188). Although 'the urban development has been instrumental to economic development in China', it 'has gone along with a range of increasing disparities within and between cities that need to be addressed' (Brakmana, Garretsena and Marrewijk 2016: 467).[3]

In our view, that particular mechanism is at the core of China's political economy. As we will explain, the increasing gap between productivity and real wages in the Chinese industrial and services sectors cannot be understood without taking into consideration the key role played by China's left-behind countryside during the second stage of China's market transition. The Lewis Turning Point will not automatically, or, maybe, never be reached. In particular, given the labour demand and substitution elasticities, industrial workers will not significantly recover their share of primary distribution of income unless the mechanism limiting the growth of wages substantially below productivity is altered by raising agricultural prices, so reducing the rural-urban migration, and abolishing the *hukou* system, among other measures.

This is, indeed, needed to avoid the so-called 'middle-income trap' (Eichengreen, Park and Shin 2011; Zhu and Cai 2012), *i.e.* the inability to successfully complete the transition from a middle-income to a upper-middle-income country status. According to Eichengreen, Park and Shin (2011: 38), 'slowdowns are more likely to occur at lower per capita incomes in countries that maintain undervalued exchange rates and have low consumption shares'. In the case of China this low share of consumption in GDP is the direct consequence of falling labour share. Thus, to find the particular reasons behind that phenomenon is not only relevant for confronting increasing inequalities in China, but also for rebalancing the economy in a way that would allow China to move into a new stage in its development process.

To support our approach, the next section starts by reviewing the debate on the Lewis Turning Point in China, as well as on one related issue: the reform of the *hukou* system. The main data sources available for agricultural prices, rural-urban migration, labour share, and other

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[3] See the special issue on 'Urban Development in China' of the *Cambridge Journal of Regions, Economy, and Society*, 2016, Vol. 9, No. 3.

variables analysed are discussed in the third section. In the fourth one, we show the principal relationships that have linked those variables during the 1978-2007 period. In the fifth section, the effects of recent distributional policies are analysed. The main conclusion contests the claim that China has reached the Lewis Turning Point, so ensuring a rising labour share. The paper ends by analysing policy alternatives to significantly increase the workers' share of income.

The Lewis Turning Point Debate in China

Many studies have characterised the evolution of labour share in China using a U-shaped Kuznets-type curve following the structural transformation of the economy (Li, Liu and Wang 2009; Luo and Zhang 2009; Bai and Qian, 2010). Moreover, they maintain that labour share will enter an upward trajectory. This claim is based on the widespread idea, originated by W. Arthur Lewis (1954), that the unlimited supply of rural labour plays a role in limiting the growth of industrial wages during the early stages of the development process. Thus, the inflection point will be reached after the traditional transfer of workers, through internal migration, between the agricultural and industrial sectors is complete, when China will reach the Lewis Turning Point.

Some authors argue that the so-called Lewis Turning Point has already been reached (Zhang, Yang and Wang 2011) and others that it will be in the coming decades (Das and N'Diaye, 2013). This would be reflected in the form of China's labour supply curve. According to Chi (2007: 113), it 'was flat or perfectly elastic', but 'has turned into a normal upward-sloping one'. This means that 'rising wages are needed to lure more supply of labour' (Chi 2007: 113). Most base their claims on demographic analyses that assert that peasants' income will automatically recover and rural-urban migration will cease. The consequences of demographic transition are wage increases and convergence between unskilled and skilled workers (Cai and Du 2011). Consequently, China's cheap labour will come to an end (Li, *et al*. 2012). All that will make possible a new pattern of 'growth with equity' (Garnaut 2010).

The starting point of the Lewis Model is the definition of the concept of unlimited supply of labour. According to Lewis himself, 'an unlimited supply of labour may be said to exist in those countries where population is so large relatively to capital and natural resources, that there are large

sectors of the economy where the marginal productivity of labour is negligible, zero, or even negative' (Lewis 1954: 141). In that situation, labour will be available at a constant real wage, or, at least, well below labour productivity in the industrial sector; the share of profits in national income will rise (while the labour share will, accordingly, fall); and, if a portion of those profits is reinvested, the share of capital formation of GDP will grow, too. However, according to Lewis (1954: 172), '[t]he process must stop when capital accumulation has caught up with population, so that there is no longer surplus labours'. At that moment, wages and/or the labour share will start to rise.

In China most of that process has already been accomplished since 1978 onwards. As we shall see in Section 4, real wages have been increasing at a rate well below labour productivity in both the secondary, and tertiary sectors. As a consequence, the labour share fell from 53.6 to 42.5 per cent of GDP between 1982 and 2007. Accordingly, the profit share increased from 34.8 to 43.3 during the same period[4]. The reinvestment of those profits has crucially contributed to the comparatively very high rates of investment of the Chinese economy. Gross capital formation of GDP reached an average of 37.5 per cent during the 1978-2007 period (39.5 during 1993-2007).[5] Following the logic of Lewis' argument, capital accumulation in China should be catching up with population.

According to Das and N'Diaye (2013), 'China is on the eve of a demographic shift that will have profound consequences on its economic and social landscape. Within a few years the working age population will reach a historical peak, and will then begin a precipitous decline. The core of the working age population, those aged 20–39 years, has already begun to shrink. With this declining population, the vast supply of low-cost workers—a core engine of China's growth model—will dissipate, with potentially far-reaching implications domestically and externally' (Das and N'Diaye 2013: 17). According to these authors, China will cross the Lewis Turning Point 'between 2020 and 2025', when 'the reserve of unemployed and underemployed workers (which is currently in the range of 150 million)—will fall to about 30 million' (Das and N'Diaye 2013: 17).

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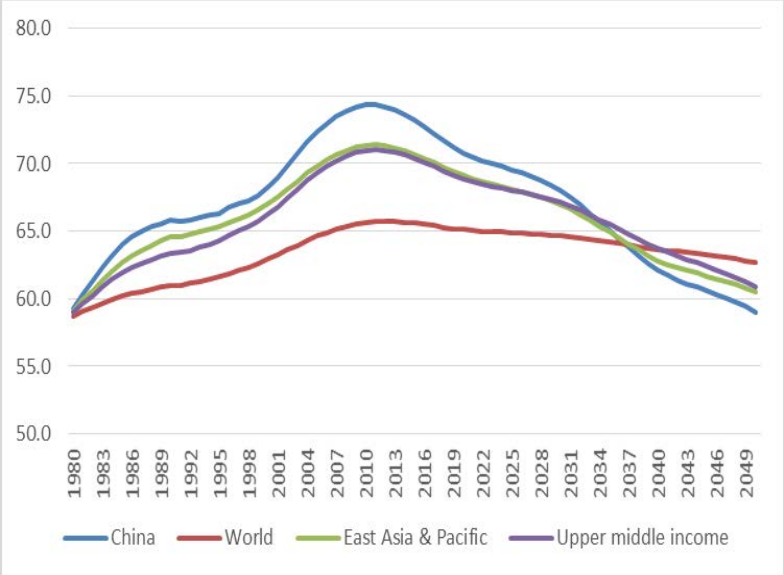
4 Own calculations based on National Bureau of Statistics of China (various years (a)), Hsueh and Li (1999) and National Bureau of Statistics of China (2007).

5 Own calculations based on National Bureau of Statistics of China (various years (a)).

Nevertheless, a more detailed analysis shows that China is far from experiencing a demographic crisis. Although working age population seems to have reached that historical peak, it will be maintained at comparative very high levels during a long period of time. According to World Bank's data and projections, the percentage of working age population will be substantially higher in China than in the world, East Asia and Pacific countries, and upper middle income countries' averages during at least two more decades (Figure 1). Consequently, the age dependency ratio as a percentage of working population will be lower too.

