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35 Urban wages in China

Lina Song

Urban wages in China reflect both a dualistic model of development and a transition from institutionally determined wages to market determined wages. There was no labour market in Communist China. A system of standardized wage scales was established in 1956 and applied to the country's state sector, largely equivalent to the urban sector. This system was much influenced by the Soviet model, and remained in place throughout the pre-reform period.

Urban labour was classified into two categories, staff (干部) and workers (工人). Wages were structured accordingly. Administrative personnel ('staff') were into twenty salary grades, technicians (also 'staff') into seventeen grades, and manual employees ('workers') into eight grades. Wage tables laid down the wage payments for each grade. There were only slight regional (cost of living) and industrial variations. Workers were divided into broad occupations, and each occupation spanned a number of grades (Appleton et al., 2010). During the Cultural Revolution (1966–76) wage policy was strongly egalitarian. The need for material incentives was denied; and bonuses based on work performance were abolished.

In the same period, especially after 1958 when a residential status (*Hukou*) system was enforced, rural–urban migration was curbed. The *Hukou* system functioned as a de facto internal passport system. It provided the state with the means of preventing a permanent change of residence, and in particular of curbing permanent rural–urban migration. Even temporary migration was made extremely difficult by the urban rationing of grain and basic foods, housing, and other necessities. Consequently, the wage sector during the period was only open to those who dwelled in, and were registered in, urban areas.

In the 1980s, under the reform programme, firms were granted some autonomy to remunerate workers' according to their productivity through bonuses. Bonuses were initially limited to no more than 5 per cent of a state-owned enterprise's total wage expenditure, but the limit was gradually abolished (Meng, 2000: 83). The most important feature of 1980s reform was to allow a non-state-owned sector to develop. At the same time rural to urban labour migration started due to a loosening of strict control. By the early 1990s, a large-scale wave of migration had begun. The urban wage structure became complex, with urban residents working in state-owned enterprises co-existing with other residents in non-state enterprises and with rural–urban migrants.

Around 1997, a phase of radical urban reform started; with the retrenchment of almost half of all workers in state-owned enterprises. As a result of these major policy changes, a 'labour market' outside state control seemed to be emerging from the 1990s.

There are two entirely different perspectives on the consequences of the labour policy developments. On the first view, the availability of migrants prepared to work for low wages provides potential competition for urban residents. Urban retrenchment creates an opportunity for firms to renegotiate old contracts, both formal and implicit, and may force urban residents to compete with migrants for work. On the alternative view, these developments simply create a labour market with tiers distinguished by the degree of state protection (Appleton et al., 2002, 2004; Meng and Zhang, 2001). Urban residents who kept their jobs were able to continue to be employed on preferential terms while retrenched urban workers might have suffered prolonged unemployment or entered a secondary (not state-owned) labour market. The retrenchment policy and the consequent rise in urban unemployment lead to tighter controls on migrants, aimed at restricting their numbers and in this way assisting those who were laid-off.

Earlier studies of the labour market in the mid-1990s, just prior to the introduction of the redundancy policy, found clear evidence of segmented wages between urban workers and migrants (Knight and Song, 1999a, 1999b). This arose from the political and institutional arrangements which gave urban residents privileged access to secure employment at above market-clearing wages and which controlled the flow of peasants to the cities, allowing rural migrants to fill only the jobs that urban dwellers did not want.¹

With the mass retrenchment of the second half of the 1990s, a further distinction between workers became potentially important—that between urban residents who had suffered retrenchment and those who had never lost their job. Consequently, three tiers could be identified in the urban labour market: non-retrenched urban workers, retrenched and re-employed urban workers, and rural-urban migrants.

The highest-paid tier consists of those urban workers who were not made redundant during the 1990s. Even after standardizing for their personal characteristics (and occupations), this group were paid more than either migrants or urban workers who were re-employed after being made redundant (Appleton et al., 2002).² The wage structure for the 'highest tier' in a labour market was conventional. Human capital—proxied by education, good health, and experience—was rewarded and there were

¹ However, Dong and Bowles (2002) found no evidence of labour market segmentation between firms of different ownership categories.

² The latter wage differential does not appear to reflect selectivity, as it might if the 'less able' workers were more likely to be sacked. It is less clear where the two lower tiers of the labour market—migrants and re-employed urban workers—stand in relation to each other. Their average wage rates are quite similar. However, they appear to be paid according to rather different wage structures, making it unlikely that they can be regarded as jointly forming a single 'secondary' labour market.

