

**Lewis Turning Point &
Reorientation of Public Policy
towards Migrants**

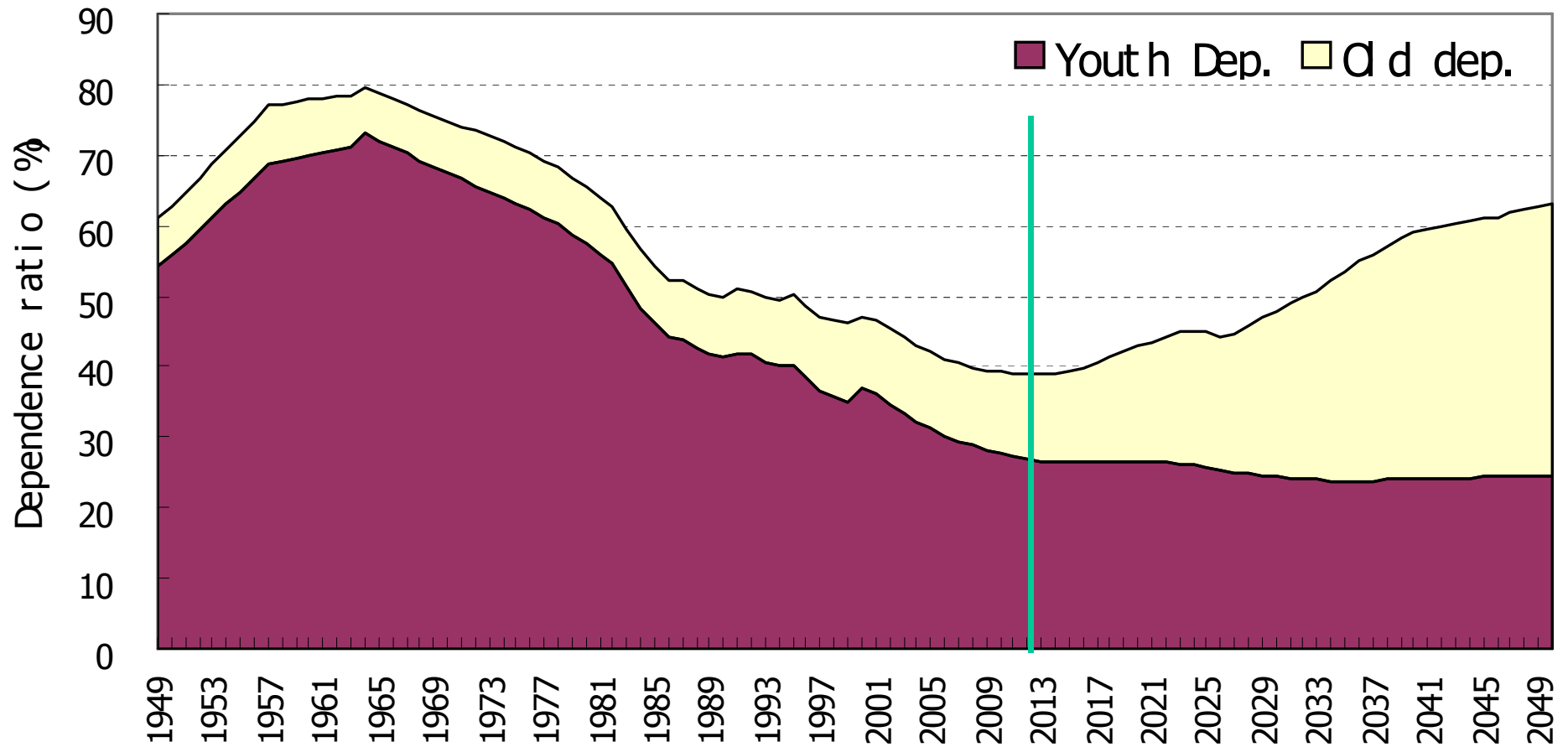
