

# Preface

China's high economic growth after reform and opening up has been claimed as a miracle in human history by many economists. After the culture revolution, China suffered from serious poverty and backwardness due to which the national economy was on the edge of collapse. Today, China is the second largest economy in the world with per capita GDP reaching \$8000 and ranks among the middle-income countries. Since reform and opening up, 0.5 trillion people have got rid of poverty and the living condition and lifestyle of ordinary Chinese people have experienced dramatic changes. As one of the many witnesses who experienced the whole process of China's reform, all kinds of past memories and present thoughts mingle together, making me feel lucky to be living at the right time.

However, China's recent history of high growth is not an idyllic picture of beauty but a striving picture of magnificence. Different times have different contradictions and conflicts. Great success comes with various pains and costs. As economists, the important thing is not to sing praise for the obtained success but to confront the real problems with calm and deep academic analysis in order to seek solutions and provide references to policy makers at various levels. This book about China's labor's share of income by Dr. Minghai Zhou is such a research outcome that has very focused and realistic meanings.

The decrease of the labor and household share of income is a phenomenon that has attracted wide attention in China. It is one of the stylized facts for being criticized as the evidence for unreasonable income distribution. The Chinese government has paid a lot of attention to this issue. In recent decades, almost all five-year plans and annual government working reports emphasize the importance of improving the income distribution by increasing these two shares. Although the government has taken some measures to deal with this issue, the situation has not been improved fundamentally. In the composition of household income of urban and rural citizens, the share of labor compensation takes more than 60 %. In order to increase the household share of income continuously, we need to make sure the

steady increase of the labor compensation. Therefore, understanding the mechanism of change in the labor share of income in China and grasping the key factors for increasing the labor share of income have important policy implications for the current 13th Five-Year Plan and for building a well-off society in an all-round way for future China.

There are several features of this book worth mentioning. First, the book has a broad view, a reasonable framework, and strong logic. This book puts the labor's income distribution into the whole process of economic reform and development. It systematically analyzes the reason behind the decreasing labor share of income in China from four levels, which are macro economy, regional difference, industrial feature, and firm heterogeneity. By doing so, it provides some new views and obtains some new conclusions. Second, the book has a clear focus on empirical analysis. The book uses a large sample of micro household data, provincial panel data, and industrial and regional survey data which increase the credibility by making the research conclusions lying on the solid empirical basis. Third, the book embeds the spirit of theoretical innovation and dares to make new theoretical generalization. For example, it distinguishes human capital from raw labor to reveal the unmatched contribution and return of rural migrants for promoting China's economic growth. It demonstrates that the change of trade mode is one of the main reasons for decreasing the labor share of income by separate regressions. It supports "Kuznets effects" rather than "Kaldor effects" by analyzing the correlation between industry structure and labor share of income. All the above results provide illuminations for theoretical research in related areas. Some ideas may be controversial. For example, we may question whether it is necessary to distinguish human capital from raw labor in a new economic era where the education level has been raised significantly from that in the past. Even so, it is helpful for promoting theoretical deepening and innovation.

The author of this book, Dr. Minghai Zhou, is a diligent and talented young scholar who also has a strong will. He completed his master's and Ph.D. program at Zhejiang University. After that, he did postdoctoral research at Zhejiang University for two years. During his Ph.D. study, he suffered from difficulties but faced them with a clam attitude. He conquered the difficulties with amazing perseverance, by studying hard and thinking diligently while in recuperation. This book is a revised and enriched version of his doctoral thesis. During his doctoral study, he conducted research projects independently at the provincial and national level. He published several academic papers in top Chinese journals and won the nomination prize of National Excellent 100 Doctoral Dissertations for his doctoral thesis. As an "earth turtle" scholar, who had no experience in study abroad and who was cultivated entirely by the domestic higher education system, he stood out in the fierce competition in the job market and received an offer from a world renowned international university as Assistant Professor in Economics, showing fully his academic attainments, research ability, and English level. As his supervisor, I am happy to see

that his research outcomes will be published in English as a book. I hope that his book will benefit scholars at home and abroad and enhance their understanding about the situation of China's income distribution, trigger more research on China's income distribution issues, and provide precious references for China's modernization process. At the same time, I hope Minghai would move a step forward for publishing more and better research outcomes and become a promising economist in the future.

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Another Key to Understand China's Income Inequality

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