

Restructuring the Triangle:

*Labor Market Reform, Income Distribution and
Economic Growth in China*

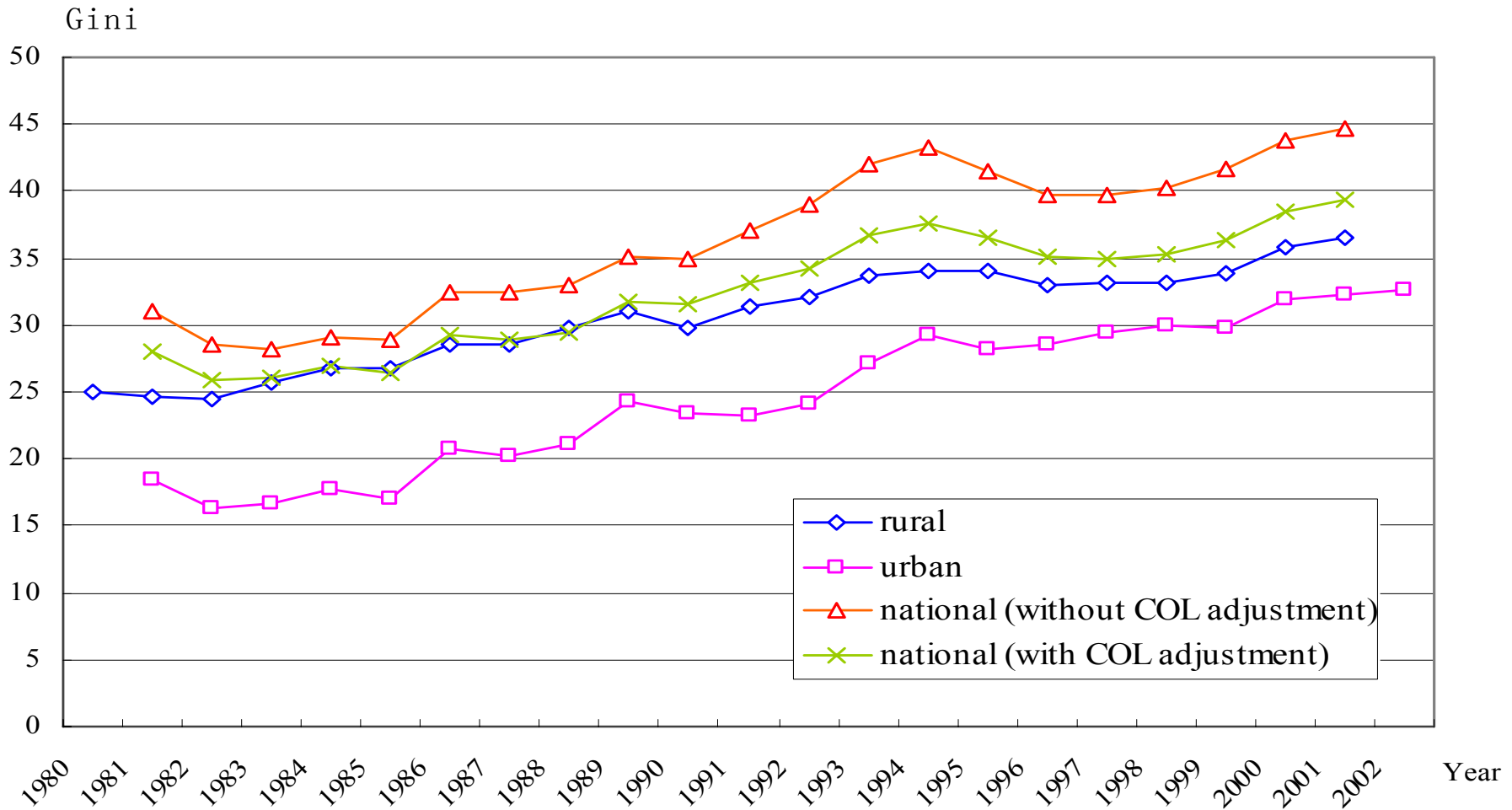
Ming LU
(Fudan University)

When Urbanization Meets Globalization

- Dual Imbalances
- Internal: **enlarging inequality** → low domestic demand → high public investment, but low demand + high export (trade dependency ratio=65.66% in 2006) + inflation and capital market bubble + low innovation
- External: **low labor costs** (migration, labor market reform, poor labor protection) + undervalued RMB → rising export and too much foreign currency reserve (1946.030 bn USD in Dec. 2008) → trade conflicts

