

Understanding impacts of minimum wage policy on labor market in China

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Structure of the presentation

- 1. Evolution of the Minimum Wage Policy in China.
- 2. The main findings from the existing literature.
- 3. The enforcement of the MW Policy: practice and improvement.
- 4. Conclusion.

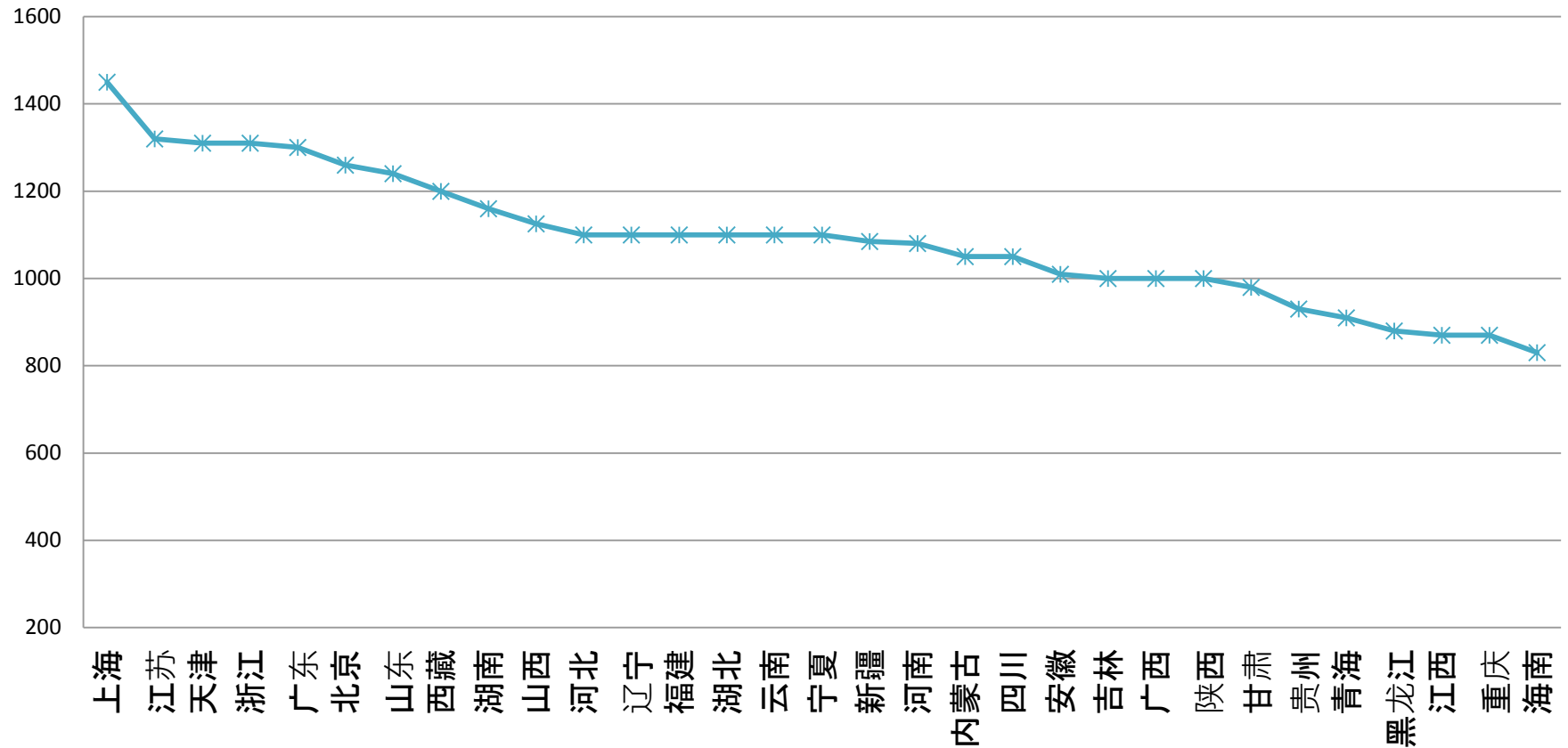
1. Evolution of minimum wage policy in China

- “Enterprise Minimum Wage Regulations” were issued in 1993 and implemented in 1994. It was more like a pilot policy in some provinces. It was under the pressure of international organizations such as ILO.

