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## Giovanni Arrighi in Beijing: Rethinking the Transformation of the Labor Supply in Rural China During the Reform Era

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*ABSTRACT:* A Marxian political economy perspective is essential to analysis of the transformation of rural labor forces into capitalist wage labor in China during the reform era. Orthodox theory depicts this transformation as a market-driven process in which the state played a passive role. Following Giovanni Arrighi's seminal 1970 article, we seek to show that the transformation of labor supply and the formation of an industrial reserve army is a historical process in which the state played an active role. The market is not a substitute for the state; on the contrary, coercion arising from both the state and the market was the driving force of the transformation of labor supply. In contrast to the Marxian methodology, the orthodox theory fails to provide a valid foundation for understanding both the historical transformation and the contemporary turning point in the labor market.

*KEYWORDS:* Labor supply; Chinese agriculture, reserve army of labor; Arrighi; Lewis Model

### 1. Introduction

CHINA'S RAPID ECONOMIC GROWTH over the past two decades would not have been possible without labor migration, numbering in the millions, from rural to urban areas. Migrant workers have supplied cheap and high-quality labor to fuel capitalist production in urban areas. Since the early 1990s, the number of rural–urban migrant workers has increased remarkably, reaching 136 million in 2016 (NBS, 2017).

From a Marxian political economy perspective, this article seeks to provide a historical and systematic account of the question: how were rural labor forces transformed into the labor power supply to capital in urban areas? In Volume I of *Capital*, Marx analyzed in great detail the formation of a labor supply in England. In Marx's framework, coercive mechanisms transform non-capitalist labor forces into wage labor through the process of primitive accumulation in which producers are "forcibly torn from their means of subsistence, and hurled, as free and 'unattached' proletarians on the labor market" (Marx, 1976, 876). Capitalist development in both rural and urban sectors creates a structuralized reserve army of labor, which is, as Marx contended, composed of three parts: the floating, the latent and the stagnant (Marx, 1976, 794). Each part of the reserve army has different sources and functions for capital accumulation.<sup>1</sup> Capitalist development also transforms the relationship between labor and capital in the production process from formal to real subsumption, in which workers have no choice but to produce surplus value and rely on wage employment (Marx, 2017).<sup>2</sup> Agrarian changes, formation of the reserve army, and subsumption relations within production are integral parts of a historical process that creates the labor supply for capitalist production. Marx's theory reminds us that the study of agrarian changes should focus not only on rural societies themselves, but also on the broader political and national contexts in which they are embedded.

The analysis presented in this article confronts the orthodox theory of China's agrarian changes and rural–urban migration that has dominated economic studies and greatly impacted policy making. By "orthodox theory" we mean a whole body of literature, popular in both academia and China's official discourse, that attempts to justify China's agrarian changes and rural–urban migration by describing them as spontaneous, self-interested, and market-driven, while ignoring the political side of the process. Methodologically, the

- 1 According to Marx, the floating part refers to people who used to have jobs but are now out of work due to the adoption of labor-saving technology. The latent part refers to the agricultural population, once living off of subsistence agriculture, that flew to towns looking for jobs in non-agricultural industries. The stagnant part refers to people who were in the active labor army but with "extremely irregular employment."
- 2 In his *1864–65 Economic Manuscript*, Marx discussed formal and real subsumption. According to Marx, formal subsumption is a stage in which capitalists compel workers to submit to wage-labor while leaving the labor process unaltered; real subsumption is a stage in which capital transforms the social relations and modes of labor until they thoroughly comply with the nature and requirements of capital.

orthodox theory is built on the basis of neoclassical economics, in particular, a neoclassical interpretation of W. Arthur Lewis' dual-sector model (Lewis, 1954),<sup>3</sup> emphasizing that individuals behave according to market signals without an analysis of the social relations and power structure in which they are embedded. The orthodox theory originated from a justification of the use of rural labor after decollectivization in the late 1970s and early 1980s, a period that marked the beginning of China's reform era. It answers the aforementioned question in the following way. First, a massive surplus of rural labor already existed because of the large rural population relative to the limited arable land; therefore, the collective rural economy in the Maoist era disguised, rather than solved, the problem of surplus labor (Wang and Cai, 1986; Wang, 1999). Second, once the state loosened or removed restrictions imposed on rural economic activities and rural–urban migration, market incentives stimulated rural labor forces to work for township and village enterprises (TVEs) and, later, urban enterprises; in other words, the formation of the labor supply was driven by market forces and blocked by state forces (Du, 1999). Therefore, it was the removal of state coercion, rather than coercion *per se*, that “liberated” labor forces and gave rise to the formation of a labor supply. Third, the Lewis model can be applied to the Chinese economy of the reform era: rural surplus labor feeds the unlimited supply of labor, and the wages of migrant workers are determined by the rural economy until capital accumulation exhausts the surplus labor. The last point also gave rise to the recent debate on whether the surplus labor has been exhausted (Cai and Du, 2011; Zhang *et al.*, 2011; Knight *et al.*, 2011; Golley and Meng, 2011; Chan, 2010).

3 W. Arthur Lewis' dual-sector model, or the Lewis model, is one of the classic theories in development economics. In the model, the economy consists of a capitalist sector and a non-capitalist sector with unlimited supply of labor or surplus labor, which reflects the situation of many less developed countries. The wage level of workers is an institutional wage, determined by the particular institutions in the non-capitalist sector instead of the marginal productivity of labor in the capitalist sector. With capital accumulation, the model implies that capital's share in income distribution increases until the surplus labor in the non-capitalist sector is exhausted. Ranis and Fei (1961) formalized the original Lewis model (Lewis, 1954) and incorporated it into the neoclassical tradition by treating it as a special case with zero marginal productivity of labor; however, the neoclassical interpretation of the model (as well as what we call “the orthodox theory”) has significantly deviated from Lewis' original analysis by removing the realistic considerations in Lewis' original analysis. Lewis' accounts of realities, such as casual labor, domestic service, growth and distribution relationships, and wage premium for workers, all disappear. Thus this article confronts Marx's theory with the orthodox theory, rather than directly with Lewis' theory.

