



Social insurance with Chinese characteristics: The role of communist party in private firms[☆]



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ABSTRACT

This paper studies the inter-correlation among the Communist Party of China (CPC), unionization, and social insurance in a sample of Chinese private firms. We find that both Party branch and unionization are positively associated with insurance coverage. We further present evidence that Party branch and unionization are complements in association with better coverage of social insurance. When the Party–union complementarity is taken into account, Party branch alone is no longer positively associated with social insurance, while the correlation between unionization and insurance declines significantly. Our results suggest that the role of the CPC is overlooked in the literature on labor relations in China.

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1. Introduction

After more than 30 years of economic reform and fast economic growth, labor relations have become an important source of social unrest in the People's Republic of China. Reflecting these new developments in the Chinese economy, several laws, regulations, and provisions have been established or revised since 2001. Those most relevant to labor relations include Trade Union Law (Est. in 1992, Rev. in 2001), Provision on Minimum Wages (Est. in 2004), Law on Promotion of Employment (Est. in 2008), Law on Labor Dispute Mediation and Arbitration (Est. in 2008), Regulation on Work-Related Injury Insurance (Est. in 2004, Rev. in 2010), Social Insurance Law (Est. in 2011), Labor Contract Law (Est. in 2008, Rev. in 2012), and the Company Law (Est. in 1994, Rev. in 1999, 2004, 2005, and 2013). In this paper, we analyze social insurance coverage in private firms in China. Social insurance are critical components of employee benefits¹; hence managing and providing employee benefits are at the core of labor relations. Topics related to social insurance, especially pension insurance, draw tremendous attention from the Chinese central government in recent years because of their relevance to society stability, particularly due to the aging of the population.

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¹ Important measures of employee benefits in China include wage, the five types of social insurance, and housing subsidy.

Traditionally, employee benefits and unionization are closely connected.² This is especially the case in developed countries such as the United States. However, with the largest labor force and the largest number of labor unions in the World, it is important to study and understand the role of unionization in China (Freeman, 2005). So far, a handful of studies have provided evidence on the positive correlation between unionization and employee benefits in China with different samples of firms. Ge (2007, 2014) document the positive correlation with a large enterprise population-level data from the First National Economic Census of China conducted in 2004. Lu et al. (2010) report the positive correlation with a set of private firms surveyed in 2006. Yao and Zhong (2013) find the positive correlation based on 1268 firms in 12 Chinese cities. In addition to the positive correlation between unionization and employee benefits, these studies all find a positive union effect on wages, while Ge (2007) and Lu et al. (2010) further find unionization to be positively correlated with labor productivity.

We propose a new dimension to the analysis of unionization and employee benefits: the presence of the Communist Party of China (CPC). The role of the Party in the literature on Chinese unionization is overlooked but far from alienated. As pointed out by Ge (2007, 2014), unions have a “State-Party voice” face in China and function as a “transmission belt” of the CPC. In other words, unlike their Western counterparts which are non-governmental in nature, labor unions in China are subordinates of the Party and hence are semi-governmental.³ For firms above certain scales, local government and higher level Party committees often intervene and suggest the establishment of union and firm-level Party branch. As a result, it is natural to include the Party into the analysis of unionization.

The unique hierarchic structure of the CPC and unionization in enterprises in China is illustrated in Fig. 1. In the figure, an arrow pointed from one box to another indicates that the latter is under the leadership of the former. Although the “All-China Federation of Trade Unions (ACFTU)” is designated as the only national labor union, and all lower levels unions are under its leadership, the ACFTU itself is under the leadership of the Central Politburo of the CPC.⁴ The reality of unionization in China, which motivates the current study, is that unions at lower levels are under the dual leadership of both higher level union organizations and same level Party organizations. Ultimately, local CPC Committees are in contact with local enterprises whereas the Central Politburo's messages are indirectly transmitted through local CPC Committees, local trade unions, or both. As a result, if a firm has either a Party branch (Firm 1 in the figure) or a union (Firm 3 in the figure), there is only a single channel via which information and signals can be exchanged between the local CPC Committee and a firm. But if a firm has both a Party branch and a union (Firm 2 in the figure), two channels are available for exchanging information and signals between the local CPC Committee and the firm. The presence of two channels not only ensures greater coverage of the receivers, but also strengthens the tie between the enterprise and the local CPC Committee. According to current laws and regulations, a firm should rarely have neither a Party branch nor a union (Firm 4 in the figure), because enterprises with three or more Party members are required to establish a Party branch. But, in practice, the regulation is poorly enforced and some private firms do have neither one.

