

# The 2008 Labor Contract Law and Compliance with Legal Minimum Wages and Overtime Pay Regulations in China

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# Research Question

- Did the 2008 Labor Contract Law increase compliance with legal minimum wages and overtime pay regulations in China?

# Motivation

- **Legal minimum wages:** have become an increasingly important tool to protect low wage manufacturing workers in China.
  - Minimum wages are set at different levels for different localities by provincial governments with central government input.
  - Legal minimum wages are set in terms of monthly earnings, assuming a 40 hour work week (full-time).
- **Overtime regulations:** workers who work more than 40 hours per week are required to be paid at least 150% of their regular wage for overtime hours.

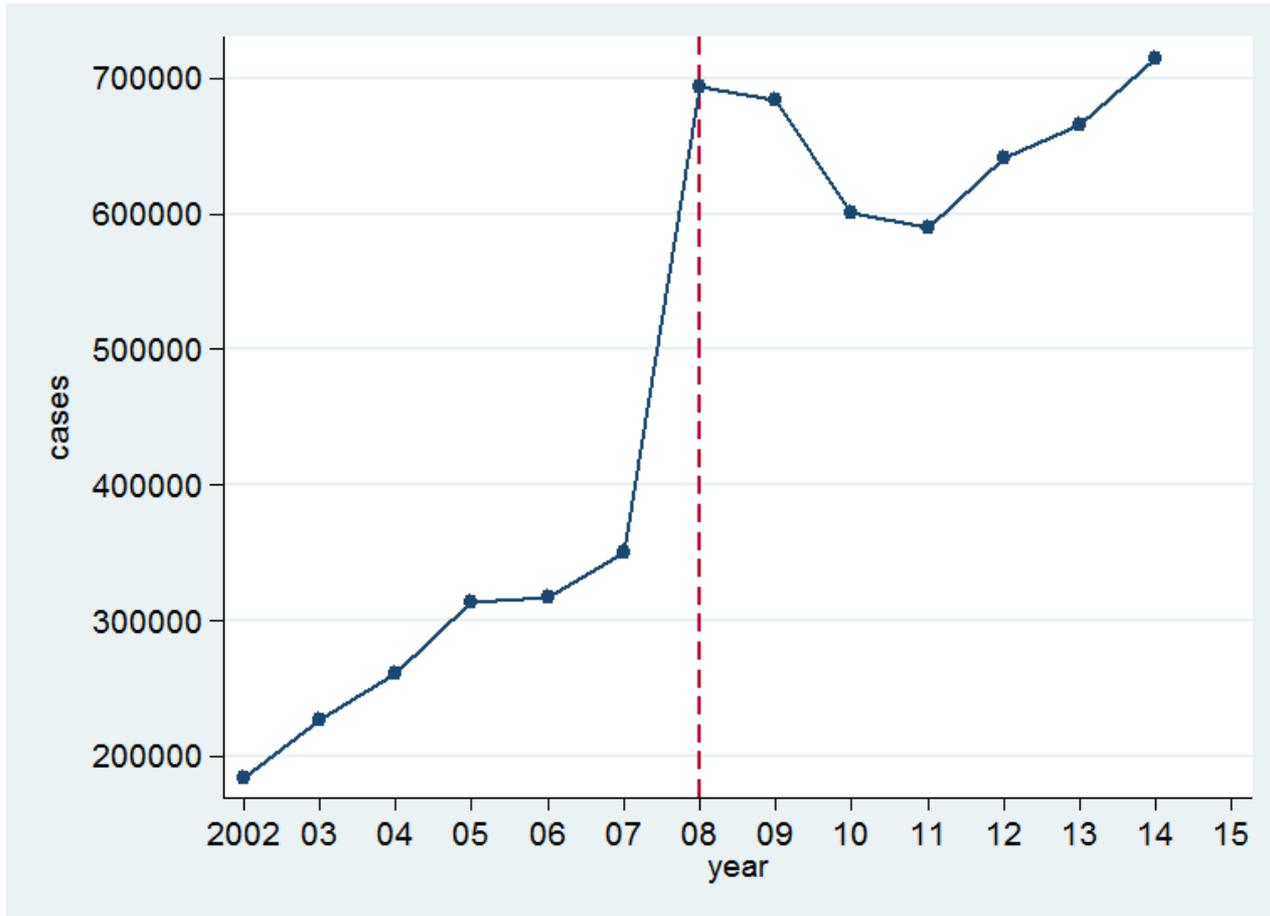
# Motivation

- Employers comply with the monthly legal minimum wage in China, but many also require employees to work overtime with no additional pay.