The orthodox theorization in many ways resembles the context in which Giovanni Arrighi wrote his seminal 1970 article, “Labor Supplies in Historical Perspective: A Study of Proletarianization of the African Peasantry in Rhodesia” (Arrighi, 1970). In this paper, we acknowledge that Arrighi’s article has implications for the Chinese economy.<sup>4</sup> W. J. Barber (the economist whose work was criticized by Arrighi) assumed that market mechanisms drove the supply of peasant wage labor in Rhodesia. He, therefore, attempted to apply the Lewis model to the Rhodesian economy. Arrighi, on the other hand, argued that the unlimited supply of labor resulted from a process of primitive accumulation. Political mechanisms, he claimed, transformed peasants’ participation in the money economy from “discretionary” to “necessary.” Arrighi also observed that semi-proletarianization was favorable to capital accumulation because it allowed capitalists not to pay migrant workers with wages that are sufficient for the reproduction of labor power.<sup>5</sup> From the same insight, Arrighi *et al.* (2010) discussed the constraints imposed by dispossession on the economic development of South Africa. Gurel (2011) also highlighted the downward pressure from semi-proletarianization on wages in Turkey between 1950 and 1980. This insight is also relevant to us because the majority of peasant families in China are currently semi-proletarian, in the sense that they participate in and rely on both family farming and wage labor.

In this article, we argue that the orthodox theory has little empirical relevance to understanding the transformation of the labor supply in China. We shall demonstrate that the state played an active role in transforming rural labor forces into capitalist wage labor, although this does not imply that the state necessarily serves the interest of capital. The state launched economic reforms that decollectivized peasants, rebuilt family farming, and introduced market mechanisms. Due to coercion arising from both the market and the state, family farming was unable to bring about persistent income growth for the Chinese

4 Our title may also remind readers of Arrighi’s *Adam Smith in Beijing*, in which he argued that the reform-era China is building a non-capitalist market economy (Arrighi, 2007). In this article, we argue that China in the reform era has created a reserve army of labor from the rural labor force. This conflicts with Arrighi’s understanding; however, it is noteworthy that Arrighi, in *Adam Smith in Beijing*, also expresses concerns about the social contradictions of economic success (Arrighi, 2007, ch. 12). Whether China is going to provide an alternative to capitalism in the future is beyond the scope of this article.

5 Arrighi *et al.* (2010) clarified that this idea was actually from Barber.

peasantry. Thus, these reforms objectively prepared the conditions for the commodification of labor power. In this sense, the market was not a substitute for the state; on the contrary, the commodification of labor power reveals a dialectical relationship between the state and the market. Thus, we attempt to debunk the orthodox theory's depiction of transformation of rural labor forces into wage labor as purely market-driven, with the state at most playing a passive role.<sup>6</sup> In so doing, we extend the understanding of "dispossession" and the role of coercion and political mechanisms in China's transformation: while the Household Responsibility System (HRS)<sup>7</sup> from the onset of the reform era has guaranteed peasants access to land,<sup>8</sup> the Chinese peasantry has undergone the dispossession of rural collective development as an alternative to capitalist wage employment. We argue that the compulsion of migration for selling labor power was the result of three structural shifts in the reform era: decollectivization of the rural economy, marketization of family farming, and the rise and fall of the township and village enterprises (TVEs). Each shift provided a necessary condition for labor migration as a response to "market" incentives: the decollectivization of the rural economy destroyed the labor accumulation system that had successfully absorbed and utilized surplus labor in the people's communes; the marketization of family farming along with state's development strategy that favoured the urban sector, made agricultural production increasingly difficult for subsistence. Consequently, peasants had to rely on income from

- 6 It is necessary to clarify the relationship of this article to the whole body of literature on China's *hukou* (household registration) system. The *hukou* system was established in 1958 for the allocation of consumption goods and social benefits. In history, the system strictly restrained rural-urban migration by controlling the allocation of grain in urban areas. Today, while migrants with rural *hukou* are allowed to move to and work in urban areas, they in general have little access to social benefits (education, medical services, etc.). There have been abundant studies on China's *hukou* system, arguing that the state controlled migration, weakened workers' bargaining power, and lowered wages through *hukou* (Solinger, 1999; Chan and Zhang, 1999; Wang, 2005). However, *hukou* is not the focus of this article. While those studies on *hukou* focus on how the state controlled the labor supply by imposing barriers on migration, this study focuses on the historical process that gave rise to the compulsion of labor supply and the state's role in that process. It is noteworthy that the orthodox theory recognizes the state's coercion in the *hukou* system, but rejects the existence of coercion in the emergence of labor supply.
- 7 The HRS was established in the rural reform from 1979 to 1983 to replace the collective people's commune system. It retained collective ownership of agricultural land, but contracted the use rights of the land to individual rural household
- 8 Nevertheless, the dispossession of land did take place in recent years, as urbanization and the real estate market advanced rapidly and the state encouraged agribusiness to "go to the countryside" (Andreas and Zhan, 2016).

wages. The decline of TVEs further reduced the ability of peasants to find employment in local industries. All three structural shifts shaped conditions in rural China for production and reproduction and provide the historical basis for the rural–urban transformation of the labor supply. We shall demonstrate what role the state played in these structural shifts.

There has been a rich literature on the role of the state in the making of labor supply. Croll and Huang (1997) document how agricultural production became increasingly unprofitable and out-migration became necessary for meeting the costs of living and maintaining agricultural production, including taxes and local government fees. Solinger (1999) suggests that rural surplus labor resulted from pre-reform rural policies that encouraged population growth and post-reform rural policies that made agricultural production unprofitable. Gao (2007) analyzes changes in the prices of the state's grain procurement and agricultural inputs, showing how the state's policies affected rural income. Yan (2012) focuses on the compulsion of leaving the countryside from a perspective of subject formation for rural young women. She discusses the state's development strategy towards cities in the reform era and its impact on the subjectivity of rural youth. Hung (2017, ch. 3) argues that the state's rural agricultural policies intentionally or unintentionally bankrupted the countryside, generating a continuous exodus of the rural population in the 1990s. However, a systematic answer to the question of how a rural labor force was transformed into a capitalist labor supply is still lacking. In addition, previous literature overlooks the confrontation between a Marxism-based historical interpretation and the orthodox interpretation; it therefore fails to explain why the latter has so little relevance to the Chinese context. In this article, we first address the labor supply question in a historical and systematic way. We then demonstrate why the orthodox theory is flawed in understanding the labor supply question in China.