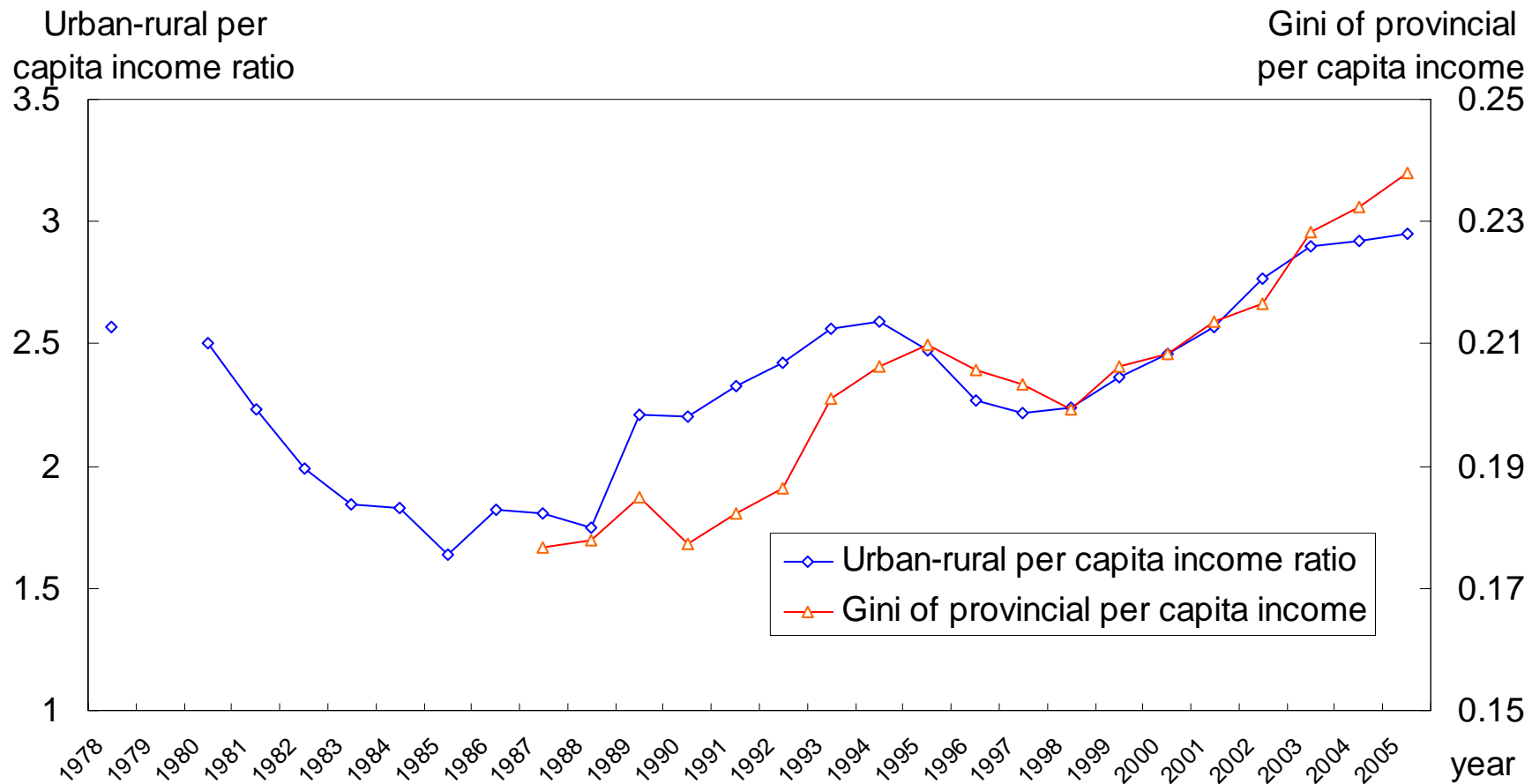
Inequality rising

(Ravallion and Chen, 2007)

