



The state's response to the crisis of neoliberalism: a comparison of the net social wage in China and the United States, 1992-2017

Katherine A. Moos & Hao Qi

To cite this article: Katherine A. Moos & Hao Qi (2022): The state's response to the crisis of neoliberalism: a comparison of the net social wage in China and the United States, 1992-2017, International Review of Applied Economics, DOI: [10.1080/02692171.2022.2056155](https://doi.org/10.1080/02692171.2022.2056155)

To link to this article: <https://doi.org/10.1080/02692171.2022.2056155>



Published online: 08 Apr 2022.



Submit your article to this journal [↗](#)



View related articles [↗](#)



View Crossmark data [↗](#)



The state's response to the crisis of neoliberalism: a comparison of the net social wage in China and the United States, 1992-2017

Katherine A. Moos ^a and Hao Qi ^b

^aDepartment of Economics, University of Massachusetts Amherst, Amherst, MA, USA; ^bSchool of Economics, Renmin University of China, Beijing, P.R. China

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.

ARTICLE HISTORY

Received June 2020
Accepted February 2022

KEYWORDS

China; United States; welfare state; taxation; social wage

JEL CLASSIFICATION

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 related to race and 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 reshaped 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.

Neoliberal reforms in the US and China both undermined the welfare system and threatened the social reproduction of working-class people. In each context, how did the state respond? Based on a comparison of each country's redistributive policy, we ask if the US and China responded to the crisis of neoliberalism in similar ways. We use an

empirical approach known as the net social wage (NSW), which measures the difference between total labor benefits and total labor taxation. 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.

In general, the era of global neoliberalism 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. More importantly, the state plays a crucial role in tackling the consequences of neoliberalism, which can threaten workers' social reproduction. The necessity of responding to the consequences of neoliberalism on workers' social reproduction can generate new forms of state-economy relations, which in turn may require deeper and more active policy interventions than the neoliberal ideology would espouse. Theoretically, the state can either preserve the institutional achievements of neoliberal reforms while repairing gaps and holes in the welfare system to maintain minimal social stability, or retreat from neoliberalism and rebuild the welfare state to maintain long-term social stability that favors more stable and sustainable capital accumulation. The political and economic context in each country shapes the form of its policy interventions. It is this differing context that motivates us to compare the redistributive policy between the US and China.

As we will see, the empirical results show that both China and the US exhibit an increasing NSW in recent years. We provide an interpretation of the rising trend in each country. The net social wage in a country is influenced by many factors, including class power, demographics, business cycles, economic structures, and the costs of social benefits. One must not simply interpret an increase (or fall) in the net social wage as a sign of stronger (or weaker) working class, without considering the historical context. Our analysis suggests that an increasing NSW 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 China, it reflects institutional changes in the welfare state that the Chinese state has used in an attempt to resolve the social reproduction crisis caused by the neoliberal reforms of the 1990s.

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.¹ 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 treatment of indirect taxes. Third, the paper proposes a novel NSW-inspired analysis 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.

The paper has the following structure. The next section discusses the background of social expenditures and taxation in the two countries. In the third section, we present two basic measures of estimating the net social wage and discuss their different treatment of indirect taxes; we then introduce the NSW measures for China's rural workers and urban

workers. The fourth section discusses the data and results. The fifth section compares and discusses the findings. The final section offers concluding remarks about the heterogeneity and convergence of welfare states in the neoliberal era.

2. Contextualizing the welfare states of the US and China in the 21st century

As the two largest economies in the world, the US and China exhibit both differences and similarities. Using the National Transfer Accounts (NTA)² approach, comparative studies of the welfare states of China and the US have found that both countries had an economic support ratio – the ratio of producers to consumers – of 0.90 in 2000, and a fiscal support ratio – the ratio of taxpayers to public program beneficiaries – of 1.0 in 2010.³ Both China and the US diverge from other countries studied using the NTA. China is considered an anomalous case in that it has relatively low fertility while both overall consumption and children's consumption are 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 the NTA (Lee, Donehower, and Miller 2011, 313).

Regarding 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 2017, the real GDP per capita in China was 24% of the real GDP per capita in the US; the urbanization rate in China was 71% 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, general government final consumption expenditure as a share of GDP – which represents the role of government consumption in aggregate demand – was similar in both countries in 2017.

Table 1. A comparison of economic indicators: China vs. the US.

	1992			2017		
	China	US	China/ US	China	US	China/ US
Real GDP in PPP per capita (PPP, constant 2017 international \$)	1731.66	40692.64	0.04	14243.53	60109.66	0.24
Urban population (% of total population)	28.20	76.10	0.37	57.96	82.06	0.71
Household consumption (% of GDP)	45.27	64.38	0.70	38.54	67.74	0.57
Investment (% of GDP)	30.35	19.83	1.53	41.86	20.57	2.04
General government final consumption expenditure (% of GDP)	14.44	16.08	0.90	16.32	13.97	1.17
Exports (% of GDP)	15.66	9.71	1.61	19.69	12.20	1.61
Foreign trade (% of GDP)	30.15	19.95	1.51	37.63	27.16	1.39
Top 10% income share (%) *	32.70	39.50	0.83	41.70 (2015)	45.40	0.92
Compensation of employees (% of GDP) **	50.11	61.1	0.82	47.51	56.9	0.83

Sources: Unless otherwise indicated, the data is from World Bank World Development Indicators (WDI) database.

*World Inequality Database.

**China Statistical Yearbook; AMECO.

"General government final consumption expenditure" is a macroeconomic indicator that does not cover all government expenditures. These are different sources than used in our empirical analysis.

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).

Despite the similar trends in inequality, workers' bargaining power in each country showed different trajectories. Due to globalization, de-unionization, deregulation of the labor market, and the post-crisis economic depression, US workers have been in a weak position over the past four decades. In the US, wages have stagnated since the 1970s. In China, the de-collectivization of the rural economy in the 1980s and the privatization of state-owned firms in the 1990s systematically undermined workers' bargaining power. However, Chinese workers have been gaining power since the mid-2000s, a shift associated with rapid economic growth, a shrinking reserve army of labor, and various pro-labor policies. There was consistent and rapid wage growth since the mid-2000s. According to the International Labor Organization (ILO), from 2006 to 2017 China experienced the most rapid wage growth in the world (ILO 2018).

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 period, the changes have been different – in the US the unwinding was about undermining New Deal and Great Society era protections in the 1980s and 1990s, while in China the unwinding included market reforms and opening up the economy beginning in 1978 (Creed and Liu 2014, 39).

Many comparative studies of the US welfare state aim to explain its lack of comprehensive social insurance, reliance on private markets to provide public goods, strict eligibility requirements, and general 'laggardness' relative to European or other OECD countries. There are various theories and explanations for the underdevelopment of the US welfare state, including the influence of Protestantism on the political culture, the legacy of slavery and white supremacy, the size and diversity of the population, the absence of a socialist or labor party, laissez-faire ideology, and political conflicts between the industrialized North and the agricultural South (Lynch 2015). US reforms since the 1980s have undermined access to social programs but have not led to a complete retrenchment of the US welfare state (Pierson 1996, 150; Hacker 2004, 243), nor to a net reduction in fiscal spending. Instead, US neoliberal policy in the 21st century – which certainly constricts access to social benefits for some groups – has occurred while total social spending has continued to increase.

China's reforms in the 1980s and 1990s undermined the welfare system as a legacy of the planning economy and gave rise to a crisis of social reproduction, which contextualized the reorientation of distributive policies in China in the 21st century. In rural areas, the relatively low prices of agricultural goods made family farming unprofitable, forcing

peasants to look for jobs in urban areas (Croll and Ping 1997; Gao 2007). While prices of agricultural goods were largely controlled by the state in the 1980s, prices of agricultural inputs such as chemical fertilizers and pesticide were marketized. In addition to the marketization of agricultural inputs, peasant families also experienced greater commodification of necessary goods and services. They had to pay for education and medical services previously supplied by collectives for free (Gao 2007). Furthermore, local governments imposed a heavy burden of fees on peasant families (Zhu 2011, 465). In urban areas, the crisis was closely related to privatization reform. By the early 1990s, most full-time workers in state-owned enterprises and urban collective enterprises enjoyed job security and received medical, retirement, and other benefits financed by enterprises (Frazier 2004). In 1992, in the context of the collapse of the former socialist block, China's leadership accelerated marketization reform to pursue economic growth. 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 and a dramatic increase in urban unemployment. Over 50 million workers in the state sector lost their jobs between 1993 and 2003 (Andreas 2019, 198).