The rest of the article is organized as follows. In Section 2, we discuss the current situation by introducing semi-proletarianization and the wage gap. In Section 3, we demonstrate the main structural shifts that created the compulsion to sell labor power in urban areas. Section 4 explains why understanding China's labor supply should not rely on the orthodox theory. Section 5 concludes.

## 2. *Current Situation: Semi-Proletarianization and the Wage Gap*

Semi-proletarianized peasant families have become typical among the Chinese peasantry, with the older generation working as cultivators in the countryside and the younger generation working as migrant workers in cities. This has been well documented in the literature. Huang (2006) summarizes the contemporary peasant economy as “institutionalized ‘half worker, half cultivator’ [*bangong bannong*] involuted agriculture.” Wen and Yang (2016) suggest that peasants have been reproducing labor power through an inter-generational division of labor in agricultural and non-agricultural activities. Some scholars suggest that access to land provides peasant families with an “insurance” of livelihoods (He *et al.*, 2010; Wen and Yang, 2016) and increases migrant workers’ bargaining power (Zhan and Huang, 2013). Others are more critical of semi-proletarianization: for instance, Ren and Pun (2008) argue that the state’s retreat from the reproduction of labor power has perpetuated the situation of semi-proletarianization.

Semi-proletarianization allows capitalists not to pay a living wage to workers (Arrighi, 1970; Arrighi *et al.*, 2010). Migrant workers from peasant families have been paid consistently less than a living wage. We define the living wage as a wage level for a normal working time that is sufficient for the social reproduction of labor power, which can be seen as derived from Marx’s concept of the value of labor power (Marx, 1976, 275). With this definition, Li, *et al.* (2013) and Li and Qi (2014) estimated a living wage standard and found that workers in the western, central, and eastern regions only received 60%, 57%, and 54% of their living wage rates in 2009, respectively. The wage gap (gap between actual wages and the living wage) has been favorable to maintaining the profitability of capital accumulation. It has significantly reduced labor costs for capital hiring migrant workers and fuelled China’s economic growth.

This combination of semi-proletarianization and a wage gap means that peasant families must rely on both family farming and wage employment to cover living costs. Peasant families are unable to complete the reproduction of labor power without engaging in family farming, or availing themselves of the low cost of living in rural environments. Nationwide surveys show that 79% of migrant workers are unable to bring their families to cities and live together (NBS, 2015), causing

negative effects on the children, elderly, and women left behind (Ye *et al.*, 2013). Meanwhile, reliance on wage employment has weakened workers' bargaining power on the shop floor and forced migrant workers to accept low hourly wages; as a result, overtime work has been a chronic issue for migrant workers aiming to earn sufficient wages. The survey of the National Bureau of Statistics reveals that migrant workers on average worked 58.4 hours per week, one-third higher than the 44 hours stipulated by China's Labor Law (NBS, 2010). The Chinese General Social Survey showed that the working week in privately owned enterprises, where migrant workers concentrate, varied between 49 to 54 hours over the period 2003–2013.<sup>9</sup>

It is noteworthy that eliminating semi-proletarianization (*i.e.*, dispossession of rural land) does not automatically eliminate the wage gap, given that semi-proletarianization is a necessary but not sufficient condition for the wage gap to exist. Many political and economic factors have suppressed the power of migrant workers *vis-à-vis* capital and led to the current situation of semi-proletarianization and the wage gap. For instance, neoliberal deregulation of the labor market has created downward pressure on wages and working conditions. The growing informalization of employment has also weakened workers' bargaining power *vis-à-vis* employers. In the Chinese context, among these factors, a Marxian interpretation of the transformation of rural labor forces into wage labor and the formation of the reserve army is crucial to explain why the wage gap exists. To understand the current situation, we address the question in the next section: why selling labor power became necessary for the Chinese peasantry.

### 3. *Compulsion to Sell Labor Power to Urban Capital*

In this section, we discuss the historical process that gave rise to the compulsion to sell labor power to the urban capitalist sector. From the late 1970s to the late 1990s, the state launched rural decollectivization, which destroyed the institutional basis of labor accumulation, promoted marketization that ended up squeezing income for family farming, and shifted resources away from TVEs for the development of urban enterprises. As a result of the coercion from both the state

9 Sources: Chinese General Social Survey 2003, 2005, 2006, 2008, 2010, 2011, 2012, 2013. Available at the website of Chinese National Survey Data Archive ([cnsda.ruc.edu.cn](http://cnsda.ruc.edu.cn)).

and the market, the Chinese peasantry lost alternatives to selling labor power in cities.

3.1 *Decollectivization and the emergence of rural surplus labor.* Before going further, the meaning of surplus labor should be scrutinized, since whether reducing labor inputs affects agricultural production depends on the specific mode of organization and the way that labor is withdrawn from agriculture (Sen, 1967). Rural surplus labor existed across China as far back as the 1920s (Buck, 1937). This means that within the small peasant economy, the labor force was not fully utilized, especially during the winter months. From 1958 to 1983, the people's commune system attempted to mobilize idle labor by increasing labor input in agricultural production, undertaking "labor accumulation," and developing commune and brigade enterprises — the predecessors of township and village enterprises (Nickum, 1978; Rawski, 1979; Huang, 1990; Selden, 1979).

"Labor accumulation" refers to the system under the people's communes to mobilize seasonally surplus labor for constructing rural infrastructure and improving production conditions. The term "labor accumulation" is derived from the accumulation of direct living labor in the form of infrastructure construction; it is therefore different from monetary accumulation out of the income of rural collectives. Initiated during the Great Leap Forward (1958–1961), the labor accumulation system in the next two decades contributed to the rapid growth of agricultural production by significantly improving irrigation infrastructure. The development of irrigation allowed the introduction of fertilizer-responsive plant varieties (Perkins, 1977), which was crucial for agricultural production not only under the collectives but also under the HRS. Through labor accumulation, peasants contributed to the accumulation of collective assets that would favor long-run rural development. A case study of Xuhuai Prefecture in Jiangsu Province revealed that the cumulative value of labor accumulation formed about 55% of the total water conservation outlay for the period 1949–1980 (Wakashiro, 1990). Labor accumulation rewarded peasants with work points, which were subsequently converted to income for workers' teams; in some cases, peasants did not receive work points but were obliged to participate in labor accumulation (Nickum, 1978).<sup>10</sup>

10 The rural collectives distributed income to each member according to the work points. While considering various factors, rural collectives in general measured work points on the basis of the labor contribution of each member. Saith (1995) argues that the labor accumulation

According to Du (2002, 732), in each year during the Cultural Revolution, about six to seven billion working days were organized for labor accumulation. Dividing this number by the average size of rural labor forces during the Cultural Revolution period, one can see that every laborer annually expended about 30 working days on labor accumulation, which is close to Nickum's estimate (1978). In another estimate by Patnaik and Natrajan (2000), the winter works programs employed 50 days per worker in the pre-reform era. From 1957 to 1975, China's agricultural system succeeded in raising the annual workdays per worker in agriculture from 119 to 250, while absorbing an estimated 97.3 million workers (Rawski, 1979; 1982).

