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The Changing Structure of Employment in Contemporary China
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China is the twenty-first century's "workshop of the world," absorbing natural resources from Africa, Latin America and the rest of Asia and exporting manufactured goods, much as England did during its nineteenth-century heyday. China's extraordinary position in the contemporary global political economy raises the question, "What are the implications of being the twenty-first century 'workshop of the world' for the future trajectory of wealth and poverty within China? Optimistic answers to this question rely implicitly on Marx's famous dictum that "backward" countries can envision their future by looking at the trajectories of the more "advanced." In this view, China's industrial prowess would be the harbinger of a more egalitarian social future in which productivity gains spread to the broad mass of the citizenry.

We would like to question this assumption, arguing instead that the implications of becoming the "workshop of the world" are quite different in the twenty-first century than they were in the nineteenth and twentieth centuries. Our argument is simple. In a world where manufacturing technology has become global, the capital intensive "state of the art" quickly becomes the global norm, regardless of the cost of labor in particular locales. This is even more rigorously the case in countries, like China, where ensuring the competitiveness of manufactured exports is a central developmental goal. Such technologically advanced manufacturing cannot absorb the bulk of the non-agricultural labor force, regardless of export success.

In the economic and technological context of the twenty-first century, industry ceases to be an effective vehicle for spreading the returns from development, and the service sector becomes the destination for the bulk of those fleeing arduous, low-return jobs in agriculture. Unfortunately, the service sector is characterized by extreme disparities of income, with most service sector workers relegated to low-wage jobs. In the service sector, "symbolic analysts" receive growing premiums while the gap expands between their remuneration and that of public sector workers, even those who deliver key services like health and education. Those engaged in "informal" service jobs revolving around petty commerce fall even further behind.

If our argument is correct, it suggests that China's further industrialization is likely to generate wealth but be accompanied by a development trajectory that will exacerbate inequality. Any strategy for more equitable development must begin from the difficult problem of distributing service sector returns more equitably. This, in turn, suggests that more equitable development requires political dynamics quite different from either those that drove the emergence of the welfare state in the original industrializers or those implied by current neo-liberal models of globalization.

China is the archetypal test case for understanding the effects of contemporary industrialization on social transformation, as well as a case whose evolution will, in itself, have a profound effect on the rest of the world. China is unquestionably the most successful exemplar of expanding manufactured exports during the final decades of the twentieth century and appears almost certain to continue to be the exemplar during the current century. On the one hand, its competitiveness vis-à-vis other countries in the global South meant the availability of markets has not limited its expansion. At the same time, the conviction of global corporations that they must have a presence in the world's largest country has unleashed a flood of foreign direct investment that virtually eliminates the constraints that might be imposed by an inadequate supply of new capital.

In short, if export-oriented manufacturing appears insufficient to deliver decent employment and improved well-being for the broad mass of the population in this exemplary case, it is hard to imagine that it will do so anywhere in the global South. If China must focus policy on the expansion of decent jobs in other sectors in order to provide employment and well-being, then other countries of the global South will have to do so as well. China is a crucial case in itself and a bellwether for other countries trying to develop their own strategies.

We will start with a brief review of the “classic syllogism” of traditional development theory in which the route to increased well-being runs from capital accumulation through increasingly productive industrial employment to broad expansions of income. We will then examine comparative data on changes in employment structure over the course of industrialization, first in England, then in Korea as a contemporary case of industrial success, and finally in China.

Our basic empirical argument is straightforward. In the classic English case, manufacturing did indeed absorb a large share of the labor force, enabling a broad swath of the population to gain a share of the dynamic and continuous productivity increases associated with machine-assisted production. In contemporary developing countries, even in small, highly successful industrializers like Korea, this pattern no longer holds. In China, manufacturing employment seems unlikely to ever absorb more than about 15 percent of the workforce. In 1995, the official percentage of the labor force in manufacturing reached its highest level —14.4 percent. It has been declining since (National Bureau of Statistics [China] 2006). Worldwide, manufacturing jobs declined by 22 million from 1995 to 2002 (Baum 2003).

