Income Disparity in China

Crisis within Economic Miracle

Xu Dianqing
University of Western Ontario, Canada

Li Xin
Beijing Normal University, China
## CONTENTS

<table>
<thead>
<tr>
<th>Chapter 1. The Widening Gap between the Rich and the Poor will Inevitably Divide the Society</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Facing the Fact of the Widening Gap between the Rich and the Poor</td>
<td>2</td>
</tr>
<tr>
<td>1.2 Gini Coefficient: A Measure of the Gap between the Rich and the Poor</td>
<td>5</td>
</tr>
<tr>
<td>1.3 Three Gaps and Six Combinations</td>
<td>10</td>
</tr>
<tr>
<td>1.4 Regional Factors of the Gap between Urban and Rural Areas</td>
<td>12</td>
</tr>
<tr>
<td>1.5 Income Gap among All Classes of Society</td>
<td>15</td>
</tr>
<tr>
<td>1.6 Urban and Rural Factors in the Gap between the Rich and the Poor</td>
<td>16</td>
</tr>
<tr>
<td>1.7 The Gap between the Rich and the Poor and Social Stability</td>
<td>21</td>
</tr>
<tr>
<td>1.8 The Limitations of the Gini Coefficient</td>
<td>24</td>
</tr>
<tr>
<td>1.9 Different Policies to Govern the Three Gaps</td>
<td>25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 2. Lewis Turning Point</th>
<th>27</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Lewis Model of Chinese Transition in a Dual Economy</td>
<td>28</td>
</tr>
<tr>
<td>2.1.1 Boundary division and the basic assumption of a dual economy</td>
<td>28</td>
</tr>
<tr>
<td>2.1.2 How many turning points are there?</td>
<td>31</td>
</tr>
<tr>
<td>2.1.3 Three curves in the Lewis model</td>
<td>33</td>
</tr>
</tbody>
</table>
Table of Contents

3.6 Approaches to Transfer the Surplus Rural Labor ............................................. 91
3.7 An Arduous Historical Task ................................................................. 94
3.8 Removing the Obstacles in the Transfer of Surplus Rural Labor Force .......... 97
3.9 Speak for Whom? ...................................................................................... 98

Chapter 4. Story Behind the Labor Shortage ...................................................... 101
4.1 How Does Labor Shortage Occur? ............................................................ 101
4.2 Cyclical Changes in the Population Structure ............................................ 106
4.3 Regional Characteristics of Labor Shortage ................................................. 110
4.4 Farm Workers’ Rational Choice ................................................................. 111
4.5 Labor Shortage and Industrial Upgrade ..................................................... 117
4.6 Labor Shortage in Terms of Farm Workers’ Age, Education, and Psychological Characteristics ................................................................. 119

Chapter 5. Rule of Industrial Transfer ............................................................. 123
5.1 Labor Shortage and Industrial Transfer ..................................................... 123
5.2 Historical Track of the Transfer of Labor-intensive Products ......................... 125
5.3 America: The First Runner in the Relay Race ............................................. 126
5.4 Japan: Recipient of the Baton from the United States .................................. 129
5.5 Four Asian Economic Giants: Receiving the Baton from Japan ....................... 130
5.6 China: The Fourth Baton ......................................................................... 132
5.7 Changing the Rule of Wages in Industrial Transfer ...................................... 136
5.8 Industrial Transfer: Inexorable Law of Economic Development .................... 136
5.9 Length of Time for Holding the Labor-intensive Products ............................ 139
5.10 Industrial Transfer and the Migrant Worker .............................................. 141
5.11 Passing the Baton of Industrial Transfer to the Next Economy ..................... 144
Chapter 6. Consumption and Expansion of Domestic Demand

6.1 Theory of Economic Growth Stages ........................................ 150
6.2 Expansion of Domestic Demand and Investment in Infrastructure ........................................ 151
6.3 Residents’ Consumption Does Not Decline ........................................ 154
6.4 The Increase in Residents’ Consumption Level Requires Comprehensive Treatment ........................................ 159
6.5 Do Government Subsidies Stimulate Consumption? ........................................ 165
6.6 The Drinker’s Heart is not in the Cup ........................................ 168

Chapter 7. How Long Can the High Savings Ratio Last?