Chinese Ministry of Labor and Social Security revised minimum wage policy in 2003. Then new “Minimum Wage Regulations” was implemented nationally in March 2004. The Regulations extended coverage to all employees in urban areas, including those in small business and rural migrant workers.

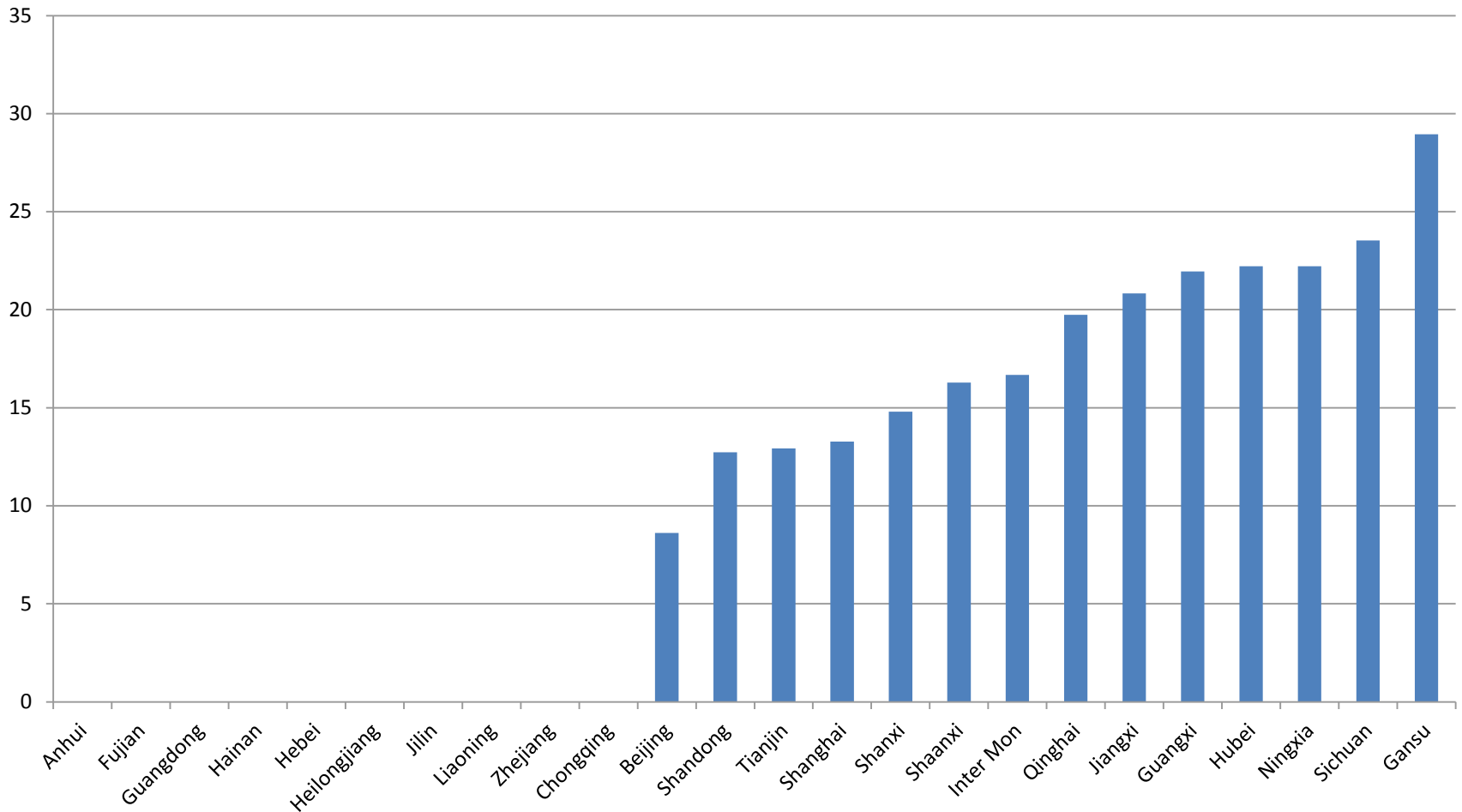
- There is no one national MW standard in China.
- The MW Regulations are mandated by the Central Government, but the MW standards are determined by province-level governments. The Central Government required local governments readjust the MW standards every two years.
- In reality, in each province, several MW standards were setup by the provincial government for city governments to choose. There is negotiation between provincial and city governments in setting city standards .
- The city governments have duties to implement the Regulations.

