



Study on Public Choice Model of Minimum Wage Guarantee System in Our Country

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Abstract

The public choice mode of minimum wage guarantee system directly affects the operational efficiency of the system. This paper first builds up the theoretical framework of the analysis of the public choice mode in minimum wage guarantee system from three aspects: the major players of the public choice in minimum wage system and their preferences, the “political market” of the public choice in minimum wage system and the normative principles of the public choice in minimum wage system. Referring to the normative principles in the public choice process in minimum wage system, this paper analyzes the inefficiency of the public choice in the minimum wage system in China during the period with economy in transition from three areas: the primary political market, policy supply market and policy implementation market. On this basis, this paper based on China’s political system, starting from the current situation of economic transition, proposes hearing-based public choice transition mode in minimum wage system.

Key words: Public choice; Minimum wage guarantee system; Political market; Efficiency

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INTRODUCTION

As a public good, the minimum wage guarantee system is the

product of public will and rational choice. Its supply process is a process of public choice. At present, the minimum wage guarantee system in China is in a low efficiency in many areas. This paper will study the public choice model of this system and proposes policy recommendations to improve the current situation of low efficiency.

1. THE THEORETICAL FRAMEWORK OF THE ANALYSIS OF PUBLIC CHOICE MODE IN THE MINIMUM WAGE GUARANTEE SYSTEM

The public choice mode in the minimum wage guarantee system means the sum of the regularity features in multiple relationships existing between pluralism public choice major players for the proposing, reviewing, developing, implementation, monitoring and evaluation of the minimum wage guarantee system (including the goal of the system, the coverage, the amount of the minimum wage, the adjustment of the minimum wage, penalties for violations of the system and other contents) in the process of pluralistic public choice major players expressing their preference (will) according to legal approaches.

1.1 The Public Choice Major Players in Minimum Wage Guarantee System and Their Preferences

The major players of the public choice in the minimum wage guarantee system include: (1) workers (mainly referring to low-skilled workers), (2) enterprises (otherwise known as manufacturers, hereinafter referred to as “enterprises”), (3) interest groups (including workers’ organizations such as trade unions, entrepreneurial groups, etc.), referring to “those entities which have some common goals and attempt to enforce individual and organized influence on public policy”, and (4) intermediary organizations (mainly referring to consulting professional bodies and experts and scholars in related fields).

Workers, especially low-skilled workers are directly effectors of the minimum wage guarantee system.

Different types of low-skilled workers have different preferences on the minimum wage guarantee system. According to whether they have been included in the coverage of the minimum wage and whether the minimum wage increase will have a negative impact on their employment, low-skilled workers can be divided

into different types. Different types of low-skilled workers have different preferences on whether they want to raise the minimum wage standard and whether they want to exit/enter the minimum wage coverage. Table 1 summarizes the preferences of different types of low-skilled workers on the minimum wage guarantee system.

Table 1
Analysis of the Preference of Low-skilled Workers on the Minimum Wage Guarantee System

	Whether the minimum wage increase will have a negative impact on their employment	Preferences of low-skilled workers	
		Whether they want to raise the minimum wage standard	Whether they want to exit/enter the minimum wage coverage
Covered	N	Y	N
	Y	⊙	⊙
Uncovered	N	⊙	Y
	Y	N	⊙

Note. Y stands for “Yes”; N stands for “No”; ⊙ stands for “not sure”.

Enterprises are also directly affected by the minimum wage guarantee system. Some entrepreneurs, especially entrepreneurs in labor-intensive business, are concerned that the minimum wage guarantee system will increase the cost of labor and reduce corporate profit margins, so they do not want to raise the minimum wage or their enterprises to be included in the minimum wage coverage.

In public choice in the minimum wage system, the individual workers often are composed of labor groups to get involved in the process of public choice. The trade union is a common form. This type of workers group may become an important interest group in the choice of the minimum wage guarantee system. However, whether the workers group can truly reflect the preferences of workers has become an important factor affecting the efficiency of public choice in the minimum wage guarantee system. Entrepreneurs also often take the form of forming groups as interest groups to get involved in the public choice of the minimum wage guarantee system.

Considering the minimum wage guarantee system involves factors in professional technical aspects and in the implementation, some professional organizations (mainly referring to consulting professional bodies, experts and scholars in related fields) are often involved in the development process of the minimum wage guarantee system. The opinions of these consulting professional bodies, experts and scholars to a certain extent affect the final decision of governmental departments; therefore, intermediary organizations also become an important player in public choice in the minimum wage guarantee system.