  - Many studies have reported fewer than 10% of full-time employees earning below the monthly minimum wage, BUT after taking overtime hours into account, up to 50% of workers earn less than an implicit hourly minimum wage
    - i.e. Ye and Yang, 2015; Du and Wang, 2008; Sun and Shu, 2011; Xe, 2010; Yang, Gunderson and Shi, 2014.
  - Ye, Gindling and Shi (2015) using data from 2009 report that
    - fewer than 3.5% of manufacturing employees earn less than the monthly minimum wage, while
    - 29% of employees who work overtime hours are not paid any additional wage
    - 41% of employees who work overtime hours are paid less than 150% of the minimum wage.

# 2008 Labor Contract Law

- Increased formalization and government attention on the relationship between employers and employees
  - Took effect January 1, 2008
  - Requires a written contract for all labor relationships beginning on the day the employer recruits the employee.
  - Requires employers to keep records for each worker.
  - Implies that an employee has increased knowledge of, and can more easily claim, their rights under labor regulations.

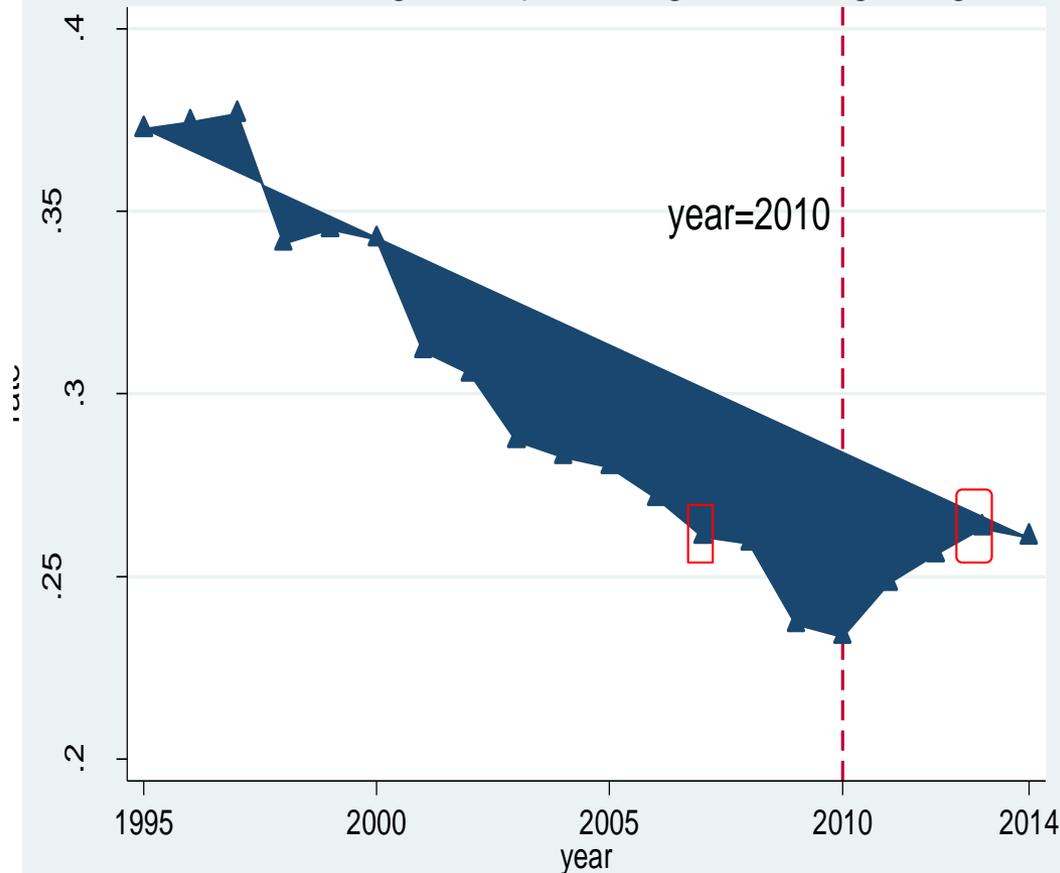
# Labor disputes increased substantially in 2008