Provincial monthly MW in 2012



- Since the MW level is decided locally, it has been increased significantly in many provinces in the last two years. For instance, Sichuan Province increased the MW by 23% and Gansu Province by 28% in July 2012. Up to now there are 27 provinces which have increased the MW level in the last two years. The process is largely driven by political competition of local governments at city and provincial level, in responding to the appeal of the central government for raising wage share in national income. It is more likely to observe further increase of the MW level in the next years.

MW growth in China 2011-2012, by province



2. The main findings from the existing literature

- 2.1 The studies on effects of MWP on the Chinese labor market follow the framework proposed in Minimum Wages (Neumark and Wascher, 2008).
- The studies are more empirical rather than theoretical.
- However, the most studies attempt to examine effects on employment, distribution of wages and earnings, on the distribution of incomes.
- Few studies on effects of minimum wages on skills, on prices and profits.

2.2 Controversial findings on effects on employment (1)

- Some findings from our project supported by IDRC and some from other studies, support or reject the effects.
- (1) Studies supporting MW's negative effects on employment in China: Lin & Fang (2014); Ding, 2010; Ma (2012); Wang & Gundersen(2012).
- (2) Studies rejecting MW effects on employment in China: Sun et al (2014).

2.2 Controversial findings on effects on employment (2)

- Lin & Fang (2014):
 - (1) Use a large city-level panel of all cities in China during 2002-2009.
 - (2) The empirical results from this study support the argument that an increase in MW reduces the employment of low-wage workers.
 - (3) significant disemployment effects of MW on young adults between 2004 and 2009.

2.2 Controversial findings on effects on employment (3)

- Yang et al (2014):
 - (1) Using Migrant household Survey Data collected by the National Population and Family Planning Commission in 2011 and 2012.
 - (2) Minimum Wages may have significantly negative effect on rural migrant female workers' employment, but not on urban-migrant workers or rural –migrant male workers.
 - (3) The employment effect is different across regions and it has comparatively large negative effect in central areas for rural migrants.

2.2 Controversial findings on effects on employment (4)

- Sun et al (2014):
- (1) Using data from China Health and Nutrition Survey Data from 9 provinces of China in 2004, 2006, 2009 and 2011.
- (2) Minimum wages have little impact on employment, but contribute somewhat to wage increases, and help reduce working hours, especially for low-income workers. In general, the results provide evidence for some positive effects of minimum wages on workers.

2.3 Controversial findings on effects on wage and income increase and inequality (1)

- (1) Positive evidences found in: Sun et al (2014), Yang et al (2014) for wage inequality of rural-migrant workers; Lin and Yun (2014) for income inequality of urban households.
- The average wage growth is not significantly affected, but a rise in minimum wages increases wage for the lowest wage group and the wage of people at risk (Sun et al, 2014).
- MW changes substantially reduce the income gaps at the bottom end of the income dist (e.g., p50/p10) and overall income inequality in urban China (Lin and Yun, 2014).

Effects on MW on wage growth (Sun et al, 2014)

	(1) Whole	(2) Eastern	(3) Central/Western
mw_avg	-2.134 (2.241)	0.317 (2.971)	0.778 (1.441)
mw_avg ₋₁	Y	Y	Y
Individual Characteristics	Y	Y	Y
Macro-economic Variables, province dummy, year dummy	Y	Y	Y
<i>N</i>	12861	3081	4358
<i>R</i> ²	0.13	0.140	0.208

Effects on MW on wage growth (Sun et al, 2014)

	People with lowest income	People at risk
mw_avg	5.665*** (1.502)	2.874*** (0.275)
mw_avg ₋₁	Y	Y
Individual Characteristics	Y	Y
Macro-economic Variables, province dummy, year dummy	Y	Y
<i>N</i>	953	647
<i>R</i> ²	0.283	0.951

Effects on MW on wage growth (Sun et al, 2014)