The decollectivization reform not only rebuilt the small peasant economy, but also dismantled labor accumulation. Under the HRS, individual households made decisions on labor utilization and intra-family distribution. The collective became an empty shell unable to carry out labor accumulation. Despite the official interpretation of decollectivization as a spontaneous and apolitical process, the reality is that the state enforced decollectivization with a heavy hand, which, we argue, dismantled the institutional basis for labor accumulation and gave rise to the re-emergence of rural surplus labor. Studies have questioned the depiction of rural reform as a bottom-up process and underscored the coercion from above. Zweig (1983) found that rural reform received significant opposition from high cadres, local cadres, peasants, and intellectuals because of its potential adverse effects on equality, mechanization, water conservation projects, income from collective factories, and so on. Hartford's fieldwork (1985) and Xu's recent studies (2013) suggest a similar conclusion. Hinton (1990) documented that some villages resisted the HRS for years until high officials sent an ultimatum to local cadres. It is true that the rural reform received support from some peasants, especially those from poorer areas; however, the way that the state established the HRS on a national scale was undoubtedly through coercion (Kelliher, 1992).<sup>11</sup>

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should not be conceptualized as utilizing unpaid labor. In theory, projects achieved by labor accumulation increased the income of the work unit in the following years, leading to a rise in the value of the work point and consequently of the incomes of the unit members. Peasants were, in fact, compensated for their work in the service of labor accumulation in the form of a deferred payment.

- 11 Kelliher (1992, 105) suggests that the majority of peasants supported family farming; however, he also argues that "family farming was implemented with the government's habitual insensitivity to local concerns" and not all peasant communities wanted family farming.

For instance, Xu Jiadun, the first party secretary of Jiangsu Province, after being criticized by either Premier Zhao Ziyang or General Secretary Hu Yaobang, two well-known reformers, had to openly criticize himself for previously opposing the HRS (Zweig, 1983, 890). In another case, Hu Yaobang denounced the cadres of Hebei Province for delaying the rural reform; provincial-level and county-level cadres were replaced for opposing the HRS (Du, 2005, 131). State coercion was also evident in relentlessly wiping out the alternatives to the HRS. Despite about one-third of collectives performing badly under the commune system (Du, 2005; Hinton, 1990), almost all collectives were dismantled and replaced by the HRS. The initial years of the rural reform witnessed various forms of combination between the collective system and individual incentives, the majority of which needed collectives in organizing production. But by the end of 1983, 97.8% of production teams adopted the *baogan daohu* (“full responsibility to household”) system, in which the collective had little function (Du, 2002, 60), thus making it almost the only form. Du (2002, 61) explained that some local cadres “mistakenly” treated *baogan daohu* as the one form advocated by the state. However, if the implementation of *baogan daohu* were only a mistake rather than a consequence of state coercion and cadres’ responses to the political wind of decollectivization from above, it could have been remedied easily and replaced by a diversity of institutions.

As a result of decollectivization and the abolition of labor accumulation, rural surplus labor re-emerged. Given that labor accumulation needed to be complemented by specific institutions governing production and distribution under the people’s communes, labor accumulation turned to be infeasible after decollectivization. Hiring labor became inevitable for building rural infrastructure, except for few villages where collective institutions were partially kept as legacies (Pan, 2002). Decollectivization delinked peasants from the collective assets that were created through labor accumulation, transforming these assets into public goods that inevitably suffered from the tragedy of commons. Abuse of these public goods became common; infrastructure was hard to maintain. During the process of decollectivization from 1979 to 1983, the national mechanized area dropped by 20% (NBS, 2009). While the total area of irrigated land had achieved an annual growth rate of 1.6% over the period 1958–1978 (NBS, 2009), this growth actually ceased during decollectivization. In 1986, the

Communist Party called for “establishing a necessary labor accumulation system” (CPC Central Committee, 1986), suggesting that the state realized the importance of labor accumulation for rural infrastructure. In Jiangsu Province, the amount of earthwork was 40% lower in 1981–1985 than it was in 1976–1980 (Chen, 1987). Meanwhile, in the early 1980s, the rising income available from non-farming and non-agricultural activities raised the opportunity cost of hiring peasants for building rural infrastructure.

Chinese scholars did not intensively discuss the issue of rural surplus labor until the late 1980s, when the agricultural income of peasant households failed to maintain its rapid growth and the fast development of TVEs was interrupted by the state’s contractionary policy after the failure of price reform.<sup>12</sup> In the late 1980s, the number of outgoing migrant workers increased remarkably, starting to impose pressures on the transportation system and make the state concerned about social stability (Zhao, 1999). The orthodox theory of China’s rural–urban migration emerged from the exploration of the sources of rural surplus labor. It underscores the absolute size of the rural population and suggests that the heavy-industry–biased developmental strategy of the Maoist era had constrained the urban sector’s capacity to absorb rural surplus labor (Du, 1999). More importantly, the orthodox theory argues that the management of production under the people’s communes had “disguised” the problem of surplus labor (Wang and Cai, 1986; Wang, 1999). In official documents and among Chinese scholars, the labor system was labeled “*Dahulong*,” which means everyone appeared to be working hard but actually expended little effort. That is to say, peasants were less incentivized and thus their labor productivity remained dormant in the Maoist period. It is claimed that peasants then became more willing to expend effort under the HRS, making some labor forces redundant once each peasant expends more effort than before. However, the notion that peasants had been shirking their responsibilities is not supported by evidence. In fact, a recent study based on interviews with former production team members suggests that shirking was not a widespread phenomenon; factors including income distribution, state extraction, and indigenous social networks all had an impact on labor effort (Li, 2018). The collective provision of free education,

<sup>12</sup> See Section 3.3 for details.

