

# **Inequality and Capitalism in China**

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## **Inequality and Poverty**

When its experiment with Maoist socialism came to an exhausted end, China had one of the most egalitarian distributions of income in the world. The Gini coefficient (GR) of national income distribution was .33 (Griffin and Zhao 1993), a tremendous achievement for so vast and differentiated a country. At the grassroots level, income distribution in the people's communes was also highly egalitarian.<sup>1</sup> In the urban areas, it was an "exceptionally low" .16 (Griffin and Zhao 1993). One of the biggest and most startling, though often overlooked, stories of the country's economic restructuration<sup>2</sup> since 1978 is that China is now one of the Asia's most unequal societies. Overall, economic inequality in Latin America and Africa may still be worse. But in less than three decades the Gini coefficient of China's overall family income distribution has surpassed India and Indonesia, and is now approaching the Philippines and Malaysia, which are the most unequal in Asia (see table 1).

Table 1: Distribution of Family Income

Country	Gini	Year
Indonesia	..37	2001
India	.38	1997
China	.40	2001
Kenya	.45	1997
Philippines	.47	2003
Malaysia	.49	1997
Nigeria	.51	1996-7
Mexico	.53	1998
Brazil	.61	1998

Source:: CIA, *World Factbook* <http://www.cia.gov/cia/publications/factbook/fields/2172.html>

The single largest component of China's stunning disequalization is the gap between the urban and rural areas. In 2002, the distribution of per-capita income in both urban (GR=.32) and rural China (GR=.38) was greater than the overall national figure (GR=.40) (Khan and Riskin n.d., 38). In 2002 the ratio of average urban:rural per-capita income reached 3:1, which Khan and Riskin describe as "staggering... [and] almost unheard of in the developing world" (n.d., 34).

In the urban areas, income inequality actually declined during the very rapid economic growth and proletarianization — *i.e.*, the proliferation of wage labor in the burgeoning capitalist sector — from 1995 (GR=.332) to 2002 (GR=.318). Is primitive capitalism occurring with distinctive, less hard-edged "Chinese characteristics", as Mao and Deng liked to say about all manner of imports? Not particularly: the Gini coefficient of urban per-capita wage income rose from .25 in 1995 to .32 in 2002. The major reason for the somewhat surprising overall decline in the urban Gini is the privatization of housing and the reform of non-housing subsidies, which had been benefiting better-off urbanites (Khan and Riskin nd, 19-21).

Proliferating wage labor drove the Gini coefficient of rural per-capita income up from .34 in 1988 to .42 in 1995. The coefficient dropped to .38 by 2002, still well above the 1995 figure, due to a less (though still significantly) unequal distribution of wages (which remained the most disequalizing factor), farm income, and tax payments (Khan and Riskin n.d., 8-9). Rural inequality would be much higher were it not for China's extremely egalitarian distribution of land, which of course is a product of its land reform, collectivization, the way that those shaped the distribution of collective land to households in the early 1980s, and the continuing restrictions on the development of a market in farmland. Therefore, rural inequality in China today may well stem from a profoundly different root than it does in many other countries, such as India.<sup>3</sup>

In the Maoist period, interprovincial inequality fell as a result of a redistributive approach to investment, particularly in industry.<sup>4</sup> Each time it was measured from the onset of the Dengist structural reforms until 1995, it rose steadily. By 2002, it had fallen slightly (Khan and Riskin n.d., 11-13), perhaps an initial result of a new policy of prioritizing investment and poverty reduction in China's west (of which more below).