Having set out this empirical proposition, we now turn to the question of implications for social structure and policy. Will increased reliance on service sector employment result in increased inequality and higher potential levels of social conflict? Such a conclusion would be consistent with Gao and

Riskin's observation (this volume) that "China's rise in income inequality has been especially sharp." Other major developing country cases such as Brazil, where industrialization has gone forward without absorbing workers from agriculture and where levels of inequality have remained extreme, would also be consistent with this conclusion. Yet Korea has experienced modern, service dominated employment growth without strong secular increases in inequality. The connection between a more service-dominated employment trajectory cannot therefore be taken for granted.

Political effects are equally important. Employment structures are intimately connected to social contention and political change. One of the key elements of the classic syllogism was the idea that industrial employment provided workers with structural leverage to press for redistributive demands. It is generally assumed that service employment does not provide the same mobilizational leverage. The structure of employment is one of the elements that must be taken into account when thinking about how the "palpable and wide presence of critical and rebellious sentiment" that C. K. Lee observes [this volume] might (or might not) be translated into effective political action.

There are policy implications as well. Replacing the "classic syllogism" with a vision of development in which services dominate employment growth is one more reason to emphasize the centrality of active state policy as a key element in development strategy. The state activism required cannot be designed to simply support private capital accumulation but must instead focus on counteracting the inegalitarian tendencies inherent in a "bit-based" model of growth in which new knowledge and ideas play a central role¹ and on providing ordinary citizens with the capabilities necessary to take advantage of service sector jobs. In short, current patterns of employment growth reinforce the value of a policy framework built more on the foundations of Amartya Sen's (1999) "capability approach" to development theory.

In order to set all of this in a comparative and theoretical context, we return to what we call the "classic syllogism" of conventional development theory: the supposed chain of logical connections that ran from investments in machines through employment in industry to increased well-being for the broad mass of the population. Understanding how this logic has been undercut by the current technological

¹ "Bit-based" growth is a term derived from Nicholas Negroponte's (1996) famous distinction between economic value generated by manipulating "atoms" (i.e. the physical transformation of tangible goods) and value generated by the manipulation of "bits" (i.e. information). The idea of "bit-based" growth implies both that the most valuable production inputs in a modern economy are knowledge and ideas and that an increasing share of the value of the goods consumed are accounted for by their intangible characteristics—images, ideas and cultural attributes like brand names.

character of manufacturing is essential to understanding why industrialization will not, in itself, enable China to follow the socio-political trail blazed by the original workshop of the world.

Development as Industrialization: The Classic Syllogism and Twenty-First Century Realities

In the conventional twentieth century vision of how development occurred in the rich countries of the North, machine-assisted production plays a starring role, especially in the more positive versions of the conventional vision. In a simplified (and slightly caricatured) form the story runs something as follows:

A massive shift of employment from agriculture to manufacturing takes workers out of a sector characterized by declining marginal returns to labor inputs and into one in which learning by doing, spillover effects, and greater possibilities for technological transformation of the productive process enable long term secular increases in labor productivity.

At the same time, machine-assisted production lends itself to political organization both because workers are socially concentrated and because they are in a position to hold hostage the machines on which profits depend. Political organization in the form of unions and associated political parties enables a substantial part of the workforce to capture a share of the productivity gains generated by machine-assisted production and secure relatively broad increases in incomes.

The neat logic of this “classic syllogism” gives machine-based production the power to create broad-based expansion of incomes by means of two simple, plausible propositions: (1) If you can move a substantial number of people out of agriculture into manufacturing, and continually give them better machines with which to work, their productivity will increase. 2) Marx was correct in suggesting that machine-assisted production lends itself to political organization, leading to partially successful demands for a more equitable share of this increased productivity.

Both premises make sense in relation to the historical experience of the original industrializers from the nineteenth century through the first two-thirds of the twentieth century. Moving people from the fields to the mills did enable them to become more productive, their initial inability to capture a share of their increased productivity for themselves and the consequent misery of the original “satanic mills” notwithstanding. Likewise, the labor movements that eventually emerged out of these new industrial settings played a key role in constructing a twentieth-century capitalism that shared the gains from the more productive industrial economy more widely.