While it is widely accepted that the US has pursued neoliberal policies, the question of neoliberalism in China is more controversial (Weber 2018, 2020). There are undoubtedly features of neoliberalism in China, including the mass privatization of public firms and commodification of labor power (Qi and Li 2019); however, there are also policies against neoliberalism, especially in the strong regulation of financial sectors (Lo 2016; Weber 2018, 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.

3. Method

3.1. Net social wage approach, traditional approach (NSW₁)

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).

Based on the general definition of NSW, different measures of NSW have been developed. The traditional net social wage (NSW₁) was first developed by Shaikh and Tonak (1987, 2000), and has since been applied to a number of countries including the US, UK, Germany, Canada, Sweden, Norway, Greece, among others.⁴

In the NSW₁ approach, social expenditures attributed to labor (E) consist of programs that benefit labor entirely (E₁) and social benefits that partially benefit labor (E₂). E₁ consists of direct payments and transfers, such as pensions, income support, public health insurance, and housing. E₂ 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 E₂ is attributed to labor, we multiply it by the labor share (LS):

$$E = E_1 + E_2 * LS \quad (1)$$

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):

$$T = T_1 + T_2 * LS \quad (2)$$

Thus,

$$NSW_1 = E_1 + E_2 * LS - (T_1 + T_2 * LS) \quad (3)$$

3.2. Net social wage approach, indirect taxes variation (NSW_2)

Maniatis (2014) determined that researchers who employ the net social wage do not all use the approach as originally formulated by Shaikh and Tonak. Another net social wage approach, NSW_2 , includes a third category of taxes, T_3 , which is the sum of indirect taxes. In this measure, 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 , 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, UK workers paid more in taxes than they received in benefits, meaning that the net social wage was negative.

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 measure 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 appropriate 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 , as together they reveal a fuller picture of redistributive policy in each country. 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.

We propose a new interpretation of the difference between NSW_1 and NSW_2 , an interpretation that is based on social relations rather than demand elasticities. The elasticity-based interpretation of tax incidence only focuses on the relation between producers and consumers – not the social relations between capital and labor. However, the relevant question to us is: who bears the costs of indirect taxes, capital or labor? The elasticity-based interpretation cannot explain why we need to multiply indirect taxes with the labor share – an indicator for the bargaining power of labor. Our interpretation, on the other hand, underscores the role of social relations in determining distribution and tax burden.

The indirect tax has two possible effects. First, it may reduce the real wages of workers because it causes an increase in the market price. Second, it may also reduce the real profits of firms through reducing the volume of sales under the higher price. The tax burden can be decomposed into two parts, the first associated with the decrease in real wages, and the second with the decrease in real profits. Although the statutory incidence falls on firms, it is labor or capital or both who bear the costs of indirect taxes. These effects cannot be determined by the indirect tax alone; rather, they will interact in the social relations between capital and labor that regulate the distribution between wages and profits.

Suppose there is an increase in the indirect tax. Theoretically there are many mechanisms to determine who (capital or labor) ultimately bears the costs, which is contingent on the social relations between capital and labor. 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 costs of indirect tax are ultimately paid by capital through a reduction of real profits. Another scenario is that employers have sufficient bargaining power over workers to maintain constant real profits and make workers bear the reduction in real wages. Actual scenarios are likely to lie between these two extreme cases. This interpretation thus provides a rationale for using the labor share to decompose tax incidence, as the labor share is an indicator of labor's bargaining power relative to capital – albeit an imperfect one.

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 42% of the population living in rural areas. This is more than double the percentage of the US population living in rural areas, approximately 18% in 2017 (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 .

$$NSW_{1R} = E_{1R} + E_{2R} * LS_R - (T_{1R} + T_{2R} * LS_R) \quad (5)$$

$$NSW_{1U} = NSW_1 - NSW_{1R} \quad (6)$$

$$NSW_{2R} = E_{1R} + E_{2R} * LS_R - (T_{1R} + T_{2R} * LS_R + T_{3R} * LS_R) \quad (7)$$

$$NSW_{2U} = NSW_2 - NSW_{2R} \quad (8)$$

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.

3.4. The usefulness and limitations of the net social wage

The net social wage was introduced into the literature when the debate about the welfare state concerned its effect on economic growth. Critics of the welfare state argue that state spending curtails economic growth, inhibits capital accumulation, and creates labor market rigidities. This argument, a cornerstone of anti-welfare state thinking, has played a major role in justifying neoliberal policy, especially during times of economic crisis. Poor economic growth, especially in Northern Europe, was blamed on the expansion of welfare state spending (Lindbeck 1994, 1997). While a number of social scientists and economists have argued that the welfare state has not slowed economic growth (Korpi 2000; Lindert 2004), the perception persisted and continued to be widely influential.

Even heterodox economists such as Bowles and Gintis (1982) argued that the US accumulation crises of the 1970s were the result of distributional gains made by labor that squeezed capitalists' profits. Rather than aiding in capitalist accumulation, Bowles and Gintis (1982) argued that the 'citizen wage' had been an impediment to capitalist development. They argued that redistribution to labor, in particular unemployment benefits, strike funds, and other social supports, allowed workers to access the means of subsistence without selling their labor power, thereby undermining the disciplinary function of the reserve army of labor.⁵

When first introduced, the net social wage provided a critique of both mainstream and heterodox economics literature that blamed the welfare state for poor economic performance. Shaikh and Tonak (1987) argued that the effect of social expenditures should not be analyzed without also looking at taxation, and proposed the concept of the net social wage. Based on their findings, Shaikh and Tonak (1987), Shaikh and Tonak (2000), and Shaikh (2003), argued that welfare state spending cannot be blamed for poor growth, as the net social wage in the 20th century was on average approximately zero.

Authors such as Lindert (2004) also looked at how the financing of the welfare state affected economic growth, arguing that generous welfare states were often funded through regressive taxation schemes. In other words, in many countries, the working class pays for its own social welfare benefits through taxation. However, Lindert (2004) argues that the gross social wage is still valued and valuable, even if the net transfer between classes is low. This is in contrast to the argument put forth by Shaikh and Tonak (1987) that a low or zero net transfer to workers means that the welfare state is essentially a ‘myth’.

While the net social wage provides a way to look at the net effect of redistributive policy from the perspective of classical political economy, it should not be interpreted as mapping directly onto concepts of interest, such as the strength of the working class, nor the ability of the working class to mobilize the state on its own behalf. The net social wage merely provides an accounting framework of the *ex post* redistribution to labor vis-à-vis the state. The net social wage alone does not answer questions about class power, the strength of the working class, or the ability of the working class to influence policy.

The use of the labor share (LS) to allocate the share of expenditures and taxation that can be attributed to workers should also be considered critically. The difficulty in using the labor share to estimate how much certain components of the net social wage benefit workers as a class goes beyond the question of indirect taxes discussed in Section 3.2. While the labor share indicates labor’s strength relative to capital, using it to impute the working class share of expenditures or tax burden does not address the class conflict embedded in the determination of the labor share. Furthermore, while the labor share is used to determine the working class share of certain types of public consumption, such as education, funding for hospitals, energy, transportation, natural resources, and recreation, this excludes important ‘real-world’ considerations. Some public goods and services, such as investment in a high-quality water supply, safe roads, or public schools and hospitals that primarily serve certain populations and not others, may be utilized in proportion with the population share, rather than the labor share. Furthermore, capital receives benefits from a healthy workforce in addition to its own consumption of public goods and services. It is not clear that the benefits of the social wage captured by capital are proportional to its income share.