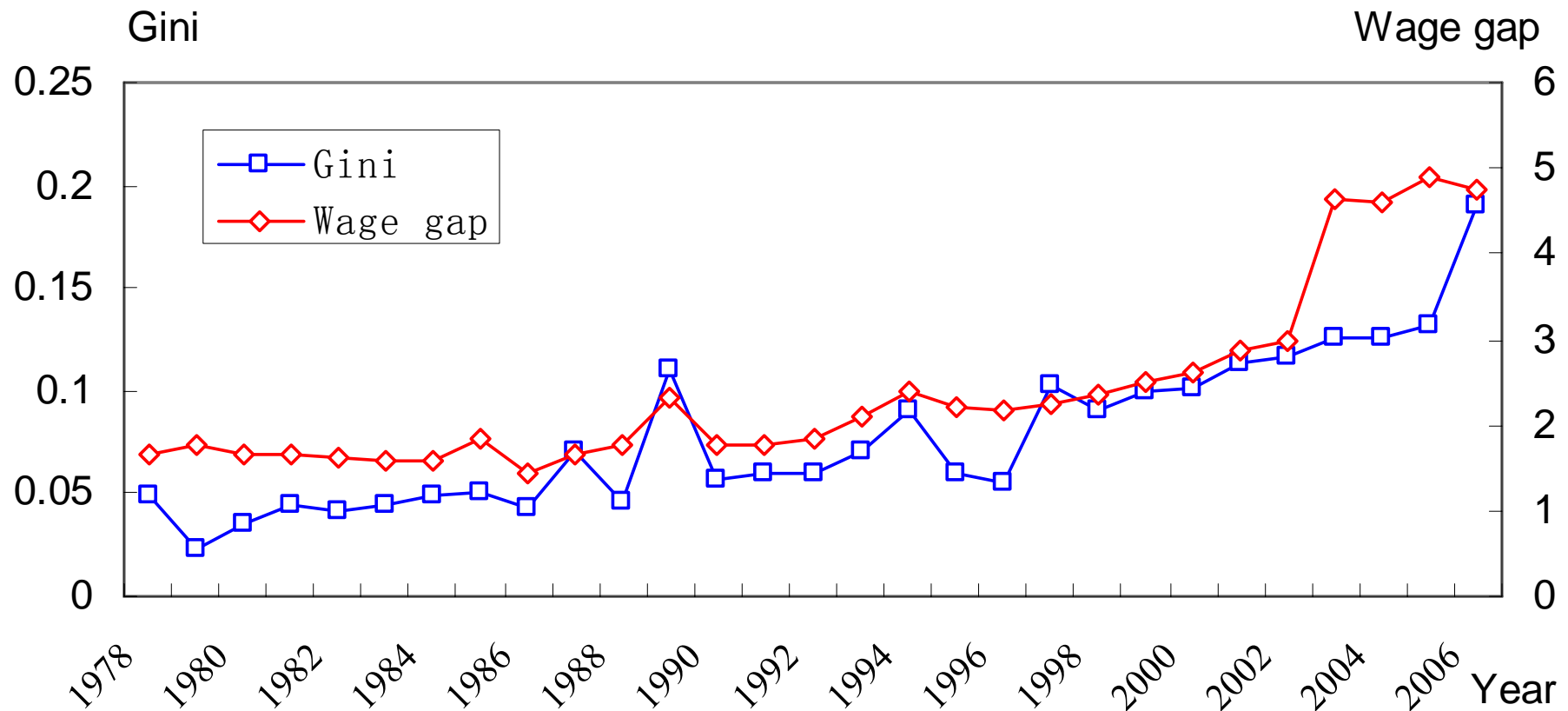


Recent Gini is 0.46.

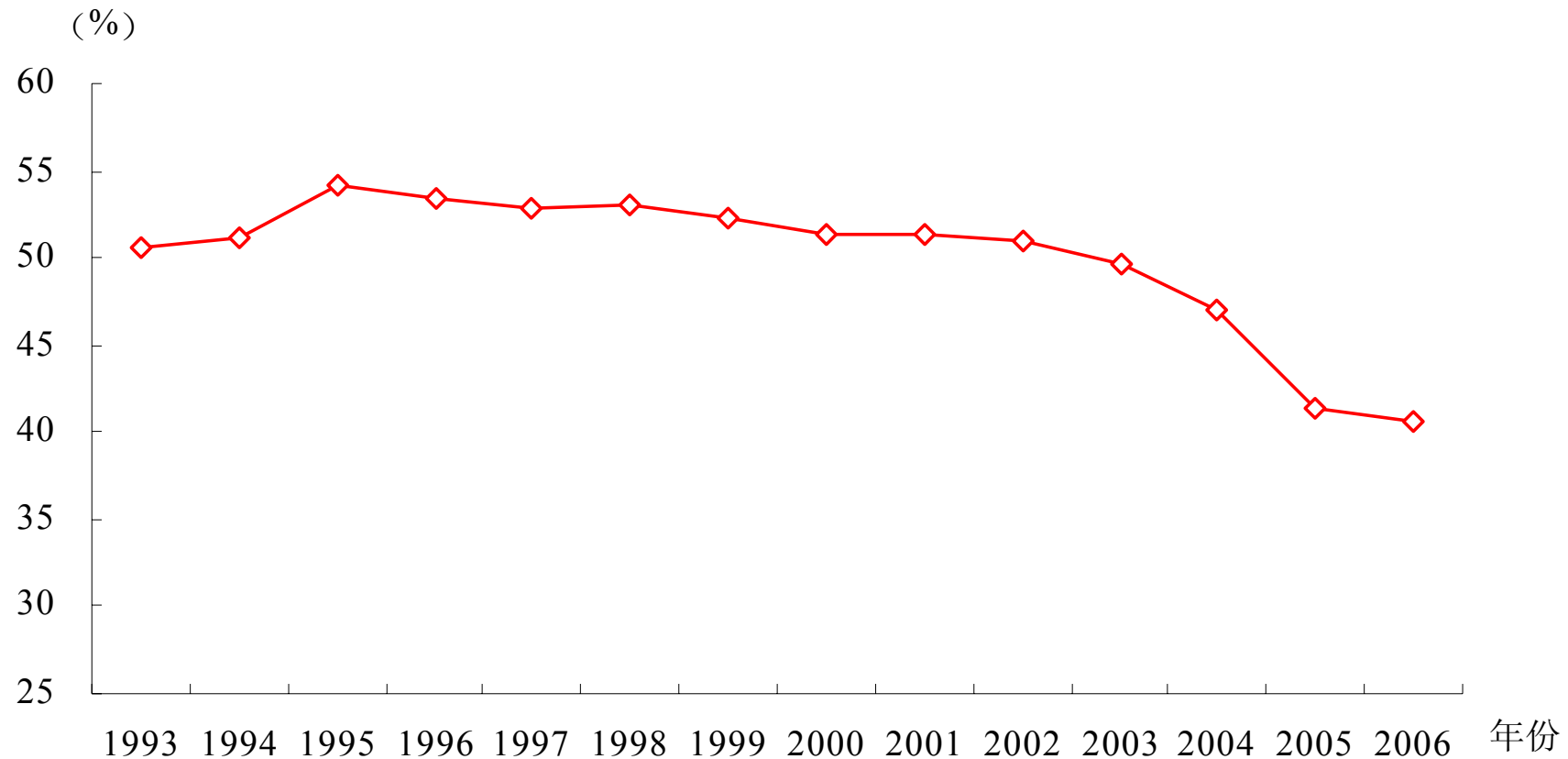
Urban-rural income gap contributes to 70-80% to Interregional disparity