1.2 The “Political Market” of Public Choice in the Minimum Wage Guarantee System

Alan Peacock divides the studies of public choice theory in terms of the political process into three major political markets: primary political market, the policy supply market and policy implementation market. In public choice in the minimum wage guarantee system, the

primary political market mainly refers to the expression of their preference on the minimum wage guarantee system of major players of public choice, that is to say, pluralistic public choice major players reflect their preference on the minimum wage guarantee system in some way to the labor and social security administrative departments and participate in consultations or negotiations. Policy supply market mainly consists of three procedures: the first one is policy development process. The main content of this procedure is that the labor and social security administrative departments develop a minimum wage guarantee system. The second one is the review process. The main content of this procedure is the representative or legislative departments review the minimum wage guarantee system. The third one is the implementation procedure.

Labor and social security administrative departments implement the minimum wage guarantee system passed by the representative or legislative departments. Policy implementation market consists of two procedures: one is the supervisory procedure, namely the supervision of public choice major players to the labor and social security administrative department (mainly to put forward various opinions); the one is the evaluation (feedback) procedure. The major content of this program is the comprehensive evaluation from public choice major players, representative or legislative departments on the work of labor and social security administrative departments.

1.3 The Normative Principles in the Public Choice Process in the Minimum Wage Guarantee System

The efficiency of political market is the key issue of public choice. To achieve the goal of maximizing efficiency, the public choice process in the minimum wage guarantee system needs to achieve the following main normative principles:

1) In the primary political market, the major players of public choice in low-skilled workers, enterprises and intermediary organizations in the minimum wage guarantee system should have the paths to effectively display express) their preferences for the minimum wage guarantee system.

2) In the policy making process, we should guarantee that administrative laws and regulations which are highly relevant to the development of the minimum wage guarantee system are basically sound. The behavior of the governmental departments to develop the minimum wage guarantee system should be under strict regulation and supervision. The influence of the major players of public choice such as workers, enterprises and intermediary organizations on the minimum wage guarantee system is within the scope of government regulation.

3) In the review process, the composition of personnel of the representative or legislative body should be broadly representative. Their review or decision-making process on the minimum wage guarantee system should be legal. Workers, businesses and other public choice major players should be able to directly display their preferences on the minimum wage guarantee system to the representative or legislation agencies.

4) In the implementation process, the internal management mechanism of labor and social security departments should be highly efficient. The regulation for the implementation of the minimum wage guarantee system should be complete. The implementation of the minimum wage guarantee system should be transparent and open.

5) In the supervision process, the public choice major players should be able to supervise labor and social security departments and put forward their views.

6) In the evaluation (feedback) process, we should form regulated administrative reward/punishment system for the implementation of the minimum wage guarantee system to ensure that the evaluation of public choice major players has the incentive effect to labor and social security departments.

2. ANALYSIS OF THE INEFFICIENCY OF PUBLIC CHOICE IN THE MINIMUM WAGE GUARANTEE SYSTEM IN CHINA

Referring to the normative principles of public choice process in the minimum wage guarantee system, this paper will analyze the phenomenon of inefficiency of public choice and its causes in the minimum wage guarantee system in China.

2.1 Institutional Constraints in the Preference Display of Major Players of Public Choice in Primary Political Market

On January 20, 2004, the Ministry of Labor and Social

Security promulgated the *Regulations on Minimum Wages* in which Article VIII provides that “after receiving the proposed programs, the Ministry of Labor and Social Security should consult the opinions of ACFTU, China Enterprise Confederation / Entrepreneur Association.” As can be seen from the above provisions, in the current primary political market of public choice in the minimum wage guarantee system in China, workers mainly express their preferences on the minimum wage guarantee system through trade unions and Workers’ Congress. However, due to the institutional constraints existing in the source of funds and personnel appointments of our union, there has been a trend of vassal. Workers’ Congress, due to the conflict between its function positioning and modern enterprise management, is gradually becoming useless, so that the trade union and Workers’ Congress fail to fully play the role as microstructure system to display the preferences of workers, especially low-skilled workers.

2.2 Government Failure in Policy-making Process

Government failure in policy-making procedures is first shown in the offside of the government. The implementation of the minimum wage guarantee system should serve the interests of the major players of public choice and must consider the preferences of the major players of public choice. However, in the output process of the minimum wage guarantee system, our government takes a large number of decision-makings on the minimum wage guarantee system which should be made by workers. Second, under China’s current system, the government and enterprises are often easy to reach consensus in terms of minimum wage guarantee. Representatives from enterprises are often CPPCC members or NPC deputies. These people have a direct contact with the government and their wishes can be sent directly through various channels to reach the government, and during this period government rent seeking is not impossible. Meanwhile, the local government’s goal is economic development and one of the most critical indicators in the assessment of their achievements is the condition of local investment. In order to improve their performance, the government often tilts to the interests of employers in terms of policy, which makes the opinions of enterprises are very influential on the government’s decisions. Third, underdeveloped intermediary organizations intensify government failure.