Figure 1: Working Age Population (percentage of total), 1980-2050

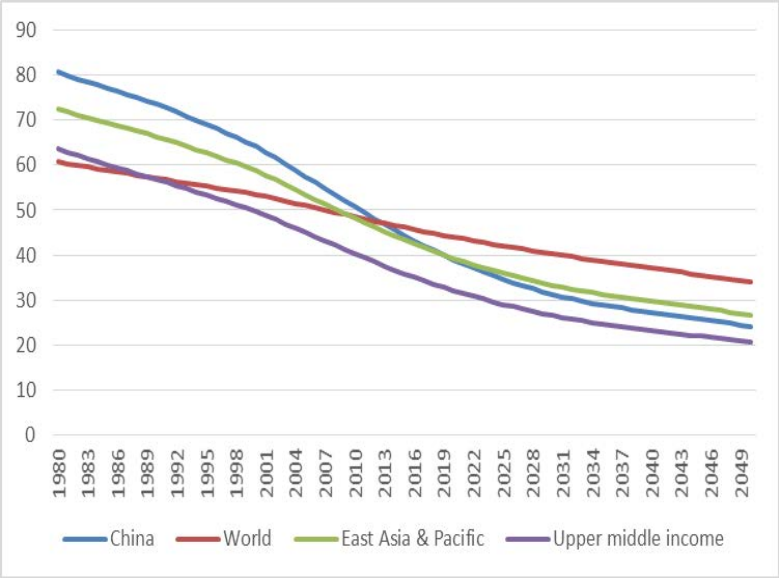


Source: World Bank, Health Nutrition and Population Statistics: Population estimates and projections.

In the case of rural population, its percentage of total population in China is already decreasing below world average. Nevertheless, it is and will be

still close to the East Asia and Pacific countries' average and higher than the upper middle income countries' average (Figure 2).

Figure 2: Rural Population (percentage of total population), 1980-2050



Source: World Bank, Health Nutrition and Population Statistics: Population estimates and projections.

In fact, as stated by Chan (2010: 521), the rural labour supply 'remains plentiful'. While there has been 'a reduction of about 28 million in the rural working-age population in the last decade, the rural sector remains grossly overstaffed today' (Chan 2010: 521). According to his calculations,

> the rural working-age population still stands at close to 490 million, 60 percent of which falls into the age category 36–64. Even assuming a low labor force participation rate of 75 percent, this still means that about 368 million jobs are needed. Excluding roughly 80 million who work in non-farm jobs in nearby townships, the remaining 288 million on the farm is still far greater than can be absorbed by China's 120

> million ha of arable land. Many estimates done before the financial crisis show that the minimum work force needed to sustain China's agriculture at the current level of technology was about 150 million … While the rural working-age population may have decreased by 10–15 million over the past two to three years due to the decline in fertility earlier, there is still an immense rural labor surplus exceeding 100 million. Even if the stimulus projects in 2009 have lured away, say 20–30 million rural workers … the surplus remains colossal, much higher than the figures used by some observers (Chan 2010: 521).

This situation is far from fitting Arthur Lewis' own contribution to our understanding of economic development. His seminal paper 'followed "classical" rather than "neoclassical" tradition in that it incorporated a two-sector framework, but did not seek to formally explain how earnings were determined in the traditional setting' (Becker and Craigie 2007: 196). On the contrary, he emphasised the role of institutional adjustments. Indeed, Lewis himself considered alternative possibilities to the reaching of the 'turning point'. According to his view, 'capitalists have a direct interest in holding down the productivity of the subsistence workers' (Lewis 1954: 149) in order to limit their earnings, so the unlimited supply of labour is sustained. Moreover,

> the owners of plantations have no interest in seeing knowledge of new techniques or new seeds conveyed to the peasants, and if they are influential in the government, they will not be found using their influence to expand the facilities for agricultural extension. They will not support proposals for land settlement, and are often instead to be found engaged in turning the peasants off their lands (Lewis 1954: 149).

If that is not possible, 'the capitalists' next best move is to prevent the farmer from getting all his extra production' (Lewis 1954: 174). If the capitalists are able to do so, then it may be possible to avoid the exhaustion of the unlimited supply of rural labour. Thus, the inflection point may not be reached, ensuring that wages will still increase below productivity, regardless of population growth. As it will be explained in Section 4, this more holistic view may be the case of China, where not capitalists, but government policies (in fact, Lewis, who served as advisor to the first president of Ghana, Kwame Nkrumah, also considered both policy making, and politics as very relevant explanatory factors; see Kanbur 2016) have limited the improvement of peasants' incomes, thus avoiding the exhaustion of the supply of rural labour. This way the government has still supported the capital accumulation process

of the Chinese economy by maintaining the profit share in comparatively high levels.

Indeed, the usual explanations of China having reached the Lewis Turning Point face a 'paradox': the coexistence during the last years of a shortage of migrant labour supply in the Chinese cities and an excess of labour force in the rural areas. According to Chan (2010: 523), '[t]he co-existence of migrant labour shortages [in the urban sector] and large surpluses in the rural sector may be quite unique to China's industrialisation and urbanisation experience, because of the prolonged and continuing rural and urban social segmentation'.

This segmentation is directly related to the existence of the *hukou* system of internal migration control (see Golley and Men, 2011). The reforms implemented during the past three decades has transformed the operating logic of the economy, but the *hukou* has remained in place. The abolition of *nongzhuanfei* (the administrative procedure for transferring a rural to an urban *hukou*) in the early nineties caused the differences between the rural and the urban *hukou* to cease. However, the fact that the new regulation transferred to the local authorities the power to decide whether to grant *hukou* has provoked the restrictions to endure (Chan and Buckingham 2008). They crucially contribute to the existence of huge wage differentials between urban residents and rural migrant workers found by several studies (see, for example, Zhu 2016).

According to Cai (2011: 45), the alleged reaching of the Lewis Turning Point 'created incentives for both central and local governments to implement *hukou* system reform and created incentive compatibility between central and local governments, and between migrant workers and urban native residents. As a result, *hukou* system reform pushed ahead', though 'nationwide harmonisation' (Cai 2011: 46) is still needed. In the view of Young (2013: 258), however, '[c]rucial reform in the residency system requires the abolition of agricultural and non-agricultural *hukou* and the standardisation of rights and privileges tied to *hukou* status'.

In summary, the Lewis Turning Point narrative is based on the belief that capital accumulation is already catching up with China's population growth, thus absorbing the unlimited supply of rural labour. This would have had the effect of increasing real industrial wages above productivity, so reducing companies' profits to the level that investment starts to curb. As earlier discussed, however, China is far from

experiencing a demographic crisis: the percentage of working age population is still higher than the world average; while the share of rural population is higher than the upper middle income countries' average.

Contrary to the usual claims, the rural labour supply in China 'remains plentiful', as stated by Chan (2010: 521). The labour share has slightly increased since the onset of the current world crisis, mainly thanks to redistributive policies, as we shall see in Section 5. Nevertheless, the profit share maintains comparatively high levels, despite decreasing exports. Indeed, with the help of the government's 2009 stimulus programme, investment reached a peak of 48.3 per cent of GDP in 2011 and, since then, the investment rate has been kept above the already very high average levels of the pre-crisis period.

Lewis himself considered alternative options to the exhaustion of the supply of rural labour during the economic development process. In particular, he stated the possibility of preventing farmers from getting their extra production, through different mechanisms, so avoiding the reaching of the turning point, regardless of population growth. This seems to be the case of China. Most neoclassical urban economists such as Michael Todaro, however, overlook structural and institutional processes which shape rural-urban migration and influence both rural incomes and migration decisions in complex ways (Obeng-Odoom 2016: 40-7).

If internal migration process is to be explained, it is necessary to take into account China's particular regulation and the factors behind the unequal development process between rural and urban areas. Above all, it is especially important to bear in mind the role of both agricultural prices, and the *hukou* system. Thus, no automatic mechanism will ensure a long-term reversal of the downward trend followed by the labour share in China, unless all those factors are confronted.

In that sense, this paper tries to contribute to the understanding of that trend by focusing on the fluctuation of agricultural prices and its effect on internal migration, taking into account the existence of the *hukou* system. This will help us to evaluate whether China's labour share of GDP will automatically enter an upward trajectory as a consequence of the alleged Lewis Turning Point reaching; or, on the contrary, it may stagnate in current comparative low levels.

The relationship between those variables will be explained in the fourth section of this paper. Preceding that, in the next section we deal with the statistical series available for those key variables.