CAI Fang

Institute of Population and Labor Economics

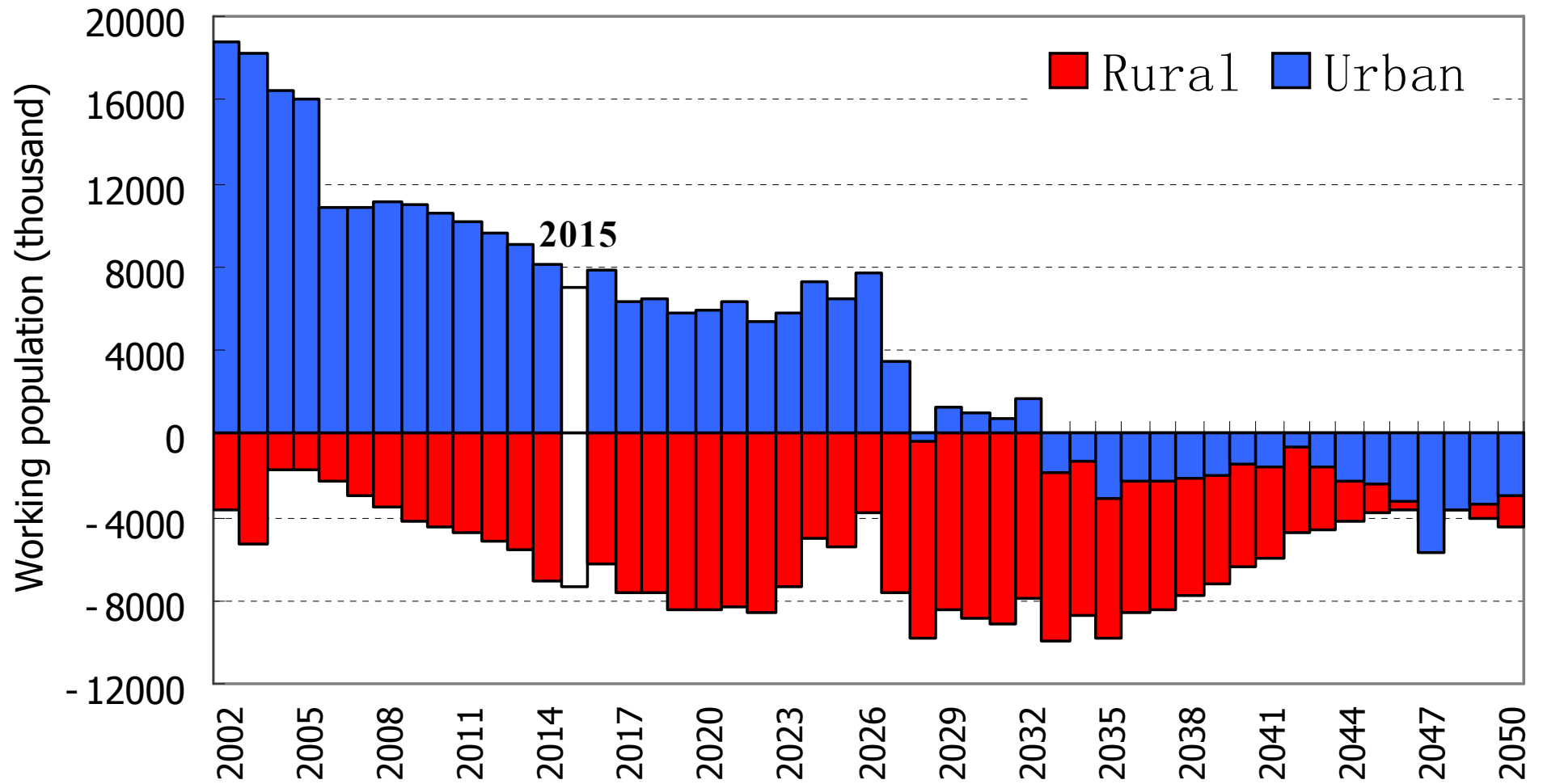