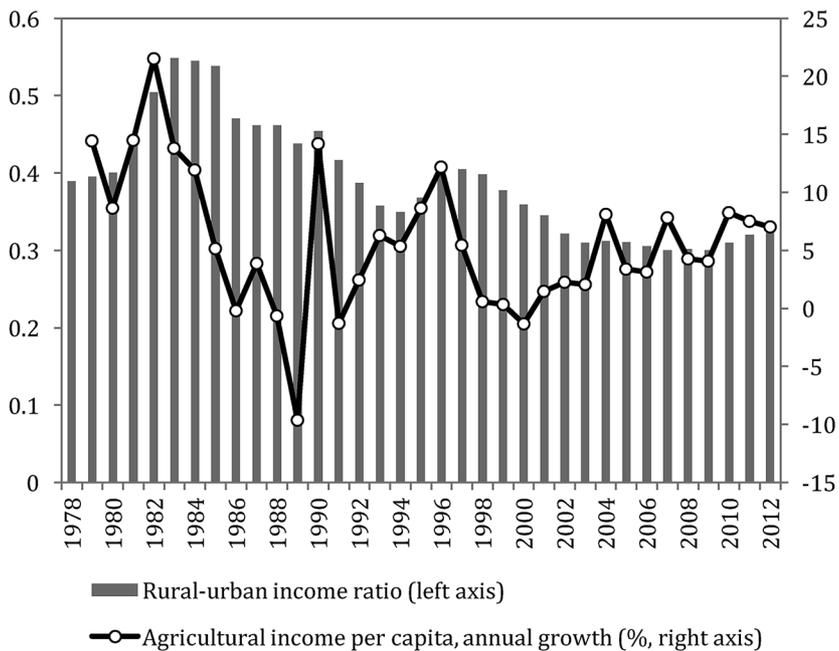
medical care, housing and cultural facilities, financed mainly by local collective income, created a collective incentive to work diligently, both for the good of the group and for personal gain (Riskin, 1975). At the same time, peasants were also subject to formal and informal constraints (Li, 2005). Xu's case study (2015) in Songzi reveals that even in those cases when work avoidance did happen, the reason was usually due to stratification, rather than egalitarianism. The collective regime was able to increase total labor effort by enhancing labor participation, which is why China could achieve a significant growth in grain production and land productivity (Liu, 1994).

*3.2 Marketization of family farming.* As Brenner (2001) and Wood (2002) argue, market dependence is more important than direct dispossession of means of production in the emergence of capitalism. After decollectivization, peasant families began to rely on the market to sell surplus products and purchase means of production; family farming thus underwent a process of marketization. However, the state procured and purchased a large proportion of grain from peasant families in forms of quota procurement and purchase at negotiated prices;<sup>13</sup> meanwhile, producers of chemical fertilizers and pesticide were mostly state-owned enterprises (SOEs). Therefore, the state had a significant impact on rural income by setting procurement prices and controlling the prices of critical non-labor inputs. Consequently, peasant families were vulnerable to both market fluctuations and state policies. Market forces and state forces jointly squeezed the income from family farming. Production growth, rather than enriching peasants, may intensify competition among them, leading to a lower market price and eventually impoverishing peasants. In this case, the market *per se* works as a coercive power to small peasants. While state setting of high procurement prices and low input prices could in theory help peasants avoid the adverse effects of competition, the possibility of this combination depended on many other economic and political factors, such as the state's fiscal ability to subsidize agriculture, the responses of urban consumers to higher food costs, and the need for liberating prices in the chemical fertilizer and pesticide industries.

After the rapid growth of rural household income from agriculture in the initial years of the reform era, growth slowed and became

13 "Quota procurement" and "purchase at negotiated prices" were two ways of obtaining grain from peasants. In both ways, the state paid peasants at certain prices; but the negotiated price was remarkably higher than that of "quota procurement."

unstable from 1985 to 2003, as shown by Figure 1. During the period 1985–1990, agricultural incomes remained virtually stagnant in *per capita* terms, with annual growth of merely 1.2%; three years in this period even witnessed negative growth.<sup>14</sup> The rate of growth of real consumer expenditure *per capita* also steadily declined from 1978 to 1990. After 1983–1984, when the commune system was dismantled, a substantial part of the increase in consumption was financed through a drop in the level of savings of peasant households (Saith, 1995). Figure 1 also presents the rural–urban income ratio, showing the growth in rural income relative to urban income. Although income grew faster in rural areas than in urban ones initially, the rural–urban



**Figure 1 Rural Income Growth, 1978–2012**

*Notes:* The rural–urban income ratio is defined as the ratio of rural household net income per capita to urban household disposable income per capita. We adjust the family farming income by rural consumption price index.

*Data sources:* China Statistical Yearbook, various years, 1983 to 2013.

<sup>14</sup> Sources: China Statistical Yearbook, 1992.

income ratio experienced a downturn between 1984 and 1992, with the income gap even wider in 1992 than in 1978.

Due to factors such as pro-peasant procurement prices, the increase in inputs of chemical fertilizers, and the irrigation infrastructure built under the collective system (Hinton, 1990), grain production achieved dramatic growth and rural income also increased remarkably in the initial years. However, given that the state was heavily subsidizing grain prices, the rapid growth in rural income was unsustainable. Fiscal expenditure on price subsidies to grain, cotton, and edible oil rapidly increased from less than 1% of the state's total fiscal expenditure in 1978 to 12% in 1984, equivalent to 44% of the state's infrastructure investments; however, after 1984, the relative size of the price subsidies consistently fell.<sup>15</sup> In 1993, Premier Zhu Rongji admitted in a conference that "grain production has been unprofitable, and peasants have been reluctant to cultivate grains." "Last year we paid too much attention to development zones and real estate but overlooked agriculture. After we liberated grain prices and cancelled subsidies on grain prices, the saved money has not been used to promote agricultural development" (Zhu, 2011a, 393–394). The transient high procurement price served to accelerate rural reforms, but failed to re-adjust the rural–urban unevenness.