7.1 Is the High Savings Rate at Fault? ........................................ 172
7.2 Consumption and Savings: Any Increase for One Must Mean a Decline for the Other ........................................ 174
7.3 Savings Ratio of Countries in the World Varies Considerably ........................................ 176
7.4 Consumption Theory and Elements that Determine Savings ........................................ 178
7.5 First-Generation Effect of Savings ........................................ 181
7.6 Empirical Analysis of China’s Savings Rate ........................................ 184
7.7 How Long Can the High Savings Rate Last? ........................................ 190
7.8 Never to be Misled by Others in Exceeding the Proper Limits in Righting a Wrong ........................................ 192

Appendix 7.1 ........................................ 194

Chapter 8. The Proportion of Labor Compensation

8.1 The Confusing Question ........................................ 196
8.2 Is the Proportion of Labor Compensation Actually Declining? ........................................ 197
8.3 Change in the Statistical Rules Reduces Labor Compensation ........................................ 200
8.4 Change in the Industrial Structure Results in the Declining Proportion of Labor Compensation ........................................ 204
8.5 Influence of the Adjustment in the GDP Data on the Proportion of Labor Compensation ........ 207
8.6 Is the Proportion of China's Labor Compensation in the GDP Low? ......................... 210
8.7 Neither Meeting Trouble Halfway Nor Making Much Ado About Nothing .................... 212

Chapter 9. Is the Gap Between Urban and Rural Areas Widening or Narrowing?
9.1 Determining the Cause and Applying the Right Solutions .......................... 218
9.2 The Strange Phenomenon Violating the Economic Theory .................. 219
9.3 The Division of Urban and Rural Populations ................................. 221
9.4 Space Distribution of the Farm Workers ............................................. 223
9.5 Is the Farm Workers' Income Included in that of the Urban Residents or the Rural Residents? . 225
9.6 Narrowing the Gap between Urban and Rural Areas is A Serious Challenge at Present .......... 226

Chapter 10. The Minimum Wage Law is a Double-edged Sword ................................. 231
10.1 The Trend in Increasing the Minimum Wage ...................................... 232
10.2 Minimum Wage in Countries all over the World .................................. 235
10.3 The Calculation Method for the Minimum Wage ................................. 243
10.4 The Dispute Sparked by the Minimum Wage Law ............................... 244
10.5 When to Set up the Minimum Wage ................................................. 247
10.6 Market Mechanism and the Minimum Wage Law ............................... 249
10.7 Balance Between the Market and the Government ................................ 251
10.8 The Timing of Implementing the Minimum Wage Law .......................... 253
10.8.1 Timeline of the implementation of the minimum wage law of the four Asian economic giants ... 254
10.8.1.1 Chinese Taiwan: 1968 ...................................................... 254
10.8.1.2 South Korea: 1986 ...................................................... 254
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.8.1.3</td>
<td>Chinese Hong Kong: In discussion</td>
<td>255</td>
</tr>
<tr>
<td>10.8.1.4</td>
<td>Singapore: No minimum wage legislation</td>
<td>256</td>
</tr>
<tr>
<td>10.9</td>
<td>Relationship Between the Minimum Wage and the Unemployment Rate</td>
<td>256</td>
</tr>
<tr>
<td>10.10</td>
<td>Postponement of Increasing the Minimum Wage</td>
<td>262</td>
</tr>
<tr>
<td>Appendix 10.1</td>
<td></td>
<td>264</td>
</tr>
</tbody>
</table>

**Chapter 11. The Population Trap and the Demographic Dividend**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.1</td>
<td>Distinguishing the Stock and Increment of Labor</td>
<td>268</td>
</tr>
<tr>
<td>11.2</td>
<td>The Necessary Condition for the Population Trap</td>
<td>269</td>
</tr>
<tr>
<td>11.3</td>
<td>Cyclic Fluctuation of Population Distribution in China</td>
<td>272</td>
</tr>
<tr>
<td>11.4</td>
<td>Disturbance of the Population in China</td>
<td>276</td>
</tr>
<tr>
<td>11.5</td>
<td>Population Fitted Line of Developed Countries</td>
<td>277</td>
</tr>
<tr>
<td>11.6</td>
<td>Trend of the Population Structure Change in Developing Countries</td>
<td>279</td>
</tr>
<tr>
<td>11.7</td>
<td>Demographic Dividend and Economic Growth</td>
<td>283</td>
</tr>
</tbody>
</table>