With the inception of the structural reforms in 1978, poverty began to decline, as poor areas could seek relief through resuscitating markets. The trend stopped within just a few years, though, and poverty soon began to increase again as the structural reforms deepened (*e.g.*, with layoffs of state industry workers). By 1995, however, it had not returned to 1978 levels (Khan and Riskin 2001). In a development that shook many Chinese, including the new leadership, the number of destitute poor, which China classifies as those earning less than \$75 a year, increased in 2004 for the first time in 25 years by 800,000 to 30,000,000 people, even as the economy grew by 9 percent.<sup>5</sup> The 30,000,000 figure is a serious underestimate, however, covering only those with purchasing power parity (PPP) of 66.6¢/day. A more realistic figure for 1998, using the international standard of \$1 PPP and adjusting more accurately for inflation, yields a range of

103,000,000-187,000,000 rural poor and 5,500,000-15,000,000 urban poor (Yao, Zhang, and Hanmer 2004).

The distribution of wages by gender in urban China is highly egalitarian. Overall, urban female earnings were only 15.6% less than male earnings in 1988, and 17.5% less in 1995 (Gustafson and Shi 2001, 194). Nonetheless, the disequalizing trend over this period, only the last three years of which involved in earnest the transition to capitalism, is potentially significant as a harbinger of things to come. The increased inequality between male and female wages was greatest in the most marketized sectors of the economy, which suggests that the gap could have widened even further since 1995.<sup>6</sup> About half the 1995 gap was due to differences in labor market assets such as education and skill — which suggests that much of the source of the gender gap lies outside the labor market itself, though the rise of a more capitalistic labor market is making the effects of bias in childrearing and education increasingly evident and relevant.

## **Class**

For centuries before industrialization, China was run by an integrated gentry élite of government officials, landowners and intellectuals that could unabashedly be termed a ruling class (Blecher 2003). During the third quarter of the last century, the Chinese Revolution replaced it with a relatively flat class structure characteristic of state socialist systems topped by a very small élite of government officials (Bunce and Hicks 1987). Within the last quarter of a century, China's structural reforms utterly transformed the country's class structure again, this time to a triangular pattern characteristic of early industrialization. China once again is run by an élite<sup>7</sup> that integrates political, economic and intellectual power, though in ways that are substantively quite different than the traditional gentry. Politically, it comprises top- and middle-level state officials and bureaucrats and leading officials of middle-level governments. Economically, it includes the managers of major state enterprises and banks and the owners and executives of large private sector firms. Allied to both is a small group of intellectuals —

specializing in science, technology, economics and management — based in universities, government think-tanks or private firms. All told, this elite is about 7,000,000 strong, comprising around 1% of the employed population (He 2003).

In traditional times, China did not possess much of a middle class at all. Well-to-do urban businessmen tended to purchase land and join the gentry, and a very small group of petty merchants and artisans, though economically important in operating the country's highly elaborated commercial sector, were neither particularly wealthy nor politically significant. By 1956 they had all disappeared through emigration, nationalization, or integration into the new socialist economy, though petty traders reappeared briefly in the early 1960s in the wake of the Great Leap Forward. The Chinese middle class began to reconstitute itself immediately with the onset of the structural reforms, first as *petit-bourgeois* household enterprises in the early 1980s, then as small-scale employers in the latter 1980s, and finally, by the mid-1990s, as small and medium-sized capitalist firms employing unalloyed wage labor. To them should be added a large, motley group of middle-level enterprise staff, bureaucrats and technocrats in the burgeoning state institutions, and well-paid intellectual workers and professionals. China's middle class comprises around 110,000,000 people, around 16% of the workforce — a breathtaking development for a class that had been virtually non-existent three decades ago (He 2003, 171). This could only have occurred in China with the specific permission, and in some cases encouragement and connivance, of the state, which has taken many forms. After Maoism's heady emphasis on class struggle, ideological sanction was needed and quickly provided; as Deng Xiaoping was fond of saying, some much "get rich first." Policy of course played a major role, as restrictions on the private sector were steadily lifted. Government practices also intentionally helped build China's new business class. For example, in some places small entrepreneurs were plied by local governments with what they experienced as frighteningly large loans to expand their operations (Blecher and Shue 2001). We return to China's state-led *embourgeoisement* below.

