

The role of structural and political factors in the determination of Chinese wages: a critical analysis of the Lewisian model of development with unlimited supply of labor

Since the end of the 1990s, real wages in China have experienced fast growth. Over the last years, migrant wages have also been rising rapidly. For many scholars, this wage behavior is likely to persist due to its structural nature, associated with the supposed end of the era of unlimited supply of labor, in the context of 1954 Arthur Lewis' formulation. Given this debate, the objective of the present paper is to assess the role of structural and political factors in the determination of Chinese industrial real wages, which are at the core of Chinese exports competitiveness. In order to achieve this goal, we separate our analysis in two levels: an empirical one and a theoretical one, in which we will mainly be concentrated.

On the empirical level, we briefly analyze the structure of employment and wages, especially on manufacturing, concluding that although the rising wages have been interpreted as a sign of the scarcity of labor, there is still 25% to 36% of the workforce employed on agriculture, depending on the set of statistical data utilized. Additionally, we find that even in the presence of fast wage growth and taking into account the appreciation of the yuan, the competitive position of Chinese exports has not been yet qualitatively altered. It is still built upon the low wages of Chinese workers.

Even if the possible structural upward pressure associated with the end of surplus labor on agriculture is ruled out by looking at the broader employment picture of China, we claim that the "scarcity of labor" academic opinion on the rapid real wage growth is not only based on a confusion about the different Chinese statistical sets of data, but also – and mainly – due to theoretical problems. It has been common in academic literature to discuss the so called Lewisian turning point without considering the specificity of the Chinese economy in the Lewisian framework and the limitations of the model. Moreover, this thesis is sustained on a misinterpretation of the Lewis framework derived from the improper translation of the Lewisian economic duality into a dichotomy between industry and agriculture. We argue that within the framework of the development with unlimited supply of labor, wages in China are politically and not structurally determined even in the presence of a huge labor surplus.

Additionally, the paper seeks to shed light on the insufficiencies of the Lewisian framework itself. In Lewis (1954), there is a particular treatment of the gains in productivity in

the capitalist sector that generates serious complications. Technological progress, in his framework, is translated in the augmentation of the stock of capital, meaning that productivity remains constant. Since there is no technological displacement of work, the capitalist sector appears only as an absorber of labor, without creating new redundant workers. Consequently, the model only takes into account what has been called as “disguised employment” and does not have room for the unemployment category, giving theoretical ground for the “scarcity” of labor position in the explanation of the rising wages. We argue that this is a consequence of Lewis compromising simultaneously with both the classical political economy and the neoclassical theory.

Finally, we conclude that if Chinese industrial wages are politically determined, there are no possible ways in predicting the future trend of Chinese real wages merely by economic analysis. In order to gauge its behavior, one should turn to state policy and its responses to social conflicts, in the broader picture of China’s class struggle.