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The State's Response to the Crisis of Neoliberalism: A Comparison of the Net Social Wage in China and the United States, 1992-2017

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Abstract

We compare the welfare states and taxation regimes of the two largest economies in the world, China and the United States, from 1992 to 2017. We begin with a comparison of each country's net social wage—that is, the difference between total benefits received by and taxes paid by labor—using two established methods. While the net social wage in the two countries exhibited similar trends, the increasing net social wage has distinctly different implications in the two countries due to their specific historical trajectories in the neoliberal era. In the US, the increasing net social wage reflects an ambivalent and reluctant response to workers' social reproduction. In China, it reflects institutional changes in the welfare state, which we interpret as the Chinese state's attempt to resolve the social-reproduction crisis caused by neoliberal reforms of the 1990s.

Keywords: China, United States, welfare state, taxation, social wage

JEL codes:

H5 National Government Expenditures and Related Policies;

P520 Comparative Studies of Particular Economies;

B5 Current Heterodox Approaches

1. Introduction

The welfare states of the two largest economies in the world, the United States and China, emerged in remarkably different historical and political contexts. In the US, the welfare state emerged as part of New Deal reforms meant to address poverty and inequality during the Great Depression in the 1930s. The American Civil Rights movement led to the creation of more social programs and policies during the Great Society era of the 1960s and early 1970s. Tensions

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related to race, gender, and assumptions about the ‘deserving poor’ played a major role in the backlash against the expansion of the US welfare state, leading to a comprehensive reform in the 1990s under President Clinton. In China, the welfare state emerged as an integral part of the central planning system that existed from 1949 to 1977. Reforms in the 1980s and 1990s gradually but significantly re-shaped the welfare system by weakening rural collectives and urban public firms, which had played a crucial role in the provision of welfare under the central planning system. Since the mid-2000s, a number of institutional changes have been reinstated in an effort to rebuild the welfare system in China.

In this paper, we compare these welfare states and taxation regimes from 1992 to 2017. We choose the year 1992 as the starting point because, since 1992, China has established a market economy, which has induced not only the commodification of labor power but also significant changes in welfare institutions. Thus, there is basic comparability between the two countries over the post-1992 period.

We use an empirical method known as the net social wage (NSW) approach, which measures the difference between total labor benefits and total labor taxation. Based on a comparison of each country’s redistributive policy, we ask if they responded to the crisis of neoliberalism in similar ways. In general, the neoliberal era has not amounted to a full retrenchment of the state. Rather, neoliberalism typically rests on a policy mix in which the state plays an active role in creating and promoting markets through deregulation, free trade, and weakened labor and social protections. While it is widely accepted that the US has pursued neoliberal policies, the question of neoliberalism in China is more controversial (Weber 2018; Weber 2020). There are

undoubtedly features of neoliberalism in China, including the mass privatization of public firms and commodification of labor power in the 1990s (Qi and Li 2019); however, there are also policies against neoliberalism, especially in the strong regulation of financial sectors (Lo 2016; Weber 2018; Weber 2020). Considering these mixed observations, more solid empirical evidence from a comparative perspective is needed in order to evaluate the relationship between neoliberalism and social welfare policy in China.

This paper makes the following contributions to the literature. First, it is the only paper to compare the welfare state and taxation regimes of the US and China using the NSW approach for this time period, and the only paper to publish data on the Chinese NSW in a Western journal.³ Second, given that the taxation system in China relies more on indirect taxes than its US counterpart, this comparison further develops and explores the debate within the NSW literature over the proper methodological treatment of indirect taxes. Third, the paper proposes a novel NSW-inspired method that makes use of additional data on rural-urban divisions within China. Fourth, our paper further compares the response in each country to the crisis of neoliberalism, employing a historical lens.

While both China and the US show an increasing NSW in recent years, our analysis suggests this trend has different implications in each country. In the US, the increasing NSW reflects an ambivalent and reluctant response to the status of workers' social reproduction, whereas in

³ Liu Fengyi and Liu Zijia (2019) compared net social wages in China and OECD countries from 1999 to 2015 in the Chinese journal, *China Review of Political Economy*.

China, it reflects institutional changes in the welfare state, with which the Chinese state has attempted to resolve the social-reproduction crisis caused by the neoliberal reforms in the 1990s.

The paper has the following structure. The next section reviews the relevant literature that compares the US and China in terms of social expenditures and taxation. In the third section, we present two distinct methods of estimating the net social wage and discuss their different treatment of indirect taxes. The fourth and fifth sections discuss the data and results. The sixth section discusses the findings comparatively. The final section offers concluding remarks about the heterogeneity and convergence of welfare states in the neoliberal era.

2. Literature Review: Are the Welfare States of China and the US Comparable?

As the two largest economies in the world, the US and China exhibit both differences and similarities in regard to stages of development and historical trajectories. As Table 1 shows, despite its rapid growth over the past four decades, China was much less developed than the US during this period. In 2016, the real GDP per capita in China was 13 percent of the US per capita real GDP; the urbanization rate in China was 69 percent that of the US. The two countries exhibited significantly different structures of aggregate demand: China had a higher reliance on investment and exports than the US. Nevertheless, government expenditure as a share of GDP was similar in both countries in 2016.

[Insert Table 1 here.]

Like many countries throughout the world, both China and the US have experienced increased income inequality since the 1990s, making inequality a major political issue in both countries (Creed and Liu 2014, 48). As Table 1 shows, both China and the US exhibited higher inequality—revealed by higher top income shares and lower labor income shares—and a greater participation in globalization, both of which are crucial changes associated with neoliberalism. Globalization and the trade relationship between the two countries have been cited as major contributors to growing inequality in both countries—in China between coastal areas with manufacturing jobs and inner regions, and in the US as a result of the loss of manufacturing jobs due to outsourcing and downward pressure on low-wage employment in general (Creed and Liu 2014, 50–52).

In recent years comparative studies of the welfare states of China and the US that use the National Transfer Accounts (NTA) method have emerged. The primary concern of the NTA method is to assess the influence of demographic shifts—in particular population age structure—on national economies (Mason and Lee 2011, 3). The method is based on an accounting identity in which the ‘lifecycle deficit’ is equal to the net flows of public and private transfers and reallocations (Mason and Lee 2011, 11). Based on age-specific labor income and consumption data, the NTA method can be used to construct ‘economic support ratios’ and ‘fiscal support ratios.’ Interestingly, both countries had an economic support ratio of 0.90 in 2000, and a fiscal support ratio of 1.0 in 2010. Both China and the US diverge from other countries studied using the NTA method. China is considered an anomalous case in that it has relatively low fertility and children’s consumption and overall consumption are both low (Mason and Lee 2011, 17). In most countries a decline in fertility has resulted in an increase in the investment in children’s

human capital, but this has not been the case in China (Li, Chen, and Jiang 2011, 414). The US is unusual because the elderly have higher consumption and labor income than any other country studied with this method (Lee, Donehower, and Miller 2011, 313).