Even without fiscal subsidies, the market alone sometimes produces high prices. The rise in grain prices tended to cause inflation, especially when the state failed to firmly control the amount of total wages and credit in the urban sector. In late 1993, a rapid growth of grain prices led to inflation. In response, the state intervened in the market by selling grain from reserves, and became cautious in setting procurement prices and liberating the grain market. In a November 1993 speech, Premier Zhu Rongji explained how "grain prices should be determined in the market"; "first, the fixed quota of 100 billion *jin*<sup>16</sup> should be sold to the state at the fixed-quota price; second, the 80 billion *jin* negotiation-price grain should be sold at market prices; finally, the state grain system should stabilize market prices at the fixed-quota price by increasing or reducing grain in reserves" (Zhu, 2011a, 496). This indicates that market prices were, in fact, largely regulated by the state, which reveals how the state "cooperated" with

15 Sources: *China Fiscal Yearbook* 1999.

16 1 *jin* = 0.5 kilogram.

the market to regulate the interest of peasants *vis-à-vis* urban residents. Social and economic changes in family farming have never been a market-driven process insulated from power relations and coercion.

Prices of chemical fertilizers and pesticides were also crucial to peasant's income. The increase in these inputs significantly contributed to labor productivity in family farming. The state had a considerable impact on these prices through its control over the pace of marketization in the relevant industries. Gao (2007) documents that the prices of chemical fertilizers and pesticides were 43% and 82.8%, respectively, higher in 1985 than in 1983, while grain procurement prices declined. Croll and Huang (1997) found in their interviews that input prices were governed by the market, while procurement prices were set by the state and had not been adjusted to cover the rising costs of inputs. In this case, the state sacrificed the interest of peasants to pursue marketization of key industries while keeping food prices low.

In addition to the marketization of agricultural production, peasant families also underwent commodification of means of consumption. They had to pay for education and medical services there were previously supplied by the collectives for free (Gao, 2007). Meanwhile, local governments imposed a heavy burden of fees on peasant families. As Zhu Rongji noted: "Once you cancel 200 types of fees, local government will create 300 more" (Zhu, 2011b, 465). All of this indicates that peasant families needed more cash income, beyond the reach of family farming.

Orthodox theory explains the stagnant rural income by the large population relative to limited arable land. In fact, to explain the stagnant income we should take account of the weakness of small peasants in the market, due to the intensive competition among themselves and their lack of bargaining power relative to input suppliers and local governments; moreover, due attention should be given to the state's shift in developmental strategy, which became more in favor of the urban sector and marketization. Thanks to the state-supported increase in the procurement prices of the initial years, peasants were incentivized to allocate more labor input to agricultural production under the HRS. However, the incentives for farming declined once the prices of agricultural products stagnated while taxes and fees increased along with the price of non-labor inputs. Peasants found it increasingly difficult to support themselves by agricultural income

alone, and had to resort to wage employment for higher income. In many places, before entering the urban sector, they were absorbed by the rising TVE sector in rural areas.

3.3 *The rise and fall of township and village enterprises.* Township and village enterprises (TVEs) achieved rapid growth in the 1980s, but their growth significantly slowed in the 1990s. TVEs played an important role in locally absorbing rural surplus labor and filled the vacancy from the demise of labor accumulation in communes. The predecessors of TVEs (commune and brigade enterprises) had been established to promote rural industrialization and better use of rural surplus labor. In the 1980s, TVEs used China's surplus labor to develop the industrial sector at a rate fast enough to ensure full employment and meet the rising demand from manufacturing (Bramall, 2009). As a legacy of the Maoist era, the fast-growing TVE sector even surprised the leadership; Deng Xiaoping once described the TVEs' development as "a strange army from nowhere." In the literature, although the nature of TVEs in this period remains debatable,<sup>17</sup> studies have shown that TVEs pursued multiple objectives. From a survey on 200 TVEs (dominated by collective-owned enterprises) from ten provinces in 1984–1990, Dong (1998) found that TVEs pursued non-profit objectives including raising employment levels as well as workers' income. Bramall (2006) argues that TVEs, thanks to the local employment focus, actually encouraged local governments to invest in skill development and helped the development of infant industries by avoiding "brain drain," especially in poor areas. Due to the absence of a national labor market, TVEs effectively postponed the transformation of the latent reserve army into a floating one.

TVEs had a mixed structure of ownership, ranging from collective-owned, private-owned enterprises to the self-employed; however, private-owned TVEs were rather small, with an average employment of less than nine persons in the 1980s.<sup>18</sup> Compared to SOEs, TVEs were more flexible in labor enrolment and wage distribution: bonuses and piece-rate wages were widely used in providing incentives; contractual and temporary workers were the majority; only key skilled workers were long-term workers (Ministry of Labor and Personnel, 1989). Thus, TVEs were more cost competitive than SOEs. TVEs also benefitted from favorable

17 Zhou (1996) argues that TVEs were private enterprises camouflaged as collective enterprises;

Huang (2008) underscores the entrepreneurship of TVEs.

18 Source: *Agriculture in China in the Past 60 Years*.

institutional supports, such as low taxes and government-guaranteed access to cheap credit (Naughton, 2007). TVEs of the Sunan mode, one of the famous models of the TVE in southern Jiangsu Province, strengthened the collectives and even reversed the decollectivization process in agriculture (*China TVE Yearbook*, 1978–1987; Pan, 2002). After decollectivization, TVEs became the main resource and institutional structure that underpinned the nominally existing rural collectives; in those places with failed or absent development of TVEs, rural collectives became empty shells, and, as a result, workers quickly began to migrate to other areas for job opportunities.

Wages in TVEs grew significantly faster than both the net income of rural households and the agricultural income of rural households in 1984–1988.<sup>19</sup> The average wage in collective TVEs grew even faster, at an annual rate of 13.1%.<sup>20</sup> TVEs were significant not only in the amount of job creation, but also in the community-based way that they created jobs locally and increased income for local peasants. In this sense, the development of TVEs provided peasants with an alternative to selling labor power in distant urban areas in a more precarious manner. Nevertheless, the TVEs' capacity to absorb surplus labor was limited by their uneven development across the country. Collective TVEs were highly developed in rural areas close to large cities. The top 10 provinces ranked by the proportion of collective TVE employment in total rural employment comprised three-fourths of the collective TVE employment in 1988.<sup>21</sup>

Various explanations exist in the literature for the decline of TVEs, emphasizing the role of the state. Wen and Yang (2016) underscored the role of financial contraction in the decline of TVEs as the state's response to the failure of radical price reform in 1988. Huang (2008) argued that the 1990s witnessed a shift of the state's policies from supporting private enterprises to supporting SOEs. Pan (2002) suggests that it was the neoclassical ideology that pushed the state to privatize TVEs in the late 1990s. Andreas (2010) highlighted the wholesale privatization of TVEs and the sudden sharp drop in grain prices in 1996 as two critical changes leading to the decline of TVEs.