Inter-industrial Wage Differentials (1978-2006)

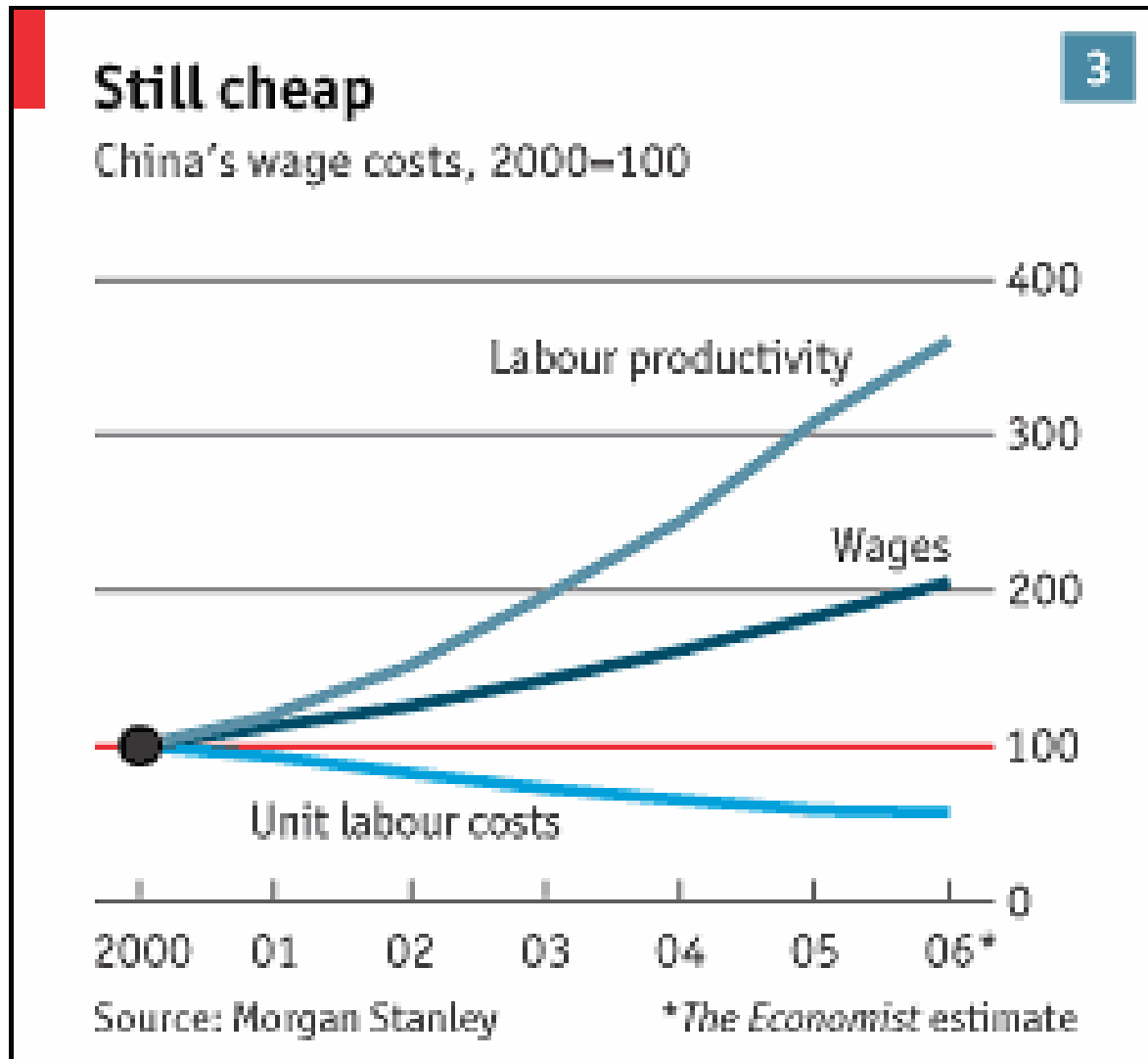


Labor's share in national income (1993-2006)



Globalization and competition have weakened
labor's market position.

Why global imbalance?