However, we have reason to distrust this connection now. By the late twentieth century, manufacturing was going the way of agriculture in the rich countries of the North, leaving the service economy as the dominant source of employment. The most important feature of the service sector is its heterogeneity and a corresponding divergence of incomes.² As Torben Iversen (1999) has explained, a primary driver of inequality is the bifurcation between the private and public sectors. The private part of the service sector is characterized by high and growing levels of inequality. The public service sector, in which levels of wage equality are more like the old manufacturing sector, is starved for funds, limiting the possibility of wages gains for public sector workers.

Another way of understanding the bifurcation of returns to workers in the service sector is in terms of the divide between what could be called "bit-based" intangible production on the one hand and directly delivered inter-personal services on the other. Bit-based intangible production is great from the point of view of accumulation. Robert Lucas (1993) and Paul Romer (1986) and the others who developed new theories of endogenous growth 20 years ago forced us to pay attention to the fact that the returns from ideas (that is, intangible assets that are arrangements of bits instead of being arrangements of atoms) increase indefinitely, without the diseconomies of scale that eventually character physical production.

Of course, even before the sophisticated models of endogenous growth theory, the advantages of bit-based growth were intuitively apparent. We could see that Bill Gates was in a much more lucrative position than General Motors. And we knew that Snow White and Mickey Mouse were the true producers of golden eggs. As long as you can establish your legal ownership of ideas and images and effectively maintain your rights to exclusively appropriate the returns from them, you are in an enviable position, especially in a global economy where the scale of potential returns is almost boundless.

The possibilities for concentration of income and economic power among those who own ideas and other intangible assets are, to use an appropriately contemporary term, "awesome." Bit-based profits also generate a range of opportunities for elite professionals. The upper reaches of the financial sector are the most highly remunerative. What are called "business services" can also be very rewarding, as are some of the jobs that Robert Reich calls "symbolic analysts" (1991:193).

² Morris and Western (1999) find that among OECD countries, service wages are highly unequal. Tilly et al. (1986) and Bernard and Jensen (1998) have also shown that the increased reliance on services that follows from "deindustrialization" increases income inequality in other contexts.

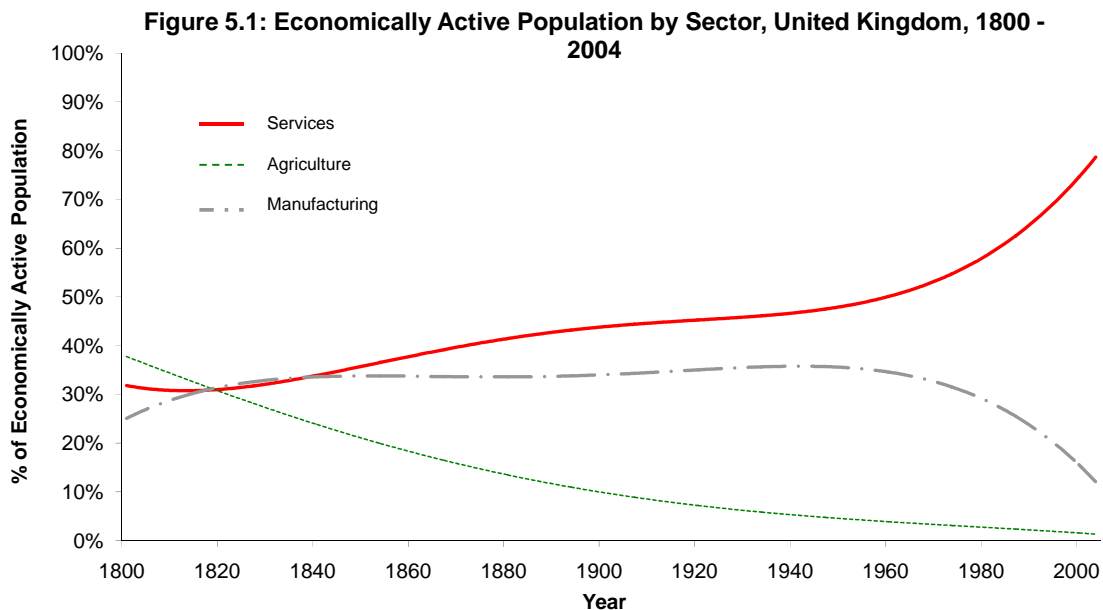
The vast majority of workers in the new intangible economy, however, are not symbolic analysts but are engaged in delivering inter-personal services. These services may be crucial to our well-being as well as to the enhancement of human capabilities, but they don't necessarily produce high returns to those who provide them. Childcare is the most obvious example.