Number of labor disputes cases for each year

# Background: the minimum wage “bite”

Minimum wage as a percentage of average wage



- We compare 2007 with 2013 because the minimum wage bite is similar in these two years.
- Mean minimum wage/mean wage ratio (“bite”) fell from 1995-2010, then rose from 2010-2014
  - From 1995 to 2009 the average wage increased faster than the minimum wage.
  - From 2010 to 2013, the average wage increased more slowly because of recession

# Data

- CHIP (Chinese Household Survey Project)
  - 2007 and 2013
  - Nationally representative
    - Our wage and earnings sample includes full-time urban employees between 16-60 years old.
      - Rural areas are not covered by legal minimum wages
      - Self-employed and temporary employment are not covered
      - Part-time employees are not covered
    - We compare monthly earnings from CHIP with the legal minimum wage applicable to the worker based on where they work.
    - We also compare hourly wages (monthly earnings divided by reported hours worked) to an implicit hourly minimum wage (assuming a 40 hour work week).

# MW Compliance in 2007

- More non-compliance with hourly minimum wage than monthly minimum wage because many low wage employees work unpaid overtime.

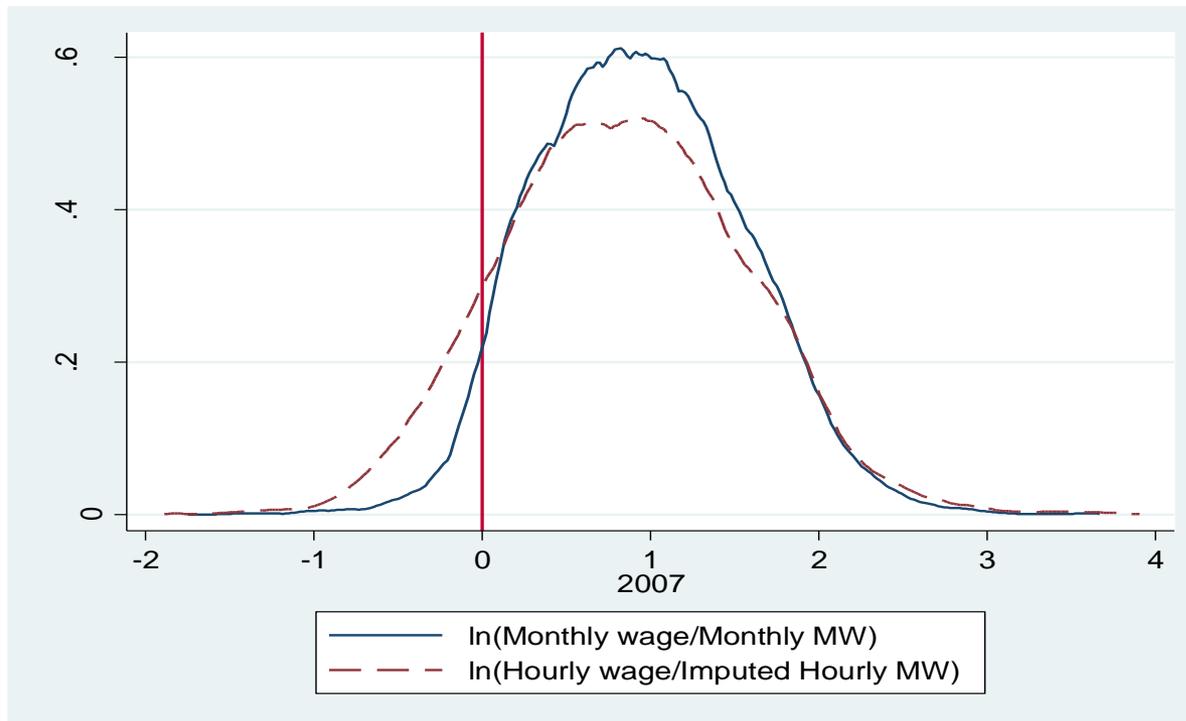


Figure 4: The Kdensity of  $\ln(\text{Monthly Wage}/\text{Monthly MW})$  and  $\ln(\text{Hourly wage}/\text{Imputed Hourly MW})$  in 2007 ( $bw=0.1$ ) for full-time urban employees

# MW Compliance in 2007 and 2013

Table 1: Estimates of the Proportion of Workers Earning Below the Minimum Wage, 2007 and 2013

	Proportion of Workers Whose Monthly Earnings are below the Monthly Minimum Wage			Proportion of Workers Whose Hourly Wage is below the Imputed Hourly Minimum Wage		
	2007	2013	2007-2013 CHANGE	2007	2013	2007-2013 CHANGE
ALL	3.91	7.32	3.41	13.64	12.74	-0.9
	[3.54 to 4.26]	[6.8 to 7.86]		[13.00 to 14.28]	[12.04 to 13.43]	

Note: 95% confidence intervals in brackets.

- **Increase in the proportion of employees earning less than the monthly minimum wage, but**
- **Decrease in the proportion of employees earning less than an implicit hourly minimum wage**

# Overtime hours of low wage workers decreased from 2007 to 2013

- If low wage workers are not paid for overtime hours, then hourly wage for these workers will increase even if monthly earnings fall.

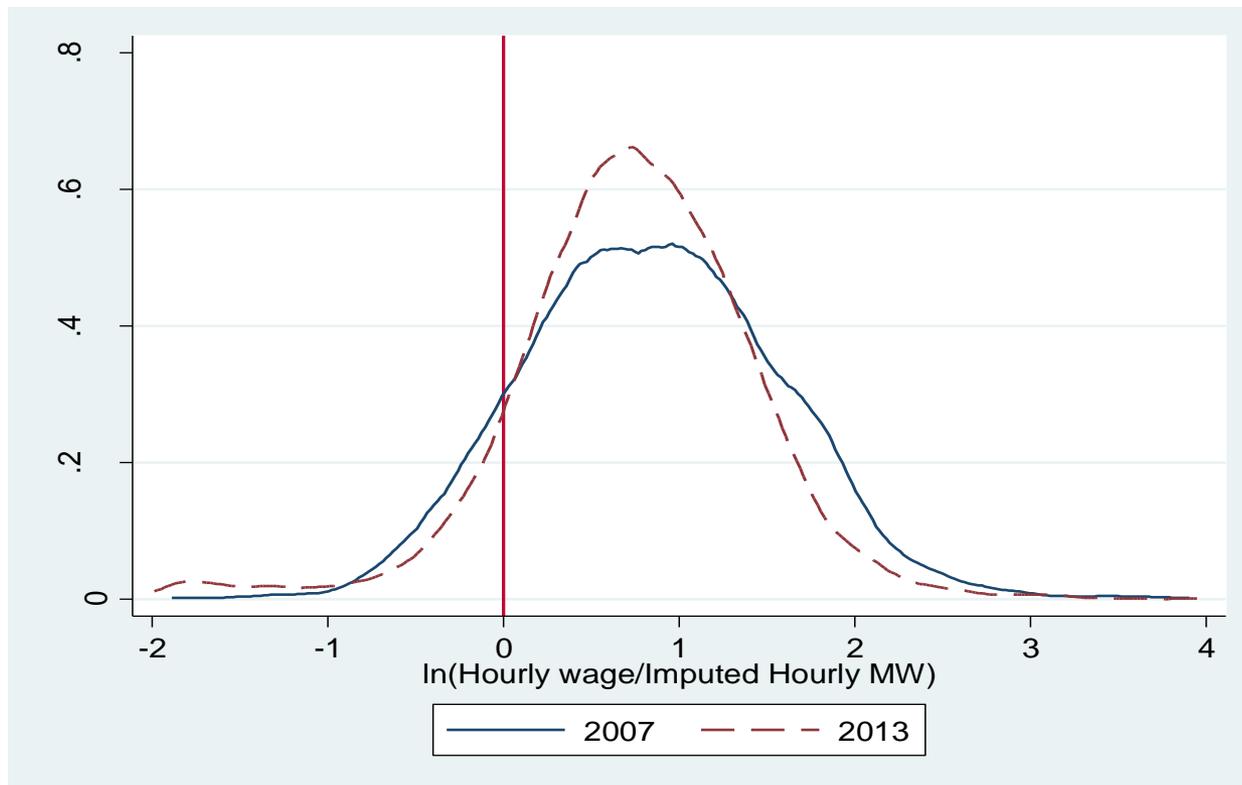
**Table 2 Average weekly working hours, 2007 to 2013**