Statistical Series

To analyse the first of the variables, agricultural prices, the Producers' Price Index for Farm Products offered by the National Bureau of Statistics of China (various years (a)) in its statistical yearbooks has been utilised. On the reliability of agricultural statistics Gale (2002: 51) explains that '[i]n 1997, National Bureau of Statistics of China conducted China's first agricultural census, enumerating over 200 million rural households, as well as nonhousehold farm operations, administrative villages, towns, and townships' correcting the underreporting of some figures (like those of the cultivated land) and the overreporting of others (like those of the livestocks estimates). According to this author, '[i]t is still uncertain whether planted area is measured accurately' (Gale 2002: 51). However, as long as agricultural products prices are presumably reported directly from markets, it seems less probably for them to be inaccurately measured.

In any event, some clarifications are due concerning the use agricultural products data in this paper. First, the general index has been chosen, instead of the indexes available for every agricultural products' categories. Since our analysis is fundamentally aggregated in character it does not seem necessary to make a detailed analysis by product. Not surprisingly, agricultural production specialisation of each of the Chinese provinces seems not to have been a determining factor in migration decisions. In addition, since 2000 the National Bureau of Statistics of China stopped offering the series of price index for several products, thereby reducing the number of products whose fluctuation throughout the period of study can be analysed. Secondly, data are presented in real terms. The data have been deflated using a GDP deflator.

For the second of the variables, rural-urban migration, the collection of statistical series it is more complicated due to various reasons. Although according to Banister (1984: 266), '[t]he wealth of good quality data now available on the demography of China provides much more reliable estimates of the country's population size and growth rate, its patterns of nuptiality, fertility, mortality, and urban-rural residence, and its labor

force characteristics than ever before', a number of shortcomings arise. First, there are several concepts for migration as a result of the particular system of control of internal movements of population, based on the *hukou* system of household registration that exists in China, (see Chan n.d.). In this paper, the available data on the number of the so-called *nongmingong* (people with rural residence who have migrated to urban areas without having obtained the *hukou* of the destination location) are analysed. The main reason for this choice is the fact that our work is focused on the analysis of the overall effect of the fluctuation of the prices of agricultural products on the rural-urban migration flow and the *nongmingong* data are those that best account for that flow. Other series include either a population that is only temporarily located in a different city, or that even if they are not temporary residents they not come from the rural areas, but from other cities.

Specifically, in this paper the collection of statistics on rural migrants in cities by Chan (n.d.: 9; Table 1, Column F) has been utilised for the period 1988-2007. As Chan explains it 'consists of two separate series (1988-98 and 2002-10), compiled from relatively authoritative sources with largely consistent definitions of migrants and geographical boundaries over time' (Chan n.d.: 4).[6] In the case of the period 2007-2011, it is necessary to take into account that the figure for 2010 in Chan (n.d.: 9; Table 1, Column F) differs from the figure in Chan (2012: 190; Table 1, Column E).[7] Thus, in Section 5, this last source has been employed for that last period 2007-2011. Data from that source on the net flow of migration between 1990 and 2010 has been also employed in the Table 1 in Section 4.

In addition, the 'floating population' data that the National Bureau of Statistics of China offers since 2013 in its statistical yearbooks has been utilised as a complementary source for the period 2010-2013. According to the statistical yearbooks' Explanatory Notes, the floating population 'refers to the population of residence registration inconsistency excluding

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6 According to Chan (n.d.: 9; Table 1, Footnote F) the 'data for 1988-1995 are from Lu, Zhao and Bai (2002); 1998 is from Ministry of Agriculture. Those for 2002-2010 are National Bureau of Statistics of China data (2008 and 2009 figures are in National Bureau of Statistics of China 2010); earlier figures are compiled by Cai and Chan (2010: Table 1)'.

7 According to Chan (2012: 190; Table 1, Footnote E) 2009–2011 figures are from National Bureau of Statistics of China's Monitor Reports on Rural Migrant Labor for those years.

those intra-city ones'. These data are related to 'Rural-*Hukou* Population in Urban Areas' series offered by Chan (2012: 190; Table 1, Column F), which is the sum of 'rural migrant laborers and their dependents (non-working population)' (Chan 2012: 192).

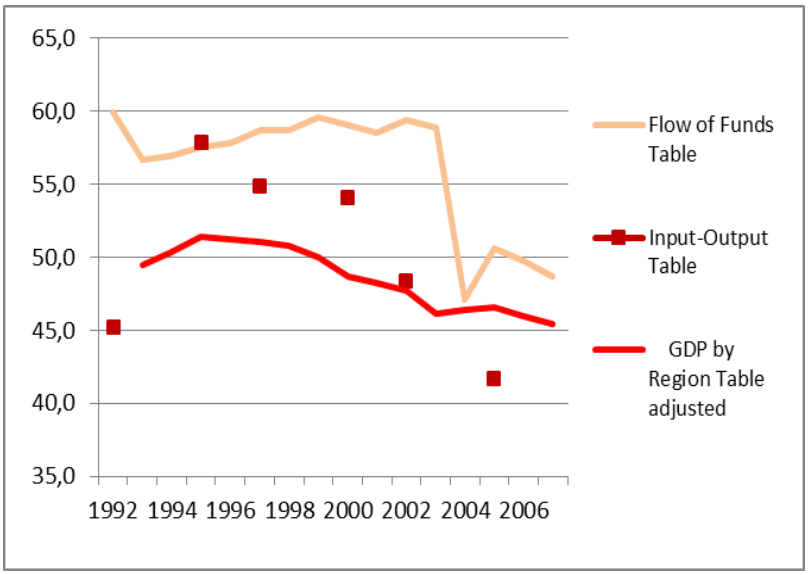
In any event, there are no available data previous to 1988, neither for the years 1990, 1991, 1992, 1996, 1997, nor for the period covering the years 1999-2001. Thus, it has been necessary to complete the series. To do so, the methodology used has consisted on dividing the remainder of the number of migrants between two non-consecutive years by the number of years passed between one and another and to assign that average figure for each of the years for which there are no data available. Finally, the annual variation rate of the total number of migrants has been calculated in order to analyse how the dynamics followed by agricultural prices has affected the annual migration flow.

For the third of the main variables, the labour share, it is necessary to review the available data sources for the labour income in China's. Prior to 1992, the only existing data are those of Hsueh and Li (1999), who collected 'Gross Domestic Product by Primary Distribution of Income' for the provinces of China during the 1978–95 period. From 1992 to 2007, the National Bureau of Statistics of China provides three different factor share series in its Statistical Yearbook: the 'Flow of Funds Accounts (Physical Transactions)', the 'Intermediate Use Part of Input-Output Table', and the 'Income Approach Components of Gross Regional Product' (National Bureau of Statistics of China, various years (a)). The first runs through the whole sub period; the second presents only 1992, 1995, 1997, 2000, 2002 and 2005 data; finally, the cited regional statistics must be completed with the data supplied by National Bureau of Statistics of China (2007) to obtain a third series that includes data through to the year 1993.

In that last case, it has been also necessary to re-calculate the data for the years 2004-07 in order to avoid the effects of the methodological change implemented by the National Bureau of Statistics of China in 2004 (Bai and Qian 2010). For this purpose, the method developed by Zhou, Xiao and Yao (2010) has been followed. These authors homogenised the series by including the income of self-employed in the compensation of employees. In despite of these re-calculations, it is noteworthy that the percentage share of wages in national income is substantially lower than the usually found in other economies, including developing ones.

Figure 3 compares the three series, although it should be noted that the first one does not take into account the variable depreciation of fixed assets, which largely explains the comparatively higher share. The last one is the usually used in the literature. Furthermore, thanks to the recalculation method developed by Zhou, Xiao and Yao (2010) the effects of the methodological change implemented by the National Bureau of Statistics of China are avoided, which is not the case for the Flow of Funds series. Thus, it will be the one used here. During the post-crisis period the National Bureau of Statistics of China did not provide data of the 'Income Approach Components of Gross Regional Product' for the years 2008 and 2013. Nevertheless, in the fifth section our analysis covers the 2007-2014 period, too.

