The Internal Cause of the Upswing of Chinese Enterprises' Salary
—The Inflection Point of Lewis

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Abstract. Recently, the upsurge in the upward adjustment of wages in the society has emerged. On the surface, it is the reform of the distribution system to conform to the wealth of the public. Because at this time, the separation between rich and poor has become a constraint for further growth. However, we have seen that the number of laborers has decreased, the marginal products of laborers have increased, the labor force has begun to have limited surplus, and the era of unlimited supply of labor force has come to an end. At the same time, the income of laborers is gradually no longer just to maintain the income of survival. At this time, the demand for social needs and respect for the workers began to increase. The level of demand has started to rise. The wages of ordinary workers have risen, and wages for Chinese enterprises have increased. The changes have brought great influence.

In general, the reproduction of the labor force has its inherent laws. However, the family planning policy implemented by China in the past three decades and the subsequent economic and social development have changed China’s demographic structure and brought China into an aging society ahead of schedule. Under this premise, the Chinese economy has continuously ushered in the "migrant workers shortage," and under the tight supply of labor, wages have risen and are difficult to suppress. In the light of various evidences such as changes in the demographic structure, labor transfer, labor supply and demand, income changes, and wage adjustments, China has quietly crossed the Lewis turning point at some point in 2006-2010.

Related Theory of Lewis Turning Point

Black economist Lewis. In the 1952 paper “The Economic Development of the Unlimited Supply of Labor,” Lewis used the turning point theory. In the turning point theory, the modern and traditional sectors of the dual economy are called “capitalist departments” and “non-capitalist departments.” The actual wages of the non-capitalist sector are determined by the level of income that sustains survival. Assuming that the labor force can fully flow between the two sectors, the real wages in the capitalist sector will equal the survival level, even if the labor demand in the capitalist sector increases, the actual wages will also not increase – because the labor force at this time has unlimited supply characteristics. In the model of agricultural surplus labor force transfer proposed by Lewis, as long as the wages of the “capitalist” sector are higher than the rural “survival” wages and exceed to a certain amount (for example around 30%), the farmers are willing to leave the land and transfer to the for a new career.
Due to the accumulation of capital in the capitalist sector and the technological advancement of the two sectors, the marginal productivity of non-capitalist sectoral labor will rise. Once the marginal productivity exceeds the living income level, the actual wage level of this sector will no longer be given exogenously, but will begin to be determined by the marginal productivity of labor.

The most striking feature of Lewis's turning point is that the unlimited supply of labor is over and the wages of ordinary laborers are rising.

**Current Status of China's Labor Force and Analysis of Its Impact**

Theoretical analysis of China's labor force development trend. William Petty said that Labor is the father of wealth. However, the reproduction and accumulation of the labor force has been affected by many factors: First, people's animal instincts. The need for reproduction and the continuation of populations still dominate human fertility to a certain extent. The second is the level of economic development. Gary Becker (1960) said that children are often regarded as special consumer goods, in which the financial budget of the family constitutes a hard constraint on the child's needs, and the satisfaction provided by the children constitutes a utility. The third is the level of social development. The level of social development, especially the level of education and employment of women, and the social security mechanisms related to pensions, play a crucial role. The fourth is policy and social norms. Policies and social ethics have increased outward incentives. For example, Yuewang has practiced the national policy of "Ten years of gathering together, learning from ten years of lessons", and the traditional thinking of "There are three filial piety, no offspring being the biggest." The fifth is medical and technical means. The material conditions related to contraceptive technology, women's reproductive health, and children's medical security directly determine the infant's birth rate and mortality.
The above factors together make the demographic transition usually go through three phases: the first phase is high birth, high death, low growth; the second phase is high birth, low death, high growth; the third phase is low birth, low death, low growth. Because the decline in birth rate and death rate has a succession in time, it usually follows a time interval of one generation, followed by a natural increase in population growth rate, and then decrease, and the working-age population increases first and then decreases.

As of 2008, the proportion of the elderly population in China is 9.5%; if according to the traditional definition, the proportion of population aged 65 and above exceeds 7% is an aging society, then China has stepped into an aging society. In addition, the proportion of children in China was 17.3% in 2008, and it is also in a continuous decline. Although the proportion of the population aged 15-64 is still high, and the dependency ratio in China is at historically low levels - but it is hard to continue.

We observed that the proportion of China’s working population was as high as 55.3% in 2008, but this may be the period when China’s labor force is the highest. In time, the decline in the labor force has become inevitable. This decline is due to the long-term continuation of low birth rates, low mortality, and low natural growth rates. From the perspective of horizontal comparison, Japan’s working population accounted for a maximum of 56% in 1968, and China is now approaching its peak.

Analysis of the status quo of China's labor force development. According to the previous theoretical review, we know that the first characteristic of the coming of Lewis's first inflection point is the overall rise in workers' wage prices. However, given the basic economic logic of “quantity comes before price,” we first observe the supply and demand situation of the labor force – we have found that at present, China has shifted from the infinite surplus of the labor force to the limited surplus.

(1) "Migrant workers shortage" appears on a large scale. Since the spring of 2004, vocabulary such as “shortage of work” or “labor shortage” has frequently appeared in newspapers. From the coastal areas, especially the Pearl River Delta, to the processing and manufacturing clusters in the southeastern Fujian and southeastern Zhejiang, the Yangtze River Delta and the Beijing-Tianjin-Hebei region, and to labor outflow areas such as Jiangxi, Hunan, and Henan, the “migrant workers shortage” and the "technician shortage" spreads widely.