	Average Weekly Hours		
	2007	2013	2007-2013 CHANGE
ALL	48.0	48.4	0.4
Ascending sort by workers' total monthly wage			
The first quintile	52.1	49.1	-3.0
The second quintile	50.4	48.8	-1.6
The third quintile	48.4	48.7	0.3
The fourth quintile	45.7	48.3	2.6
The fifth quintile	43.7	47.1	3.4

- For full-time urban employees,
- Overtime hours decreased for low wage workers
  - Overtime hours worked by high wage workers increased
  - On average, mean hours worked increases slightly.

# Detail: Between 2007 and 2013

- Decrease in % employees earning less than the imputed hourly minimum wage, but
- Increase in the % of employees earning substantially less than the imputed hourly minimum wage.



# Depth of violations (Bhorat, et al. 2013)

Table 4 Estimates of the index of violation in year 2007 and 2013

	Incidence of violation		Mean Earnings Shortfall	
	2007	2013	2007	2013
Monthly Earnings	3.91 [3.54 to 4.27]	7.32 [6.78 to 7.86]	26.38 [23.99 to 28.78]	43.82 [41.52 to 46.11]
Hourly Wages	13.64 [13.00 to 14.28]	12.74 [12.04 to 13.43]	27.57 [26.60 to 28.55]	36.28 [34.61 to 37.93]