Another drawback of the NSW is that it is too aggregated an instrument to understand changing demographics and the effect of social spending on social differences within the working class, particularly along age, racial/ethnic, and gender lines. While components of the NSW can be analyzed to understand if programs that benefit the elderly, such as pensions, are costlier than education for children, it is a less appropriate measure for understanding transfers from the perspective of the lifecycle as is the National Transfers Account (NTA) which we reviewed in Section 2. Furthermore, the NSW approach is silent on differences along race/ethnicity, gender, and socioeconomic status. The NSW

treats all members of the working class – a category that includes significant diversity in terms of income and social identity – as essentially the same. This particular shortcoming has earned the NSW criticism from feminist economists such as Folbre (2020).

Furthermore, the NSW, as an average expressed in terms of final annual expenditures or a percentage of GDP, does not capture the insurance value of certain social programs. While much of the NSW can be expressed in the resources redistributed, other aspects – such as health, unemployment, and disability insurance – are valued due to the *potential for an adverse event or situation*, even when claims are not made that would increase outlays. As the real and perceived risks to workers increase, so might their value of these insurance programs, whether or not they have reason to use them. Relatedly, outlays do not capture the quality of in-kind social benefits or education, and may poorly represent the effect that they have on the social reproduction of the working class.

Despite these limitations, we argue that the NSW provides a useful metric for the purpose of understanding net redistribution to the working class in the two largest economies in the world. We argue that the NSW should be understood within the specific political-economic and historical contexts of each country, which can only be known through a historical-institutional analysis. The NSW alone will not answer the question of *why* the measure follows a certain pattern or trajectory. While an increasing NSW in some countries and some eras may be the result of political and economic gains made by labor, in other contexts, the NSW could increase despite labor being in a weak position relative to capital. Welfare states that provide substantial redistribution to the elderly through public pensions and health insurance will become more expensive as the population ages. On the one hand, the survival of social benefits could be the result of labor's strength relative to political efforts to cut, privatize, or otherwise limit these programs. However, social programs could also continue due to institutional inertia or the political calculations of elites, rather than successful mobilization of the working class.

These considerations open up interesting and useful empirical exercises that are beyond the scope of this paper, but would enrich our understanding of the net social wage and comparative welfare state literature. Despite the caveats we address in this section, we maintain the usefulness of applying the NSW for the comparative purposes outlined in this paper.

4. Data and results

The data for calculating the US net social wage comes from the National Income and Product Accounts (NIPA), which are made publicly available by the US Bureau of Economic Analysis (BEA). We use annual data on GDP, government receipts and expenditures, and earned income (to calculate the labor share) from the NIPA tables. We extend the time series of both the NSW_1 and NSW_2 , as calculated by Moos (2019), 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. Table 3 presents averages of key NSW data for each country.

China is distinct in that there is a large state-owned sector. The Chinese state can extract the profits of state-owned firms as a source of fiscal income. The profit transfer can be understood as heavier taxation for state-owned firms. Given that the NSW

Table 2. A comparison of NSW categories: China vs. the US.

US NSW Category	China NSW Category
Labor Share = Compensation of Employees/Personal Income	(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 1 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 <i>Insufficient information</i> Environment Protection <i>Insufficient information</i> Transportation
Tax Group 1 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

Table 3. A comparison of US and China averages over 1992–2017.

	US	China
Labor Share	0.65	0.78
Rural Labor Share	N/A	0.18
Expenditure Group 1 (E_1)*	1683.74615	30198.2723
Expenditure Group 2 (E_2)*	1008.95538	19124.9247
Tax Group 1 (T_1)*	795.707692	15234.1212
Tax Group 2 (T_2)*	1588.05769	3280.94797
Tax Group 3 (T_3)*	892.484615	34505.7231
GDP*	12579.2423	281610.134
E_1 /GDP	13%	7.9%
E_2 /GDP	8%	5.2%
T_1 /GDP	6.4%	3.9%
T_2 /GDP	12.7%	0.9%
T_3 /GDP	7.1%	12.1%
NSW ₁ /GDP	4%	7%
NSW ₂ /GDP	–1%	–2%

*Nominal currency (USD and RMB), Millions.

measures the transfer between the state and labor, this profit transfer between the state and state-owned firms has no direct impact on either the expenditure side or the taxation side of the NSW.⁶

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. The extent to which a Chinese fiscal category's lack of detailed information is relevant to social reproduction is ambiguous. '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.

Figures 1–3 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. Figure 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. Figure 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. Figure 3 demonstrates the opposite for the US: of the three categories of taxation, T_3 contributes the least to overall revenue.

As illustrated in Figure 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 only this approach, 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.

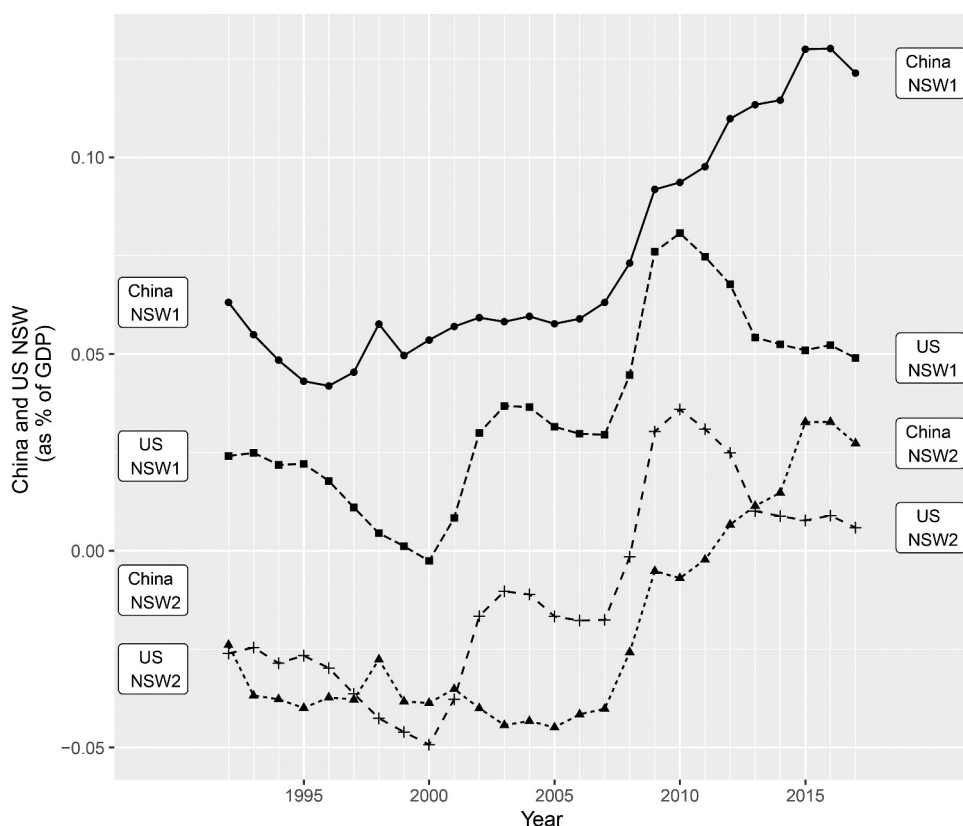


Figure 1. US & China NSW_1/GDP and NSW_2/GDP , 1992–2017. Sources: The authors' calculation. See Section 4 for details.

During this time period, both countries 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. Starting in 2008 in the US and 2012 in China, the NSW_2 increased and became positive, with a peak in 2010 for the US and a peak in 2015 for China. Figures 2 and 3 show that in both countries this rise was mainly associated with a consistent increase in social expenditures entirely benefiting labor. Furthermore, the net social wage in China exhibited fewer cyclical fluctuations than the US NSW . The difference in cyclical fluctuations 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.