China's working class began to develop at the dawn of the last century. During the Maoist period, it grew considerably, and, with wage differentials minimized, was relatively homogeneous. The major cleavage was between the regular urban proletariat and a subgroup of rural migrants seconded by their communes to urban industrial employment for which they were paid at significantly reduced rates by their communes (in work points) rather than in cash and kind like the urban workers (Blecher 1983). The regular urban proletariat was a relatively privileged class that was guaranteed stable wages, lifetime employment for themselves and their progeny, a range of social welfare entitlements, and a definite degree of latitude on the shopfloor. With the onset of the structural reforms, China's working class has become more differentiated while also being knocked off its pedestal. State sector employment has shrunk (to around 75,000,000 in 2001, from a peak of 110,000,000 in 1995) (Statistical Yearbook of China 2002) and become more precarious, as many firms laid off large numbers of workers or even went bankrupt. Wages in the state sector, formerly set by a uniform scale, became dependent on the economic fortunes of the enterprise, which of course rendered them much more differentiated and variable. A smaller and rapidly shrinking sector of industry owned by local governments employed 12,400,000 workers in 2001, down from 36,300,000 in 1991 (Statistical Yearbook of China 2002). Private-sector employment, in both domestic, joint-venture and foreign-owned firms, grew apace, especially in the 1990s, reaching 21,400,000 in 2001 compared almost nothing a decade earlier and 9,400,000 in 1996.<sup>8</sup> A large informal sector developed, comprised both of rural migrants and unemployed urbanites; reliable figures do not exist, but the order of magnitude is surely several tens of millions.<sup>9</sup>

In 2001, China had 325,000,000 people employed in farming (Statistical Yearbook 2002), who, as we have seen, are being left way behind the country's galloping urban growth. They too are a differentiated group. Those in areas with good natural conditions can eke out a living on the land, though farm income is so low that farmers who maintain a good standard almost always do so through significant off-farm employment.

Finally, there is a burgeoning lumpenproletariat of sex workers, drug addicts and criminals, including gang members. Most hail from the urban unemployed or the pauperized rural population.

## **Economic Security and Social Services**

In the Maoist period, the Chinese people enjoyed a low but secure standard of living. In the countryside, farmers were members of their collectives, which guaranteed them the opportunity to earn an income. Health care was supplied through a combination of collective- and state-run paramedical services, grassroots clinics and a hierarchy of hospitals that were virtually free. Schooling was also virtually free. Farmers owned their own homes. Those whose work-point earnings proved insufficient to meet the expenses received from their collectives food supplies, shelter, waivers for the minor school and health care fees, and burial. While there was no pension system for farmers, old-timers were often given small amounts of work-points in return for chores they could do around the village. In the cities, workers and government officials were guaranteed lifetime employment. Enterprises and government offices were, in effect, little welfare states, providing housing, education and health care at nominal cost. There was virtually no unemployment.<sup>10</sup>

Rural collectives were gone by 1983, and real prospects of economic insecurity have returned for many farmers. Land has been contracted out to households for terms of several decades (in order to reassure farmers), which makes it difficult to make the adjustments necessary to maintain the principle of relatively equal allocations of land per capita. Between 40,000,000 and 60,000,000 farmers have no land at all to work. Many tens of millions with too little land to support themselves have migrated to cities, where, if they are lucky, they can find work, often in sweatshops, in burgeoning informal and even illegal sectors, or with construction gangs. They live in peri-urban shantytowns, factory dormitories, or on their construction sites in shacks or even just out in the open. Urban state and collective enterprises managed to protect

themselves and their workers from initial, tentative efforts at economic restructuring in the 1980s. Unemployment did not begin to appear in earnest until after 1992, when the structural reforms went into high gear. Accurate statistics are impossible to come by, but official figures such as 4% of urban residents at the end of 2002 are widely disbelieved by serious analysts in and outside China, who often put the order of magnitude at double or triple that (Zhang 2003). In hard hit rustbelt cities such of the northeast, good estimates of unemployment run to 25% (Tanner 2004).