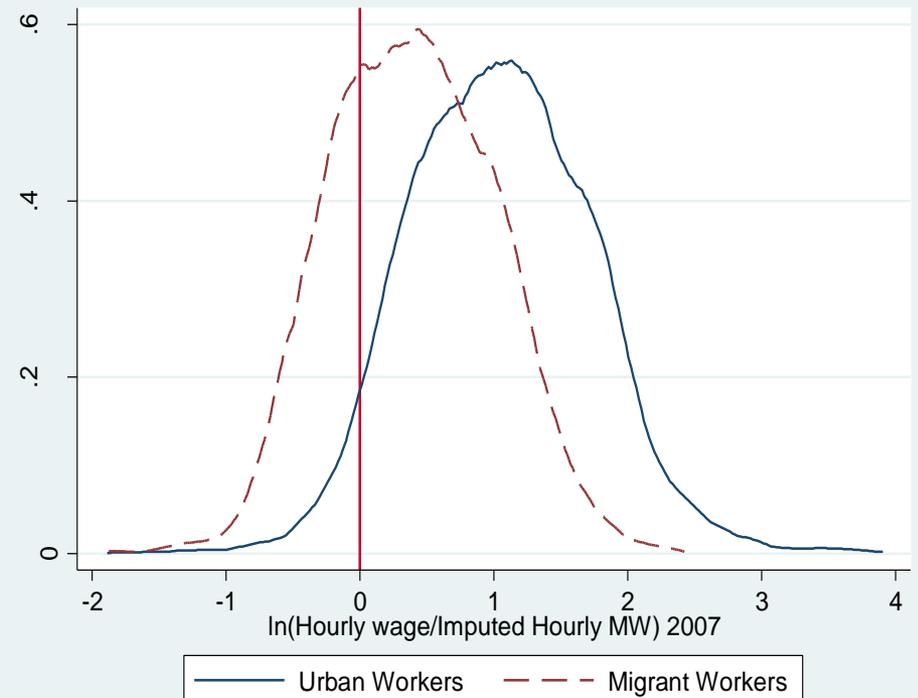
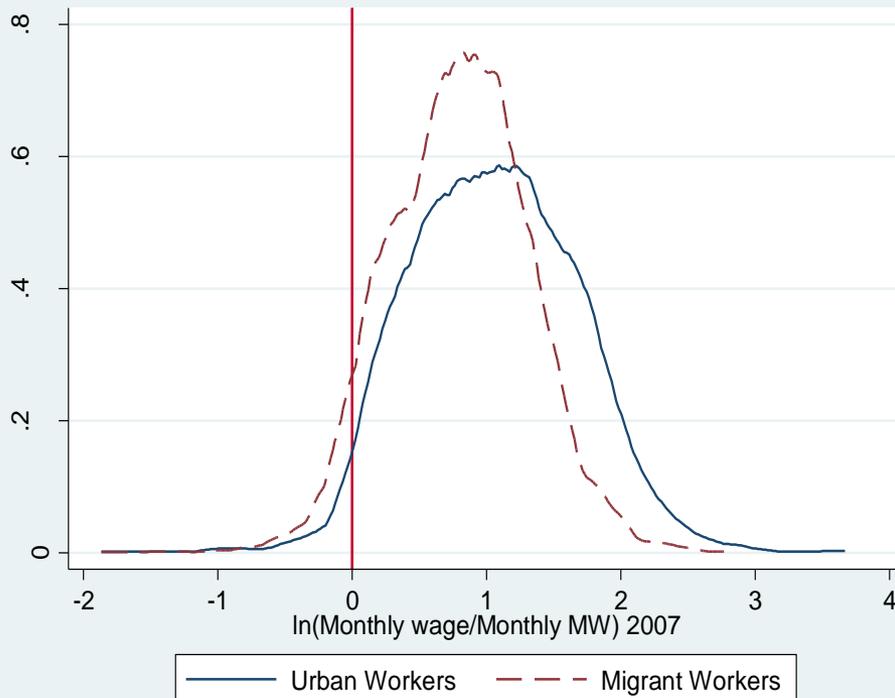
- The average hourly wage shortfall for full-time employees earning less than the MW (as a % of the minimum wage) increased between 2007 and 2013,
  - Even though the incidence of those earning below the hourly minimum wage fell.
- Consistent with partial compliance with Labor Contract Law

# Rural migrants vs. non-migrants

- Rural migrants are major source of low-skilled labor, especially in manufacturing