**Chapter 12. Tax Reform and the Gap between the Rich and the Poor**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.1</td>
<td>Three Levels of the Distribution Mechanism</td>
<td>288</td>
</tr>
<tr>
<td>12.2</td>
<td>A Vague Statement is Difficult to be Implement</td>
<td>289</td>
</tr>
<tr>
<td>12.3</td>
<td>How to Promote Fairness in the Production Link</td>
<td>293</td>
</tr>
<tr>
<td>12.4</td>
<td>The Goal of Tax Reform is to Reduce Taxes</td>
<td>295</td>
</tr>
<tr>
<td>12.5</td>
<td>The Planned Economy Characteristics of the Current Tax System</td>
<td>297</td>
</tr>
<tr>
<td>12.6</td>
<td>Basic Concept of Tax Reform</td>
<td>301</td>
</tr>
<tr>
<td>12.7</td>
<td>The Computable General Equilibrium in the Tax Reform</td>
<td>304</td>
</tr>
<tr>
<td>12.8</td>
<td>Scenarios and Results</td>
<td>308</td>
</tr>
<tr>
<td>12.9</td>
<td>Will the Reduction of the Tax Rate Diminish the Government Tax Revenue?</td>
<td>316</td>
</tr>
<tr>
<td>12.10</td>
<td>Property Income and the Income Gap</td>
<td>318</td>
</tr>
<tr>
<td>12.11</td>
<td>Specific Conditions of Tax Reform</td>
<td>321</td>
</tr>
</tbody>
</table>
Contents

12.12 Why is Tax Reform Extremely Difficult to Implement? 323

Chapter 13. Preparing for Danger in Times of Peace to Prevent a Financial Crisis 327

13.1 Financial Risks Brought by Excess Currency Liquidity 328
13.2 The Dammed Lake Formed by the Savings Deposits of Urban and Rural Residents 331
13.3 Seriously Distorted Fund Flow 334
13.4 Threat of the Negative Interest Rate 337
13.5 Will Deflation Occur? 339
13.6 Prevent Imported Inflation 341
13.7 Preparing for Danger in Times of Peace and Strengthening Awareness of Crisis 342
13.8 Characteristics of a Financial Crisis 345
13.9 Rapid Economic Development Does Not Mean No Financial Risk 346
13.10 Deal with the Situation Calmly to Solve the Crisis 349

Chapter 14. Populism Experiment of Latin America 351

14.1 The Results of Promoting Populism Come in Opposites 352
14.2 The Rise and Fall of Peronism 355
14.3 The Mud Left by Populism 359
14.4 Chile’s Populism Tragedy 361
14.5 The Lessons of Populism in Latin America 363

Chapter 15. Who Divides Thailand? 365

15.1 Where Did the Red-Shirt and Yellow-Shirt Armies Come From? 365
15.2 Source of the Upheaval in Thailand 369
15.3 Polarization Intensifies the Gap between the Rich and the Poor 372
15.4 Blood-stained Street Full of Violence and Unrest 375
15.5 Division of Society Led to Unending Trouble 377
Chapter 16. Criticizing Populism and Depending on Market Mechanisms to Narrow the Gap between the Rich and the Poor

16.1 What Is Populism? ........................................... 382
16.2 Origin of Populism ........................................... 384
   16.2.1 Noble intellectual stage of populism ............... 384
   16.2.2 Civilian intellectuals paved the way for the Bolshevik ............................................................. 386
   16.2.3 Populism and social morality ....................... 388
16.3 Variability of Populism .................................... 389
16.4 Paradox of Populism ........................................ 390
16.5 Reasons and Conditions for the Spread of Populism .. 391
16.6 Consequences of the Spread of Populism ............. 396
16.7 Guided Populism According to Circumstances and Taking Precaution Beforehand ....................... 398
16.8 Dangerous Sign of a Divided Society ................... 400
16.9 Two Sides of a Coin: Market Mechanism and Government Intervention ............................... 401
16.10 The Sole Basis of Government Policies is to Liberate Productive Forces and Promote Social Progress . . . . 403

References 409

Index 417