Workers who have been laid off<sup>11</sup> from enterprises that are still operating do generally receive a monthly benefit of a few hundred *yuan*. Those whose enterprises have completely shut can qualify for a small severance package. There is also a “minimum income benefit” for profoundly impoverished urban families who have no other means of support. Indeed, recently the central government has increased funding for it. But it is more than means tested: urbanites who are physically able to work cannot receive it even if there is no work for them. Likewise, those with the merest asset, such as a television purchased in the days when they had work, are ineligible. In any event, the average monthly benefit is only ¥56 (around \$7), which is not enough to purchase food, much less clothing. Nonetheless, around 4-5% of urbanites — 21,000,000 to 26,000,000 people — rely on it.<sup>12</sup>

In both urban and rural areas, education and health care are now available only upon payment of user fees, increasingly to private as well as public providers. In one recent study of villages in four counties encompassing a range of geographic and economic conditions, education costs for families with children in school ranged from 12% to 35% of outlays. Households borrowed between 29% and 175% of per capita income to meet those costs. Health care costs ranged between 5-14% of household income, and households borrowed between 48% and 320% of per capita income to meet them. Forty-one percent of households — and between 65% and 100% of poor households — had to go into debt when they experienced an emergency,

shock or other economic difficulty such as an injury to a breadwinner. Only 33% had sufficient savings to see them through, and only 2.5% received government assistance (Cook nd).

In the cities, the well-off can find and afford much of the health care they need, but for the urban poor it is a different story altogether. Taking in both urban and rural areas, by the early 21<sup>st</sup> century China ranked third from the bottom among all countries in the world in fairness of health care provision (Wong 2004). Likewise, educational fees and associated expenses have sharply increased, as has the opportunity cost for the poor of schooling children. “The national government has been unable to deliver on some priority programs such as universal basic education — China is still years away from providing nine years of free education to all children that was targeted for Year 2000” (Wong 2004). Particularly among the poor, it is not surprising that school attendance has, therefore, plummeted, most severely among girls. The number of girls attending primary school dropped from 65,000,000 in 1980 to 57,000,000 in 1990, and had only recovered to 62,000,000 by 2000, even though the female population grew by 27 per cent over the twenty-year period. In 2001, the illiteracy rate was 24 per cent for women, but only 8 per cent for men (Blecher 2003).

Rural seniors never got much in the way of income support from their collectives, but now there is no way to get even that. Unless they have a pension from having served in the armed forces or some other non-agricultural occupation at one time during their lives, they generally have no source of income whatsoever, and must rely completely on their families. The exceptions are those lucky few who live in wealthy villages where the local government or a native benefactor has financed an old age home. In the cities, enterprises and government offices which are still operating generally meet their pension responsibilities, though increasingly frequent cases of their failure to do so have become common flashpoints of protest. Retired workers in cities that have begun to fund nascent pension plans through their governments are beginning to receive benefits through them.

The degradation of China's social provision is especially striking when put in the context of the efflorescence of the economy overall, and the elite and middle classes in particular. There is scope for much more redistributive taxation and welfare provision. China also compares unfavorably with Vietnam, which has done more to maintain social welfare provision despite its slower growth (Wong 2004).

## **Politics and Policy**

At the outset of the structural reforms, increased inequality was, as we have seen, actually a goal of the structural reformers (under Deng's cynical slogan of "letting some get rich first,"). It has now, however, become a source of concern to the new leadership of Hu Jintao and Wen Jiabao installed in 2002-2003. They promptly moved to distance themselves symbolically from Jiang Zemin, their predecessor. Where Jiang was often seen greeting foreign businesspeople, Hu and Wen went down coal mines and met with AIDS patients. Beyond symbolic politics, they also undertook several policy initiatives. A "Great Western Development Strategy" gives greater emphasis than in the past to investment in the poorer provinces. A new program of rural poverty alleviation has been initiated, including support for farm production, rural education and training, and emigration from ecologically unsustainable destitute areas. These measures may have helped account for a bit of the mild moderation of inequality between 1995 and 2002.