While China and the US have different welfare state programs and policies, both countries have experienced retrenchment of the welfare state. Creed and Liu (2014) argue that the US and China have experienced an ‘unwinding’ of the social contract, which has increased economic disparity. While the countries experienced this phenomenon in roughly the same time period, the changes have been different—in the US the unwinding has been about undermining New Deal and Great Society era protections in the 1980s and 1990s, while in China the unwinding has included market reforms and opening up the economy beginning in 1978 (Creed and Liu 2014, 39).

3. Methods

3.1 Net Social Wage Approach, Traditional Method (NSW₁)

The traditional net social wage method (NSW₁) was first developed by Shaikh and Tonak (1987, 2000), but has since been applied to a number of countries.⁴ The net social wage (NSW) is the sum of all social expenditures that benefit labor (E), minus the sum of all taxes paid by labor (T):

$$NSW_1 = E - T \quad (1)$$

⁴ See Moos (2019) for a full literature review on the net social wage.

In this method, social expenditures attributed to labor consist of programs that benefit labor entirely (E_1) and social benefits that partially benefit labor (E_2). E_1 consists of direct payments and transfers, such as pensions, income support, public health insurance, and housing. E_2 consists of spending that benefits both labor and capital, such as education, funding for hospitals, energy, transportation, natural resources, and recreation. To estimate how much of E_2 is attributed to labor, we multiply it by the labor share (LS):

$$E = E_1 + E_2 * LS \quad (2)$$

Similarly, in the traditional NSW_1 approach, taxes are also divided into two groups: T_1 , which is attributed entirely to labor, and T_2 , which is attributed partially to labor and partially to capital. T_1 consists of taxes associated with the cost of hiring workers, such as employee and employer contributions to social insurance. T_2 consists of income taxes, personal property taxes, motor vehicle taxes, and other miscellaneous taxes and fines. To estimate how much of T_2 is paid by labor, it is multiplied by the labor share (LS):

$$T = T_1 + T_2 * LS \quad (3)$$

3.2 Net Social Wage Approach, Indirect Taxes Method (NSW₂)

Maniatis (2014) determined that researchers who employ the net social wage approach do not all use the method originally formulated by Shaikh and Tonak. Another net social wage method, NSW_2 , includes a third category of taxes, T_3 , which is the sum of indirect taxes. In this method,

T_3 is multiplied by the labor share to estimate how much of indirect taxes can be attributed to labor.

$$NSW_2 = E_1 + E_2 * LS - (T_1 + T_2 * LS + T_3 * LS) \quad (4)$$

Using the NSW_2 method, Maniatis (2003) found that between 1958 and 1995, the Greek net social wage was approximately zero, implying that there was no meaningful state redistribution to labor. An earlier study published by Akram-Lodhi (1996) found that between 1970 and 1990, the UK net tax—the inverse of the net social wage—was positive, meaning that workers paid more in taxes than they received in benefits.

The debate over whether or not to include indirect taxes in calculating the net social wage is ongoing. The traditional NSW_1 was designed as an accounting method based on Marxian analytical categories. It does not include a formal model of the economy, which some, including Shaikh and Tonak, argue is required to properly estimate who pays indirect taxes (see Moos 2019, 584). Whether or not multiplying T_3 by the labor share is an appropriate method for imputing labor's share of indirect taxes remains unanswered. According to neoclassical theory, tax incidence cannot be determined by simply the statutory burden but instead is determined by price elasticity of demand. Those with inelastic supply or demand will end up paying the taxes, and those who have elastic supply or demand can avoid paying the taxes. Policy models typically use neoclassical assumptions and utilize consumer spending data to estimate elasticities of demand.

For our purposes, it is useful to calculate both NSW_1 and NSW_2 . They produce dramatically different results, adding layers of complexity to our comparative analysis. Indirect taxes play an important role in financing social expenditures, particularly at the state and local level in the US, and even more so at the central, provincial, and local levels in China.

Our interpretation of the difference between NSW_1 and NSW_2 is based on social relations rather than demand elasticities. In practice, taxation has both income effects and price effects, both of which can affect the distribution between capital and labor. Income effects refer to the effects of taxation on the amount of value added and employment. For instance, an income tax may encourage capital flight, reducing domestic job opportunities, and thus repressing the real wage level for workers. By contrast, price effects of taxation impact distribution through changing prices of goods relative to nominal wages. For instance, an indirect tax may cause an increase in the price of consumption goods, reducing the real wage level for workers.

The NSW is an accounting method that reveals the status quo of redistributive policies: it is not meant to investigate the income effects of taxation. Nevertheless, it is necessary for this approach to investigate the price effects of taxation, because they determine whether the taxes are ultimately paid with surplus value or variable capital.

To illustrate the price effects of taxation, suppose (Y) is the net value added of an economy, which is the sum of labor income (W) and capital income (Π).

$$Y = W + \Pi \quad (5)$$

Let y be the real value added per capita, (w) be the real wage per worker, (p) the price level, and (L) the employment. Net value added, labor income, and capital income can be written as:

$$Y = py \quad (6)$$

$$W = wpL \quad (7)$$

$$\Pi = \pi pL \quad (8)$$

Suppose there is an indirect tax τ . We use subscript 0 and 1 to represent variables before and after the indirect tax is imposed. After the tax is imposed, there is

$$p_1y = \tau + w_1p_1L + \pi_1p_1L \quad (9)$$

We do not consider the income effects of the indirect tax; thus the real value added and employment are both constant. Using Eqs. (7) and (8), the indirect tax can be rewritten as:

$$\tau = p_1L(w_0 - w_1) + p_1L(\pi_0 - \pi_1) \quad (10)$$

Thus, the indirect tax can be decomposed into two parts, the first associated with the decrease in the real wage, and the second with the decrease in the real profits. This decomposition shows that

tax incidence depends on the social relations between employers and employees that regulate real wages and real profits. Thus, we provide a social-relation-based interpretation of the tax incidence, which is distinct from the neoclassical market-based interpretation.

Our interpretation reveals that, theoretically, there are many ways to determine tax incidence, which is contingent on the social relations between employers and employees. One possible scenario is that employers use a constant real wage to induce an optimal labor effort, which is consistent with the labor extraction model (Bowles 1985). In this scenario, the indirect tax is ultimately paid by capital through a reduction of profits. Another scenario is that employers have sufficient bargaining power over employees to maintain constant real profits and make employees bear the reduction in real wages. Actual scenarios are likely to lie between these two extreme cases. We thus provide a rationale for using the labor share to decompose tax incidence. Given that the labor share can be seen as an index of employees' bargaining power, it is reasonable to assume that the tax incidence of labor is the product of total indirect taxes and the labor share.