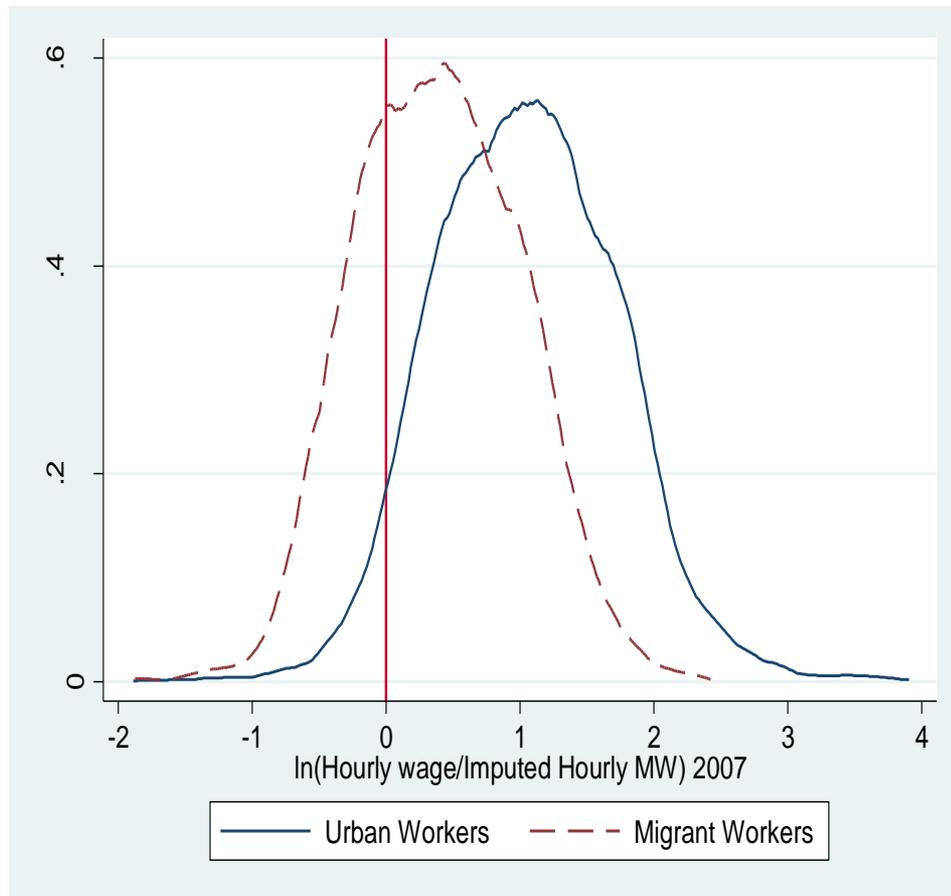
2007: Monthly Earnings

2007: Hourly Wages



# Hourly wages: Rural migrants vs. non-migrants

2007: Hourly wages

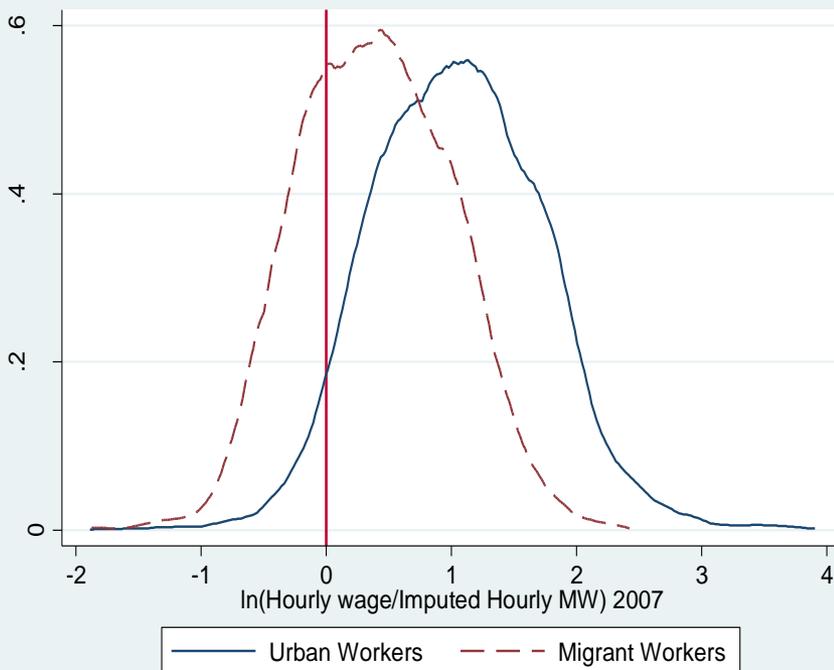


- **In 2007:**
- Rural migrants are much more likely to earn low hourly wages,
- Because they are much more likely to work unpaid overtime hours.
- Many fewer of those with an urban “hukou” (urban “natives”) earn less than the legal hourly minimum wage.