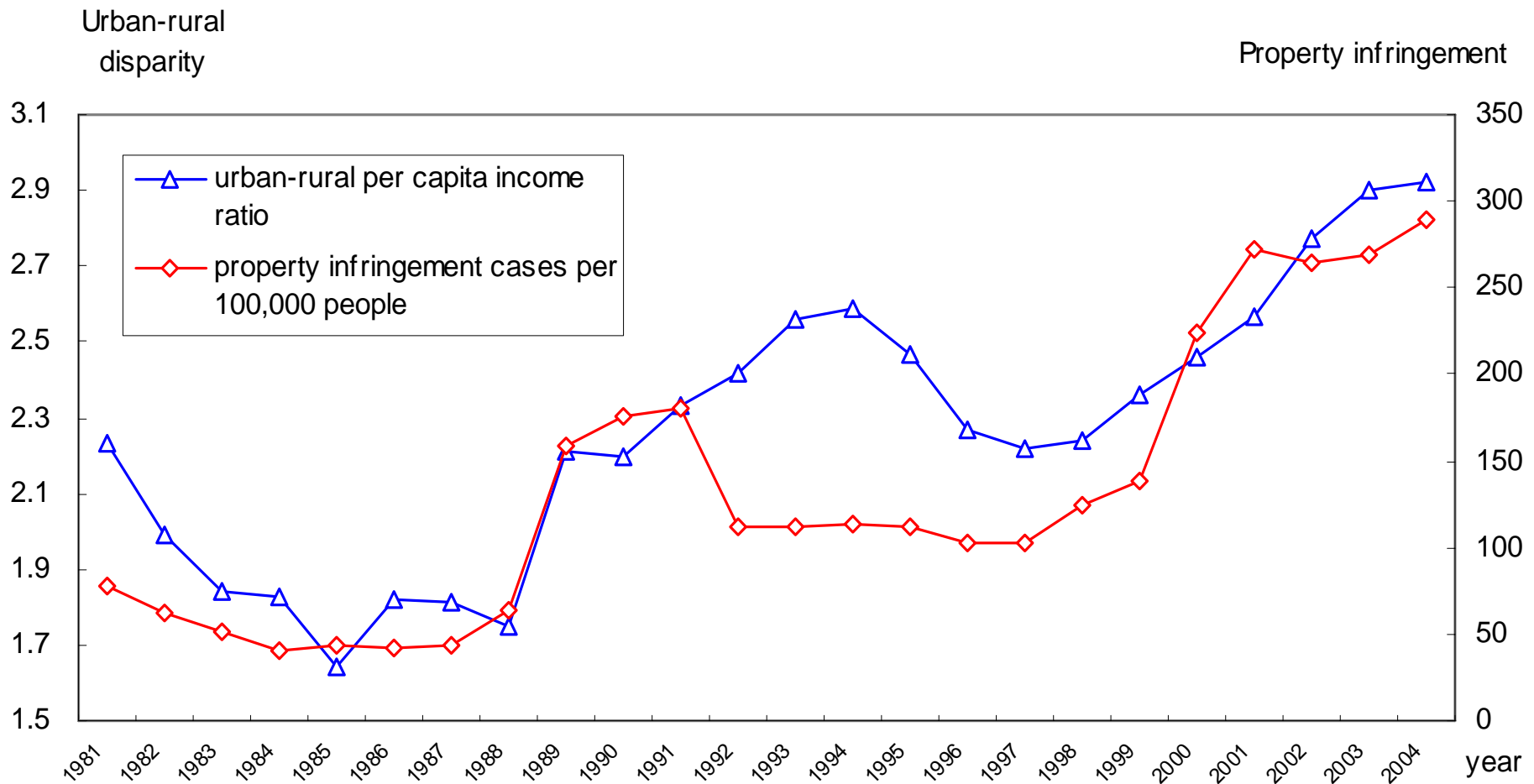
Besides inequality-demand-
export relation...

Inequality-Growth Relationship

(Wan, Lu and Chen, 2006)

- Inequality will
 - Reduce investment
 - Lower economic growth
- If the urban-rural per capita income ratio is lower by 1, growth is 3.8 percentage point higher.

Inequality and crime (1981-2004)