In short, we have a brave new bifurcated economy in which accumulation is bit-based and the sources of both people's employment and their well-being are increasingly located in arenas that simply don't lend themselves to the old link between accumulation and incomes via dynamically changing manufacturing technology and the productivity increases that could be embodied in machines.

Some will, of course, say that this analysis is North-centered and rooted in the fact that the production of tangible goods has shifted from the North to the global South. They will argue that this analysis does not apply to the successful industrializers of East Asia, and certainly not to the twenty-first-century's "workshop of the world." What we would like to argue is that, to the contrary, this argument applies at least as much to the long-term future of China as to the future of the rich countries of the North. The case for the diminished importance of the classic syllogism and increased relevance of the convoluted logic of the service economy rests first of all on the contrast between the classic pattern of sectoral shifts in employment and current patterns of structural change.

Comparative Perspectives on the Shifting Structure of Employment in China

If one starts by looking historically at the shifting employment structure in the original industrializer – the United Kingdom – during the nineteenth and twentieth centuries, as in Figure 5.1, the conventional vision of the classic syllogism holds up reasonably well. By the 1830s manufacturing had taken over from agriculture as the principal source of employment. Over the course of the nineteenth century, agriculture was transformed from being the modal form of work (employing about 40 percent of the population) to being a marginal form (employing closer to 10 percent). A growing population getting diminishing returns from working on a fixed amount of land was no longer a problem for the English economy. While the service sector soon became more important than manufacturing, jobs rooted in machine-assisted production remained sufficiently central (about one-third of total employment) to anchor processes of social and political change and shape the distributional character of England's economy until the end of World War II. For more than a century, manufacturing and service employment were essentially co-equals in the definition of the English economy. Thus, it is plausible to think of English development as driven by the socio-political logic of machine-assisted production.



Note: Curves are smoothed representations of data trends. The percent of population in mining, construction, utilities, and "other unclassified" industries is not shown. These industries employ a small proportion (generally between 6 and 11%) of the economically active population in the United Kingdom. The unemployed have been excluded from the economically active population.

Sources: Data from 1801 to 1951 are from Deane and Cole (1967). Data for 1971 onward from Table 1c of International Labour Organization (1971-2005). Data from 1952 to 1970 were interpolated.

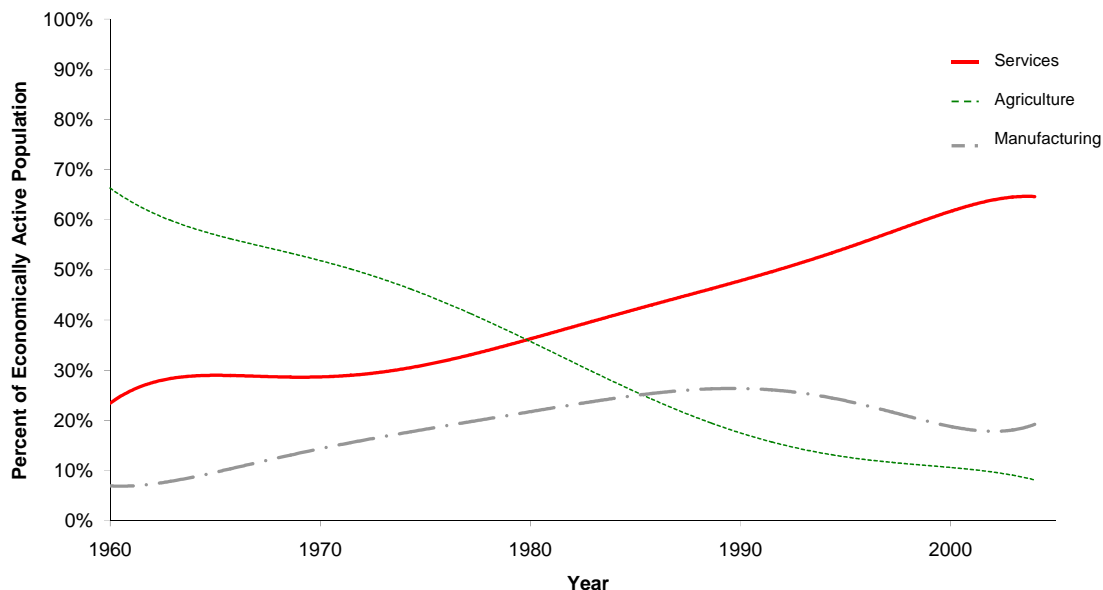
England is the clearest case for the classic syllogism. In the United States, a relatively sparsely-populated, continental-sized country which industrialized later, manufacturing employment never reached English proportions. The share of agricultural employment did not fall below that of manufacturing until the end of the 1920s. Manufacturing gradually rose to a peak above 20 percent in the mid-twentieth century at which point the service sector was on its way to employing the majority of the workforce.³