	Whole		Urban Hukou		Rural Hukou	
	male	female	male	female	male	Female
mw_avg	1.433 (1.126)	2.242* (1.285)	1.225 (1.356)	0.269 (1.549)	2.501 (1.922)	5.683*** (2.132)
mw_avg ₋₁	Y	Y	Y	Y	Y	Y
Individual Characteristics	Y	Y	Y	Y	Y	Y
Macro- economic Variables, province dummy, year dummy	Y	Y	Y	Y	Y	Y
<i>N</i>	4498	2940	2615	1861	1882	1079
<i>R</i> ²	0.187	0.184	0.195	0.225	0.198	0.204

2.4 Effects on MW on gender wage inequality

- The study by Ma and Li (2014) uses the data from CHIP1995, 2002, 2007 Surveys.
- The main conclusions:
- MW helps reducing the gender wage gap.
- It is more significant for low wage decile.
- It is more significant in the latest data.

2.5 Controversial findings on effects on working hours (1)

- (1) two hypotheses:
- A. Employer may find it more desirable to cut working hours to offset the rise of minimum wage instead of cutting the number of staff: MWs would reduce working hours;
- B. Employer may find it more economic to increase working hours. Therefore MWs would increase working hours.

2.5 Controversial findings on effects on working hours (2)

- Sun et al (2014) estimate whether MW policy has impacts on working hours in China.
- The study finds increased minimum wage leads to a general decline of working hours for Chinese workers.
- The effect declining working hours of rural labor force is greater than that for the urban local workers, and that for rural female migrant workers is greater than that for their male counterparts.
- No consistent results found in estimation of spillover effect of MW on working hours.

Effects on working hours (Sun et al., 2014)

	(1)	(2)	(3)
	Whole	Eastern	Central/Western
mw_avg	-2.073**	-7.102***	-1.758*
	(0.834)	(2.533)	(1.011)
mw_avg ₋₁	Y	Y	Y
Individual Characteristics	Y	Y	Y
Macro-economic Variables, province dummy, year dummy	Y	Y	Y
<i>N</i>	10500	3081	4358
<i>R</i> ²	0.020	0.140	0.208

Effects on working hours

(Sun et al. , 2014)

	Whole		Urban Hukou		Rural Hukou	
	male	female	male	female	male	female
mw_avg	-2.073**	-3.425***	-1.834**	-1.885*	-2.064*	-3.648***
	(0.834)	(1.013)	(0.932)	(1.129)	(1.164)	(1.351)
mw_avg ₋₁	Y	Y	Y	Y	Y	Y
Individual Characteristics	Y	Y	Y	Y	Y	Y
Macro-economic Variables, province dummy, year dummy	Y	Y	Y	Y	Y	Y
N	10500	8110	3271	2385	7228	5725
R ²	0.020	0.027	0.014	0.021	0.021	0.033

- Yang et al (2014): Increasing MWs' level extends male workers' and eastern workers' working hours, but it reduces workers' working hours in the western areas and has no significant impact for workers in the central areas.