Chinese Academy of Social Sciences

1. Lewis Turning Point: Evidence and Consequences

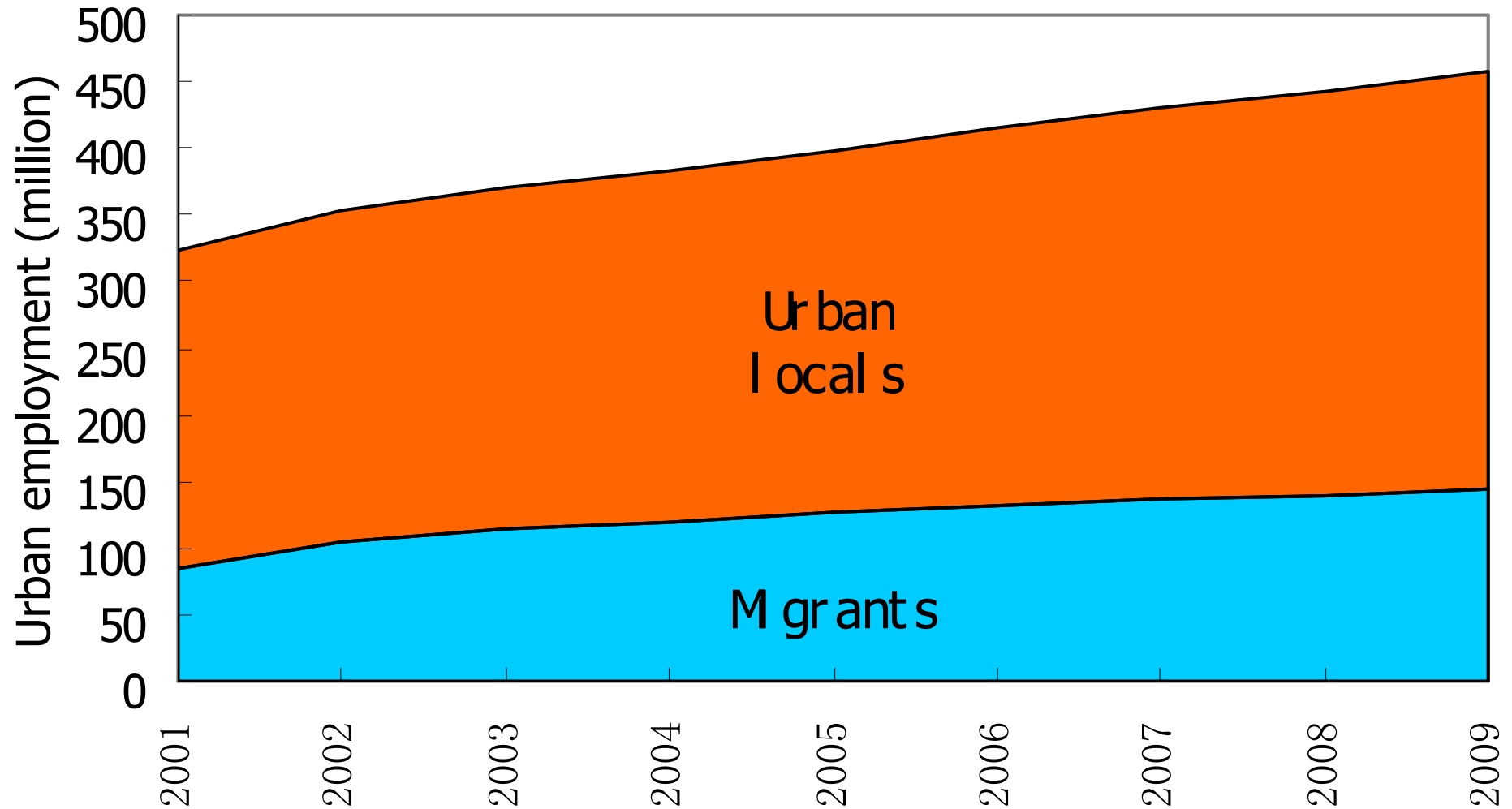