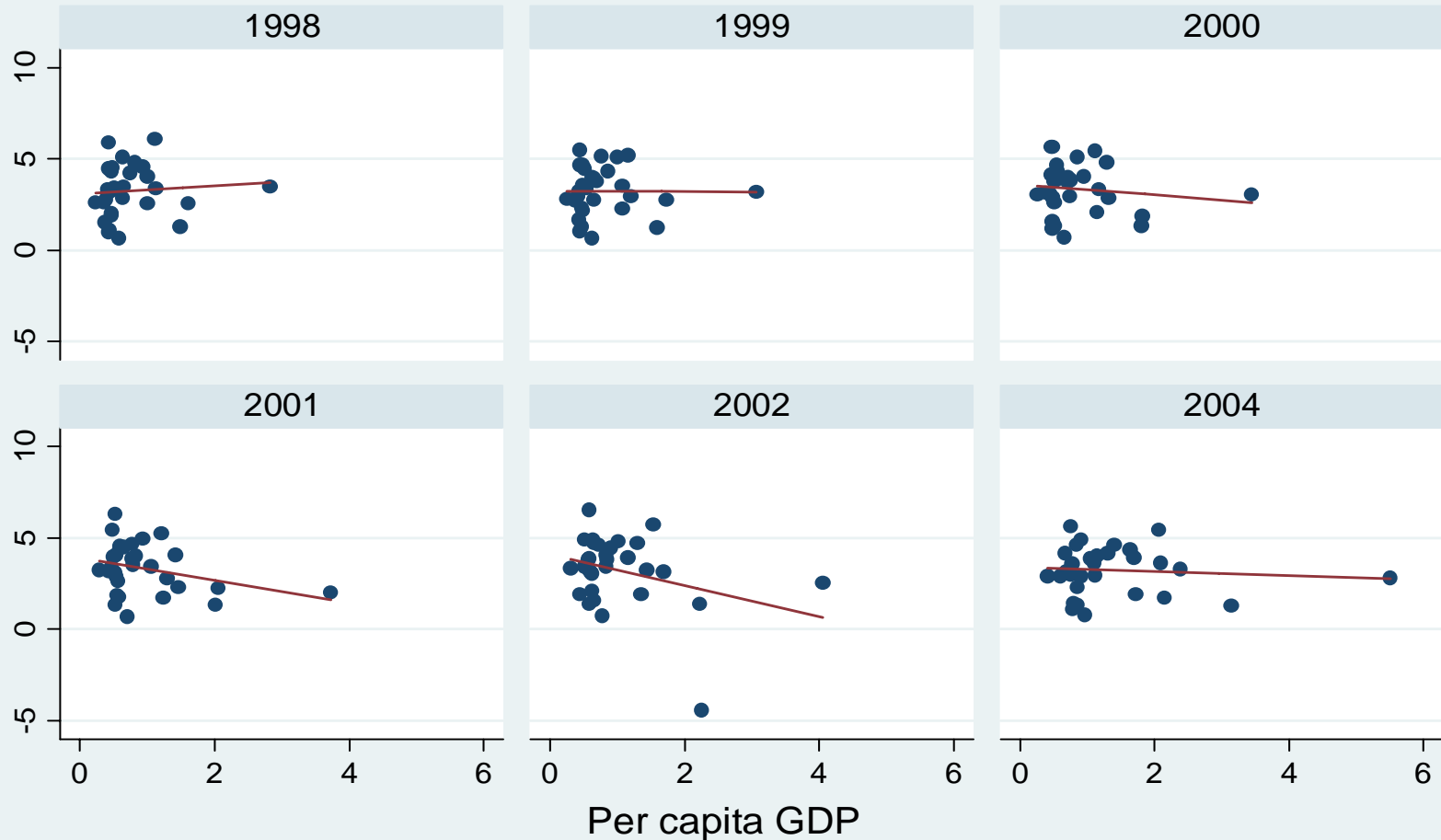
Other negative effects of inequality

- Inequality-poverty
- Inequality-(social and political power)-
lower income mobility
- Inequality-distrust
- Inequality-health
- Inequality-poverty-environment
- Inequality (between migrants and urban residents) -happiness

Policy change for regional balance

- 2000: Western development strategy
- 2003: Northeast industrial base development strategy
- 2004: Middle China rising strategy
- 2004- : Rural development
- China relies too much on interregional fiscal transfer.