3.3 Social-Group-Based Net Social Wage Approach (NSW_{1R} , NSW_{1U} , NSW_{2R} , and NSW_{2U})

Another innovation of our paper is to apply the NSW approach to social groups in China. We focus on two major social groups, urban workers and rural workers—peasants who engage in household farming and have access to a small plot of collectively owned land—which together comprise what we call 'labor' in the context of China. Despite rapid urbanization in the past three decades, China is still a dual economy, with over 43 percent of the population living in

rural areas. This is more than double the percentage of the US population living in rural areas, approximately 19 percent in 2016 (see Table 1). China also has a large urban floating population consisting of migrant workers from rural areas. While these migrant workers are categorized as urban workers, their households tend to be semi-proletarianized because their family members participate in household farming in rural areas. Focusing on these social groups and dividing Chinese labor into urban and rural workers may reveal more nuanced aspects of the welfare state.

Thus, we propose four new measures of the net social wage. NSW_{1R} and NSW_{1U} are the net social wages for rural workers and urban workers, respectively, both of which are based on NSW_1 . For NSW_{1R} , we only consider fiscal expenditures that benefit rural workers and taxes paid by rural workers. NSW_{1U} is equal to the difference between NSW_1 and NSW_{1R} . Similarly, NSW_{2R} and NSW_{2U} are measures based on NSW_2 .

$$NSW_{1R} = E_{1R} + E_{2R} * LS_R - (T_{1R} + T_{2R} * LS_R) \quad (11)$$

$$NSW_{1U} = NSW_1 - NSW_{1R} \quad (12)$$

$$NSW_{2R} = E_{1R} + E_{2R} * LS_R - (T_{1R} + T_{2R} * LS_R + T_{3R} * LS_R) \quad (13)$$

$$NSW_{2U} = NSW_2 - NSW_{2R} \quad (14)$$

E_{1R} represents social expenditures that entirely benefit rural workers: fiscal expenditures on rural social insurances, rural education and health care, benefits for families under the poverty line,

and agricultural infrastructures. E_{2R} represents social expenditures that partially benefit rural workers. LS_R is the share of rural workers' income (household farming income) in the net national income. We use LS_R to calculate the amount in E_{2R} that benefits rural workers. Similarly, T_{1R} is the taxes attributed entirely to rural workers. T_{2R} is the taxes attributed partially to rural workers. In China, rural workers do not pay any income tax or property tax, in most cases. Taxes associated with agriculture also play a minor role in China's total tax revenue. The Chinese government has cancelled all kinds of agricultural taxes since 2006. Thus, T_{1R} became zero after 2006; T_{2R} was always zero over this period. Finally, we use LS_R to proxy the share of the taxes in T_{3R} that are attributed to rural workers.

4. Data

The data for calculating the US net social wage is introduced in detail by Moos (2019). We use the same data sources and methods to extend the time series to 2017. The data for calculating China's net social wage is from the official publications of the National Bureau of Statistics. The basic data source is the Flow of Funds Accounts data. We integrate this data with the official data on taxes and fiscal expenditures from China Statistical Yearbooks and China Financial Yearbooks, which are official publications of the National Bureau of Statistics and the Ministry of Finance, respectively. Table 2 presents the categories we use for each country and their data sources.

[Insert Table 2 here.]

It is worth mentioning the few caveats in the data. First of all, there was a change in the categories of China's fiscal expenditures in 2007; moreover, the official sources provide no clarification about this change. As we will see later in the paper, 2007 was a crucial year in the dynamics of China's net social wage; thus we have to insulate the impact of changes in statistical criteria. To this end, we have compared data from different sources to make sure that the data prior to and after 2007 are sufficiently consistent. We have also conducted robustness checks by slightly inflating or deflating the data before 2007, finding that the main conclusions of this paper still hold.

Another caveat is that China's data sources about fiscal expenditures are not as detailed as their US counterparts. It is ambiguous how much a Chinese fiscal category lacking detailed information is relevant to social reproduction. 'Environment protection costs' and 'Costs of Urban and Rural Community Affairs' are two examples. Without detailed information, we treat 'Environment Protection Costs' as partially benefiting labor and 'Costs of Urban and Rural Community Affairs' as entirely benefiting labor, acknowledging the possibility that this treatment might cause an overestimation of China's net social wage.

5. Results

Figs. 1–4 present the main results of the net social wage calculation. All the measures of the net social wage and its components are normalized by nominal GDP. Fig. 1 compares the traditional measure (NSW_1) and the measure considering indirect taxes (NSW_2) in both countries. First of

all, the higher reliance of China's taxation system on indirect taxes is revealed in the much larger gap between NSW_1 and NSW_2 in China than in the US.

[Insert Fig. 1 here.]

Fig. 2 shows the components that are used in the calculation of China's net social wage. Here we see that T_3 is the greatest contributor to the taxation subtracted from China's NSW. Fig. 3 demonstrates the opposite for the US: of the three categories of taxation, T_3 contributes the least to overall revenue. For this reason, we maintain that while the NSW_1 may be a useful measure for the US—as it does not exclude the most important category of taxation—it is much less useful for countries such as China (or many other developing nations) that rely much more on indirect taxation.

[Insert Fig. 2 here.]

[Insert Fig. 3 here.]

Regarding the levels illustrated in Fig. 1, NSW_1 reveals a positive net social wage in both the US and China over the whole period, with the exception of 2001 in the United States. The NSW_1 in China was significantly higher than that in the US over the whole period. One relatively straightforward interpretation of this result is that, based on the NSW_1 , redistributive policy was more generous in China than in the US during this period. However, we urge caution over this interpretation. While the NSW_1 is the 'traditional' measure, we conclude that it is inappropriate

to assess the net social wage in China using this method alone, as it does not adequately capture the main source of government revenue. Furthermore, as discussed in section 3.2, we can understand the NSW_2 from the perspective of social relations—rather than demand elasticities—making it theoretically compatible with our empirical political economy analysis. For these reasons, we favor the NSW_2 as a basis for comparing the net effect of redistributive policy in the US and China.

Despite the two countries' significant differences in levels of economic development and approaches to social policy, their NSW_2 was remarkably similar from 1992 to 2017. The NSW_2 was negative in the US from 1992 to 2007 and in China from 1992 to 2011. This means that for the majority of the years in our series, workers paid more in taxes—when indirect taxes are included—than they received in benefits. Starting in 2008 in the US and 2012 in China, the NSW_2 increased and become positive, with a peak in 2010 for the US and a peak in 2015 for China. The trend of an increasing net social wage in the US has been explained by Moos (2019) as a result of a number of cyclical, structural, and secular factors—including automatic stabilizers in the Great Recession, an aging population, healthcare inflation, a greater reliance on tax expenditures, and increased vulnerability of US workers in the neoliberal era. For that reason, we do not interpret the results of a higher NSW_2 in the US from 2002 to 2017 to mean that US workers are faring better than their Chinese counterparts.