3. The enforcement of the MW Policy: practices and improvement.

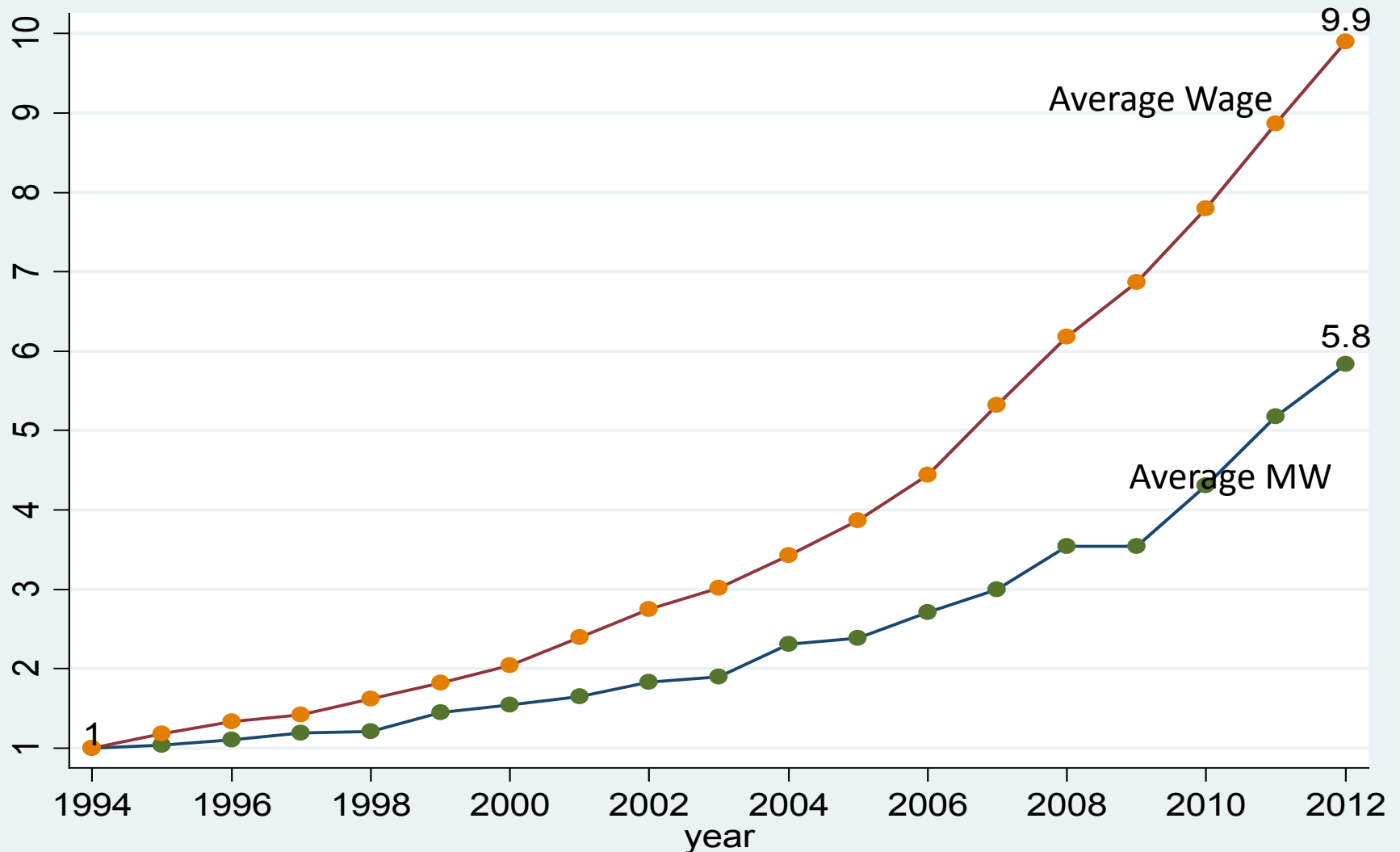
- (1) The central government introduced the MW Regulation at the beginning under the pressure of international communities rather than from her own motivation. The Government was afraid of unemployment effects.
- (2) Changes in behavior of provincial and local governments in implementing the MW Policy:
- From resistance to reluctance to more compliance.