A major difference between China and the US is that the Chinese economy experienced massive urbanization over this period, which motivates a further investigation of the NSW for China that considers rural and urban workers separately. Figures 4 and 5 present the net social wage for the rural workers group and the urban workers group in China, respectively. The NSW_{1U} (see Figure 4) was at a higher level – between 2.5 and 7.3% of GDP – than the NSW_{1R} (see Figure 5), which was between 1.6 and 5.4% of GDP during the same period.⁷ Interestingly, the opposite trend is displayed for the NSW_2 . In this case rural Chinese

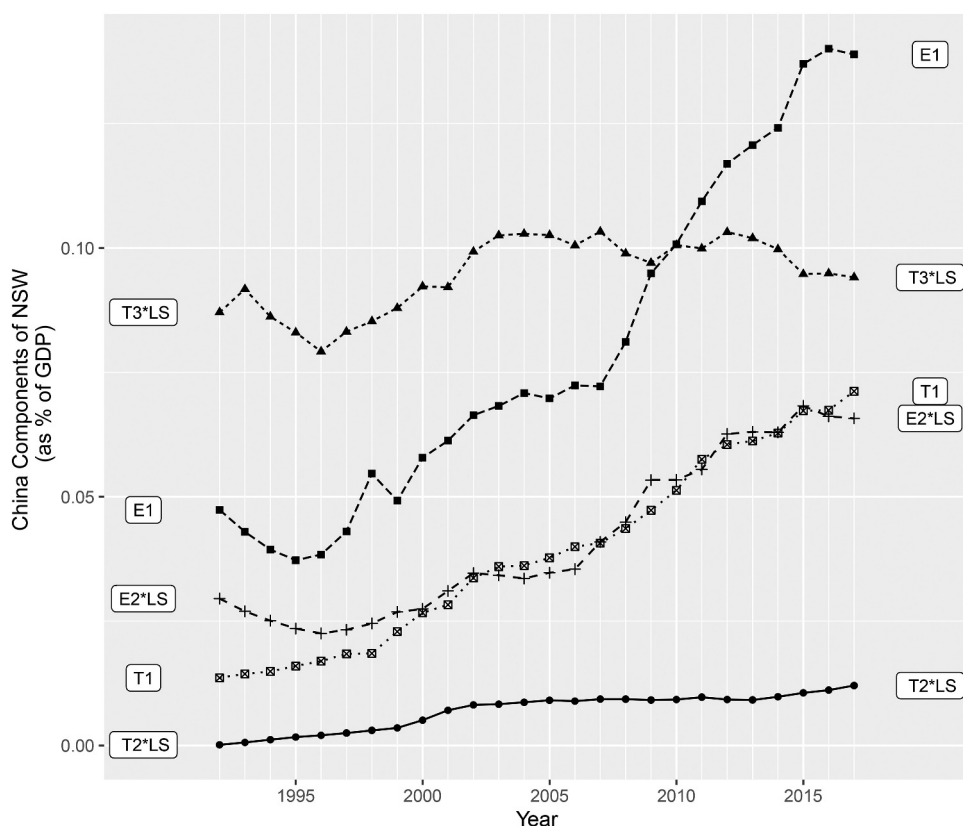


Figure 2. China components of NSW_2 , 1992–2017. Sources: The authors' calculation. See Section 4 for details.

workers received positive redistribution beginning in 2001—albeit still less than 1% of GDP until 2008—reaching a high of 4% of GDP in 2015 and 2016 (see Figure 4). The $NSW_2 U$, on the other hand, demonstrates that urban Chinese workers paid more in taxes than they received in benefits during the entire period (see Figure 5). This is the result of the higher indirect taxes paid by Chinese workers in urban areas. 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 around 2007–2008 for urban workers.

E_1 is the main driver of the net social wage for both countries. The positive NSW_2 in both countries is associated with the substantial increase in E_1 in the 21st century.

In the US, the growth of the E_1 category reflects a combination of cyclical, structural, and secular changes (Moos 2019). An aging population and healthcare inflation have played important roles in increased spending on the three largest social programs – Social Security, Medicare, and Medicaid.⁸ Increased spending on healthcare is a contributing factor to the increase in the US NSW from 1959 to 2012—but is not solely responsible for the increase.⁹ The high cost of US healthcare is due to high administrative costs, the fee-for-service model, lack of price transparency, and Baumol's cost disease.¹⁰ More than

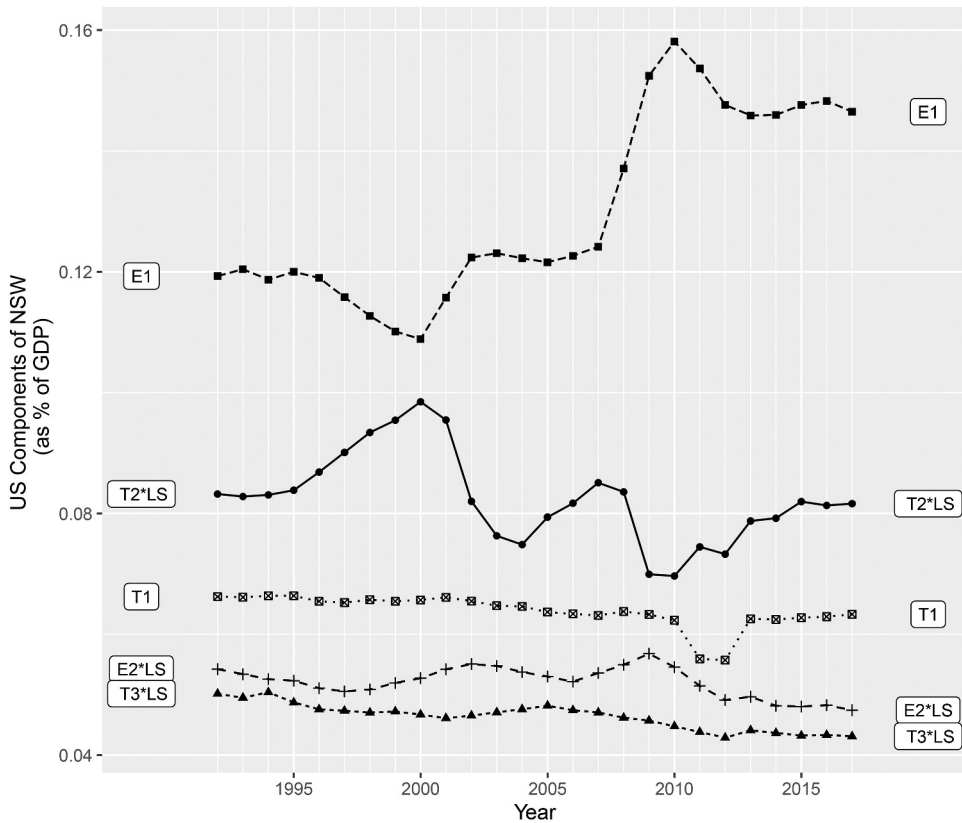


Figure 3. US components of NSW_2 , 1992–2017. Sources: The authors' calculation. See Section 4 for details.

anything, the high cost of US healthcare services is the result the US government's failure to leverage its position as a major buyer to regulate and control drug prices (Moos 2019, 596).

The increasing costs of US healthcare should be understood as the consequence of political battles in which the demands of healthcare consumers and advocates – such as civil society groups working to advance single-payer healthcare or those representing elderly or indigent patients – have been negotiated within a political context in which the US Congress remains beholden to the financial interests of private insurance companies and the pharmaceutical industry. Healthcare reforms in the early 21st century have expanded access – responding to the social reproductive needs and political demands of healthcare consumers – but have failed to reign in prices – so as not to upset the pharmaceutical or insurance industries' profits. The Medicare Modernization Act of 2003 (which went into effect in 2006) under President George W. Bush, expanded coverage for prescription drugs under Medicare without allowing the federal government to negotiate drug prices with pharmaceutical companies. While this policy change represented a major victory for elderly patients – and was the result of considerable political effort spanning several decades – the law did not adequately control costs. The Patient Protection and Affordable Care Act (ACA) of 2010 was a major piece of social