Figure 3: Comparison of Labour Share Series (percentage of national income), 1992-2007



Sources: Own calculations based on data from National Bureau of Statistics of China (various years (a)): Tables 'Flow of Funds Accounts (Physical Transactions)', 'Intermediate Use of Input-Output Table' and 'Income Approach Components of Gross Regional Product'; and National Bureau of Statistics of China (2007): Table 'Components of GDP by Income Approach by Region'.

To conclude this collection of statistics, additional indicators on the rural-urban disparities, the conditions of rural migrant in cities in comparison with urban workers, and the overall evolution of both employment and wages have been also analysed. It is necessary to bear in mind that 'China's published statistics on employment and wages in manufacturing do not meet international standards. No source of frequently published, official data provides nationwide employment and labor compensation statistics on Chinese manufacturing' (Banister and Cook 2011: 40). Moreover, '[t]he published annual data on China's employment and wages in manufacturing are based on an annual reporting system from work units that originally reflected a planned Marxist economy and that emphasized urban data over rural data' (Banister and Cook 2011:40). For those reasons, the indicators on the *nongmingong*'s working conditions and earnings come from secondary sources (mainly the papers of Cai, Du and Wang n.d.; and ILO 2008).

For the indicators on progression of incomes and consumption in rural areas in comparison with urban ones we have to rely on data from National Bureau of Statistics of China (various years (a)), where most of the official information of other dimension-specific statistical yearbooks is compiled. That has been also the case for the indicators on rural and urban per capita incomes by region, employment structure by sector, the structure of manufacturing production, educational attainments by region, formal urban employment, and wages. When they are available, supplementary data from other researches have been quoted, too.

In the following section we present the mechanism that explains the continuous decline suffered by the labour share since at least the mid-nineties.

Agricultural Prices, Rural-Urban Migration and Falling Labour Share in China, 1978-2007

Our empirical analysis explores the reasons behind falling labour share of China's GDP. As explained in Section 2, previous analyses have argued that the supply of excess rural labour, which has pressed down the labour share, has been led by demographic trends. As long as the transfer of workers between the agricultural and industrial sectors is allegedly almost completed and the Lewis Turning Point will be soon reached, the labour share will recover. Lewis himself, however, considered the

possibility of preventing peasants from improving their incomes as a way of avoiding the exhaustion of the unlimited supply of labour, even if capital accumulation catches up with population. In that case, the labour share may stagnate.

This is the case of China. As we will explain below, it is not demographic trends that explain falling labour share but rather government's control of agricultural prices which has, intentionally or unintentionally, pushed the rural-urban migration flow, pressing down secondary and tertiary sectors' wages increases below productivity improvements. Although the Chinese working age population is reaching its peak, there still exist large surpluses of labour in the rural areas. Moreover, recent labour shortages in urban areas are just the result of the labour market segmentation caused by the *hukou* system of internal migration restriction. Unless those policies are reversed, the labour share may be kept at comparative low levels.

The Chinese government has intervened in grain markets, directly or indirectly, throughout the entire reform period. During the early years of the reform in the 1980s, household responsibility systems replaced the organisation of agricultural production by the rural communes. The consequent agricultural productivity improvements were accompanied by increasing prices for agricultural products purchased by the state and, in particular, by the Ministry of Grain, later on the Bureau of Grain. This rise in prices, which was concentrated during the 1980s, had two goals: to promote the improvement of the living conditions of peasants and to gain popular support for the reform, as Zhu and Kotz (2010: 15) state.

In addition, families were allowed to sell all production that exceeded the compulsory quotas sold to the state on the open market, with state-planned (*baojia*) and market prices (*shijia*) coexisting. The latter tended to remain above the former, so rural families began to increase their sales on the market. According to National Bureau of Statistics of China's (various years (a)) data, prices almost doubled between 1978 and 1987. At the same time, Township and Village Enterprises (TVE) also doubled their production (own calculations based on data from Bramall, 2009: 405; Table 12.2), generating plentiful job opportunities in rural areas. Farmers' living standards improved, reducing the urban-rural gap to a value of 1.86 in 1985 (own calculations based on National Bureau of Statistics of China, various years (a)), which was lower than during the Maoist era, and poverty fell substantially.

Nevertheless, the coexistence of quota and market prices started to generate contradictions. First of all, the *quandao*: '"illicit" profiteering by state enterprises and officials, involving the diversion of scarce centrally allocated materials from planned use to the market sector for profit' (Kueh 1990: 99). Second, 'the drain on the state budget of financing state agricultural marketing activities grew to become a critical problem' (Sicular 1988: 691) as a consequence of increasing production, the resulting falling market prices, and the government's commitment to buying farmers above-quota production. According to Sicular (Sicular 1988: 704) 'complementary increases in state retail prices would offset losses, but for political reasons the government' was 'reluctant to raise retail prices'. All that budgetary and political factors encouraged 'the government to reduce farm procurement prices whenever possible, and increase procurement prices only when absolutely necessary' (Sicular 1988: 704).

Grain market liberalisation measures spread during the 1990s. Mandatory contract deliveries and rationing were eliminated. However, local bureaus of grains became financially independent, so their policy prices could not deviate from market prices. In addition to these local agencies, other public actors also began to participate in the market. They included some state trading agencies, which became the dominant purchaser or seller in some of the markets, including cotton and grain; the state farms; or the state food processing companies.

Despite the policies of liberalisation of agricultural markets in the mid-nineties, these agencies still maintained 'an aggregate market share of 30 per cent', being even higher for 'particular goods' as in the case of cotton (90 per cent of total procurements from farmers made by the Supply and Marketing Co-op system), or grain, in which case 'procurements by the Grain Bureau have remained fairly stable at 70 to 80 per cent of the total' after the introduction of the contract system in 1985 (Sicular 1995: 1031). Consequently, their ability to influence the market remained high.

A 'protection price was established in the late 1990s in order to provide a measure of security for grain farmers during periods of low prices' (Colby, Diao and Tuan 2001: 13). However, '[g]rain-purchasing stations were not enthusiastic about buying additional grain without sufficient government funding to cover their storage costs (since the national grain surplus created an environment of low sales prices and limited demand)' (Colby, Diao and Tuan 2001: 13). Given these circumstances, there were

'numerous reports of grain-purchasing stations circumventing the government's protection price policy' by 'downgrading the quality of the farmer's grain', or refusing 'to purchase all the grain the farmer wishes to sell at the protection price' (Colby, Diao and Tuan 2001: 13). Thus 'market prices were not pushed up by this policy initiative' (Colby, Diao and Tuan 2001: 13)

China's entry in the World Trade Organization (WTO) in 2001 reduced further the efficacy of grain price protection policies. In 1996, China's internal prices were still between 38 per cent and 45 per cent above world prices (Wang 2008: 109). Since it joined the WTO, the Chinese government 'acquires approximately 10 percent of total grain output with an objective of stabilising prices and managing a grain reserve' (Yang and Li 2008: 17). However, 'China has increasingly relied on foreign trade to adjust its domestic imbalances in grain supplies' (Yang and Li 2008: 18), ensuring a strong enough agricultural products supply to prevent prices from increasing.

In short, as a consequence of (i) direct reductions of procurement prices; (ii) the financial restriction imposed on grain-purchasing stations; and (iii) the use of imports to increase the supply of farm products in the internal market, government policies have contained and even reduced agricultural prices since the late 1980s. Far from being the result of market forces, the fluctuation of those prices has been negatively influenced by public policies. Accordingly, those policies have contributed to the increasing disparity between urban and rural households' incomes.

In addition, although total employment in TVEs continued to increase (see Bramall, 2009: 406; Table 12.3), the concentration of foreign direct investment (FDI) in coastal cities since the early 1990s meant that industrial development and job creation was increasingly located in those urban areas. The disappearance of rural communes at the beginning of the reform period had already led to the loss of access to basic services for rural households, and mainly to health and education. Taken together, these pull and push factors pressed rural dwellers out of the countryside.