Currently, intermediary organizations which provide consultation services for the minimum wage guarantee system are mainly research institutes under the jurisdiction of the Ministry of Labor and Social Security. This has led to the situation that these institutions are not as independent legal entities to participate in the decision-making process about the minimum wage guarantee system. There is not an incentive and restraint mechanism for their behavior. These institutes are not able to assume legal responsibility for the failure of the design of the minimum wage guarantee system.

2.3 Absence of Major Players of Public Choice in the Review Process

According to the content of Article VIII of *Regulations on Minimum Wages*, the exercise of the review right on the minimum wage guarantee system is the Ministry of Labor and Social Security and the People's Government in provinces, autonomous regions and municipalities. However, there is no clear legal provision on whether the Ministry of Labor and Social Security and the People's Government consult the opinions of the major players of public choice in the course of review. This leads to the situation that the major players of public choice do not participate in the review process. This absence of public choice major players makes it unguaranteed for the finally enacted minimum wage guarantee system to effectively express the preferences of major players of public choice.

2.4 Ineffective Implementation of the Minimum Wage Guarantee System in the Implementation Process

Currently the overall implementation of the minimum wage guarantee system in China is not optimistic. The implementation of the minimum wage guarantee system in some areas is greatly reduced. Through the analysis of its causes, it can be found that, the presence of the employer's influence on the government caused a convergence of interests and rent-seeking behavior of government. Labor and social security administrative departments often "turn a blind eye" on the violations of the minimum wage law of many employers. Even at the time they receive reports of illegal employers from workers, they would be "lenient", which largely enhances the illegal motives of employers. Meanwhile, in the situation of China's current oversupply of labor, especially oversupply of low-skilled labor, many low-skilled workers are very worried about being fired by reporting their companies' violations, which led to the situation that low-skilled individuals have to accept payment below the minimum wage standard from the company in order to keep their jobs.

2.5 The Monitoring and Evaluation Effect in Policy Implementation Market is not Ideal

Article IV of *Regulations on Minimum Wages* provides that "according to the law, trade union organizations at all levels supervise the implementation of this provision." Here the union oversight is only for the implementation in enterprises, rather than whether the government's labor and social security departments are legally performing their supervision and inspection duties. This raises the question that who supervises government's law enforcement. People's Congress, as China's power authority, constitutes a relationship of supervising and being supervised with national authorities. To supervise the implementation of the law is an important part of supervision of the People's Congress in. But in reality, few deputies are from ordinary workers, while the underlying low-skilled workers are unlikely to become

deputies. This determines that if the deputies do not take effective ways to listen to public opinions and approach the workers at the bottom, then they cannot understand the implementation of the minimum wage guarantee system in enterprises, nor can they understand that law enforcement situation of government authorities. Since there is no effective system to constrain how deputies to hear from public opinions, deputies' supervision on labor and social security departments of law enforcement is more like a form, and the evaluation on the basis of supervision is even more like a form. The results of the supervision and evaluation are not ideal.

3. THE POSITIONING OF PUBLIC CHOICE MODE IN THE MINIMUM WAGE GUARANTEE SYSTEM IN CHINA

Minimum wage is closely related to the interests of workers, businesses and social organizations. It covers a wide range, is the core policy that government intervenes in the market, and adjusts income distribution. The determination of minimum wage should be the result to balance the interests of workers (especially low-skilled workers), enterprises and government rather than just decided by the government. According to the normative principle of public choice in the minimum wage guarantee system, the author based on the political system in China proposes hearing-based public choice mode of the minimum wage guarantee system.

3.1 Primary Political Market

In the primary political market, we can base on public legislative hearing system to construct an effective path to display the preferences of public choice major players.

1) To take the legislative hearings as the statutory process to enact, amend the minimum wage guarantee system and to entitle the minimum wage guarantee system legislative hearing legal status. The minimum wage guarantee system is closely related to the interest of low-skilled workers and labor-intensive enterprises and is also involved in a number of technical issues, such as the impact of minimum wages on employment and the calculation of its standard, etc. The framers of the system need to listen to the opinions of the major players of public choice through some channels. The hearing system will be fixed in the form of law, which will build an effective path for the major players of public choice to effectively display (express) their preferences on the minimum wage guarantee system.

2) To guarantee that the minimum wage guarantee system hearing stating person selected can represent the preferences of the major public players. Low-skilled workers often have lower educational level and their sense of democrat participation is not strong, which requires the hearing organizers do a good mobilization of this part

of the group in the preparation stage of the hearing. If necessary, organizers can hire a lawyer or professional in labor and social security as their agent, on behalf of this part of the low-skilled workers to express their preference for the minimum wage. Enterprise employers and representatives subject to the effects of minimum wage are also important stating persons of the hearing. Also, because the minimum wage comes to employment, labor rights protection and other economic and social problems, intermediaries, experts, and scholars in the field of labor and social security should also serve as hearing stating people to express their opinions.