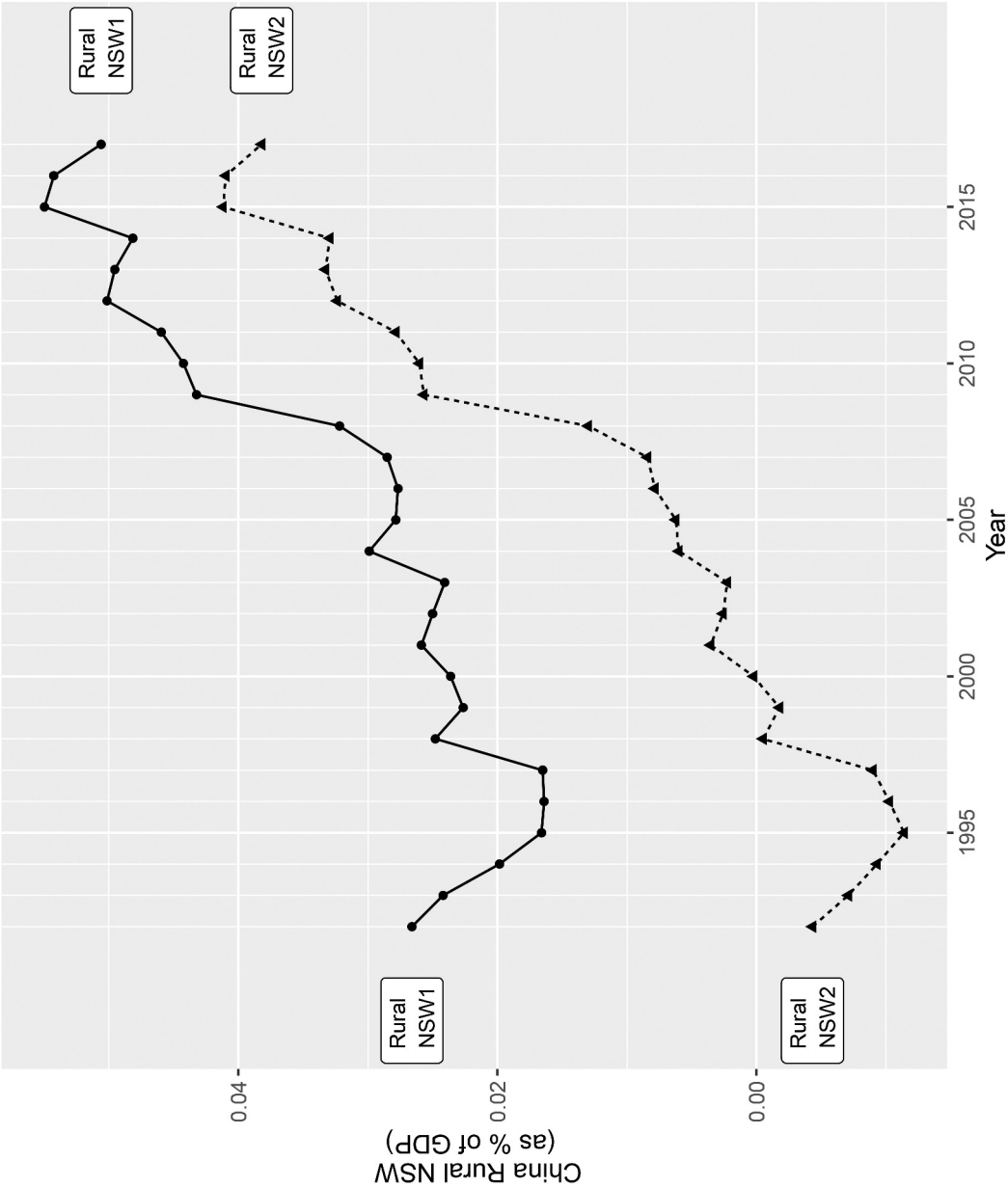


Figure 4. China rural NSW/GDP, 1992–2017. Sources: The authors’ calculation. See [Section 4](#) for details.

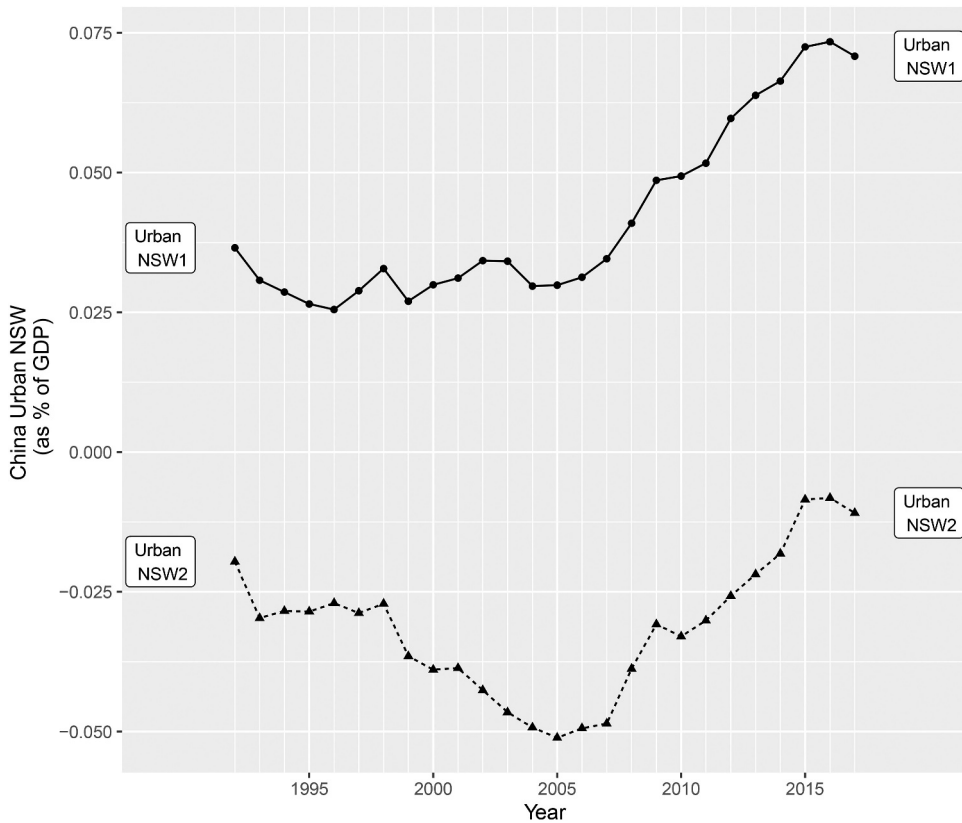


Figure 5. China urban NSW/GDP, 1992–2017. Sources: The authors’ calculation. See [Section 4](#) for details.

legislation, and benefited private health insurance companies and the pharmaceutical industry as much as it did Americans seeking health coverage. The ACA passed while several prior efforts to reform the US healthcare system failed. Sterba (2020) has argued that the ACA passed as an effort to stabilize US neoliberalism which had come into crisis as a result of the financial crisis. While many advocates, unions, and civil society groups fought to create a ‘public option’—which might have led to greater cost controls – this was ultimately jettisoned.

The most dramatic increase in the US net social wage occurred as a result of the Great Recession between 2008 and 2010, the most significant economic crisis in the US since the Great Depression and before the COVID-19 crisis of 2020. In response to the Great Recession, the American Recovery and Reinvestment Act (ARRA) of 2009 included substantial social spending and tax cuts. More than \$800 billion dollars were infused into the US economy. In response to the obvious threats to social reproduction that the Great Recession posed, the ARRA included increased funding for Unemployment Insurance (UI) and the Supplemental Nutrition Assistance Program (SNAP), as well as direct payments and tax credits to individuals – which are all components of the E1 category. It is important to note that benefit levels and eligibility expanded as a result of the ARRA, but many of these programs are also

designed to work as ‘automatic stabilizers’—meaning that they expand during times of crisis even without a policy change. More people became eligible for income supports during and immediately following the Great Recession due to prolonged unemployment and low wages – increasing the overall expenditures as tax revenue constricted. The ARRA passed despite opposition from most Republican lawmakers.¹¹ It also received criticism from the economic left for not being big enough, while inspiring a backlash among Republican voters who harbored ideological objections to increased social spending.

Growth in US social spending also occurred in the early 21st century prior to the Great Recession as a result of the expansion of low-wage jobs with little or no employer-based benefits. The degradation of labor standards in the US were the result of a concerted effort on the part of business to change the law to favor the interests of employers over workers through anti-labor legislation. In the 1980s, Reagan appointees to the National Labor Relations Board (NLRB) reversed a number of pro-labor decisions. This undermined collective bargaining and further lowered unionization rates. Another important attack on US labor included legal changes to employer-based benefits under the 1974 Employee Retirement Income Security Act (ERISA) which ultimately lowered rates of employer-based health insurance and pension coverage. These policy changes tipped the balance of power further towards employers, undermining labor’s ability to fight back against the further degradation of labor standards and job quality in the US.