At the end of the 1980s, the government was forced to implement policies in order to contain inflation, leading to cuts in procurement prices, which negatively affected peasants' incomes and increased the

urban-rural gap to 2.86 points in 1994.[8] This, together with the increasing FDI inward flows (which augmented their share of gross fixed capital formation from 3.8 per cent in 1991 to 16.8 per cent in 1994),[9] pushed the first big wave of migrants from the rural areas. In 1994, rural migrant workers in China's cities more than doubled the 1989 level. Agricultural prices recovered until 1997 but another inflationary process led to the substantial reduction of agricultural prices again. Despite the decreasing relevance of FDI inward flows in gross capital formation (decreasing its share on fixed investment to 6.1 per cent in 2007), a second big wave of *nongmingong* was generated. It did not stop until 2007.

At that moment, the urban-rural incomes gap had reached a level of 3.33,[10] despite nominal increases in agricultural prices since 2003. In line with that, the disparity in per capita total consumption expenditure between urban and rural areas had increased from 2.72 points in 1998 to 3.10 in 2007.[11] In that last year, that difference ranged from 2.61 when comparing low income households' expenditure in urban versus rural areas; to 3.22 when comparing high income ones.[12] The disparities increased in the consumption of most of durable goods (refrigerators, air conditioners, or computers)[13], too. In some cases, the differences decreased in relative terms, but they were still significant in absolute ones (that is the case for washing machines, motorcycles, or colour TVs).[14] Consequently, living conditions disparities were increasingly perceived by rural dwellers, contributing to migration pull factors.

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8 Own calculations based on National Bureau of Statistics of China (various years (a)).

9 Own calculations based on UNCTAD statistics.

10 Own calculations based on National Bureau of Statistics of China (various years (a)).

11 Own calculations based on National Bureau of Statistics of China (various years (a)).

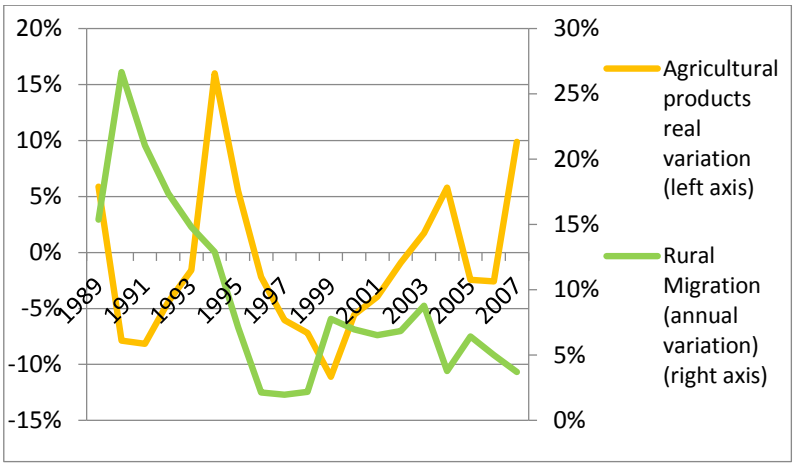
12 Own calculations based on National Bureau of Statistics of China (various years (a)).

13 For example, in 1995 the number of refrigerators per 100 rural households was 5.2 in comparison with 69.2 per 100 urban ones. In 2007 those numbers increased to 26.1 and 95 per cent (data from National Bureau of Statistics of China (various years (a)), respectively, thus augmenting the relative disparity.

14 For example, in 1995 the number of washing machines per 100 rural households was 16.9 in comparison with 89 per 100 urban ones. In 2007 those numbers increased to 45.9 and 96.8 per cent (data from National Bureau of Statistics of China, various years (a)), respectively, thus reducing the relative disparity.

Thus, following the dynamics of agricultural prices, an intense flow of migration from rural to urban areas was created (Figure 4), turning the *nongmingong* (rural migrant workers) into the labour force that enabled the expansion of urban industry (Wen 2008). Contrary to the view that the supply of excess rural labour was led solely by demographic trends, as Das and N'Diaye (2013) among others claim, it can therefore be stated that 'China's unlimited supply of labour was more a consequence of policy than a natural precondition of its development' (Hung 2009: 21). In particular, Hung (2009: 12) argues that 'an unlimited supply of labour is not a natural phenomenon given by China's population structure, as is so often assumed. Rather, it is a consequence of the government's rural agricultural policies which, intentionally or unintentionally, bankrupt the countryside and generate a continuous rural exodus'.

Figure 4: Agricultural Prices and Rural Migration



Sources: Own calculations based on the National Bureau of Statistics of China (various years (a)) and Chan (n.d.: 9; Table 1, Column F).

This outflow of rural migration seems to have not been driven by the differences in the progression of rural households' incomes by provinces. In almost half of top emigration provinces (Henan, Jiangxi and Sichuan), according to Chan's (2012: 194; Table 2) data, the real per capita net

income of rural households increased above the national average during the 2000-2007 period (7.5, 7.2 and 6.9 per cent on yearly average, respectively, versus 6.7 per cent for the whole country); while in Anhui it increased at the same pace; and in the other four provinces it increased below (Hunan, 6.2 per cent; Hubei, 6.1 per cent; Guangxi, 5.8 per cent; and Guizhou, 5.8 per cent).[15] In addition, if absolute levels of income of the rural households are compared, top emigration provinces appear in the middle positions, not in bottom ones, as it could be expected.

This notwithstanding, if the structure of employment by sector is analysed, a relevant pattern can be found which is likely to explain China's internal emigration and immigration patterns. In particular, net outflows of migration are associated with the higher relevance of the employment in the primary sector of the Chinese economy, while net inflows of migration are associated with the higher relevance of the secondary and/or tertiary sectors. In all but one (Hubei) of the eight provinces where net outflows of migration accounted for more than 10 per cent of their total population in 2010, the share of the employment in the primary sector was higher than the national average (36.7 per cent). On the contrary, in all the six provinces, with the only exception of Xinjiang, where net inflows of migration accounted for more than 10 per cent of their total population in 2010, the combined share of the employment in secondary and tertiary sectors were higher than the national average (Table 1).

This seems also to explain the path followed by educational attainment by province. Population with senior secondary school, and college and higher levels of education concentrated in top immigration provinces. While Shanghai, Beijing and Tianjin were already at the top of the rankings of population according to those levels of education, Guangdong and Zhejiang and Jiangsu moved from low positions to the top of the rankings. The percentage of population with senior secondary school in Guangdong increased from 1.5 per cent (28th position) in 2000 to 16.3 per cent (5th position) in 2007. Meanwhile, the percentage of population with college and higher levels of education in Zhejiang increased from 0.7 per cent (18th position) in 2000 to 8.6 per cent (6th position) in 2007. Even in the particular case of Xingjian, the percentage

15 Own calculations based on National Bureau of Statistics of China (various years (a)) data.

of population with college and higher levels of education increased from 0.7 to 9.0 per cent (5th position in 2007). On the contrary, top emigration provinces appear in very different positions in both primary, and higher levels of educational attainment, with, for example, Hubei in top positions in the latter, and Anhui in the former.

Table 1: Employment Structure and Internal Migration by Province, 2010

Province	**Primary Industry (percentage of total employment)**	**Secondary Industry (percentage of total employment)**	**Tertiary Industry (percentage of total employment)**	**Net Flow of Migration (1990-2010) (percentage of total population)**
Shanghai	3.9	37.6	58.5	42.6
Beijing	4.9	20.9	74.1	39.2
Guangdong	25.7	34.9	39.4	33.9
Zhejiang	15.9	48.0	36.1	23.1
Tianjin	14.6	41.0	44.4	20.4
Xinjiang	51.2	14.1	34.8	10.6
Fujian	29.2	37.4	33.4	9.1
Jiangsu	18.7	45.3	36.1	7.6
Liaoning	31.3	26.2	42.5	3.1
Hainan	49.8	12.0	38.2	3.0
Tibet	53.1	11.1	35.8	2.8
Ningxia	39.4	26.4	34.2	2.2
Inner Mongolia	48.2	17.4	34.4	0.8
Qinghai	41.9	22.6	35.5	-0.1
Yunnan	59.4	13.6	27.0	-0.3
Shanxi	38.3	26.4	35.2	-0.8

Province (cont.)	**Primary Industry (percentage of total employment) (cont.)**	**Secondary Industry (percentage of total employment) (cont.)**	**Tertiary Industry (percentage of total employment) (cont.)**	**Net Flow of Migration (1990-2010) (percentage of total population) (cont.)**
Shandong	35.4	32.5	32.0	-0.9
Hebei	38.8	33.3	28.0	-2.3
Shaanxi	43.9	25.0	31.2	-4.0
Jilin	42.0	21.3	36.6	-4.5
Gansu	51.1	15.1	33.8	-6.2
Heilongjiang	44.4	19.4	36.2	-7.3
Chongqing	33.1	29.1	37.8	-9.6
Henan	44.9	29.0	26.1	-11.2
Hubei	29.5	29.1	41.3	-11.9
Guizhou	49.6	11.9	38.5	-12.6
Guangxi	53.3	21.0	25.6	-12.9
Sichuan	42.9	23.1	34.1	-15.2
Hunan	46.7	21.5	31.8	-15.5
Jiangxi	37.6	29.7	32.7	-16.9
Anhui	40.0	29.4	30.6	-18.6

Sources: Own calculations based on National Bureau of Statistics of China (various years (a)) and Chan (2012).