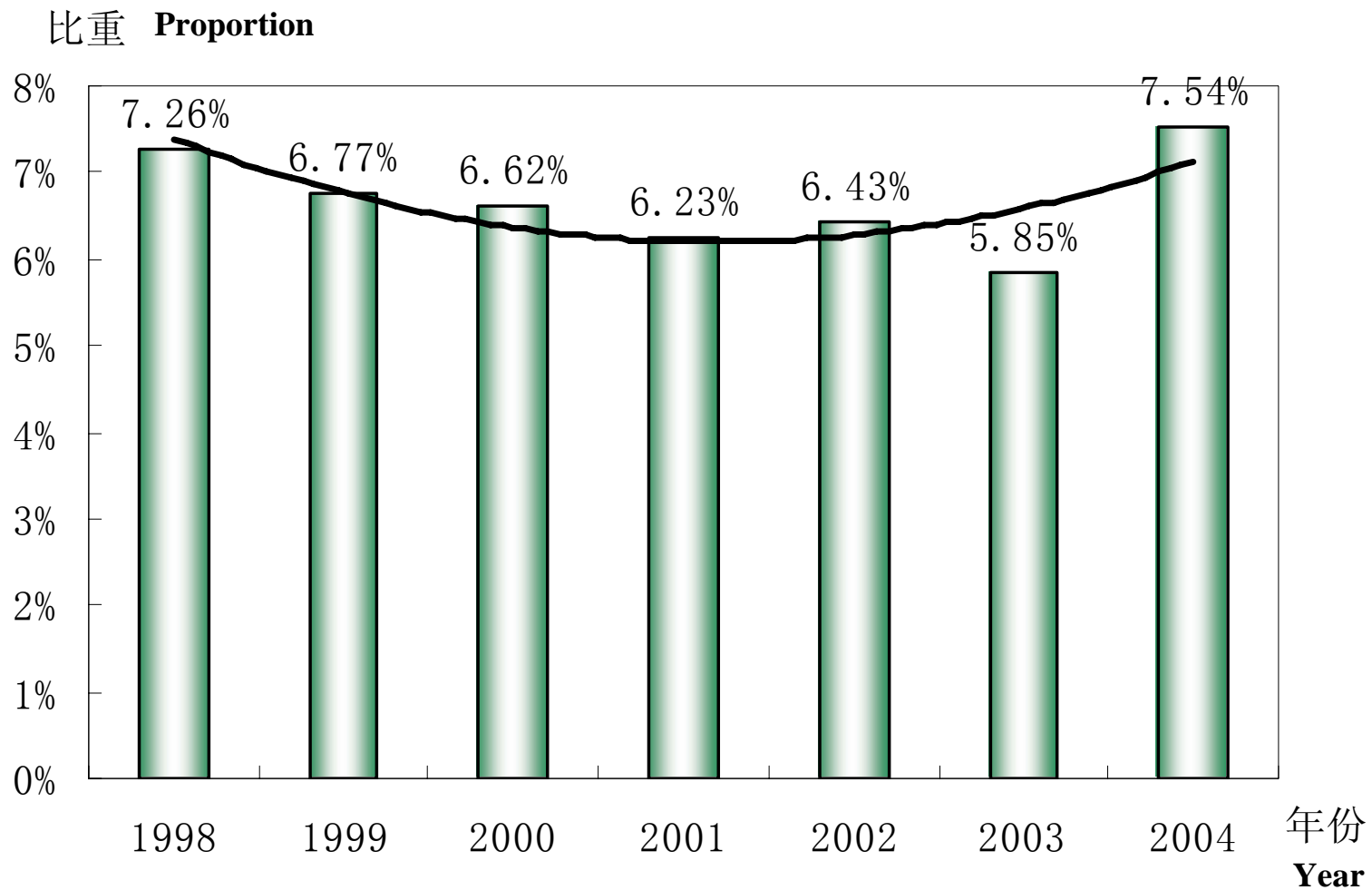
Per capita GDP and fiscal transfer



● Provincial share in central fiscal transfer — Fitted values

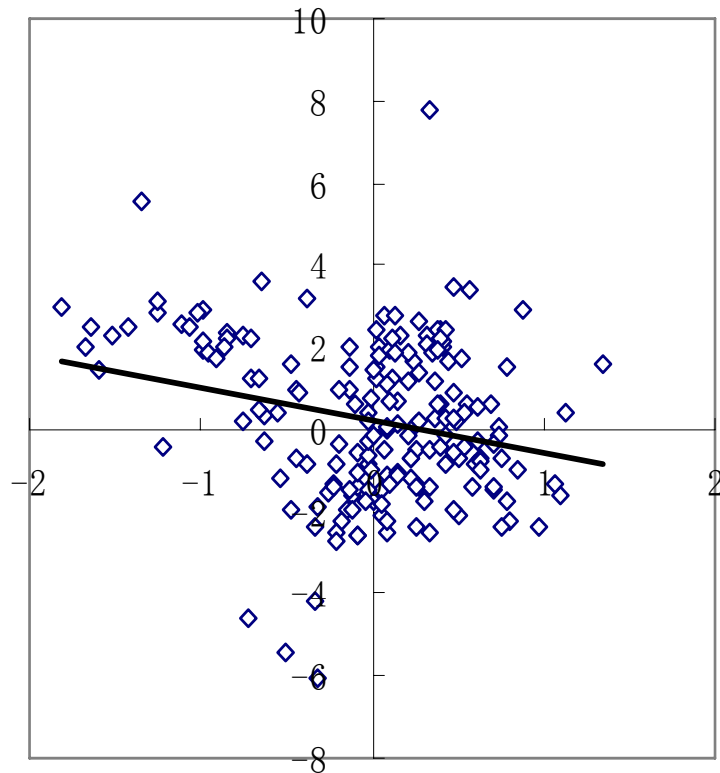
Graphs by year

Rural-related fiscal expenditure



Fiscal transfer has not lead to higher growth.