Late 20th-century social welfare policy reforms were made in response to the social reproduction needs of low-wage workers, but within the context of a strengthened commitment to neoliberalism. In-work benefits were expanded in the 1990s to accommodate the growing service sector – and the proportion of US workers in low-wage jobs. As the number of low-wage and low-quality jobs increased, so did the number of low-income workers that qualified for in-work income supports such as refundable tax credits and nutrition programs. 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, a 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’—the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996—made severe cuts to cash assistance programs and gave states greater discretion on social policy.¹² As a result of the policy change, in order to qualify for social assistance programs, low-income people – including mothers of young children – are typically forced to accept low-wage jobs – which rarely offer health insurance or other benefits. In 1997, in response to the 10 million children who were without health insurance, Medicaid coverage for children was expanded in the form of the Children’s Health Insurance Program (MACPAC 2020). These reforms were made during a booming economy in which the neoliberal politics of Clinton’s ‘third way’ had considerable political support. At the time, the main opposition to Clinton’s welfare reform from was from an increasingly weak welfare-rights movement that failed to garner widespread support or mobilize a broad-based coalition that could effectively fight back against the reforms.

Taken together, the increase in low-wage jobs and economic insecurity – the result of neoliberal policies that favor the interests of capital over labor – contributed to an increase in social spending on in-work benefits. Even while other social spending was reduced, it did not create net savings for the US government at the federal level. 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 contributed to an increased net social wage. These policies, enacted within the context of the large ‘baby boomer’ cohort aging and becoming eligible for the most comprehensive and expensive programs in the US, has meant that the net social wage has risen despite labor’s compromised position.

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 period influenced by neoliberalism. As mentioned in [Section 2](#), reforms in the 1980s and 1990s caused the collapse of rural collectives and a massive privatization of urban state-owned firms, which substantially undermined the welfare system under the planning economy. Those reforms gave rise to a crisis of social reproduction, especially in rural areas, which further affected social and economic stability. One telling example is that Li Changping, a rural cadre in Hubei Province, wrote a letter to the Premier Zhu Rongji, which reflected the social reproduction crisis in Chinese rural areas of the 1990s. He wrote, ‘The peasants’ lot is really bitter, the countryside is really poor, and agriculture is in crisis’ (Li 2002, 20). As agriculture became a declining sector, peasants responded to unprofitable family farming by idling land and looking for jobs in cities. This passive resistance led to an ‘agricultural crisis’ (Li 2002, 20). Grain production consistently declined over 1998–2003, threatening food security of the populous country. In urban areas, the reforms spurred protests across the country, particularly in the industrial heartland of the Northeast (Lee 2007, 101; Friedman and Lee 2010), which was an alarm of social instability. The protests focused on layoffs, reduced wages and benefits, and ‘subsistence crises’ (Chen 2000). The number of these ‘mass incidents’ grew rapidly throughout the early 2000s (Friedman and Lee 2010). In these protests, workers occupied factory compounds and blockaded highways (Andreas 2019, 198). The instability was further reinforced by the rising inequality, potentially jeopardizing the sustainability of economic growth. Between 1990 and 2000, the income share of the bottom half of the population dropped from 23% to 18%, while the income shares of both the top 1% and top 10% saw significant growth (Piketty, Yang, and Zucman 2019).

In our view, the reorientation of distributive policies was a result of both labor resistance and the state’s concerns about social and economic instability that resulted from the social reproduction crisis and protests. Social conflicts induced the Chinese state to change its policies. The reorientation of policies aimed at re-embedding social reproduction in a new set of social institutions. In 2003, General Secretary Hu Jintao proposed the ‘Scientific Development Outlook’, which marked a significant change in policies. Through this initiative, the Chinese state was attempting to realize both rapid economic growth and the provision of sufficient public goods to resolve the problems in social reproduction, environmental protection, and other areas (Frazier 2010, 10). Along with this new policy direction, China’s leadership proposed the goals of building a ‘Harmonious Society’ and achieving ‘Common Prosperity’, underscoring social reproduction, inclusive growth, and reductions in economic disparity.

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. In particular, the Chinese state aims at stabilizing rural society and agricultural production to realize an orderly process of urbanization that can support sustainable economic development with sufficient migrant labor and secure food supply. Meanwhile, the rural crisis was more urgent than the urban one. This explains the more significant and earlier increase in the NSW for rural workers than for urban workers (see [Figures 4 and 5](#)). The increase in the urban NSW is also associated with the rising bargaining power of workers, which imposed great wage pressures on firms in labor intensive industries and intensified capital-labor conflicts. The state rebuilt the welfare regime partially with the purpose to mitigate wage pressures and ‘harmonize’ capital-labor conflicts. Policies implemented during this period 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 also promoted participation in the social security system intended to cover urban 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. Notably, the reorientation of China’s welfare state took place 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 reorientation because it demonstrated the consequences of neoliberal policies to China’s policy makers.

5. 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. Consistent with the interpretation in Moos (2019), we have argued that an increased 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 in the neoliberal era. 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 NSW_2 approach has revealed greater net redistribution to the former than to the latter. Nevertheless, the overall picture of the net social wage in China reflects labor’s resistance to neoliberal reforms and the state’s response to the resistance.

In the case of the US, the net social wage has increased as the result of 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.

The determination of the net social wage in each country is a social process in which relevant agents, representing their respective goals, interact with each other. In the US, each individual expenditure or source of revenue that contributes to the NSW is highly contested, and a number of agents play different roles in the struggle over each of its components. These agents include capitalist firms; federal, state, and local governments; the working class (both those actively working for wages and members of the reserve army of labor such as retirees, the unemployed, and full-time caregivers); and interest groups representing organized capital, labor, or other political and civic organizations. For China, this process is mainly associated with the state (including the central government and local governments), private entrepreneurs, urban workers, and rural workers. Due to its political regime, the Chinese state is powerful in unilaterally shaping taxation and expenditures.

To understand the rising trend of the NSW in both countries, we can further look at its funding side and expenditure side. The funding for each welfare regime shows distinct characteristics, adding complexity to our analysis of the net redistributive effect of each country’s taxation regime. The US taxation system is based on direct income taxes rather than indirect consumption taxes, making it more progressive than taxation in China or many other OECD countries, including the social democratic states in Northern Europe (Kiser and Karceski 2017, 84). 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 workers, as well as middle-class consumption and savings, as their labor incomes have stagnated. However, US tax policy also plays a role in increasing economic inequality by continually cutting taxes for the wealthy and corporations. Tax policy in recent decades, most recently under the Trump administration, has lowered taxes substantially for the wealthy and corporations, and modestly for middle- and lower-income workers. This has decreased federal tax revenue and exacerbated the US budget deficit.

In recent years, China has implemented a number of taxation adjustments aimed at promoting economic growth and reducing certain tax burdens on small-scale firms, urban workers, and farmers. Notable examples include the cancellation of agricultural taxes in 2006 and tax reductions for small-scale firms and urban workers since 2018. However, the taxation system in China—like in many other developing countries—relies on indirect taxes, which incentivizes the accumulation of private wealth. Indirect taxes are largely regarded as a regressive form of taxation, as every consumer—regardless of income—will pay the same taxation rate (Decoster, Loughrey, O’Donoghue, and Verwerft 2010). This means that funding for China’s welfare state depends on a system of taxation that unduly burdens low-income populations, including both rural and urban workers. 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 disproportionally from China's economic liberalization' (Wang 2017, 196). China has attempted to make taxation play a more important role in reducing inequality; however, the history-dependent taxation regime is difficult to change. The attempt to impose the real estate tax has been slow and careful to avoid generating negative impacts on the housing market and financial stability. Overall, while they operate under distinctly different systems, neither the US nor China can boast tax codes that effectively curb economic inequality or substantially favor the most disadvantaged.