Not only better educational attainments, but also higher real urban average incomes concentrated in top immigration provinces. Real urban incomes increased at different rates in these provinces. While in Zhejiang (10.2 per cent) they increased above the national average (10.1 per cent), in Beijing (9.6 per cent), Tianjin (8.7 per cent), and Shanghai (8.7 per cent) they did below the average. Nevertheless, five out of six of the top

immigration provinces (Shanghai, Beijing, Guangdong, Zhejiang, and Tianjin) stood as the top-ranked provinces according to average incomes in urban areas, both in 2000 and 2007. In the case of Guangdong, for example, although real urban households' average income increased by just 7.1 per cent during the period 2000-2007 (the lowest rate for all provinces), it stood in the third and fourth positions in urban households' average income rankings in 2000 and 2007, respectively.

In short, the progression of agricultural prices pushed out rural workers especially from provinces with high shares of primary sector employment in total employment. These rural migrants were attracted to provinces with high shares of secondary and tertiary employment. Population with greater educational attainments concentrated in immigration provinces. Comparatively higher average real urban incomes became a pull factor to these provinces. As we shall see below, however, the influx of migrants caused average wages in the manufacturing sector (where rural migrants concentrated) to grow below the national average.

To understand the implications of this massive migration flow on the urban labour market it is necessary to take into account a differential aspect of the regulation of the Chinese economy: the existence of a system of control of the internal population movements based on the *hukou*. The possibility of rural-urban migration is real, *i.e.* the existence of the *hukou* system does not actually impede internal migration. Indeed, according to He and Mao (2016: 546), 'economic development in China during the last decade has driven the growth of the non-*hukou* population rather than *hukou* population'. Moreover, authorities from rural local states and urban state units have encouraged rural-urban migration by means of 'labour export strategies' (Lei 2005) . Nevertheless, the *hukou*, or household registration system, made it practically impossible for a rural migrant to obtain an urban residence permit, at least in the medium and large cities. This nowadays means that '[t]hey are not eligible for regular urban welfare benefits and social services (access to local schools, urban pension plans, public housing, etc.) and other rights that are available to people with urban *hukou*' (Chan 2012: 189), including legal protection.

Thus, labour conditions for 'undocumented' rural migrants (which, according to Cai, Du and Wang n.d.: 11, accounted for 46.5 per cent of urban employment in 2007) worsened during the reform period, with

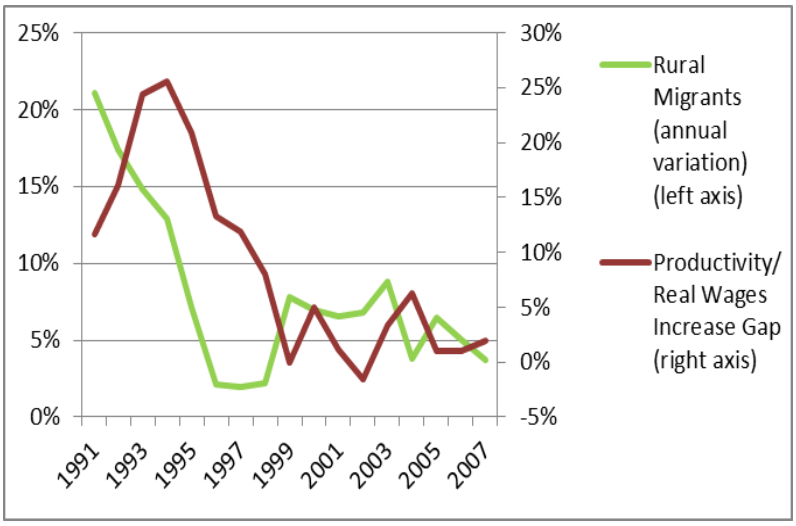
higher informality rates, longer working hours and lower salaries than other urban workers. In the early 2000s, over 90 per cent of migrants worked without a contract, although the figure was lowered to 79.3 per cent in 2004 (ILO 2008: 12). Furthermore, while in 2005 urban residents worked an average of 44 hours per week (53 for the employees in the informal sector), rural migrants did an average of 52 hours (up to 72 for the employees in the informal sector) (Cai, Du and Wang n.d.: 20, with data from the China Urban Labour Survey). This notwithstanding, the difference between poverty rates of migrant families and the local has not been greater due to lower dependency ratios and higher rates of activity of the former (Park and Wang 2010).

In any event, migrants' conditions have also had a negative effect on overall labour conditions in China's secondary and tertiary sectors. The privatisation process of State-Owned Enterprises in the late 1990s led to the gradual disappearance of the *danwei* (the name of the work unit to which most of social rights, including housing, were attached) system of employment protection. This has reduced workers bargaining power (see Piovani 2014: 346), and has allowed internal migration to directly impact on the labour market. Migrants have become the key to pressing down industrial wages. This has been true especially in manufacturing and construction, branches where migrants accounted for 35.2 and 31.8 per cent of employment in 2005 (ILO 2008: 11). The rate of informality of urban labour market rose from 9 per cent in 1995 to 36 per cent in 2007 (Cai, Du and Wang n.d.: 17), which had a direct impact on wages, not only of rural migrants, but also of local workers.

On the one hand, the difference in wages for local workers employed in the formal sector in comparison with those working in the informal grew to 2.66 yuan / hour (7.44 vs. 4.78, respectively) in 2005, compared to 1.51 yuan in 2001 (Cai, Du and Wang n.d.: 21). On the other hand, the hourly wage of migrant workers working in the informal sector stagnated at a level of 3.15 yuan between 2001 and 2005 (actually, 3.14 last year) (Cai, Du and Wang n.d.: 21). Finally, although real wages grew in both industry and services, they did so at rates well below the rate of increase in productivity. The former grew by a comparative very high rate of 5.5 per cent on average, but productivity increased 14.3 per cent annually between 1991 and 2007 (own calculations based on National Bureau of Statistics of China (various years (a) data). Thus, one of the main effects of the massive influx of migrants without rights to the factories of the coast has been the generation of a growing gap between productivity

gains and wages in the secondary and tertiary sectors (Figure 5) (see also Gong and Yang 2010: 69-70).

Figure 5: Rural-Urban Migration and Productivity-Wages Gap



Sources: Chan (n.d.) and own calculations based on National Bureau of Statistics of China (various years (a)).

Note: Productivity has been calculated as the ratio between the secondary and tertiary sectors' real value added and the people employed in those sectors, while real wages have been calculated as the ratio between the total wage bill and the people also employed in those two sectors, deflated by the consumer price index of China for those years.

Given that migration has moved in waves, its effect on industrial wages span during several years, which explains its delayed character, as it can be seen in Figure 5. In any event, the Chinese government's management of agricultural prices control system has contributed to maintain industrial wages at a lower rate of increase than productivity growth. This has been the key to generating a falling labour share. The tides of rural-urban migration have contributed to the enlargement of the urban industrial labour force, thus pressing down the wages expansion below productivity improvements by reducing the bargaining power of workers.