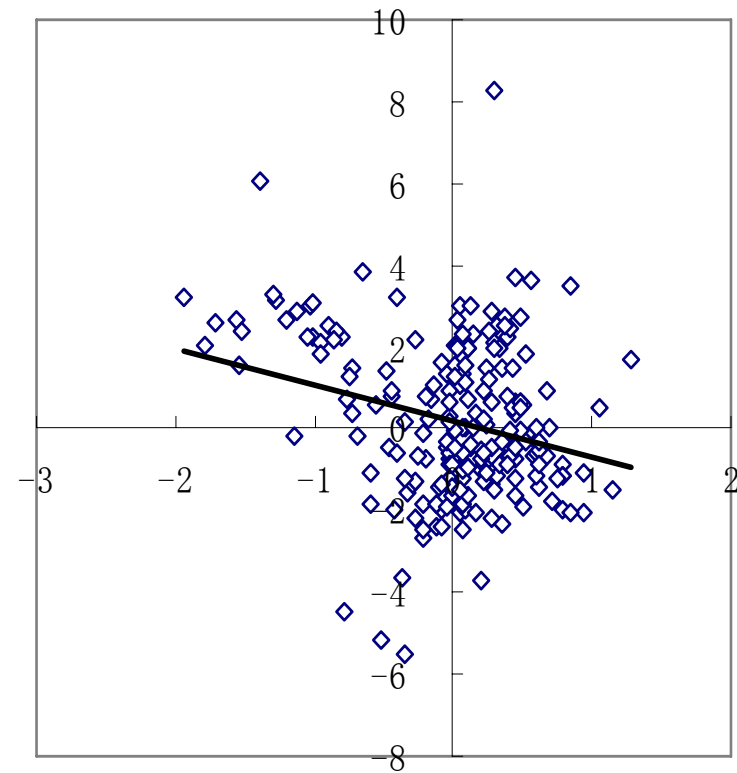
增长率 **Growth rate**
(%)



在中央转移支付中的份额 (%)

Share in fiscal transfer

次年的增
长率 (%) **Growth rate of
next year**



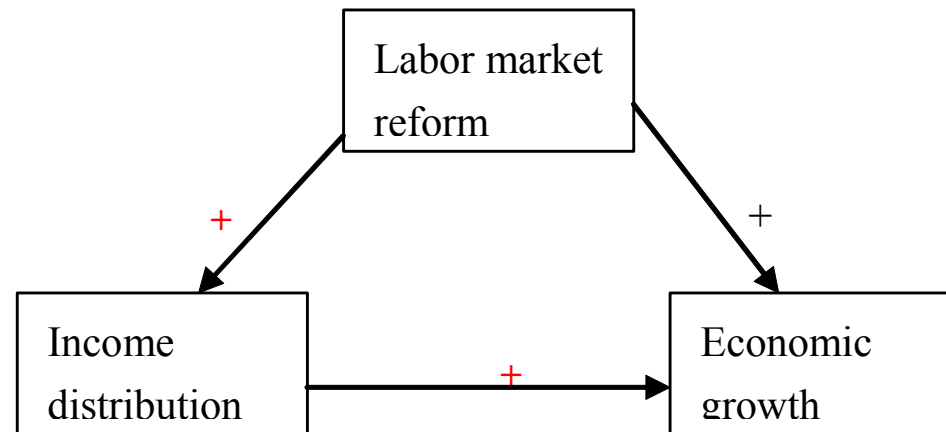
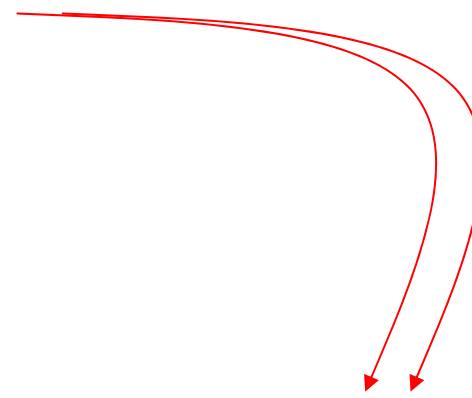
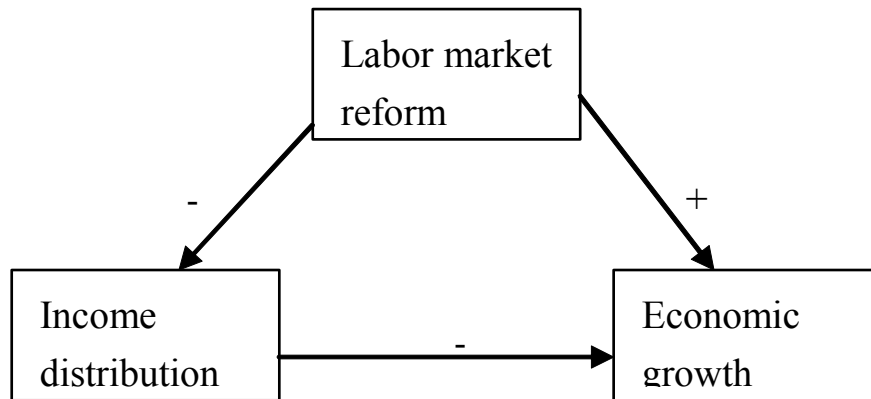
在中央转移支付中的份额 (%)

Share in fiscal transfer

Policy

- Agglomeration and urbanization: Market integration and factor mobility
 - labor, capital, land
- Narrowing urban-rural and regional inequality:
 - Public investment/expenditure (education, health, social security and infrastructure) in rural and inland area
- Other policies:
 - Labor law; Free market entry; Public service; Social security; Income tax; Property tax ...

Restructuring the triangle



Thanks!