19 The real wage in TVEs grew at an annual rate of 4.3%, compared to 1.9% for the net income per capita and 0.1% for agricultural income *per capita* (*China Township and Village Enterprise Yearbook*).

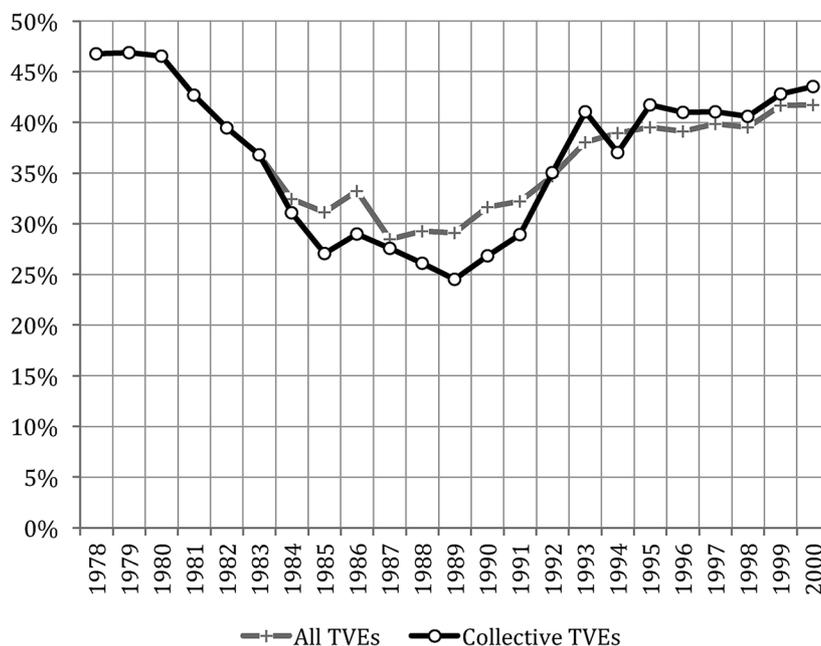
20 Sources: *Agriculture in China in the Past 60 Years*.

21 Sources: *China Rural Statistical Yearbook*, 1989.

In our view, the short-lived boom of TVEs in the 1980s can also be explained by the state's pursuit of marketization and the particular path of marketization. In 1984, China launched the dual-track system:<sup>22</sup> SOEs were allowed to sell products in the market at the market price, so long as they achieved the production goals stipulated by the planning system. Not restricted by the planning system, TVEs could benefit from the excessive demand relative to insufficient supply in the initial stage of marketization. Given that a large proportion of TVEs were producing consumer goods, the relatively equal income distribution and the rising wages of urban workers as well as the rising incomes of rural households in the 1980s created favorable market conditions for TVEs. This particular form of marketization turned out to be a double-edged sword to the TVEs: on the one hand, the rapid development of TVEs greatly benefited from the dual-track system in the initial stage of marketization; on the other hand, with the end of the dual-track system following the economic contraction in 1989–1991,<sup>23</sup> TVEs had to face fiercer market competition from urban private enterprises and SOEs. Meanwhile, the state prioritized urban development with more resources and preferable policies towards coastal cities and towns to attract global capital. Premier Zhu Rongji openly advocated restraining TVE growth to free up resources for the expansion of the export sector (as cited in Hung, 2017). As Figure 2 shows, for both collective-owned TVEs and all TVEs, the share of profits in net value added decreased from 1978 to 1990, and started to rise after; however, with the increase in the profit share, TVEs' ability to create employment significantly dropped after 1988, which implies that TVEs prioritized profit maximization over job creation since the early 1990s. The decline of collective TVEs eliminated an approach

22 Launched in 1984, the dual-track system made the planning system coexist with the market system. SOEs producing means of production, as long as they fulfilled the production requirements stipulated by the planning system, were allowed to sell their products at higher market prices. This reform was aimed at introducing market incentives to enterprises without affecting the planning economy. The expansion of the market provided TVEs with more access to means of production, which played a crucial role in the rapid development of TVEs.

23 The dual-track system caused many problems, the most serious of which was rent-seeking. Insiders who had personal relations with officials were able to extract large amounts of rent by buying at the planning price and selling at the market price, which was one of the causes of the social movement and turmoil in 1989. By the end of 1989, the state decided to end the dual-track system and integrate the two tracks into one. The low market price level in the economic contraction in 1989–1991 facilitated the integration of the two tracks.



**Figure 2 TVEs: Profit Share in Net Value Added**

*Notes:* The profit share is the ratio of profits to the sum of employees' compensation, taxes, and profits.

*Data source:* *Agriculture in China in the Past 60 Years.*

to absorbing surplus labor locally and forced rural–urban migration of peasants needing to sell labor power.

#### *4. Why the Orthodox Theory Is Flawed*

In the last section, we provided an alternative interpretation of the historical formation of labor supply, emphasizing social and political factors. In our view, our interpretation has the following advantages over the orthodox theory:

First of all, our interpretation has taken account of the coercion arising from both the state and the market in the formation of the reserve army, rather than regarding that formation as a spontaneous, self-interested, market-driven process, as in orthodox theory. That is to say, methodologically, our interpretation rejects the strict dichotomy between the state and the market, the political and the economic

mechanisms; instead, we argue that economic changes should be understood through a particular power structure that emerges from a dialectical relationship. Under different circumstances, the dialectical relationship between the state and the market reveals itself differently: they have conflicted, cooperated, and mutually configured each other in historically contingent ways. In the case of labor supply transformation, both the state and the market have become sources of coercion hidden beneath the seemingly spontaneous choices of peasants, which presents a fuller picture than a simple substitution between state and market.