This has been especially true in the coastal areas where industrial activity and, so, internal migration flows have been concentrated. As it could be expected, top immigration provinces have seen their average wages grow below the national average. This has been the case in Guangdong and Zhejiang, the top-2 immigration provinces, which together accounted for 37.6 per cent of total net inter-provincial migration during the 2000-2005 period.[16] Guangdong saw its average wage in the manufacturing sector decrease from a 146 per cent of national average in 1998, to just a 105 per cent in 2007. In the case of Zhejiang that percentage decreased from 118 to 99 per cent during the same years.

Meanwhile top emigration provinces have seen their manufacturing wages gain positions (in Anhui, Henan, Hunan, or Guangxi); remain stable (Jiangxi); or suffer small loses (Guizhou, Hubei and Sichuan) in comparison with national average wage in the manufacturing sector. In the cases of Anhui, for example, which accounts for 8.3 per cent of net exporting migration flows (Chan 2012: 194; Table 2), its average manufacturing wages increased its share of national average from 79 to 91.[17] Thus, internal migration has contributed to a partial wages interprovincial convergence by limiting their increase in those provinces where industrial, export-oriented activity has been concentrated.

Exports expansion has created many job opportunities. In fact, employment in the secondary and tertiary sectors grew at an annual rate of 4.4 per cent throughout the period 1978 to 2007 (own calculations based on National Bureau of Statistics of China (various years (a) data), compared to a 0.4 per cent annual growth of employment in the primary sector. However, increasing capitalisation of the economy has led to job creation declining to 3.1 per cent annually since 1992. Since the mid-1990s, labour share of national income has therefore declined continuously, falling to 42.5 per cent in 2007.[18] The government's intervention in grain markets, which boosted rural to urban migration to 137 million in 2007[19], has enabled it to control that share, which have followed the path of agricultural prices (Figure 6).

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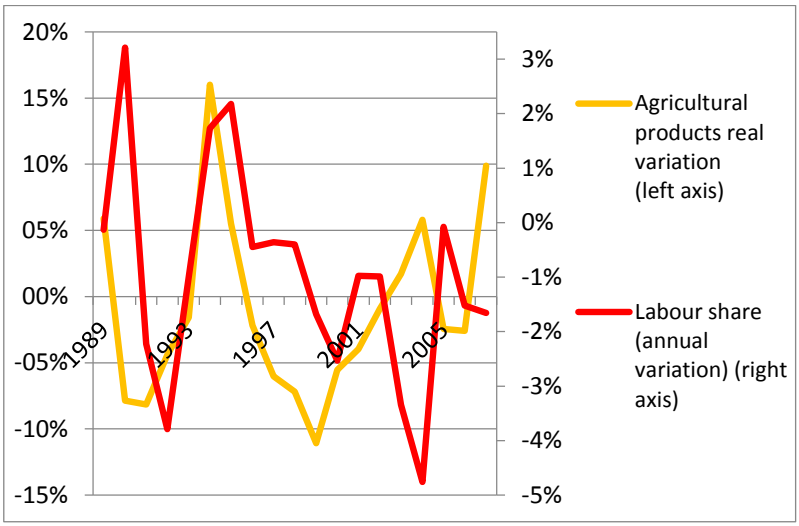
16 Data from Chan (2012: 194; Table 2).

17 Own calculations based on National Bureau of Statistics of China (various years (a)).

18 Own calculations based on National Bureau of Statistics of China (various years (a)).

19 Data from Chan (2012: 190; Table 1).

Figure 6: Agricultural Prices and Labour Share



Sources: Own calculations based on National Bureau of Statistics of China (various years (a)), Hsueh and Li (1999) and National Bureau of Statistics of China (2007).

Note: Annual variation rates have been calculated for both the agricultural products price index and labour share of national income.

As in the previous case, it can be observed a delay in the effect of agricultural prices fluctuation on labour share. That delay supports the argument that are agricultural prices what impact on the labour share and not the other way around. In fact, the link between one variable and the other is mediated by the path followed by rural-urban migration. That is to say that agricultural prices do not impact directly to labour share, but through the effect they have on the internal migration flow which reduces the bargaining power of urban workers, thus contributing to the enlargement of the gap between productivity improvements and real wages increases.

In summary, the Chinese government has intervened in agricultural markets throughout the reform process by offering low purchasing prices for agricultural production. In addition, it has also used imports to offset

possible increases in food demand. Thus, it has been able to ensure a restrained increase of farm prices, exerting pressure that explains the increasing flow of rural-urban migration, mainly from provinces with high shares of primary sector employment to coastal areas. That flow reached at least 137 million of migrant workers in 2007 (163 million if rural migrants workers' dependents are taken into account).[20]

In this sense, it could be stated that the Chinese government has maintained a policy of 'primitive socialist accumulation', promoting capital accumulation by restricting the improvement of incomes of peasants and rural households. According to Hart-Landsberg (2010):

> … [f]rom the 1990s onwards, the deterioration of agricultural incomes and demise of collective rural industries … forced most young laborers in the countryside to leave for the city, creating a vicious cycle which has precipitated a rural social crisis. China's agrarian sector was not only neglected, however, it was also exploited in support of urban growth. A recent study [Hung 2009] has found that there was a sustained and increasing net transfer of resources from the rural-agricultural to the urban-industrial sector between 1978 and 2000, both through fiscal policy (via taxation and governments spending) and the financial system.

This notwithstanding, the maintenance of the *hukou* associated restrictions to rural migrant workers in the cities has also reduced the bargaining power of urban labour, especially in the industrial exporting provinces. This has prevented industrial wages to grow at the pace of productivity, causing the intense drop of the labour share experienced by China since mid-1990s. In turn, the control of agricultural prices has become the main regulatory mechanism of the labour share. Ultimately, falling labour costs have enabled China to become the second export economy and the third largest producer of the World previous to the current crisis. Nevertheless, it did so at the expense of an increasing internal inequality, suffered not only by Chinese peasants, and rural migrant workers, but also by urban formal ones.

In the next section, the path followed by all the variables under study during the post-crisis period is analysed. Although some improvements have been made, the alleged Lewis Turning Points seems far to be reached. On the contrary, unless previous policies are considerably

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[20] Data from Chan (2012:190; Table 1).

modified, wages may be kept substantially below productivity by maintaining a continuous flow of reserve labour from the rural areas.

Agricultural Prices, Rural-Urban Migration and Rising Labour Share in China, 2007-2014

Even before the onset of the world economic crisis, general world market trends and Chinese government's intervention in the national market caused grain prices to considerably increase every year between 2007 and 2011, except in 2009 (Table 2). In 2012 and 2013 inflation declined. However, with the unveiling of China's reform guidelines on income distribution during that last year, it was stated that the government will 'try to make farming more profitable by industrialising agricultural production and continuing to increase the minimum purchase prices of major grain products' (*China Daily*, 6th February 2013).

It was also announced that '[f]armers will be guaranteed proceeds from transferring their contracted land plots and collect higher revenues from gains in the land value' (*China Daily*, 6th February 2013). In 2006, the Chinese government had already abolished a 2,600 year-old agricultural tax. This meant that 'the per hectare grain production cost dropped by 570 yuan, or 10 percent - 20 percent from the figure of previous year' (*People's Daily*, 30th December 2005). As a consequence, rural incomes have been increasing relative to urban incomes, appreciably narrowing the urban-rural gap from 3.31 in 2007 to 2.97 points in 2014.[21]

The narrowing of the urban-rural gap, together with another measures, like the extension of the scope of health protection since the 2009 reform, and other programmes aimed to reduce poverty in rural areas (see Herd, 2010:10), contributed to the decrease of rural-urban migration flows. Compared to the 1988-2007 period annual cumulative growth rate of 9.1 per cent, rural migrant workers in the Chinese cities increased by just 3.7 per cent annually between 2007 and 2011.[22] Meanwhile, overall floating population increased by 3.5 per cent between 2010 and 2013.

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21 Own calculations based on National Bureau of Statistics of China (various years (a)).