Yet there are real problems with these policy initiatives and others that could be tried. The fiscal system that would handle the transfers is, variously, corrupt, dysfunctional and overly politicized in favor of the wealthier areas. For example, burgeoning civil service wage costs deprive local governments of the resources to promote development or redistribution. Moreover, tax rebates and other bailouts of local governments are biased toward urban areas, leaving the depressed rural areas out in the cold and, therefore, doing nothing about the urban-rural gap, which, as we have seen, is perhaps the country's most serious economic inequality (Wong 2004).

That in turn makes any reversal of China's regressive tax system much more difficult, though to be sure there is not much significant discussion in China about this issue anyway. The rural poverty alleviation plan — which is the most crucial to alleviating the core problem of the urban-rural gap — depends on further emigration, which runs up against the problem of rising urban crowding and the unwillingness of many city governments and their residents to take on still more migrants. Raising rural incomes also depends on increasing off-farm waged employment, which is, as we have seen, highly disequalizing. Finally, the rural economy would benefit from much improved terms of trade. But this would require policies that are now *verboden* under WTO rules.

Behind these matters of policy lie some complex politics. There is an intriguing debate in China over whether the government needs to worry about political destabilization due to inequality. Among political élites the protagonists side with Jiang (arguing that it is not a pressing problem) or Hu and Wen (arguing it is).<sup>13</sup> Among intellectuals, it is fought out between economic liberals, who have thus far been dominant, and a small group of thinkers known informally as the “new left”. While Hu, Wen and the new left ruminates openly that inequality may threaten the political stability that is one of their primary goals, their opponents could take comfort from the fact that the relationship between inequality and poverty on the one hand and social movements and protests on the other is often attenuated. They could point out that the Gini coefficient in the US is, at .45,<sup>14</sup> significantly higher than in China, yet it does not appear to be threatening political disorder there. Going further, they could argue, following Samuel Huntington, whose *Political Order in Changing Societies* (1968) was the first important work of Western political science to be translated and widely read in China, that certain kinds of reform can backfire, by raising popular expectations, legitimating protest around such issues, and even pumping more resources into the hands and pockets of local government officials whose activities **have** often been a flashpoint of protest. Finally, they seem to believe what western scholars of China are just beginning to learn: that the structural reforms and the central

government actually enjoy hegemony even within the working class, including its lower strata (Blecher 2002).

## **Conclusion: Capitalism and Inequality in China**

China has once again moved against the tides — this time, of its own state socialist experience of radically reducing social and economic inequality. In the latter 1990s it undertook in earnest transition to capitalism that had been proceeding hesitantly and unevenly since 1978. By the turn of the century, for example, state- and collectively-owned industries only produced 37% of the country's gross industrial output value, and employed 65% of its industrial workers (which itself evinces the crisis of those sectors) (Statistical Yearbook 2002). Moreover, remaining public firms operated within a largely marketized environment; among other things, they were in control of their profits and responsible for their losses. Central planning of production, prices and labor allocation were gone. State provision of welfare services had receded sharply. Foreign capital was flooding in, and foreign businesspeople had come to regard China as a comprehensible and navigable capitalist environment. Over this same period of a single generation, as we have seen, the country also went from being one of the most egalitarian societies in the world to one of the very least. The relationship between the country's capitalist transition and its rampant disequalization is, of course, multifaceted.