Two phases

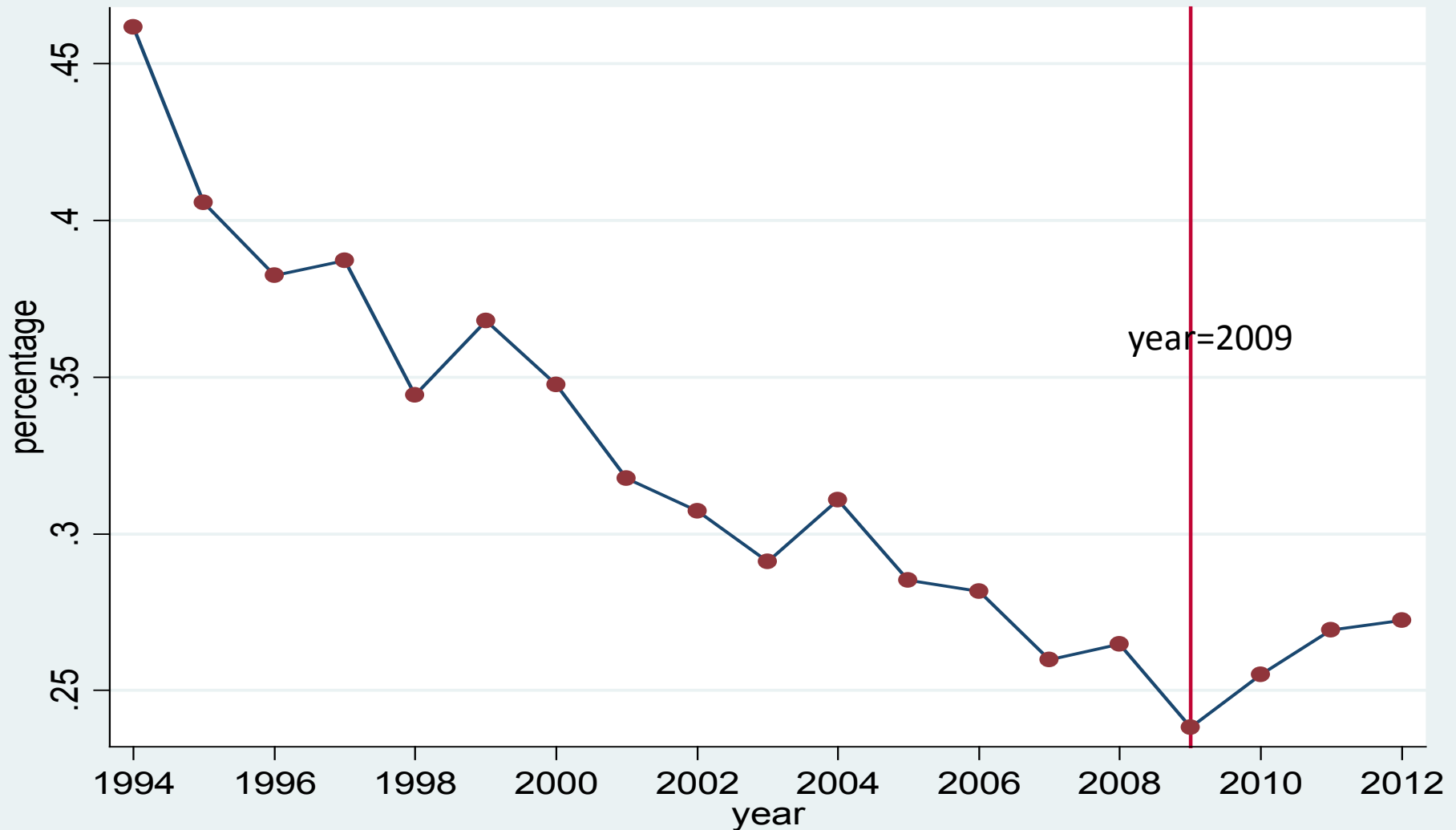
- The first phase: 1994-2009:
The MWs have been set at a low level and declined as a percentage of average wage over time till 2009.

The local governments had no strong motivation to implement the Regulations. Enforcement was a big problem.