When we shift from historical patterns of development in the North to contemporary cases of successful industrialization in the South, the plausibility of the classic syllogism as a fundamental mechanism for broad increases in income breaks down. Korea is an excellent case in point. As Figure 5.2 shows, Korean manufacturing never came close to being the dominant form of employment. When

³ For data on the United States 1870 – 1970, see tables D1-10, D11-25 & D127-141 in *Historical Statistics for the United States, Colonial Times through 1970* (U.S. Department of Commerce, 1975).

Korean industrialization took off during the 1970s the share of employment in manufacturing was still below that in the United Kingdom at the beginning of the nineteenth century. Furthermore, manufacturing employment in Korea peaked at only half the English levels.

Figure 5.2: Economically Active Population by Sector, South Korea, 1960- 2004



Note: Curves are smoothed representations of data trends. The percent of population in mining, construction, utilities, and "other unclassified" industries is not shown. These industries employ a small proportion (between 3 and 10%) of the economically active population in South Korea. The unemployed have been excluded from the economically active population.

Source: International Labour Organization (1960-2005). Table 1c.

Finally, and perhaps most striking is the brevity of the period during which the manufacturing employment accounts for a growing share of employment in Korea. In the United States, manufacturing constituted a share of employment comparable to its share in Korea through out the latter half of the nineteenth century and continued to expand its share of total employment through the middle of the twentieth century. In England manufacturing's heyday was even more prolonged, lasting almost 150 years. In Korea, manufacturing passed its peak within the span of 40 years.⁴

⁴ It is possible that the apparent decline in Korean manufacturing employment is simply a function of the 1997-1998 East Asian financial crisis, but since even the Great Depression produced only a flattening of the growth of manufacturing employment, not a decline, this hypothesis must be treated with some skepticism.

If we look at Korea, the hypothesis that the North's share of manufacturing employment declines in response to increases of manufacturing employment in the global South is difficult to sustain. More convincing is the competing hypothesis of a global shift in which capital-intensive manufacturing combines with a global economy dominated by services and intangible goods production. By the beginning of the twenty-first century, Korea's employment structure begins to resemble that of OECD countries, but it does so without ever passing through a long formative period in which manufacturing shares pride of place with services as it did in the United Kingdom. Interestingly, the Korean trajectory looks more like that of the continental-sized United States than that of the more geographically comparable United Kingdom, supporting the idea that the historical timing of industrialization drives employment patterns.

