China: Wage share plunges

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Despite China's spectacular GDP growth of nearly 10% per year since 1978 — and despite Beijing's claim that the country remains on a socialist course — in the eight years to 2005, workers' wages as a proportion of GDP plunged from 53% to 41.4%.

The figures were revealed by a September World Bank study, Rebalancing China's Economy — Modelling a Policy Package. Even in the US, the wage share was 57% of the 2005 national income.

While Beijing maintains it is building socialism, its pro-capitalist course has meant it can't free China from a central contradiction of capitalism: Capitalists' ability to make profits stems from workers receiving remuneration only for a portion of their labour during a working day, however this means capitalists' profits from this exploitation of labour cannot be fully realised within the scope of a country's economy because the working majority does not have the purchasing power to buy the commodities it produces.

This contradiction is expressed in the declining weight of personal consumption measured against China's GDP — dropping by more than 12 percentage points since the early 1990s (when the full-scale dismantling of China's post-capitalist economy began) to about 40%, according to a September International Monetary Fund report.

In absolute terms, personal consumption in China has risen by 8% since the early 1990s, but it hasn't matched the sharp rise in investments — so commodities that there is no "effective demand" for (i.e., ability for Chinese working people as a whole to purchase) have to be exported or lie idle (preventing the realisation of profits). However, most major capitalist economies are also suffering from a similar problem of overcapacity, making exports as a way to alleviate this contradiction an increasingly non-viable option.

This explains why trade surpluses are an increasingly sensitive matter in international relations. Mainly due to its trade surplus, China's current account surplus surged more than eightfold since 2000 to US$250 billion in 2006 — the largest in the world. As a result, Beijing is under rising international pressure, especially from the US. Beijing has promised to boost domestic consumption in order to reduce exports, but this is easier said than done.

The decline in the relative weight of China's personal consumption against the GDP is partly related to rising household savings, triggered in part by the wholesale withdrawal of social services previously provided via state enterprises or rural communes. As the World Bank report points out: "Households in China save more than those in the OECD countries, in part because they have to carry the bulk of the burden of health and education and are worried about their pension."

Chinese households now save 25-30% of their income, reflecting only a moderate increase in recent years. The IMF study estimates that this rise only explains about one percentage point of the 12 percentage point drop in the weight of personal consumption. The study notes: "Nearly all the decline [in the share of personal consumption in GDP] is attributable to a falling share of national income going to households, including wages, investment income, and government transfers." Government transfers are linked closely to Beijing's social spending. Wages are by far the biggest component in Chinese households' income.

A declining wage share implies a rising profit share. China is not alone in witnessing this phenomenon, however the October 11 Economist observed that "nowhere has the drop [in wage share] been as huge as in China". While it is generally good news for international capital investing in China and for the country's nascent capitalist class, it has not been without costs for Beijing. So-called "mass incidents" (mass protests) rose from 10,000 in 1994 to 87,000 in 2005 in reaction to the impact that Beijing's pro-capitalist course has had on working people.

This is the background against which Beijing has sought in recent years to "rebalance" the economy to build a "harmonious society". Chinese Premier Wen Jiabao noted at the National People's Congress in March that "the biggest problem with Chinese economy is that the growth is unstable, unbalanced, uncoordinated, and unsustainable".

P.S.

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