The expenditure side of the NSW is affected by the political regime in each country – which determines the existence of social programs as well as their eligibility rules and benefit levels – in addition to economic factors such as inequality, poverty, business cycles, and structural changes. In the US, elected officials at the federal, state, and local level are often responsive to corporate interests for lower taxes and poorer labor protections, but also balance the desires of their constituents, who may advocate for expansions to social programs. At the federal level in the US, interest groups such as AARP (which represents the interests of people aged 50 and older) have emerged to protect Social Security and Medicare. The process of expanding the reach of certain social welfare programs is sometimes less conflictual than struggles over labor protections. A number of non-governmental organizations (NGOs)—funded by private foundations and corporations – advocate for the expansion of social programs for the poor (notably federally-funded nutrition programs and tax credits). The expansion of SNAP and Medicaid helps corporate interests by both giving consumers more money to spend in their stores on groceries or the ability to access private healthcare services, as well as subsidizing the low wages of their workers who rely on these programs. For this reason, the expansion of certain social welfare programs does not necessarily conflict with corporate interests as much as standard theory might suggest, particularly if these programs are expanded without increasing – or even as a way to keep depressing – wages and employer-based benefits.

For this reason, specific components of the US NSW – for example, the expansion of Medicaid eligibility in certain states and the (so far) resilience of the Social Security program to cuts—*may* represent victories of the working class to obtain or maintain benefits without increasing their tax burden. However, other aspects of the NSW – for example, programs that subsidize low wage employment or private health insurance – can be seen as a way for capitalist firms and elected officials to accommodate the social reproduction needs of the working class given the low level of wages and employed-based benefits.¹³ Furthermore, because the US social welfare system is so highly privatized and benefits corporate interests in many instances, it is difficult to parse out exactly what is exclusively a benefit to labor – if such a social program that *exclusively* benefits labor can be said to exist at all.¹⁴ For this reason, while containing conflict and struggle, the NSW cannot be understood simply as indicative of which side – capital or labor – is winning, nor does it tell us exactly where the state's interests or loyalties lie.

In China, the expenditure side of the NSW is determined by the legislative process, but the state and in particular its leadership can determine the orientation of policymaking. The goals proposed by the leadership, such as 'Harmonious Society' and 'Common

Prosperity', can have significant influence in shaping the nature and coverage of the welfare program. The political regime enables the Chinese state to respond to a crisis more quickly. It is also more likely for the Chinese state to take the long view to ease painful transitions during structural changes or to achieve sustainable economic growth. However, the effectiveness of the response largely depends on how the state and in particular the leadership evaluate social and economic problems and crisis tendencies. As the Chinese state traditionally pursues both economic growth and social stability, private entrepreneurs and workers in China can indirectly impact policymaking through behaviors affecting the goals of the state, such as reluctance to make investments, capital flight, 'mass incidents', idling agricultural production, and so on. To achieve its goals, the state has to constantly regulate the interests of different agents and keep a subtle balance, avoiding either a profitability crisis for private entrepreneurs or a social reproduction crisis for workers. Therefore, we argue that the state's efforts to rebuild of the welfare regime in the 2000s constituted a retreat from neoliberalism and a proactive response to the crisis of social reproduction. Following the same logic, the state's response to the crisis tends to focus on the most urgent problems, which explains why the NSW for rural workers has increased more than that for urban workers.

The distinct features of China's welfare state do not mean that China is exceptional. State-led redistribution has been favorable to labor since the early 2000s, although this redistribution is 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 emerged from China's political economic context. Where this long-wave movement will lead depends on the political economic context in the future.

6. 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 in order to better understand differences in 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 of 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 purposely 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.

Finally, it is interesting to note that the increase in the US net social wage began around the turn of the century, when China joined the WTO and Sino-US trade rapidly expanded. The neoliberal transition in the US has created precarious employment, inequality, and volatility 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 labor 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. Quantitatively evaluating this relationship is an interesting area for further research.

Notes

1. Liu and Liu (2019) compared net social wages in China and OECD countries from 1999 to 2015 in the Chinese journal, *China Review of Political Economy*.
2. The NTA 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 can be used to construct 'economic support ratios' and 'fiscal support ratios'.
3. Lee and Mason (2011) Table A.2 and table A.3.
4. See Moos (2019) for a full literature review on the net social wage.
5. Bowles and Gintis (1982) support their claims by arguing that social welfare expenditures as a fraction of total workers' consumption grew from .12 in 1948 to .27 in 1977. Bowles and Gintis (1982) find that from 1948 to 1977, consumption financed from returns to labor was declining (from .58 to .51) and social welfare expenditures rising from .08 to .19. Workers consumption rose from .66 to .70, but only due to the rise in social expenditures.
6. It is true that without the profits of state-owned firms the state has to reduce the expenditures on labor or look for other sources to finance the same expenditures. Thus, state-owned firms play a supportive role in maintaining and enlarging those expenditures. However, this supportive role has no impact on the calculation of the NSW.
7. The differences between the rural and urban NSW are largely driven by different expenditures and taxes. These differences are not sensitive to the measurement of LS_R .
8. Medicare is a federally-funded health insurance program for people aged 65 and older. Medicaid is a federal- and state-funded health insurance program for low income people. Program eligibility for Medicaid varies by state.
9. Moos (2019) conducts a robustness check of the US NSW to determine if healthcare inflation is a cause of the rising NSW in the 21st century. When healthcare costs are deflated using the personal consumption expenditures (PCE), which indexes healthcare inflation, the real NSW is lower. However, the pattern of an increasing NSW in the 21st century does not disappear (597).

10. Baumol's cost disease – rising costs in sectors such as healthcare that experience rising labor costs despite a lack of productivity gains – has been found to contribute to rising costs of US healthcare (Bates and Santerre 2013; cited in Moos 2019, 596).
11. No Republicans in the House of Representatives and only three Republican senators voted in favor of the ARRA.
12. PRWORA replaced Aid to Families with Dependent Children (AFDC) with the more restrictive and less generous Temporary Aid to Needy Families (TANF).
13. The question remains why certain socially reproductive needs are accommodated and others are not.
14. For example, the expansion of prescription drug access in 2006 certainly benefited Medicare recipients in need of medication, but it was also a boon for the pharmaceutical industry.

Acknowledgements

The authors would like to thank Anamary Maqueira Linares for research assistance and Kevin L. Young for helpful feedback. Comments from two anonymous referees were extremely valuable. The usual disclaimer applies.

Disclosure statement

No potential conflict of interest was reported by the author(s).

ORCID

Katherine A. Moos  <http://orcid.org/0000-0002-3054-1655>

Hao Qi  <http://orcid.org/0000-0002-5830-1274>

References

- Akram-Lodhi, A Haroon. 1996. "The Public Finances of the United Kingdom: A Re-Interpretation." *International Review of Applied Economics* 10 (2): 173–193. doi:10.1080/026921796000000014.
- Andreas, Joel. 2019. *Disenfranchised: The Rise and Fall of Industrial Citizenship in China*. New York: Oxford University Press.
- Bates, Laurie J, and Rexford E Santerre. 2013. "Does the U.S. Health Care Sector Suffer from Baumol's Cost Disease? Evidence from the 50 States." *Journal of Health Economics* 32 (2): 386–391. doi:10.1016/j.jhealeco.2012.12.003.
- Bowles, Samuel. 1985. "The Production Process in a Competitive Economy." *The American Economic Review* 75 (1): 16–36.
- Bowles, Samuel, and Herbert Gintis. 1982. "The Crisis of Liberal Democratic Capitalism: The Case of the United States." *Politics & Society* 11 (1): 51–93. doi:10.1177/003232928201100103.
- Chen, Feng. 2000. "Subsistence Crises, Managerial Corruption and Labour Protests in China." *The China Journal* 44: 41–63. doi:10.2307/2667476.
- Creed, John, and Guoli Liu. 2014. "Coincidental Unwindings: Comparing Growing Economic Disparity in State-Society Relations in the United States and China." In *State-Society Relations and Governance in China*, edited by Sujian Guo, 39–80. UK: Lexington Books.
- Croll, Elisabeth J, and Huang Ping. 1997. "Migration for and Against Agriculture in Eight Chinese Villages." *The China Quarterly* 149: 128–146. doi:10.1017/S0305741000043666.
- Decoster, André, Jason Loughrey, Cathal O'Donoghue, and Dirk Verwerft. 2010. "How Regressive are Indirect Taxes? a Microsimulation Analysis for Five European Countries." *Journal of Policy Analysis and Management* 29 (2): 326–350. doi:10.1002/pam.20494.