The net social wage in China exhibited fewer cyclical fluctuations than the US NSW . The difference in cyclicity is a result of the different patterns of macro dynamics in the two countries. Economic growth was more stable in China than in the US, thanks to the Chinese

government's active regulation of the macroeconomy and the state-owned enterprises' role in the stabilization of investments.

Both countries also exhibited structural changes. The US witnessed a rise in the net social wage at the turn of the century; by contrast, while the net social wage in China slightly declined from 1992 to the mid-2000s, the post-2007 period witnessed a steep rise in the net social wage. Figs. 2 and 3 show that in both countries this rise was mainly associated with a consistent increase in social expenditures entirely benefiting labor.

In the case of China, the growth of E_1 suggests that there was a reorientation of distributive policies around 2007-2008, after a 15-year-long period influenced by neoliberalism. We argue that the reorientation was a result of a response to a social-reproduction crisis, which aimed at re-embedding social reproduction in a new set of social institutions.⁵

Since the mid-2000s, the Chinese government has implemented a series of distributive policies to reestablish a welfare state and resolve the social-reproduction crisis. These policies include the cancellation of agricultural taxes (2006), the establishment of a social insurance system for rural residents—medical insurance started in 2003, old-age insurance started in 2009—and a social insurance system for urban residents who are not in the labor force (2011). The Chinese government has also promoted participation in the social security system meant to cover urban

⁵ China faced a social-reproduction crisis from the early 1990s to the mid-2000s that took place in both urban and rural areas and was mainly a result of neoliberal reforms. In 1992, in the context of the collapse of the former socialist block, China's leadership accelerated marketization reform to pursue economic growth as a kind of political legitimacy. Major reforms during the 1990s were built upon neoliberal ideologies asserting that unregulated markets and private property are the key to economic efficiency. These reforms led to a massive privatization of China's state-owned enterprises, an increase in urban unemployment, informalization of jobs, and a significant increase in inequality.

employees and a consistent growth of subsidies to urban low-income families. The recent poverty-alleviation movement is to a large extent a continuation of this reorientation. In addition, local governments in China have intervened in the primary distribution by consistently raising minimum wages.⁶ Notably, the reorientation of China's welfare state happened slightly earlier than the global financial and economic crisis. Apparently, the crisis was not a cause of the reorientation; nevertheless, it contributed to the continuation of the re-orientation because it demonstrated the consequences of neoliberal policies to China's policy makers.

Figs. 4 and 5 present the net social wage for the rural workers group and the urban workers group in China, respectively. The NSW_{1U} was at a higher level—between 2.5 and 7.3 percent of GDP—than the NSW_{1R} , which was between 1.6 and 5.4 percent of GDP during the same period. Interestingly, the opposite trend is displayed for the NSW_2 . In this case rural Chinese workers received positive redistribution beginning in 2001—albeit still less than 1 percent of GDP until 2008—reaching a high of 4 percent of GDP in 2015 and 2016. The NSW_{2U} , on the other hand, demonstrates that urban Chinese workers paid more in taxes than they received in benefits during the entire period. This is the result of the higher indirect taxes paid by Chinese workers in urban areas. As shown in Figs. 4 and 5, this reorientation of policy in China—leading to an increase in the net social wage—occurred at the turn of the century for rural workers, while it occurred

⁶ The Chinese leadership proposed concepts such as 'Harmonious Society' and 'Common Prosperity' as the ideologies that policy makers should fulfill; however, these ideological concepts reflected the state's awareness of the contradictions caused by the social-reproduction crisis. The privatization movement instigated social unrest among urban workers, which could be observed even in the late 2000s. The legitimacy of reforms was challenged by the huge inequality between private capital owners and laid-off workers. Many studies have documented incidents of labor unrest associated with privatization. Meanwhile, the underdevelopment of the rural economy stimulated labor outflows, which imposed threats to agricultural production. Grain production stagnated in the late 1990s for the first time since the decollectivization reform was launched. The concern of rural development and agricultural production was the crucial factor that brought about the redistributive policies benefiting China's rural workers and residents.

around 2007-2008 for urban workers. Fig. 4 demonstrates the increasing benefits to rural workers in the form of old-age pensions and medical benefits, as well as the cancellation of taxes. Fig. 5 reflects more modest increases in net redistributive spending to urban workers in China.

Policy changes in 21st-century China were meant to address the failure of the reforms of the 1980s and 1990s to provide adequate social protection for urban or rural workers. In urban areas, *Danwei*-based welfare collapsed with the fall of former state-owned enterprises and workers' communities.⁷ The reforms in the 1990s destroyed the former welfare state without establishing a new one, which jeopardized the social reproduction of urban workers. The decollectivization of the rural economy in the 1980s also demolished the local basis for the collective provision of welfare, although the average income of rural households rapidly increased in the 1990s because the governments allowed rural workers to work in cities, opening more urban jobs to rural workers. However, the vast majority of rural workers had no access to social insurances, either in cities or in the countryside. For this reason, rural households without a member participating in the formal labor force tended to encounter difficulties in social reproduction prior to reforms in the 2000s.

[Insert Fig. 4 here.]

[Insert Fig. 5 here.]

⁷ Under the state-socialist regime before the 1990s, urban workers had access to all kinds of benefits provided by the *danwei* (unit) where they worked. A *danwei* could be a government department, a government-funded institution (such as a school or hospital), a state-owned enterprise, or a collective-owned enterprise.

In the US, the growth of the E1 category reflects a combination of cyclical, structural, and secular changes, such as an aging population and healthcare inflation (Moos 2019). Growth in US social spending is also the result of more low-income workers qualifying for income support due to the expansion of low-wage jobs without employer-based benefits, and the increase in economic instability—both the result of neoliberal policies that favor the interests of capital over labor.

Policy changes that increased the US net social wage during this period were made within the context of a strengthened commitment to neoliberalism. In 1993, there were expansions to public programs such as the Earned Income Tax Credit (EITC), a refundable tax credit that subsidizes low-wage employment, and investments in Head Start, the preschool program for low-income children. These programs were a boon both to low-income families with children—including those headed by single mothers—and employers hoping to employ women in low-wage jobs. President Clinton’s notorious ‘welfare reform’ in 1996 made severe cuts to cash assistance programs and gave states greater discretion on social policy. However, there were also expansions of health insurance for low-income children under the Children’s Health Insurance Program (CHIP) a year later. US policy changes in the early 21st century also contributed to the rise in spending on E₁, including the Medicare Modernization Act of 2003 (which went into effect in 2006) under President George W. Bush, which expanded coverage for prescription drugs under Medicare without allowing the federal government to negotiate drug prices with pharmaceutical companies. In response to the Great Recession, the American Recovery and Reinvestment Act (ARRA) of 2009 included substantial social spending and tax cuts. Finally, the

Patient Protection and Affordable Care Act (ACA) of 2010 was a major piece of social legislation during this time, and benefited private health insurance companies as much as it did Americans seeking health coverage. Coupled with tax cuts that reduced revenue—mostly benefiting corporations and the wealthy, but also reducing taxes for those with more modest incomes—US neoliberal policy has led to an increased net social wage.