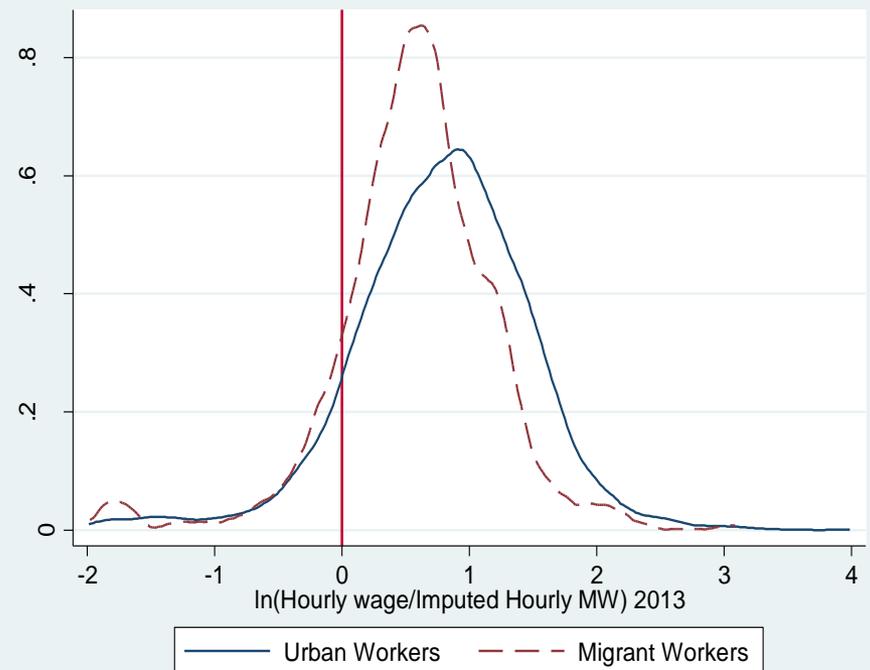
# Hourly wages: 2007 and 2013

- In 2013 rural migrant wages are higher at the bottom of the distribution
- In 2013 the distribution of hourly wages of rural migrants and urban “natives” looks more similar

2007



2013



# Observed Stylized Facts

1. Increase in % of employees earning below the monthly MW from 2007 to 2013
2. Decrease in % of employees earning below the hourly MW from 2007 to 2013
3. Decrease in the proportion of low-wage employees and rural migrants working unpaid overtime from 2007 to 2013
4. Decrease in % of rural migrants earning below the hourly MW, but not for urban “natives.”

Hourly wages of low-wage rural migrants increased while the wage distribution of urban “natives” stayed the same.

# What explains the stylized facts?

## **Possibilities**

A. 2008 Labor Contract Law led to increased enforcement and compliance with overtime regulations.

B. Decreased supply of low-skilled rural migrants.

C. Decreased demand for low-skilled workers/rural migrants because of declining exports.

# What explains the stylized facts?

Fully consistent with stylized facts

**A. 2008 Labor Contract Law** led to increased enforcement and compliance with overtime regulations

- Because of increased enforcement of overtime pay regulations, employers reduced overtime hours
  - Because they now have to pay low-skilled rural migrant employees for overtime.
  - But not for high skilled-workers or urban “natives.”
- Partial compliance with new law
  - Near the MW hourly wages increased,
  - Mean earnings shortfall of sub-MW employees increased.

# What explains the stylized facts?

Not consistent with stylized facts

## B. Decreased supply of low-skilled rural migrants

- There was a clear decrease in rural migrants into urban areas, which could explain the increase in hourly wages,
  - which might be due to a decline in the supply of low-wage rural migrants,
- BUT this cannot explain the fall overtime hours and stable/falling monthly earnings for low-skilled rural migrants.
- Next step: Composition effect?
  - Are the lowest paid rural migrants simply staying home

# What explains the stylized facts?

Partially consistent with stylized facts

C. Decreased demand for low-skilled workers/rural migrants because of declining exports

- Could have caused the fall in monthly earnings and the fall in overtime hours for low wage employees, but
- Cannot explain the increase in hourly wages.
  - Although this could happen if employers comply with monthly minimum wages and still do not comply with overtime regulations (employers could be lowering overtime hours to reflect falling demand).
  - the fall in overtime hours and the rise in hourly wages for low wage workers may be due to a combination of falling demand and the Labour Contract law
- Suggestions?

# The End

- Thank you!
- Comments and suggestions appreciated.