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predictable occupational differentials. Some other wage differentials—such as differences in underlying productivity—may be less justified but are nonetheless unsurprising. Men, Communist Party members, and workers in centrally owned SOEs all appear to earn wage premiums. By contrast, the cross-sectional wage structures for migrants and re-employed workers were significantly different. Within both these tiers, there were no premiums for Communist Party membership or for employment in central SOEs. One might ascribe this to the effect of greater competition eroding wage differentials not related to productivity. Where the migrants and re-employed workers do differ, however, is in terms of wage differentials by education and occupation. For migrants, these differentials resemble those estimated for non-retrenched urban workers. For the re-employed, there appear to be no returns to education and few significant occupational differentials. The results for these re-employed workers suggest that the labour market they face is a fierce one that is not working well for them. The lack of rewards for productivity may imply that their employers still lack information on this, or that the workers are forced by limited opportunities to accept low-grade jobs in which their productive characteristics have little value.

The three tiers identified may prove to be a transitional phenomenon. Using a national representative household survey, Appleton et al. (2005) found that China's urban labour market appears to be evolving towards a structure similar to that found in OECD countries. It is experiencing the emergence of a mixed economy and growing dominance of services. The rising share of workers employed in the private sector will increase the extent to which pay is determined by productivity. There has been an erosion of the premium paid to state-sector employees. Changes in ownership between 1998 and 2002 due to restructuring allowed the effects of ownership on wages to be estimated, controlling for any selectivity effects. These estimates imply that some of the apparent wage differentials by ownership may reflect selectivity effects, with more-productive workers gravitating to enterprises with foreign involvement and less-productive workers being found in urban collectives.

The shift in employment from primary and secondary to tertiary (service) sectors has also been mirrored in the urban wage structure. Manufacturing workers appeared to be favoured over those in many service sectors in 1988, but this ceased to be true during the 1990s. In addition, the gap between blue-collar and white-collar workers has widened. Some of China's recent industrial transformation has occurred through the painful progress of retrenchment in the state-owned sector, particularly in unprofitable heavy industry. While rising unemployment in the late 1990s was accompanied by real wage increases, there is evidence from the 1998–2002 panel that higher provincial unemployment has exerted a moderating effect on wages. The resulting 'wage curve' is somewhat flatter than commonly found in other countries, but is nonetheless clearly discernible (Appleton et al., 2005).

The transition to market-determined wages has seen a widening in urban wage gaps, including some defined by worker characteristics such as sex and party membership that, *prima facie*, are not related to productivity. Dong and Zhang (2009) used firm-level data to analyse male–female wage differences in Chinese industry in the late 1990s. Their estimates suggested that employers' discrimination against women was not a significant source of the gender wage gap in Chinese state-owned enterprises. Instead, they found that the gender gap in wages for unskilled workers was less than the gender gap in productivity. This implies that women in the state-owned sector benefited from its egalitarian wage structure, receiving wage premiums and accounting for a disproportionate share of the sector's labour surplus.

The wage premium for Communist Party membership rose in urban China during the period of pro-market reform, paradoxically given the lessening of direct Communist Party influence on promotion. However, there are some signs that the rise may be ending. When using party membership as a time-varying determinant of wages, entrance to the Party in the period 1998–2002 was associated with only a moderate rise in wages. These lower estimates compared to the cross-sectional results may reflect Party membership being a signal of pre-existing higher productivity. Alternatively, it may be that the next generation of Party members is less able to secure the privileges enjoyed by those who entered at a time when the Party and the state had a greater role in the allocation of labour. Moreover, membership of the smaller 'democratic' parties appears to bring similar benefits to membership of the Communist Party, perhaps indicating that the benefits are in terms of access to networks rather than political power relations *per se* (Appleton et al., 2009).

The widening inequality in urban wages during reform has attracted considerable attention and concern. Some insight into this is provided by analysis of the Chinese Household Income Project Surveys for 1988, 1995, 1999, 2002, and 2008 (Appleton et al., 2012). Breakdowns based on quantile regressions using data from the wage surveys suggest that initially, from 1988 to 1995, the rise was entirely due to changes in the wage structure rather than changes in the characteristics of workers. Most notably among the changes in the wage structure were increased returns to factors bearing on productivity, such as education and experience, but also widening occupational and industrial pay gaps. In the second half of the 1990s, these trends continued and explained two-thirds of the widening of urban wage gaps. But changes in worker characteristics—due to educational expansion and industrial restructuring—also played a role, accounting for the residual third. The rise in wage inequality seems to have paused from 1999 to 2002, but then resumed, once again largely driven by changes in the wage structure. This time, however, changes in the returns to education were seen to equalize but were outweighed by rising wage differentials due to occupation, industry, and provincial location.

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