6. Discussion

How do we interpret the rising trend of the net social wage in both countries? Does it imply there is a common departure from neoliberalism in the top two largest economies of the world? Our analysis suggests that this seemingly common trend has distinct implications in the two countries. Moos (2019) has argued that the positive net social wage in the US is evidence of the decline in conditions for the working class because it was the result of cyclical and structural threats to social reproduction. Following this logic, we do not assume that rural Chinese workers are faring better than their urban counterparts, although our analysis using the rural-urban-specific NSW₂ approach has revealed greater net redistribution to the former than to the latter.

In the case of the US, the net social wage has increased as the result of cyclical, structural, and secular changes in the US economy that have occurred in the context of a decrease in workers' bargaining power and an increase in economic instability—both consequences of neoliberalism. By contrast, the increase in the net social wage in China represents a systematic rebuilding of social reproduction following policy failures in the 1980s and 1990s that undermined social

protection (Wang 2008). In the US, we interpret the rise in the net social wage to be a reluctant response to the poor status of social reproduction. In China, the rebuilding of social protection following the retreat in the 1980s and 1990s is thought by Shen, Wang, and Cai to be ‘unambiguous’—even in the context of a highly unequal society (2018, 138). Given the stark differences in the political systems in each country—one-party rule under the Chinese Communist Party (CCP) and the two-party system of Democrats and Republicans in the United States—it is not surprising that the former would exhibit a more coordinated and the latter a more ambivalent reaction to the failures of neoliberalism.

Our interpretation of the meaning of a rising net social wage in both the US and China is influenced by the conditions of workers in each country. China’s working class has been gaining power since the mid-2000s, a shift associated with factors such as rapid economic growth, a shrinking reserve army of labor, and various pro-labor policies. Along with the rise in the net social wage in China, there was consistent and rapid wage growth for both urban and rural workers over the same period. According to the International Labor Organization (ILO), from 2006 to 2017 China experienced the most rapid wage growth in the world (ILO 2018). In China, the labor share (in the primary distribution) recovered from the historical trough in 2008, which ended a 14-year-long decline (Qi 2014). In the US, wages have stagnated since the 1970s, and the labor share has been in steady decline since the second half of the 20th century.

The funding for each welfare regime shows distinct characteristics, adding complexity to our analysis of the net redistributive effect of each country’s taxation and social policy regimes. Indirect taxes are largely regarded as a regressive form of taxation, as every consumer—

regardless of income—will pay the same taxation rate (Decoster et al. 2010). This means that funding for China’s welfare state depends on a system of taxation that unduly burdens low-income populations. According to Wang (2017), the reliance on indirect taxes such as a Value Added Tax (VAT) was designed to depoliticize public finance and obscure the heavy tax burdens imposed on low-income consumers. China’s tax system ‘struck implicit deals with the wealthy who gained disproportionately from China’s economic liberalization’ (Wang 2017, 196). The US has a more progressive taxation system than is commonly assumed—as income tax rates increase with earnings—however, that does not mean that the underlying system achieves progressive ends. Neoliberal rhetoric and a long history of racism have successfully undermined support for social spending in the US, leaving the US tax code to play a major role in redistribution (Steinmo 2010). The tax system in the US plays a role in subsidizing low-wage work, middle-class consumption and savings, as well as increasing economic inequality by continually cutting taxes for the wealthy and corporations. While distinctly different systems, neither the US nor China can boost tax codes that curb economic inequality or favor the most disadvantaged.

It is worth noting that the distinct features of China’s welfare state do not mean that China is exceptional. State-led redistribution has been favorable to labor, although this redistribution might be favorable to capital in the long run, by supporting social reproduction and social stability. Economic slowdown in recent years may further complicate this issue. Thus, there is an unstable balance between capital and labor, which has to be cautiously maintained by the Chinese state. Taking a longer historical view, one may find that the Reform era gained support from below in its early stage, by transferring income from the state to urban and rural workers; however, this early trend was reversed by the neoliberal reforms of the 1990s. From a historical

perspective, the reorientation in the mid-2000s may be seen as a turning point of a long-wave movement that emerges from China's political economic context. Where this long-wave movement leads depends on the political economic context in the future.

Finally, it is interesting to note that the increase in the US net social wage that began around the turn of the century occurred when China joined the WTO and Sino-US trade rapidly expanded. The neoliberal transition in the US has created poverty, unemployment, and inequality since the end of the 1970s, thus increasing the need for social spending and tax expenditures for social reproduction—despite neoliberal rhetoric that workers should depend only on their earned income. Satisfying these needs is crucial for maintaining social stability, even in the neoliberal context. Nevertheless, how much welfare expenditures the US state can sustain depends on its fiscal capacity. China has played a role of relieving the tensions between the consequences of neoliberalism and social reproduction in the US, for several reasons. First, China's cheap exports have lowered the cost of living for US households, reducing the burden of social reproduction for both labor and the state. Second, US dollars held by Chinese financial institutions have been reinvested in US treasury bonds, helping the US government finance the net transfer to labor. Thus, China's exports and foreign reserves have contributed to the increasing net social wage in the US. Nevertheless, quantitatively evaluating this relationship is beyond the scope of this paper.

7. Conclusion

In this paper, we have applied the net social wage approach to compare the welfare and taxation regimes of China and the US. We also created a novel NSW-inspired approach to better understand differences between redistribution in rural and urban China. While the net social wage in the two countries exhibited similar increasing trends, it has distinct implications in the two countries due to their own historical trajectories in the neoliberal era. In the US, the positive and increasing net social wage reflects an ambivalent and reluctant response to the conditions of social reproduction, whereas in China, it reflects institutional changes in the welfare state, enacted by the Chinese state to attempt to resolve the social-reproduction crisis caused by neoliberal reforms in the 1990s.

Despite these differences, the positive net social wage in the two largest economies of the world implies that neoliberalism has social limits. This suggests two potentially different paths for countries reckoning with the failures of neoliberalism. Some countries might overcome neoliberalism by purposefully reinstating welfare state protections. Another possibility is that, contrary to its own ideology, neoliberal policy may lead to greater reliance on the state to subsidize an increasingly vulnerable working class, without the explicit intention of reversing retrenchment.