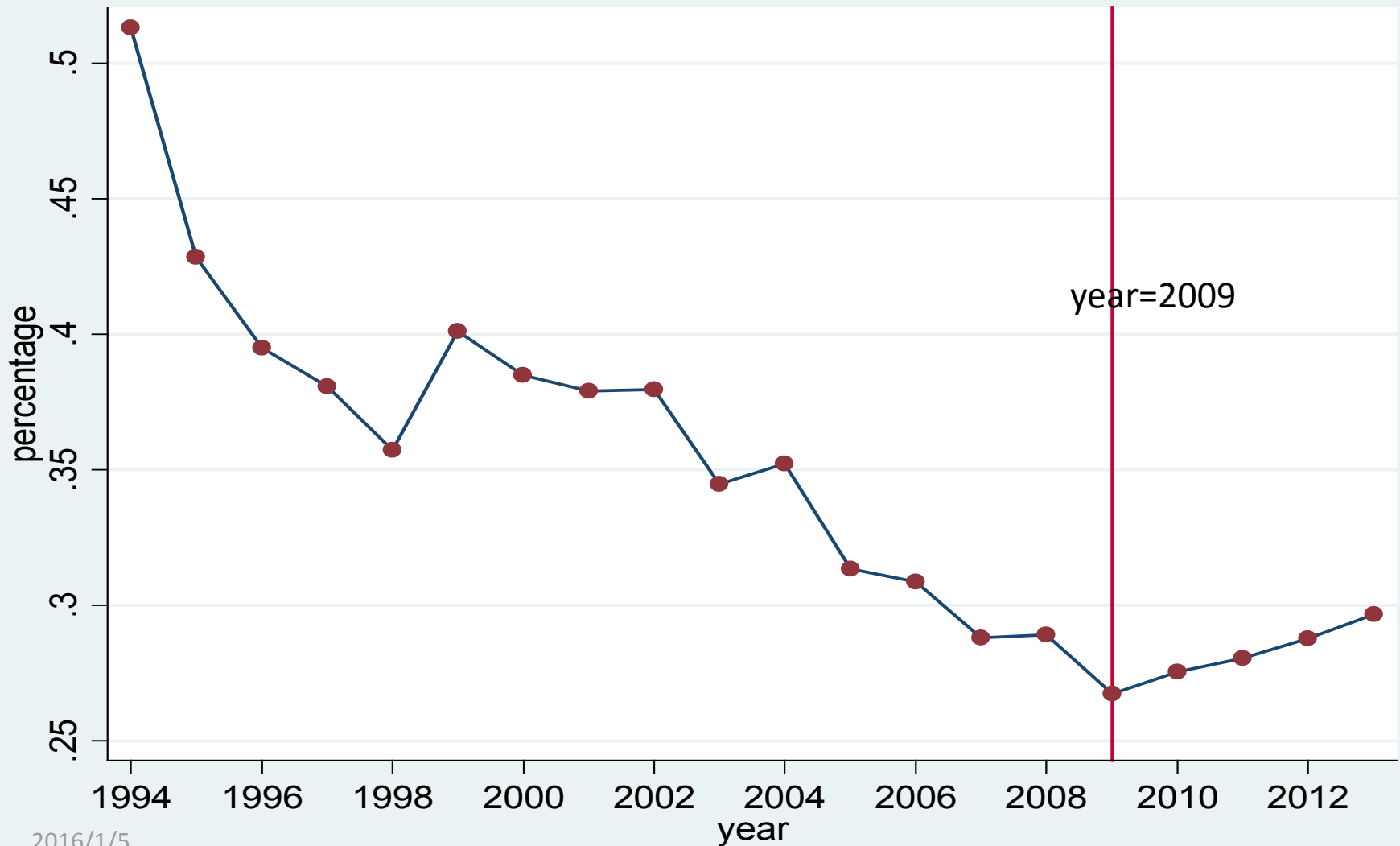
Minimum wage and average wage



Minimum wage as a percentage of average wage



Minimum wage as a percentage of GDP per capita



- The second phase: 2009—
- (1) The central government encourages local governments to raise MWs.
- The central government has changed its development goals in the last five years, gradually from more emphasis on economic growth to more emphasis on social development, and from more concerns with production incentive to more concerns with equitable distribution. This shift can be observed in the 12th Five-Year Plan. That implies that wage growth and wage equality could become new indicators for the central government to evaluate and monitor performance and efforts of local officials.

(2) Local governments have different motivations to determine MW level and implement the regulation. Some local governments nowadays have incentives to raise the MW level to please the central government, and some not (Du and Jia, 2014).

As the unemployment appears a minor problem, the constraint becomes less important, especially in some more developed areas such as in coastal cities. Moreover, to raise the MW would increase labour costs, but would not increase fiscal spending of local governments if it would cause only unemployment of migrant workers. Therefore, the local governments in coastal cities have more incentive to raise the MW.

4. Conclusion.

- The paper, summarizing the findings from the current literature on the impacts of the MW policy on labor market in China, finds that the findings are less consistent and even conflicting.
- The crucial timing point is 2009 when the international financial crisis began to affect negatively the Chinese economy. The MWs were set at a low level and the policy was loosely implemented before 2009. A much faster increase in MWs and more strict implementation of the policy can be observed after 2009.

- The studies using the pre-2009 data are more likely to find less significant impacts during to loose enforcement. Therefore the paper suggests the study should using the data collected after 2009.
- The paper using the data from firm-employee matched surveys conducted in 2009 and 2011, finds a clear improvement in the enforcement of the policy and more significant effects of the MWs on wage growth of workers and profits of firms during this period.

- Thanks