Khan and Riskin emphasize China's opening to globalization (n.d., 6-7 and 143-144). They note that from the onset of the structural reforms in 1978 through the mid-1980s, inequality actually declined. The major reason was the burst in rural incomes associated with decollectivization and marketization (Khan and Riskin n.d.). Only when the Chinese economy began seriously to open to the world economy in the mid-1980s, they argue, did inequality take off, as coastal areas became the beneficiaries of massive investment and enterprises there began to earn large profits from those investments. There is a great deal of truth in their argument. China's export-oriented industrialization promoted four new kinds of inequalities. First, the

coastal areas where it was concentrated grew far more rapidly than the rest of the country. Second, since much of the new export-oriented industrialization took place in cities and in rapidly urbanizing towns and suburbs, the urban-rural gap blossomed. Third, the capitalists and managers of the export-oriented firms, and those who provided finance, infrastructure and consumption goods to them, grew far richer than the workers who toiled, sometimes in sweatshop conditions, on their factory floors. Fourth, the rise of an internationally competitive sector increased the pressure on state- and collective-run firms, resulting in closures, unemployment, employment insecurity, reduced welfare benefits, and downward pressure on wages (Gallagher 2005). These structural changes produced a range of new economic inequalities, *e.g.*, between better-paid workers in the rising private factories and those in publicly-owned firms languishing in low-paid employment or, increasingly, unemployment.

Yet this last set of changes was grounded as much or more in domestic as international factors that fostered inequality. State and collective economic institutions began to come under attack in the 1980s. Rural decollectivization, more or less complete by 1983, undermined institutions that had provided a modicum of education, health care and minimum income to all, albeit with marked local variation. Combined with marketization, decollectivization also created opportunities for entrepreneurship that some village governments and individuals could take up far more actively and successfully than others. Rapidly expanding rural industrialization also produced new inequalities between managers and even workers in these firms on the one hand and their neighbors who continued to farm on the other. On a national scale, industrial and commercial investment, now driven by market forces rather than political ones, became even more sharply urban biased than it had been in the Maoist period. In the cities and towns, state and collective sector firms came under various forms of pressure to improve efficiency, productivity and profitability. As they were made increasingly responsible in the latter 1980s and 1990s for covering their losses, many began to reduce wages and benefits, downsize or close, producing a massive wave of layoffs. All this opened new horizons of

inequality and impoverishment for the working class and between it and other classes. Beginning in 1992, ideological, political and administrative restrictions on the development of the private sector were swept aside, producing an unprecedented period not just of economic growth but also of embourgeoisement. The Jiang Zemin government evinced not the slightest interest in the distributive consequences.

One reason it did not is that it actually helped create China's new bourgeoisie. In Xinji Municipality (Hebei Province), for example, the local government turned small private enterprises into major capitalist firms employing many hundreds of workers by inducing the state banks to offer them gargantuan lines of credit, making all the arrangements for the construction of new facilities for them, situating those facilities within newly planned urban districts replete with the necessary infrastructure, and doing much of the market research and development for their businesses. It also constructed spacious new housing befitting such entrepreneurs, modern schools for their children to attend, hospitals for them to visit, and other urban services and amenities for them to enjoy. Once the newly expanded firms were up and running, it helped them collude to control rapidly rising labor costs and enter foreign markets. It continues such work on an ever expanding scale today.<sup>15</sup>

The relationship between the Chinese state and the burgeoning bourgeoisie does not always take the form of such direct state developmentalism, however. In other places, such as the well-known Wenzhou model (of coastal Zhejiang Province), it simply backed off state socialist economic planning and management and relied on the local people to uncork the new capitalist economy themselves. In other parts of China, especially in the south, government officials went into business themselves, sometimes with partners from outside the state, sometimes not. They also enriched themselves by putting the squeeze on the nascent capitalists.