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Tables and Figures

Table 1 A Comparison of Economic indicators: China vs. the US

	1992			2016		
	China	US	China/ US	China	US	China/ US
Real GDP in PPP per capita (PPP, constant 2011 international \$)	1851. 32	14368. 63	0.13	37045. 33	53631. 76	0.69
Urban population (% of total population)	28.20	76.10	0.37	56.74	81.86	0.69
Household consumption (% of GDP)	45.27	64.38	0.70	39.65	68.25	0.58
Investment (% of GDP)	31.11	19.83	1.57	42.98	20.17	2.13
Government expenditure (% of GDP)	14.39	16.08	0.89	14.39	14.22	1.01
Exports (% of GDP)	15.66	9.71	1.61	19.75	11.85	1.67
Foreign trade (% of GDP)	30.15	19.95	1.51	37.21	26.49	1.40
Top 10% income share (%) *	32.30	39.80	0.81	41.40 (2015)	47.00 (2014)	1.14
Compensation of employees (% of GDP) **	50.11	61.4	0.82	47.46	56.8	0.84

Sources: If not indicated, the data is from World Development Indicators database.

Notes:

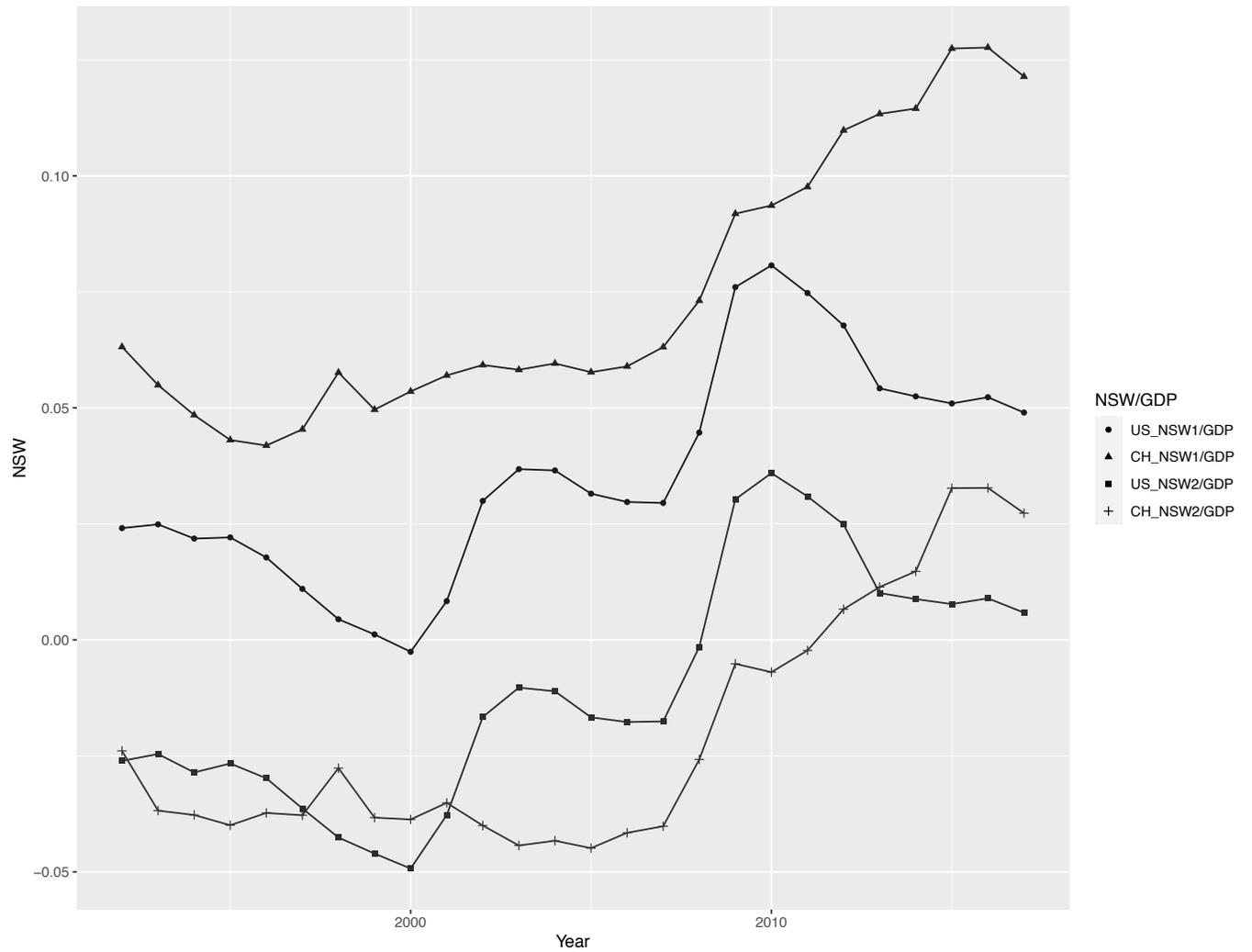
*** World Inequality Database.**

**** China Statistical Yearbook; AMECO.**

Table 2 A Comparison of NSW Categories: China vs. the US

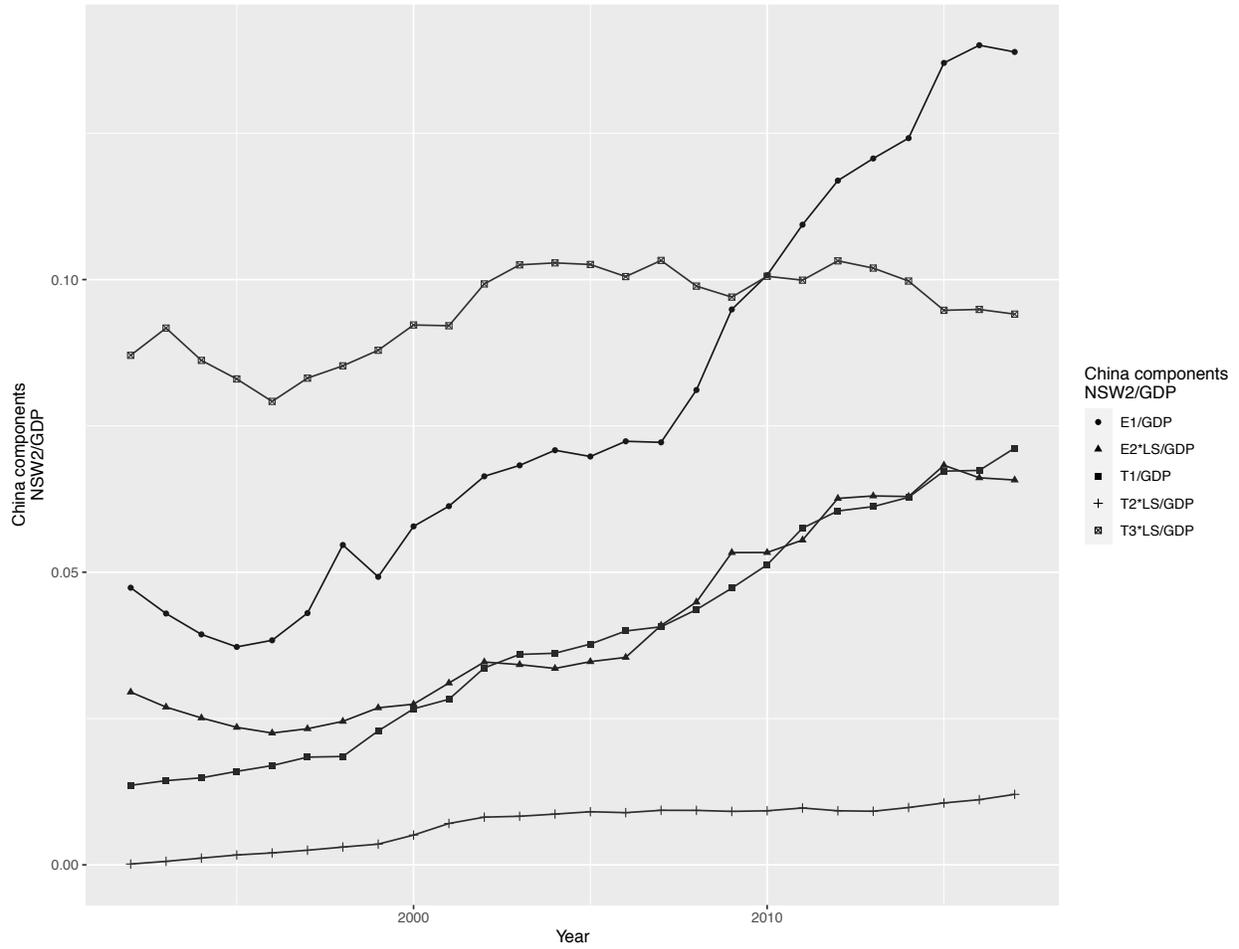
US NSW Category	China NSW Category