Second, our interpretation has emphasized social and political factors, largely ignored by the orthodox theory. This omission of the facts in the orthodox theory means it is not only theoretically flawed but also empirically misleading. As argued above, the compulsion of Chinese peasants to sell labor power is largely a result of the coercion transmitted through both political and economic mechanisms. The state reforms dismantled the rural collective system; marketization of family farming and the specific regulation and deregulation of agricultural markets squeezed the income from family farming; finally, the state's urban-biased development strategy reduced the effectiveness of TVEs in local job creation. During this process, masses of rural producers were deprived of the alternatives to migration (*i.e.*, labor accumulation, subsistence farming and local industrial employment), and then disciplined by the state and later the rising capitalist class to accept their precarious social conditions in cities. This is, however, quite opposite to the crucial assumption in the orthodox theory that the voluntary and harmonious rural–urban movement of wage labor was exclusively in response to market incentives.

Finally, the flaws in the orthodox theory have constrained its capacity to analyze China's contemporary transformation concerning the turning-point debate. In our view, the orthodox theory overemphasizes market forces, but fails to account for the informal and precarious nature of migrant workers' jobs. This persistent reality is exactly a result of social and political factors that the orthodox theory ignores; it affects the implications of the turning point for the overall economy.

The turning-point hypothesis has been so influential that China's former Minister of Finance, Lou Jiwei, in 2006 publicly criticized China's "strong" labor regulations and advocated wage growth slower than labor productivity growth. China did see labor shortage and rapid

growth of wages for both urban workers and migrant workers in recent years. The labor share, measured by the proportion of employees' compensation in gross domestic product, has increased steadily since 2008, reversing a long-term declining trend since the mid-1990s. Along with this evidence for the turning point, one needs to see that most migrant workers in China are still facing a significant wage gap, living in a semi-proletarianized condition, and working precariously in cities. Even the rising workers' struggles in recent years mostly aimed to acquire wage increases and benefits that are necessary to meet the costs of labor reproduction. Up until now, the younger generation (16 to 26 years of age) of migrant workers is disproportionately more prone to informality, with 72.9% of them neither covered by a written labor contract nor provided with any type of social insurance (Park, *et al.*, 2012). The chronic problem of overtime work already illustrates how the labor law has been nowhere strictly enforced for migrant workers. Surveys by the National Bureau of Statistics reveals that only 35.1% of migrant workers signed a labor contract in 2016 and only 16.7% participated in pension insurance in 2014; in the construction sector where workers are vulnerable to workplace injuries, only 14.9% have participated in injury insurance (NBS, 2017; NBS, 2015). In most cases, a labor company subcontracts a project to a labor contracting team, and the team recruits construction workers through informal relations; however, workers have no contract with the labor company, the actual employer (Pun, *et al.*, 2010). Temporary workers in the form of dispatched workers have also been common in the manufacturing sector.

The informal and precarious nature of employment, salient in the Chinese economy but absent in the orthodox theory, cannot be explained solely by market mechanisms insulated from state forces. In order to pursue economic growth and accelerate China's integration into the global production chain, local governments, in particular, have appealed to the interests of global capital by lowering labor standards and tolerating noncompliance with labor regulations. In prioritizing economic growth, local governments tended to keep silent on circumventing labor laws, leaving scattered migrant workers to bargain with private capital, and turned a blind eye to what happened in Marx's "hidden abode of production." Thus, the institutional setting of the state has significantly suppressed the bargaining power of migrant workers in the market, while marketization and the development of

domestic and global capitalism in turn force the state, including local governments, to offer favorable conditions for capital accumulation. This retains or even exacerbates the informality and precariousness of the employment of migrant workers. As in the explanation of the transformation of labor supply, the orthodox theory mistakenly contends that the supply–demand market mechanism can lead to a structural shift in the labor market. A full discussion of the turning point is beyond the focus of this article; the analysis of the turning point question, however, should not leave aside the conflicts among the state, capital, and labor, as well as the coercion in their interactions.

### 5. *Conclusion and Discussion*

In this article, we have analyzed the historical trajectory of a rural labor force being transformed into a capitalist labor supply. We conclude with two key points. First, a series of structural shifts — dismantling labor accumulation by decollectivization, commodification and increasing market dependence of family farming, as well as reducing the effectiveness of TVEs in job creation — gradually forced the migration of Chinese peasants from the rural to urban areas. The consequence is the formation of a large reserve army of labor which has imposed remarkable downward pressure on wages, leading to the persistent gap between actual wages and a living wage level. Second, when examining how this new labor supply was formed, the state has not been a passive actor retreating from its former sphere or being replaced by the market. Various coercive mechanisms from both the state and the market were crucial in ensuring that the labor supply would concentrate in the right place (cities), at the right time (post-1992), and at the right price (lower than a living wage).

After addressing the question *how* the labor supply was transformed, a further question is *why* it happened; in particular, why the state has played an active role in that transformation. This proposes a more fundamental question about the role of the state in China's economic transition and the relationship between the state and the working class. Although this is beyond the focus of the article, our analysis may cast light on this question. A key implication is that the state pushed the major structural shifts not for a pre-set fundamental goal — such as establishing capitalism — but for different reasons. Rebuilding the small peasant economy was to provide strong economic

incentives to peasants, which was part of the state's attempt to gain peasants' support to the overall reform scheme at the beginning of the reform era. Stabilizing the prices of agricultural products was associated with the large goal of preventing urban inflation and potential social instability. Finally, the fall of the TVEs was largely a by-product of state-led marketization. In general, we reject the hypothesis that the state, *a priori*, had a fundamental goal of creating labor supply for capitalist development. The behaviors of the state should be understood in more concrete and historical contexts, through the lens of the internal conflicts among the state and the emerging classes, and the external constraints that global capitalism has imposed on the Chinese state and economy.

The historical circumstances of China's economic reform highlight the empirical relevance of Marx's historical method and theoretical framework. This does not lie in providing any ready-made conclusion or making any deterministic prediction, but rather in offering a method of historical analysis which is based on real contradictions and conflicts in the society, rather than sticking to a theoretical model with assumptions of little historical relevance. Giovanni Arrighi's analysis of the Rhodesian economy provides a classic example. Under the blind application of the orthodox theory to the Chinese context, crucial historical and political features are too easily overlooked; therefore, their relevance goes unexplained. On the question of surplus labor supply, the Marxian methods deserve more academic and political attention than they have received thus far.

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