3) Through a variety of ways to promote the hearing on the minimum wage in depth to make the hearing process transparent and open. In the pre-hearing stage, use newspapers, radio, television, Internet and other media to disseminate information on the hearing, and enter a number of labor-intensive enterprises to carry out in-depth advocacy and mobilization work, making the public choice major players especially low-skilled workers have a more in-depth understanding of the hearing and participate therein.

3.2 Policy Supply Market

In the policy supply market, making the minimum wage guarantee system reflect the preferences of the major players of public choice is the key, and at the same time the efficiency of the implementation of the government is the guarantee for the operation of the system.

1) In the policy-making process, labor and social security departments should strengthen the feedback of the opinions of the hearing stating people and make sure the role of hearing opinions in legislation. The decision-making of labor and social security departments for minimum wage guarantee system should take full account of the interests and views of all sides. They should make a statement on the adoption of opinions and provide feedbacks for opinions that are not adopted.

2) In the review process, the people's congresses at all levels should be the major players in the review of the minimum wage guarantee system to review the minimum wage guarantee system developed by the labor and social security department based on the hearing. The probability for low-skilled workers to become deputies of in people's congresses is very small, which requires the deputies should be aware of the preferences of major players of public choice through various channels, especially listen to the voices of low-skilled workers, with a focus on reviewing the display situation of the preferences of major players of public choice in the minimum wage guarantee system established by the legislative departments.

3) In the implementation process, we should promote the implementation of the minimum wage guarantee system on the basis of improving the efficiency of labor and social security departments. Labor and social security departments should strengthen publicity of the minimum

wage guarantee system to reduce implementation costs. Meanwhile we should establish a sound routine surveillance mechanism for the minimum wage guarantee system, and improve the efficiency of supervision through improving the quality of supervision teams.

3.3 Policy Implementation Market

In policy implementation market, we should guarantee the evaluation of major players of public choice for the minimum wage guarantee system implemented by the labor and social security departments. It can be obtained through the incentive effect of people's congresses at all levels to the labor and social security departments. The key issue is to make people's congresses at all levels gain insight into the law enforcement of labor and social security departments.

1) According to the situation that currently the timeliness of law enforcement of people's congresses at all levels is not strong and most of them are just in the form, we can use the way of supervision and hearing to listen to the views of the major players of public choice for the law enforcement of labor and social security departments. The supervision and hearing of the minimum wage guarantee system is mainly to hear the opinions of the public on the government labor and social security departments to monitor the implementation situation for the minimum wage guarantee system. It should be the necessary procedure before the people's congresses at all levels evaluate labor and social security departments and it should be written in the minimum wage guarantee system.

2) We should strengthen the supervision of the media, making the media become an important force in the supervision. The supervision of labor and social security departments on the minimum wage guarantee system is directly related to the interests of the underlying low-skilled workers. This part of the workers, as the relatively vulnerable group in the labor market, their voice is often weak. Because of their openness and universality, the media can reach deep into the bottom of society, and therefore reflect the supervision of the labor and social security departments on the minimum wage guarantee system and whether the admissibility of labor disputes in the minimum wage guarantee system really guarantee the equity of low-skilled workers.

3) We should introduce the approach of corporate performance management. The people's congresses at all levels, based on the evaluation of major players of public choice, conduct performance appraisal on the minimum wage guarantee system implemented by the labor and social security departments. Government departments are also organizations and one of their major objectives is to make citizens satisfied with their work. From this perspective, the extensively used corporate performance management also has some reference to labor and social security sectors. The objects of the performance evaluation

of the main government departments include people's congresses at all levels. The people's congresses at all levels comprehensively understand the implementation of the minimum wage guarantee system of labor and social security departments to monitor enterprises and handle enterprises' violation of minimum wage guarantee system through supervision and hearing, visits the survey and etc. so as to conduct a performance evaluation on the implementation of the minimum wage guarantee system of the labor and social security sectors.

CONCLUSION

a) In the primary political market, we can base on public legislative hearing system to construct an effective path to display the preferences of public choice major players.

b) In the policy supply market, making the minimum wage guarantee system reflect the preferences of the major players of public choice is the key, and at the same time the efficiency of the implementation of the government is the guarantee for the operation of the system.

c) In policy implementation market, we should

guarantee the evaluation of major players of public choice for the minimum wage guarantee system implemented by the labor and social security departments. It can be obtained through the incentive effect of people's congresses at all levels to the labor and social security departments. The key issue is to make people's congresses at all levels gain insight into the law enforcement of labor and social security departments.

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