Labor Share	(Wages of employees + Employer-paid Social Security + Farming Income + Wages of Workers in Self-employed units)/Personal Income Added for China: Farming Income/Personal Income
Expenditure Group I Social Security, Welfare, and Income Support Employment and Training Housing and Community Services	Social Security, Social Benefits, and Social Subsidies Included Urban and Rural Community Affairs Added for China: Agriculture, Forestry, Water Conservancy and Irrigation
Expenditure Group 2 Education Health and Hospitals Recreational and Cultural Activities Energy Natural Resources Postal Service Transportation	Education, Science and Technology Medical Care Culture, Sports, and Media Lack of information Environment Protection Lack of information Transportation
Tax Group I Contributions for Social Insurance	Contributions for Social Insurance
Tax Group 2 Federal Income Taxes, State and Local Income Taxes Personal Property Taxes, Other Personal Property Taxes, Taxes on Owner Occupied Housing Miscellaneous Taxes and Fees	Income Taxes Property Taxes
Tax Group 3 Taxes on Production and Imports	Net Production Taxes

Fig. 1: US & China NSW₁/GDP and NSW₂/GDP, 1992-2017



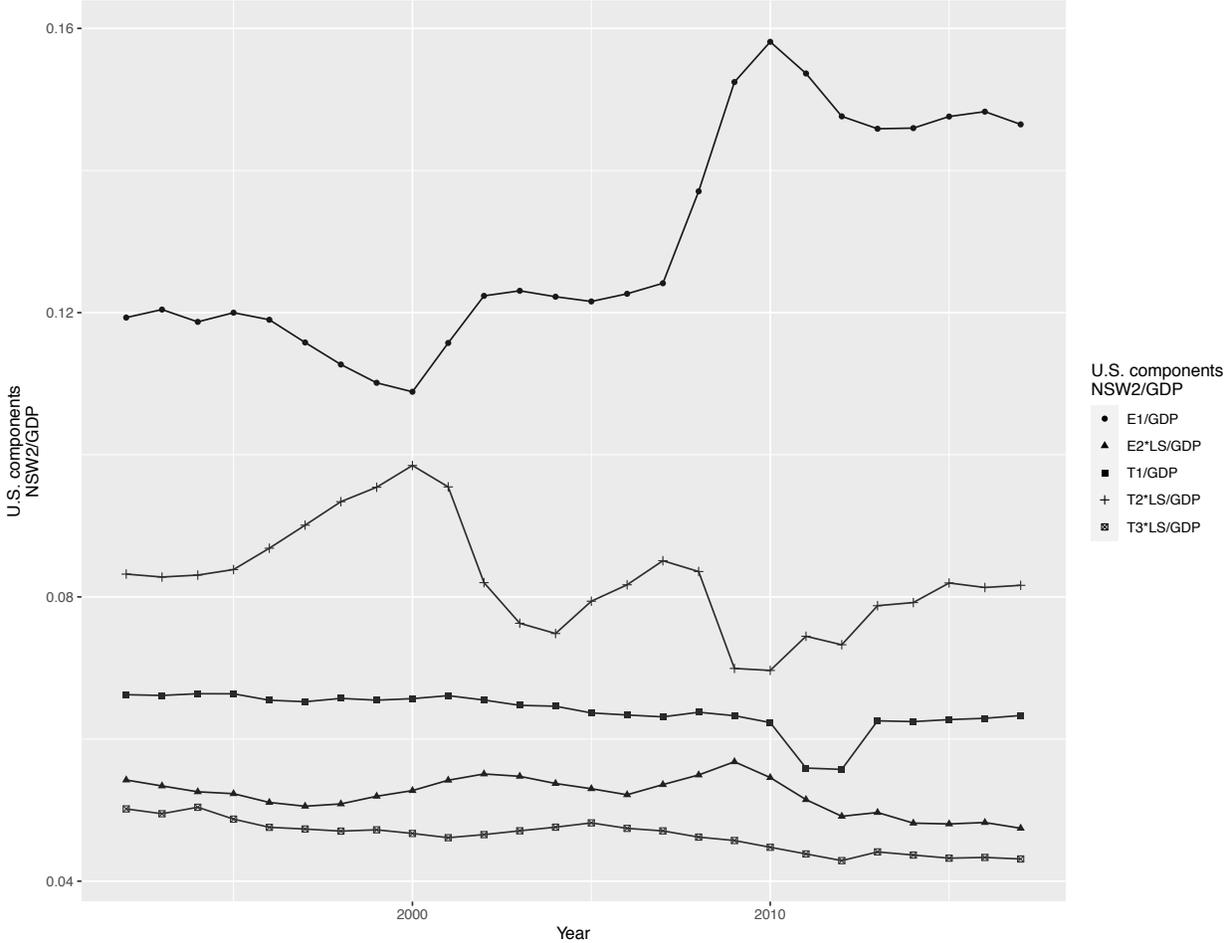
Sources: The authors' calculation. See Section 4 for details.

