



# Yuan and Roubles: Comparing wage determination in urban China and Russia at the beginning of the new millennium<sup>☆</sup>



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## ABSTRACT

Earnings inequality and earnings determination in urban China 2002 and Russia 2003 are compared by using samples covering large parts of the two countries. The results from estimated earnings functions are put in perspective of the outcome from a similar comparison made at the end of the 1980s. We confirm that earnings inequality has increased rapidly in both countries and is found to be similar across countries. As at the end of the 1980s, the gender wage gap is larger in Russia where earnings reach a maximum at a lower age than in China. The association between education and income in China has increased to become stronger than in Russia. The earnings penalty of being employed in the public service sector in Russia has increased while the publically employed in China enjoy a positive payoff of limited magnitude.

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## 1. Introduction

For many years, the systems of employment and remuneration in the urban regions of China and Russia were broadly the same. Workers were allocated to jobs and wages were set using centrally determined wage scales. It has been shown that at the end of the 1980s, wage inequality was similar in the two countries. However, despite the common origins in systems of wage determination, the relationship between personal characteristics and earnings was considerably different. Earnings increased with age up to the general retirement age in China, but not in Russia. By contrast, the relationship between education and wages was much stronger in Russia, and the gender wage gap was substantially larger (see Gustafsson, Li, Nivorozhkina, & Katz, 2001).

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Market principles have increasingly played a much larger role for allocation and remuneration of workers in China and in Russia. The countries also share the fact that the state is no longer the principal employer. The transformation took place during years when the Chinese economy grew rather rapidly, as did real wages. By contrast, Russia experienced negative economic growth, falling real wages and large problems funding the public sector throughout the 1990s. How are wage inequality and wage determination in urban China and urban Russia compared at the beginning of the new millennium? What changes can be found since the end of the 1980s? In which aspects have cross-country differences existing at the end of the 1980s prevailed? These are the research questions for this paper. We compare wage inequality and wage determination in the two countries at a point in time when the wage-setting mechanism had changed in both countries. However, the supply and demand of workers of varying qualifications developed differently in the two countries.

China and Russia are the two largest countries that have experienced a transition from a planned economy to a market economy and there are studies on wage inequality and wage determination in each of the countries. Cross-country comparisons have the potential to generate new questions and insights. They can ask diverse questions and cover many countries or concentrate on just two countries. The latter alternative allows for asking deeper questions. Our research questions, to our knowledge, have attracted very little attention in the literature. The only similar study we are aware of is Carnoy, Loyalka, Androushchak, and Proudnikova (2012) who report rapidly increased strength in the association between education and earnings in China and a more moderate increase in Russia since market reforms were introduced in the two countries.<sup>4</sup> However, that particular study did not evaluate changes in wage inequality, gender wage gaps and earnings gaps between public service sector and other employed individuals as we do. Our analysis uses data from the China Household Income Project (CHIP) for 2002 and for Russia, a large sample covering the entire country (NOBUS) for 2003. We estimate earnings functions for mean earnings but also at different positions of the earnings distribution.

Our findings show not only large changes but also continuity. We confirm that wage inequality increased over time in both countries and was of the same magnitude in both countries. A major change which is consistent with what is reported in the literature is that the association between education and earnings increased rapidly in China and became even larger than the association in Russia. Furthermore, we report that the penalty of being employed in the public service sector in Russia in 2003 was larger than according to data collected during the Soviet period. In contrast, in urban China in 2002 there was a small positive earnings premium of being employed in the public sector. In other aspects, earnings determination on the whole remained unchanged in both countries from the end of the 1980s to the beginning of the new millennium. Earnings reached a maximum at an earlier age in urban Russia than in urban China. The gender wage gap continued to be larger in Russia particularly at the top of the earnings distribution.

The rest of the paper is laid out as follows: In the next section we provide the context for the comparison. The data we use are described in Section 3 and our samples in Section 4. In Section 5 we describe earnings in the two samples. Section 6 contains the results from the earnings function analysis. Finally, Section 7 summarizes the study.

## 2. Context

During the planning époque, labor was administratively allocated in China and Russia, and wages were set using wage scales. After having finished education the typical worker was assigned his or her first job, which often turned out to be the last as labor turnover was very low. Almost all workers were employed in state or collective enterprises, alternatively in public institutions. Public policy measures contributed to make and keep the number of private firms and the number of self-employed rather low. Most people in work active ages, men and women alike, worked for pay. Unemployment was not an officially recognized problem. For quite some time now, this description has been relegated to history.

China experienced rapid economic growth; coupled to this, a rapid increase in workers' real wages occurred after the first reform steps were taken at the beginning of the 1980s. State involvement in the Chinese economy decreased gradually for many years. Unlike Russia, rapid economic growth generated growing resources to remunerate workers in public service institutions. One early reform step was taken in 1984 when college graduates were given the opportunity to find jobs by themselves; this became the only alternative in 1993. During the second half of the 1990s, changes toward market allocation became radical. The system of lifelong employment was terminated. Parallel to this, State Owned Enterprises (SOEs) were put under pressure to be profitable. In consequence, many workers became redundant; some became unemployed or laid-off while others left the labor force entirely.

From 1995 to 2002, the number of workers employed in SOEs and collective firms decreased from 141 million to 80 million in China, a reduction of 61 million persons (NBS, various years). During this period, job losses in SOEs were only partly counteracted by a growing employment in the private sector and in self-employment. Employment problems were more severe for unskilled workers than for skilled workers, female workers were more affected than male workers, and some locations were harder hit than others (Gustafsson & Ding, 2013).

Vast industrial expansion coupled with increased investments generating demand for relatively skilled workers are generally believed to have played a major role in China's rapid economic expansion. There have also been changes in labor supply. Since reform began, urban China has seen rapid inflows of unskilled migrants to the cities. The typical migrant is a young unskilled worker who does not have an urban *hukou* (residence permit). Some migrate temporarily while others tend to stay for life. Typically the rural migrant finds a job and works long hours. The rapid growth in the number of rural migrants looking for and finding a job in urban China, according to many observers, has put forceful downward pressure on wages for unskilled urban residents. Increased demand for skilled workers, increased supply of low-qualified workers together with new wage setting mechanisms are most likely the

<sup>4</sup> Carnoy et al. (2012) worked with other data than ours and also studied Brazil and India.

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