22 Own calculations based on Chan (2012: 190; Table 1).

Table 2: Variables Fluctuation During the Post-Crisis Period

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Agricultural prices (annual real variation rate) (percentage)	9.9	5.8	-2.3	3.7	7.7	0.3	1.0	n.a.
Urban-Rural Gap (points)	3.33	3.31	3.33	3.23	3.13	3.10	3.03	2.97
Rural Migrant Workers (annual variation rate) (percentage)	3.7	2.5	3.5	5.6	3.4	n.a.	n.a.	n.a.
Floating Population (annual variation rate) (percentage)	n.a.	n.a.	n.a.	n.a.	4.1	2.6	3.8	n.a.
Labour share (percentage of GDP)	42.5	n.a.	46.6	45.0	44.9	45.6	n.a.	46.5

Sources: Own calculations based on National Bureau of Statistics of China (various years (a)) and Chan (2012).

Thus, the number of rural migrant workers increased up to 158.6 million in 2011, while the number of floating population reached 245 million in 2013, accounting for around one-third of *de facto* urban population (Chan, 2012: 190; Table 1, Column H). However, the reduction in the internal migration flow has caused businesses to complain of labour shortages, which have been reported in several works (see, for example, Zhao and Huang 2010). That has been the case especially after each of the Chinese New Years, when a number migrant workers have decided to

stay at their home villages due to improving living conditions in rural areas. Thus, according to the data of the National Bureau of Statistics of China, the average monthly salary for migrant workers 'rose 21.2 percent in 2011' (*People's Daily*, 28th April 2012).

Accordingly, despite job losses as a consequence of decreasing exports, average real wages increased by 9.7 per cent annually between 2007 and 2013 (own calculations based on National Bureau of Statistics of China (various years (a)) data), above productivity improvements. The approval in 2008 of a new labour contract law (see Wang *et al*. 2009; Gallagher *et al*. 2009), more protective for workers, contributed to growing wages, too. Moreover, the Chinese government appealed to provinces to increase the minimum wages up to 40 per cent of the average wage during the XII Five-Year Plan period (2011-2015).

Finally, the number of labour strikes have been escalating since the onset of the World crisis (see Au and Bai, 2010, 2012). Many of those strikes have broken out in response to wage arrears conflicts, which have spread through the construction, extractive and manufacturing industry, especially before Chinese New Year. However, an increasing number of them have been also aimed at obtaining higher salaries, by demanding, at the same time, the development of collective bargaining mechanisms independent from the official trade union, the All-China Federation of Trade Unions. Moreover, recent reports show an even higher number of strikes between 2015 and 2016, as growth rates continue to slow down (*China Labour Bulletin*, 15th April 2016).

All that explain why labour share have risen during the post-crisis period. Between 2009 and 2011 it fell by 1.5 points, but it recovered again up to 46.5 per cent of GDP in 2014.[23] This notwithstanding, the transformations predicted by the Lewis Turning Point narrative China seems to not have been achieved. According to Chan (2010: 523):

> [w]hile there is a 'famine' in the young ages, a vast ocean of unemployed or underemployed rural labor, mostly ages 35 and above, remains, the size of which is estimated at close to 100 million … In other words, the depletion of young surplus rural labor is far from being the exhaustion of all surplus labor in the countryside. The situation is still very different from the full-employment scenario postulated in the Lewis model when the 'turning point' is reached.

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23 Own calculations based on National Bureau of Statistics of China (various years (a)).

In fact, despite the recent decreasing trend in the rural-urban migration flow, the cases of wage arrears affecting migrant workers have been increasing. They did so 'by 34 percent in the first three quarters of 2015' (*China Daily*, 23rd January 2016). Overall, industrial overcapacity, due to GDP growth reduction since 2012, has led businesses to reduce their demand for labour (*China Daily*, 28th April 2016). Moreover, some of the most important provincial governments have started to curb the increases in minimum wages (*Bloomberg*, 16th March 2016), probably in response to falling industrial profitability, as reported by the National Bureau of Statistics of China (27th January 2016). Furthermore, the government decided to abandon support for agricultural prices, letting 'domestic grain prices be decided by the market' (*Financial Times*, 26th January 2016). Consequently, the prospects for further labour share increase seem limited, as does the possibility for reversing its comparatively low levels.

Conclusions

Labour's falling share of national income in China is attracting increasing attention among researchers. It is usually being assumed that, after the reaching of the Lewis Turning Point by the Chinese economy, the flow of rural-urban migration will be reduced, industrial wages will be pressed above productivity, and, consequently, the labour share will automatically recover. In this paper we have established an alternative explanation of the evolution of the labour share by analysing the reasons behind the rural-urban migration flow. To support our approach we have examined the effect of the fluctuation of agricultural prices on the labour share, through the impact of prices on internal migration. The role of the *hukou* system has been highlighted. The paper's main findings have relevant implications for the possibility of both the rebalancing of the Chinese economy and the reduction of overall income inequality.

In summary, the Chinese government's intervention in agricultural markets has, intentionally or unintentionally, caused labour share to fall by contributing to the maintenance of rural-urban migration flows. The internal migration process from provinces with high primary sector employment, to coastal provinces where industrial, export-oriented activity has been concentrated, is the origin of the sharp decline in the relative wage. However, far from being a consequence of demographic conditions, as the Lewis Turning Point narrative claims, policies

undertaken by the government created the conditions to trigger the migration process, thus limiting real wage increases below productivity.

First, the lack of financial support to state and local agencies for purchasing agricultural products has prevented them to offer substantially higher prices to peasants. Second, since the entry into the WTO, and even earlier, each increase in demand has been offset by larger imports of agricultural products. Furthermore, during the two main migratory waves that China has experienced in recent decades (during early and late nineties) the prices offered by those agencies were reduced directly, in order to contain inflation. Moreover, as we have seen, local authorities have encouraged this process, especially since rural industrial enterprises began to lose market share and to reduce their ability to generate jobs.

Recently, agricultural prices have risen, thus contributing to the reduction of the rural-urban migration flow. Despite job losses caused by decreasing exports to the world market, the bargaining power of labour seems to have increased. In fact, real wages have substantially grown above productivity improvements. As a consequence, the labour share has partially recovered. Nevertheless, recent events point to an end of these improvements. Indeed, internal migration is still prominent, rural migrant workers are suffering wage arrears, while minimum wages are being curbed in response to falling profitability, so the labour share increase will probably cease in the near future.

Some authors claim that China has already reached the Lewis Turning Point (Zhang, Yang and Wang 2010), so internal rural-urban migration is coming to an end. Others, however, maintain that policy measures are necessary in order to reach the Lewis Turning Point (Zhu and Cai 2012). This debate has relevant implications for the progression of the labour share. As we saw in Section 2, some authors (Li, Liu and Wang 2009; Luo and Zhang 2009; Bai and Qian 2010) maintain that the relative wage will enter an upward trajectory following the structural transformation of the economy. This will allegedly occur after the transfer of workers between the agricultural and industrial sectors is complete, when China reaches the Lewis Turning Point.

However, Lewis himself considered the possibility of preventing peasants from improving their incomes as a way of avoiding the exhaustion of the supply of rural labour. This is the case of China, where government policies have preventing the reaching of that inflection point. According to this paper’s analysis, the Lewis Turning Point may never be

reached, so the labour share could stagnate in its current comparative low levels, unless policies and institutions that currently limit the increase of wages below productivity, by maintaining a continuous flow of rural migrant workers that lack rights, are modified.

In particular, if the aim is to significantly increase the workers' share of income, and to avoid, at the same time, the middle income trap, it would be necessary to further the measures already taken by pushing up agricultural prices still further (against recent announcement on the abandon of the system of support), thus contributing to the limitation of the rural-urban migration, and using additional policy tools to increase real wages above productivity improvements.

Among others, the *hukou* system should be abolished; the scope of social protection should be further expanded, both in rural and urban areas; additional measures should be taken in order to ensure that the provisions of the new Labour Contract Law are not circumvented by firms; a collective bargaining system should be built up; and, above all, independent trade unionism should be permitted and legally recognised. All that would contribute to both rebalancing the Chinese economy's sources of growth and to reducing internal inequality, goals for which the labour share is a key variable.

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