Whatever the modalities, in the 1990s the Chinese state fostered the rise of a new bourgeoisie that powered the stunning economic growth that in turn sustained the state through its difficult and controversial structural reforms of prices and labor markets. Having created its

own new constituency, the state bonded with it, which is an important key to its political success in maintaining power at a time when other ruling communist parties have gone onto the scrapheap of history.<sup>16</sup> At the very highest levels, Jiang Zemin was, as we have seen, more fond of holding publicized meetings with Chinese and foreign businesspeople than his country's workers. He revised the Party's official ideology to make it the representative not of the proletariat but of "the development trends of advanced productive forces", which includes the bourgeoisie.<sup>17</sup> He even went so far as to propose the admission of capitalists to the Communist Party. At the middle and local levels, government officials began working hand-in-glove with local businesspeople, albeit in different ways from place to place. In such a context, it is not surprising that the state did not undertake any serious program of economic redistribution.

The Hu/Wen leadership that came to power in 2002-2003 has evinced a bit more concern about the problem, as we have seen. This may have had to do with their own ideological proclivities, about which little, alas, is known. It may have had to do with shifts within the leadership and staff with whom they interact, though again the inner corridors of power remain pretty impenetrable. It surely was a response to the steady crescendo of labor protest that culminated in two major protests in 2002 in Daqing — the Maoist era model of industrial development, no less! — and in Liaoyang, both of which threatened to turn into a serious strike wave. But in attempting to become more serious about the country's galloping inequality, the government faces more than the institutional problems we have examined (such as a dysfunctional and urban-biased financial system) in undertaking any serious program of redistribution. Tied as strongly as it is to China's new bourgeoisie, and dependent as it is on the continuing rapid economic growth which the bourgeoisie alone can deliver, it cannot go very far at all to promote greater equality.

The Washington consensus holds that capitalist economic development produces a modern middle class which is the social basis of democracy. Surveying the history of political modernization across a range of countries, Barrington Moore said, famously, "no bourgeois, no

democracy” (1966, 418), which of course is not the same thing. For Moore, the bourgeoisie has, historically, sought to build parliamentary representative institutions when and where it has had to take up political opposition to the precapitalist crown in order to pursue its economic interests. In early 20<sup>th</sup>-century China it did, but it was too weak, and the country’s crisis too profound, to permit such embryonic efforts to take root. By the end of that century, China’s nascent bourgeoisie could grow and prosper very well, thank you, by cooperating with the state, not opposing it. Moore argued that, as in Japan, such an alliance can provide a key element of the social basis for authoritarianism. In China today, the rapidly rising bourgeoisie views democratization as a potential threat that can open the door to political instability (which is bad for business) or, worse, to political power for workers and farmers, thereby endangering its privileged relationship to the state. And the inequality and impoverishment its rise has fostered surely do not provide the groundwork for a smooth transition to a functioning democracy.

The obstacles to political or economic inequality do not lie only in the realm of political sociology, however. The structural reforms have also become hegemonic among the working class — including many of the poorer, most insecure ones and even the unemployed.<sup>18</sup> The government does not face demands from the poor for redistribution. Protests, which are becoming common in most cities and much of the countryside, target local officials suspected of corruption or incompetence, not national leaders and their policies. Indeed, the latter are often cited by protesters as potential sources of legitimacy and support for their demands. And those demands are parochial ones for relief, not political ones for redistribution or other policy, much less structural, change.

In the end, then, China confronts us with a fundamental political puzzle — one, moreover, with deep moral implications. As Americans, we benefit every day, in myriad ways, from the intensely unequal political economy that China has created. Most of us do not give this a moment’s thought, of course. Among those who do, many believe or are happy to be lulled by the felicitous projections of the Washington consensus. And those who take a more critical view

need to confront the fact that they do not find a great deal of resonance in China itself. China's poor, and those at the lower rungs of its income distribution, say that they want a decent livelihood, but they do not criticize the rich or their country's burgeoning inequality. Some, perhaps many, of them would probably join their political leaders in regarding criticism and policy advice from Americans as presumptuous at best and intellectually and politically imperialistic at worst. They are prone to treat our remonstrations with no more seriousness than we take their government's attacks on, for example, our profligate use of resources. This is not a political or moral argument for keeping silent or descending into an immobilizing relativism. It is, rather, a caution that critics keep firmly in mind their own position both in relation to the problem and to those living it.