It should be emphasized that, in the context of the "Lewis Turning Point" theory, the observation of changes in the unlimited supply characteristics of the labor force is limited to ordinary workers (or unskilled laborers) and does not explore the shortage of skilled workers (proficient workers). In fact, the lack of skilled workers is a problem at any time and in any country. Even Germany, a country with high-tech workers as the backbone of the industry, has the need to transform human capital.
Therefore, the "worker shortage" that belongs to the shortage of structural labor is not within our scope of investigation. Similarly, the "difficulty of employment for university graduates" is also not within the scope of investigation.

(2) The growth rate of employees has slowed down. Since 2006, the number of new urban employment in China has continued to decrease. In this context, the year-on-year growth rate of the number of employees has reached a high point of 3.5% in the third quarter of 2006, and then there has been a reversal, turning into a gradual decline (including a year-on-year growth rate in the third quarter of 2010 at 3.8%, mainly due to the low base, is therefore a short-term phenomenon).

(3) The asking rate is rising. The clues of shortages are reflected in the labor market. The direct result is that the tension between labor supply and demand has gradually eased, and the ratio of labor demand to job seekers has increased. Since 1998, one of the main characteristics of urban labor market pressure is that the number of employees in employment units is less than the number of job seekers. At this time, the rate of seeking employment is very low; but recently, the ratio has been increasing. For example, in the four quarters of 2001, the ratio was 0.65 at the lowest and only 0.75 at the highest; the lowest and highest in 2002 were 0.73 and 0.89 respectively; in 2003 it was 0.86 and 0.90; in 2004 it was 0.89 and 0.94; thereafter, the ratio continued a gradual upward trend. Since the first quarter of 2007, the ratio has reached an unprecedented 0.98, and it has only declined slightly since the financial crisis hit in 2008. The increase in the number of people seeking employment indicates that the gap between the number of job seekers and the demand for employment is further narrowing.

(4) The registered unemployment rate in urban areas has decreased. The reduction in the number of employees and the change in the supply and demand conditions in the labor market have also affected the unemployment rate to some extent. Since 1998, while a large number of former state-owned enterprise employees have been laid off, unemployed, or withdrawn from the labor market, the total urban employment has been expanding year by year, and the increase in the number of employed people has continued to rise. The actual unemployment rate is not as high as one might
think and has a downward trend. The urban unemployment rate fell from 4.5% in 2003 to 4.0% in 2008, reflecting the improvement in employment conditions. In addition, from comparable urban survey unemployment indicators, the figure was 6.3% in 1998, 7.6% in 2000, and continued to decline after 2002.

(5) The labor supply gap appears. In the context of the reversal of the supply and demand situation, the labor supply gap has gradually emerged. As early as 2006, the National Development and Reform Commission had announced that the number of labor supply and demand gaps for the current year was 14 million. For the future labor supply and demand situation, a study by the Chinese Academy of Social Sciences (Cai Lu, Du Yang, and Wang Meiyun) shows that during the “Eleventh Five-Year Plan” period, China’s labor supply has started to show a trend of accelerated decline. Since 2004, the new working-age population has continued to be lower than the demand for labor, and the gap has been increasing. Even with the most conservative estimate, since 2010, the supply of labor has started to fall below the demand. This means that during the 12th Five-Year Plan period, the labor shortage faced with China will increase.

**Analysis of the Influence of Labor Force Development Status on Wages**

The minimum wage standard has been raised one after another. In the context of the continuous increase in the supply and demand gap of the labor force, local governments have all raised the minimum wage standard. In 2010, the pace of wage increase was reactivated after a pause in 2009. At present, 15 provinces, municipalities, and districts have raised their minimum wage standards, and the rate is about 15-20%.

![Graph showing wage standards](image)

**Figure 6.** Localities have raised wage standards.
Figure 7. Increase in local minimum wage standard (%).

Farmers' wage income growth accelerated. According to a survey conducted by the Ministry of Agriculture, the average annual growth rate of migrant workers' wages before 2006 was less than 10%, and the growth rate exceeded 10% since 2006. From the perspective of changes in the wage income of farmers, we can see that wage income of farmers has accelerated since 2005.

Real wages began to rise moderately. We observed changes in China’s real wages and find that China’s real wages experienced a rapid increase in the mid-to-late 1990s, and since 2000, they have fluctuated at the bottom. However, from the first decline in labor supply growth in 2004 real wages rose again at a relatively high level. If the rise in the mid- to late-1990s contained a factor for repayment of debts, then a modest rise in real wage levels from the first decline in the growth rate of labor supply in 2004 would convey a deeper signal. As the slowdown in the growth rate of China's labor supply has become a definite trend, it is also a general trend that the real wage level will rise in the future. At this stage, the structural tightening of labor supply under age and skill constraints has obviously increased the pressure of rising labor costs in most industries.

Conclusions and Suggestions
The voice of fairness and justice is increasing, and the economic efficiency needs to be tapped. After the arrival of Lewis Turning Point, we know that the wages of industrial workers are no longer defined
by exogenous wage levels that are only available for survival, but are gradually rising, and are gradually approaching the boundary equal to the marginal product of labor. Under the principle of the marginal productivity distribution theory, both employers and employees take their own income and there is no such thing as “exploitation”. Such a change that originated in the number of laborers and then the quantity of marginal products in labor fundamentally supported the bargaining power of laborers and made the call for changing low wages, low benefits, and low social status before gradually increase.

Labor is more concerned with re-dividing the cake and calling for fairness and justice. Maslow's theory actually tells us that prior to Lewis' inflection point, laborers paid more attention to the need for survival—physiological needs and safety needs; after Lewis’ inflection point, survival needs have been met, and the demand for society—the demand for social needs and respect for demand has begun to increase, and this demand response has been self-reinforcing for the improvement of the worker's own importance. It is precisely under the stimulation of this demand that we have seen the awakening of labor rights awareness, increased demands for social justice, and adopted multiple ways to fight for their own interests.

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References