- Folbre, Nancy. 2020. "Manifold Exploitations." *Review of Social Economy* 48 (4): 451–472. doi:10.1080/00346764.2020.1798493.
- Frazier, Mark W. 2004. "China's Pension Reform and Its Discontents." *The China Journal* 51: 97–114. doi:10.2307/3182148.
- Frazier, Mark W. 2010. *Socialist Insecurity: Pensions and the Politics of Uneven Development in China*. Ithaca: Cornell University Press.
- Friedman, Eli, and Ching Kwan Lee. 2010. "Remaking the World of Chinese Labour: A 30-Year Retrospective." *British Journal of Industrial Relations* 48 (3): 507–533. doi:10.1111/j.1467-8543.2010.00814.x.
- Gao, Mobo C F. 2007. *Gao Village: Rural Life in Modern China*. Honolulu: University of Hawaii Press.
- Hacker, Jacob. 2004. "Privatizing Risk Without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States." *The American Political Science Review* 98 (2): 243–260. doi:10.1017/S0003055404001121.
- International Labor Organization (ILO). 2018. "Global Wage Report 2018/19: What Lies Behind Gender Pay Gaps." https://www.ilo.org/global/publications/books/WCMS_650553/lang-en/index.htm
- Kiser, Edgar, and Steven M Karceski. 2017. "Political Economy of Taxation." *Annual Review of Political Science* 20: 75–92. doi:10.1146/annurev-polisci-052615-025442.
- Korpi, Walter. 2000. "Welfare States, Economic Growth, and Scholarly Objectivity." *Challenge* 43 (2): 49–66. doi:10.1080/05775132.2000.11472146.
- Lee, Ching Kwan. 2007. *Against the Law: Labor Protests in China's Rustbelt and Sunbelt*. Berkeley: University of California Press.
- Lee, Ronald, Gretchen Donehower, and Tim Miller. 2011. "The Changing Shape of the Economic Lifecycle in the United States, 1960 to 2003." In *Population Aging and the Generational Economy: A Global Perspective*, edited by Ronald Lee and Andrew Mason, 313–326. Cheltenham, UK: Edward Elgar.
- Lee, Ronald, and Andrew Mason. 2011. *Population Aging and the Generational Economy: A Global Perspective*. Cheltenham, UK: Edward Elgar.
- Li, Changping. 2002. *I Spoke the Truth to the Premier*. Beijing: Guangming Ribao Press.
- Li, Ling, Qiulin Chen, and Yu Jiang. 2011. "The Changing Patterns of China's Public Services." In *Population Aging and the Generational Economy: A Global Perspective*, edited by Ronald Lee and Andrew Mason, 408–419. Cheltenham, UK: Edward Elgar.
- Lindbeck, Assar. 1994. "The Welfare State and the Employment Problem." *The American Economic Review* 84 (2): 71–75.
- Lindbeck, Assar. 1997. "The Swedish Experiment." *Journal of Economic Literature* 35 (3): 1273–1319.
- Lindert, Peter. 2004. *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century, Volume I*. New York: Cambridge University Press.
- Liu, Fengyi, and Zijia Liu. 2019. "The Sharing Attribute of Collective Consumption in the Reproduction of Labor Power." *China Review of Political Economy* 10 (5): 39–61.
- Lo, Dic. 2016. "Developing or Under-Developing? Implications of China's "Going Out" for Late Development." SOAS Department of Economics Working Paper No. 198.
- Lynch, Julia F. 2015. "A Cross-National Perspective on the American Welfare State." In *Oxford Handbook of U.S. Social Policy*, edited by Daniel Béland, Kimberly J. Morgan, and Christopher Howard, 112–132. New York: Oxford University Press.
- Maniatis, Thanasis. 2003. "The Net Social Wage in Greece 1958–95." *International Review of Applied Economics* 17 (4): 377–398. doi:10.1080/0269217032000118738.
- Maniatis, Thanasis. 2014. "Does the State Benefit Labor? a Cross-Country Comparison of the Net Social Wage." *The Review of Radical Political Economics* 46 (1): 15–34. doi:10.1177/0486613413488065.
- Mason, Andrew, and Ronald Lee. 2011. "Population Aging and the Generational Economy: Key Findings." In *Population Aging and the Generational Economy: A Global Perspective*, edited by Ronald Lee and Andrew Mason, 3–31. Cheltenham, UK: Edward Elgar.

- Medicaid and CHIP Payment and Access Commission (MACPAC). 2020. "History and Impact of CHIP." Accessed 9 December 2021. <https://www.macpac.gov/subtopic/history-and-impact-of-chip/>
- Moos, Katherine A. 2019. "Neoliberal Redistributive Policy: The US Net Social Wage in the Early Twenty-First Century." *The Review of Radical Political Economics* 51 (4): 581–605. doi:10.1177/0486613419848097.
- Pierson, Paul. 1996. "The New Politics of the Welfare State." *World Politics* 48 (2): 143–179. doi:10.1353/wp.1996.0004.
- Piketty, Thomas, Li Yang, and Gabriel Zucman. 2019. "Capital Accumulation, Private Property, and Rising Inequality in China, 1978–2015." *The American Economic Review* 109 (7): 2469–2496. doi:10.1257/aer.20170973.
- Qi, Hao, and Zhongjin Li. 2019. "Giovanni Arrighi in Beijing: Rethinking the Transformation of the Labor Supply in Rural China During the Reform Era." *Science & Society* 83 (3): 327–354. doi:10.1521/siso.2019.83.3.327.
- Shaikh, Anwar. 2003. "Who Pays for the 'Welfare' in the Welfare State? A Multicountry Study." *Social Research* 70 (2): 531–550.
- Shaikh, Anwar, and E. Ahmet Tonak. 2000. "The Rise and Fall of the US Welfare State." In *Political Economy and Contemporary Capitalism: Radical Perspectives on Economic Theory and Policy*, edited by Ron Baiman, Heather Boushey, and Dawn Saunders, 247–265. Armonk, NY: M.E. Sharpe.
- Shaikh, Anwar, and E. Ahmet Tonak. 1987. "The Welfare State and the Myth of the Social Wage." In *The Imperiled Economy*, edited by Robert Cherry, Anwar Shaikh and E. Ahmet Tonak, Vol. 1, 183–194. New York: Union for Radical Political Economy.
- Shen, Ke, Feng Wang, and Yong Cai. 2018. "A Benevolent State Against an Unjust Society? Inequalities in Public Transfers in China." *Chinese Sociological Review* 50 (January): 137–162. doi:10.1080/21620555.2017.1410432.
- Steinmo, Sven. 2010. *The Evolution of Modern States*. Cambridge: Cambridge University Press.
- Sterba, Samantha. 2020. "Neoliberal Capitalism and the Evolution of the U.S. Healthcare System." Doctoral diss., 2083. doi:10.7275/nhs9-kd812083.
- Wang, Shaoguang. 2008. "Double Movement in China." *Economic and Political Weekly* 43 (52): 51–59.
- Wang, Yingyao. 2017. "Why Tax Policy is Not Politics in China: Public Finance and China's Changing State-Society Relations." *Politics & Policy* 2: 194. doi:10.1111/polp.12200.
- Weber, Isabella M. 2018. "China and Neoliberalism: Moving Beyond the China Is/is Not Neoliberal Dichotomy." In *SAGE Handbook of Neoliberalism*, edited by Damien Cahill, Melinda Cooper, Martijn Konings, and David Primrose, 219–233. London: Sage Publications.
- Weber, Isabella M. 2020. "Origins of China's Contested Relation with Neoliberalism: Economics, the World Bank, and Milton Friedman at the Dawn of Reform." *Global Perspectives* 1 (1). doi:10.1525/gp.2020.12271.
- Zhu, Rongji. 2011. *Zhu Rongji Jianghua Shilu (Zhu Rongji Speech Record)*. Vol. 3. Beijing: People's Press.