Given their synergy, the vital question becomes whether it is possible to separately identify the effects of unionization and Party. Our sample of private firms in China includes firms with none, either, or both a labor union and a Party branch. Such feature is not available among data sets of state-owned enterprises or large firms, used extensively in existing literature, because Party branch and unionization almost always coexist in those cases.⁵ Historically, the private sector is not considered part of the socialist economy, and hence minimum Party involvement existed in private firms. But in 2002 the amendment to the Party Constitution during the sixteenth National Congress of the Communist Party openly allowed private entrepreneurs to become Party members. Coupled with the proposal to build “Socialist Harmonious Society” in 2004, the CPC now takes more responsibility in many aspects of the Chinese economy, including labor relations. Private firms are arguably the new and critical ground for this movement. According to the *Private Economy Yearbook (ACFIC and CSPER, 2011)*, by June 2010, there are more than 7.4 million private firms (including branches) that hired approximately 70 million workers with more than 14 trillion Yuan (more than 2 trillion USD) of total registered capital.⁶ The private sector in China has grown into considerably.

An important finding of our study is the “Party–union complementarity” effect, which refers to the phenomenon that firms with both a Party branch and a labor union have the highest social insurance coverage. In our empirical analysis of thousands of private firms, we find that the positive correlation between Party branch and social insurance coverage fades once Party–union complementarity is controlled for, and the positive correlation between unionization and social insurance coverage also declines significantly. Our findings imply two important lessons for the study of social insurance in China. First, unionization and Party interact with social insurance differently, both qualitatively and quantitatively. Second, to correctly identify the correlation between social insurance and either Party or unionization, it is necessary to partial out the Party–union complementarity effect.

² Budd (2004) provides a complete review on employee benefits with particular attention on non-monetary benefits and the impact of unionization. Internationally, Long and Fang (2012) find that profit sharing, a form of monetary benefit, increases employee earning in Canadian firms. Luus and Abraham (2013), based on the Medical Expenditure Panel Survey, find that for workers who are offered health insurance, a form of non-monetary benefit, as the only benefit, there is a trade-off between wage and the benefit. However workers with multiple benefits enjoy relative higher wages.

³ According to the Constitution of the Communist Party of China, “[in] a non-public economic institution, the primary Party organization carries out the Party's principles and policies, provides guidance to and oversees the enterprise in observing the laws and regulations of the state, **exercises leadership over the trade union**, the Communist Youth League organization and other mass organizations, rallies the workers and office staff around it, safeguards the legitimate rights and interests of all quarters and stimulates the healthy development of the enterprise (Chapter V, Article 32, Paragraph 3).” Bold emphases are added by the authors. This excerpt is taken directly from the translation of the Constitution of the Communist Party of China on the website of *ChinaDaily*. [http://www.chinadaily.com.cn/language_tips/2007-10/31/content_6219108_6.htm. Last visited: October 6, 2015] For more details about the relationship between Party and union, see Yao and Zhong (2013) and Ge (2014).

⁴ Indeed, it is a conventional exercise to appoint a member of the Central Politburo of the CPC, currently Mr. Jianguo Li, as the head of ACFTU.

⁵ According to statistics of ACFTU, 99.98% and 100% of state-owned enterprises have, respectively, a Party branch and a labor union.

⁶ As a comparison, China's GDP was about 6 trillion USD in 2010.

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