Fig. 2: China Components of NSW_2 , 1992-2017



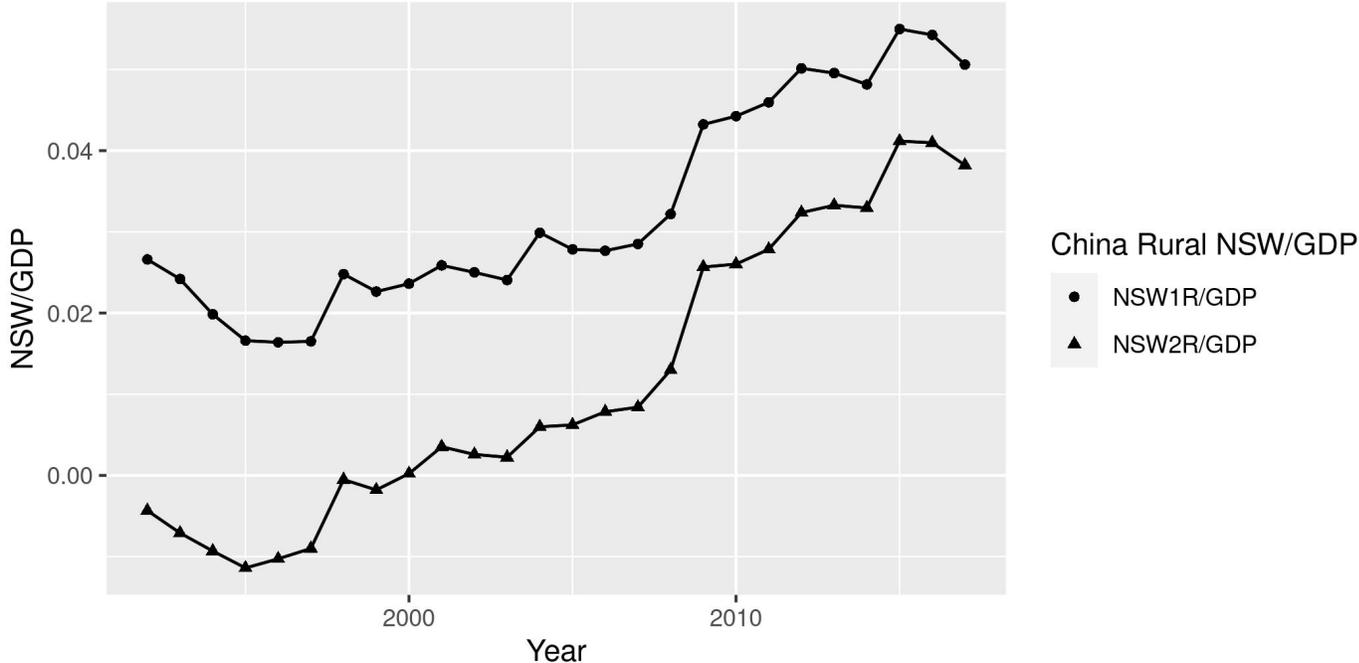
Sources: The authors' calculation. See Section 4 for details.

Fig. 3: US Components of NSW₂, 1992-2017



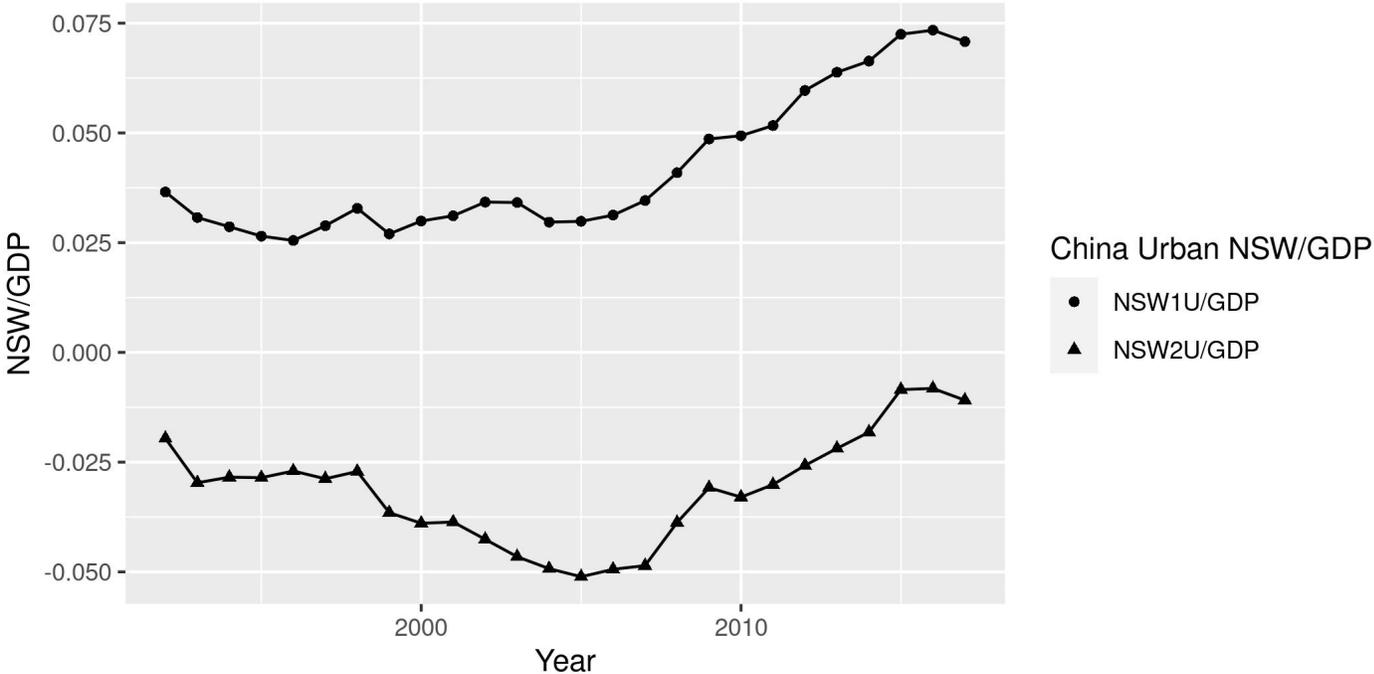
Sources: The authors' calculation. See Section 4 for details.

Fig. 4: China Rural NSW/GDP, 1992-2017



Sources: The authors' calculation. See Section 4 for details.

Fig. 5: China Urban NSW/GDP, 1992-2017



Sources: The authors' calculation. See Section 4 for details.