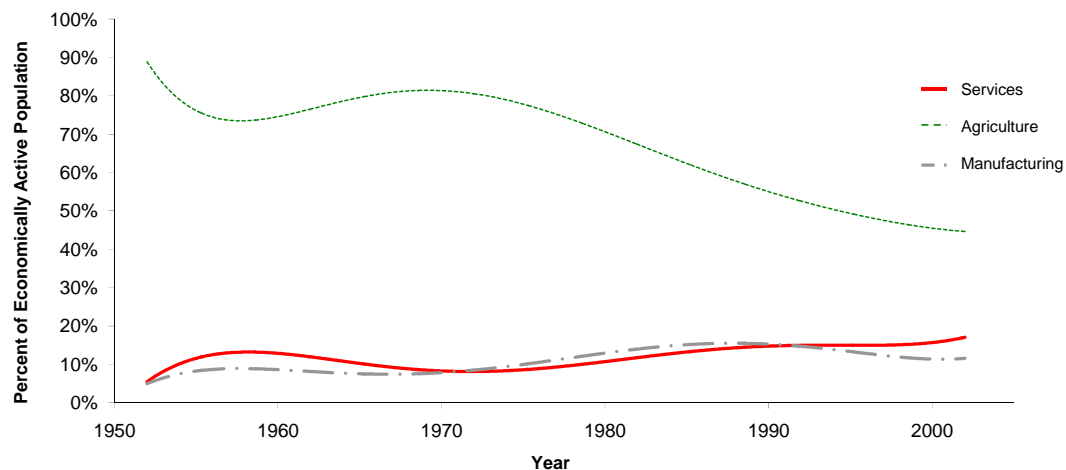
Data from other successful industrializers in the global South reinforce the thesis. Brazil is a good case in point. Brazil has one of the most impressive industrial economies in the global South and exports a highly diversified range of manufactured goods, including airplanes. Yet, as Brazil's rural population fled low agricultural wages and moved to the cities, it was the service sector, not manufacturing, that absorbed the new entrants. The service sector's share of employment remained at least double that of manufacturing throughout Brazil's impressive twentieth-century industrialization. Manufacturing employment peaked at about 20 percent of total employment in the early nineties and then began to decline.⁵

China is the definitive case for the general thesis. The Korean and Brazilian cases help build the argument that the classic sequence from machine-assisted production to industrial social democracy must be seen as a historically-specific possibility, not replicable in the twenty-first century. But, if China's employment trajectory looked like England from the nineteenth and twentieth centuries, the classic syllogism could be rescued. Unfortunately, China's trajectory is quite different.

If we look at the evolution of manufacturing employment in China in the latter half of the twentieth century, as shown in Figure 5.3, we are immediately struck by the *lack* of dynamic expansion. The peak share of manufacturing employment not only fails to match that in England, the United States or Korea, but also even fails to match that of Brazil. If official statistics are to be believed, employment in Chinese manufacturing peaked in the mid-1990s at less than 15 percent and began to decline at the end of the 1990s.

⁵ Data on the evolution of Brazil's employment structure is available from the ILO Yearbook of Labor Statistics (1960-2005).

Figure 5.3: Economically Active Population by Sector, China, 1952 - 2002



Note: Curves are smoothed representations of data trends. The percent of population in mining, construction, utilities, and "other unclassified" industries is not shown. Until 1990, these industries employed a small proportion (between 3 and 10%) of the economically active population in China. After 1990, the industrial categorization of 8 to 14% of the economically active population is not given in official statistics, hence they are also not shown here. However, government statistics do provide a sectoral classification for the entire economically active population (primary, secondary, or tertiary) and these numbers reflect a much larger surge in services than is shown here. The unemployed have been excluded from the economically active population.

Sources: Data for 1952-73 from State Statistical Bureau of People's Republic of China (1952-1973). Data from 1980 onward from National Bureau of Statistics [China] (2006). Data from 1973 to 1980 were interpolated.

Certainly there are serious flaws in the official statistical data.⁶ Because persons are counted by their permanent residence, Chinese statistics persistently undercount the urban population (Pannell 2003) and hence overstate the extent of agricultural employment. However, there is no reason to believe that workers who are actually working in urban occupations while officially counted as agriculturalists are more likely to be in manufacturing rather than services. Most plausible is that uncounted rural migrants gravitate toward informal jobs at the bottom of the service sector. The fact that the official Chinese data show employment in the service sector that is dramatically lower than in most of the industrial South increases the plausibility of the assumption that most of the "missing workers" are primarily at the lower end of the urban service sector.

⁶ See Holz (2004) for a discussion of problems with official Chinese statistical data. We are particularly grateful to Holz for his willingness to review these data problems with us, but would underline that he is in no way implicated in either our sectoral estimates or the interpretations of them that we offer here.