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<sup>1</sup> Marc Blecher, "Income Distribution in Small Rural Chinese Communities." *China Quarterly* 68 (December 1976): 797-816; \_\_\_\_\_ and Mitch Meisner, "Economic Growth and Equality in Rural China: Xiyang

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<sup>2</sup> The commonplace term for the vast changes that have taken place in China since 1978 is ‘reform’. It is appropriate insofar as it refers to aspects of the process by which these transformations have occurred. Change has been pursued gradually and without large-scale violence. ‘Reform’, however, can hardly capture the depth and breadth of the substance of the changes. Since 1978, China has not merely been tinkering with, perfecting or toning down Maoist state socialism. Something far more thoroughgoing has taken place. The country has excised, root and branch, many of the basic elements of its Maoist polity, economy, society and political culture. It has questioned almost everything that went before. Its leaders and people have sought to create new forms of political authority, economic activity, social organization and cultural expression that have no precedent in China or indeed the world. If revolution is defined as a ‘basic transformation of a society’s state and class structures’ (Theda Skocpol, *States and Social Revolutions* [Cambridge: Cambridge University Press, 1979], 4), then what China has been undergoing is no mere ‘reform’, but rather something that would more aptly be called a peaceful revolution. Another, perhaps less oxymoronic, term to capture China’s gradual and peaceful process toward ‘basic transformation of the state and class structures’ is ‘structural reform’.

<sup>3</sup> On this point, it would be interesting to compare China with Taiwan or Korea, which, like it, also underwent significant land reform. Any such comparison would, however, have to take account of China’s much greater range of natural conditions.

<sup>4</sup> Yet the absolute range increased due to overall economic growth.

<sup>5</sup> “Why the increase instead of decrease of poverty population?” *People’s Daily Online* ([http://english.people.com.cn/200407/21/eng20040721\\_150336.html](http://english.people.com.cn/200407/21/eng20040721_150336.html))

<sup>6</sup> I have not yet identified more recent data.

<sup>7</sup> In using this term, I do not presuppose any particular level of integration of the various strata that comprise it. That is a prepossessing question well beyond the scope of this paper.

<sup>8</sup> *Statistical Yearbook*, table 5.10.

<sup>9</sup> By the turn of the century, official unemployment figures were running at 12,000,000, but were surely much higher. As for rural migrants, Beijing alone has over 3,000,000.

<sup>10</sup> There was, however, plenty of underemployment in a society that used employment to provide social welfare. That arrangement made many state and collective enterprises unable to attain profitability with the onset of the structural reforms, which, as we shall see, forced restructuring and closures that in turn produced working class immiseration and increased inequality.

<sup>11</sup> This term (*xia gang*) denotes that the layoff is formally temporary, even if in fact it is usually permanent. The enterprise and the worker maintain a relationship. For example, if the firm comes upon better times, the laid-off workers should be called back to work before any new hires occur. And if they are, they are obliged to return even if they have moved on to other employment.

<sup>12</sup> Personal communications from Jane Duckett and Dorothy Solinger.

<sup>13</sup> Personal interview with a source who must remain anonymous.

<sup>14</sup> <http://www.cia.gov/cia/publications/factbook/fields/2172.html>

<sup>15</sup> Blecher and Shue, “Into Leather;” Marc Blecher, “Into Space: The Political Economy of Urban Land Use in Xinji.” Paper prepared for presentation at CERI (Centre d’Études et de Recherches Internationales), Science Po,

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16 Thanks to Valerie Bunce for emphasizing this point.

17 <http://www.china.org.cn/english/zhuanti/3represents/68735.htm>

18 Blecher, "Hegemony." Similar research on farmers has, to my knowledge, not been carried out.