The main message of Figure 5.3 is that, even if industrial workers in China succeed in gaining a more equitable share of the profits derived from increased manufacturing productivity, the gains will go to a small and shrinking minority of employees. This conclusion is thoroughly reinforced by other assessments of the evolution of manufacturing employment. An independent analysis by economists at Alliance Capital Management found that between 1995 and 2002, China lost on net 15 million manufacturing jobs (Carlson 2003). Support for the declining share of manufacturing employment in the 1990s also comes from the field observations of researchers like William Hurst (2004) and C. K. Lee (1998) that emphasize the collapse of labor absorbing state-owned manufacturing firms in the Northeast and the simultaneous expansion of technologically advanced and relatively labor-saving firms in the “greenfield sites” of the Southeast.

In interpreting these employment trends, it is important to underline the economic context. China’s share of world manufactured exports has increased more than fivefold. If a fivefold increase in the share of world manufactured exports is insufficient to increase the share of manufacturing employment, is there any plausible scenario in which export-oriented industrialization is likely to result in an increasing share of manufacturing employment? It is hard to imagine one. The more likely trend—judging from the history of the East Asian tigers—would be for China to begin to shift out of the lower value-added, more labor intensive exports (e.g. apparel) in the direction of higher value-added exports (e.g. semi-conductors), improving export growth perhaps, but reducing opportunities for manufacturing employment.

Some might argue that China’s huge potential internal market for manufactured goods can be the basis for future increases in manufacturing employment. This argument is flawed. Lack of new markets has not been the problem. The weak relationship between expanding markets and employment growth is driven by the same dynamics of technological change in domestic markets as in export markets. Manufacturing is simply going the way of agriculture: becoming less labor-intensive and more capital-intensive worldwide (Ghosh 2003; Reich 2003).

If we look to the future the obvious question is: Where will the hundreds of millions of Chinese workers who currently face low incomes and declining returns to labor in agriculture go? The most likely answer is that they will head to urban areas in search of improved living standards and end up at the bottom end of the service sector. What then? What can we say about the socio-political implications of these employment projections?

Employment Structure and Inequality

It follows logically that if the manufacturing share of Chinese employment is not going to grow then the hundreds of millions of people currently dependent for their incomes on agricultural production must either stay in agriculture or move to the service sector. Both options suggest increased inequality and a more precarious quality of life for the vast majority.

If they stay in agriculture, which seems unlikely given the intensity with which contemporary global culture promotes the allure of urban life, the Chinese peasantry is likely to face stagnating incomes. The most likely route to income growth in agriculture is through technological innovation and increased inputs of capital both of which reduce demand for farm labor. The option of more labor-intensive, “non-traditional” agricultural strategies, such as focusing on fruits and exportable vegetables, is also unlikely to work for hundreds of millions of peasants. Thus preservation of current levels of agrarian employment most likely will exclude a large share of the population from the returns from future growth and increase inter-sectoral inequality.

But what if these frustrated agriculturalists move into the service sector? The preceding discussion of empirical trends argued that expansion of the service sector is likely to produce increased inequality and precarious quality of life for the majority of the new entrants. The odds are against most ever gaining access to the lucrative slots in finance, “business services,” or “symbolic analysts.” Rather, given the size of the population seeking new jobs and the relatively low level of overall incomes in the urban service sector, the most likely outcome is an even more severe “bifurcation” of the service sector than in the rich countries of the North.

In short, the analysis of shifting employment trajectories turns out to be another lens for understanding one of the issues most central to all analyses of contemporary China—the question of rising inequality. Fear that China is in a process of transition from a poor but relatively egalitarian socialist past toward a richer but severely inegalitarian future that will threaten social peace and political stability appears to haunt China’s leadership. The major countries of the global South that are plagued by enduring, obdurate, historically extraordinary levels of inequality are the cautionary negative models. Brazil and South Africa with Gini indices persistently hovering close to .60 are cases in point. Both are characterized by rising levels of violence that threaten governability in their major urban centers.

China’s socialist heritage of an egalitarian distribution of landholdings, however, is a positive legacy that stands in contrast to the extreme maldistribution of agrarian holdings that has historically characterized Brazil and South Africa and persists to the present. Given this heritage, China might hope

to replicate the evolution of Taiwan and Korea in which massive shifts out of agriculture and rapid increases in income were accomplished without corresponding increases in inequality. Yet, most analysts agree with Davis and Wang that China has not followed these East Asian tigers, but instead has experienced high growth and increased inequality.

Our analysis of employment trends reinforces existing concerns with respect to rising inequality by suggesting that the current trajectory of economic growth is likely to exacerbate inequality rather than alleviate it. If capital-intensive twenty-first-century manufacturing technology will not spread incomes to a broad cross-section of the population and service sector-dominated employment growth is likely to magnify the dispersion of incomes, then increased inequality follows logically.

Similarly, it is hard to see how contemporary patterns of economic growth can provide political foundations for the redistributive politics that are projected in the classic syllogism. Can a manufacturing labor force that consists of perhaps one worker in seven, provide the political momentum necessary to propel redistributive change? It seems doubtful. At the same time, the heterogeneity of the service sector and the dispersion of service work sites make it hard to project solidarity among service workers as a catalyst for a politics of redistribution.⁷ Labor organizing in the service sector is, of course, possible. The recent experience of the labor movement in the United States suggests that, given appropriate organizing models, the service sector can be fertile ground for organizing. Nonetheless, given current employment trajectories, replicating the optimistic expectations of traditional development theory is a theoretical and policy challenge.

Implications for Development Theory and Policy

Two variations on the classic development syllogism succeeded each other in the latter half of the twentieth century. The mid-twentieth century was the heyday of the “development project.” Projects of industrialization, characteristically state-led, promised to deliver “catch-up” (Kohli 2004). Then, a generation ago, what McMichael (2005) calls the “globalization project” became hegemonic. The neo-liberal globalization project deprecated the efficacy of the state, condemning state “intervention” as an almost inevitable devolution into predation and rent-seeking (Evans 1989, 1995). Markets were exalted as a universal solvent for the “inefficiencies” that kept the global South poor. While profoundly different in key respects, both projects shared the underlying logic of the classic syllogism. The “development

⁷ Eileen Otis’s analysis (this volume) suggests further that service sector employment may be more corrosive of solidarity among workers because it magnifies divisions based on gender.

project” championed industrialization as the engine of well-being and the globalization project promoted the specific strategy of export-oriented industrialization. Given China’s successful growth, it is not surprising that it has been claimed as an exemplar of both the development project and the globalization project, even though both claims required a distorted reading of China’s development trajectory.

The analysis presented here suggests a different focus for development theory, one rooted more in Amartya Sen’s capability approach and less in the classic syllogism. Could China become an exemplar of this approach? The short answer would be: only as the result of a series of political and policy changes, a number of which are highly unlikely.

The policy demands of a capability-centered approach are daunting. Insufficient allocation of resources to public sector service employees is one major determinant of bifurcated service sector incomes. Correcting this requires extracting more resources from affluent owners and directing them to workers delivering public services. Increasing incomes of ordinary public sector workers also implies large investments in expanding capabilities associated with improved productivity. Both require bold public sector initiatives. Social protection in the form of a secure but efficient “safety net” makes further demands on public institutions.

China would, however, have two substantial advantages over most other countries in the global South if it should attempt to pursue a more capability-oriented strategy. First, it has the state capacity necessary to pursue such a development model. Second, it has a historical legacy of ideologically elevating questions of social protection. The active state policies implied by a capability approach to development would represent a recuperation of old socialist themes, albeit in forms necessarily different from those of the socialist era.

The most obvious barrier to the possibility of China’s being able to pursue a “capability-centered” development path is the absence of the deliberative politics that Sen sees as essential to capability expansion. The growing political influence of private elites whose fortunes are derived from the continued growth of export manufacturing is likely to militate against any strategy that would shift state priorities in the direction of capability expansion. Given the historical ease with which authoritarian rule and industrial growth have co-existed (from Germany to Japan to Brazil and Mexico), it is easier to imagine the increased political influence of private elites reinforcing authoritarian tendencies within the state.

Elites cannot, of course, construct policy as they choose. Ordinary citizens are the potential beneficiaries of a development strategy aimed at countering the inegalitarian implications of the current

economic trajectory. Whether they have the determination and organization necessary to provoke a shift is a question that lies well outside the purview of our analysis. What our analysis does suggest is that moving toward a more capability-expanding development strategy, in China or anywhere else in the global South, must include moving beyond the machine-based logic of the classic syllogism and recognizing the key role of conditions of employment in the service sector in determining overall levels of well-being.

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