Demographic Dividend Is Diminishing



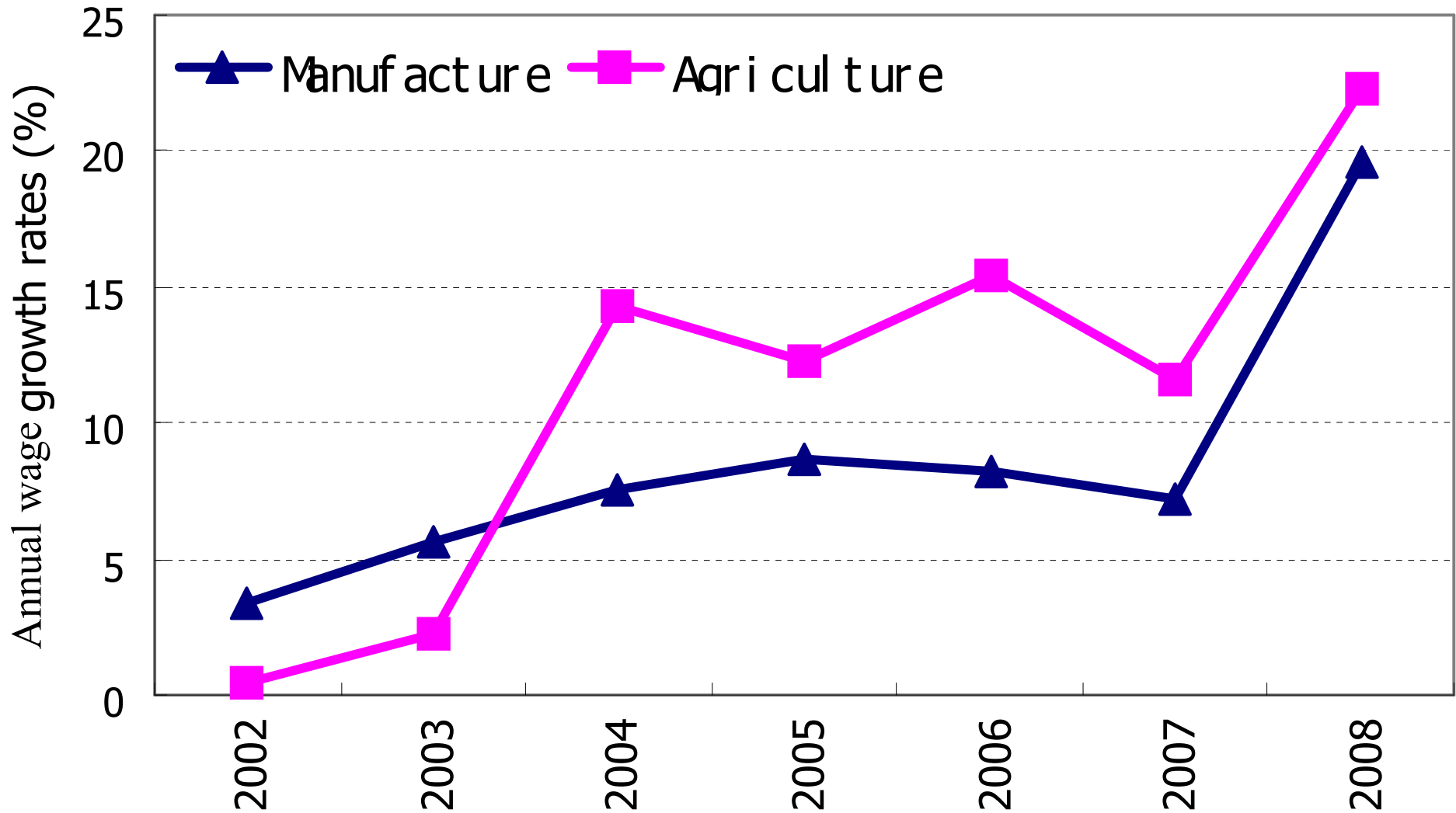
Demographic Cause of Labor Shortage



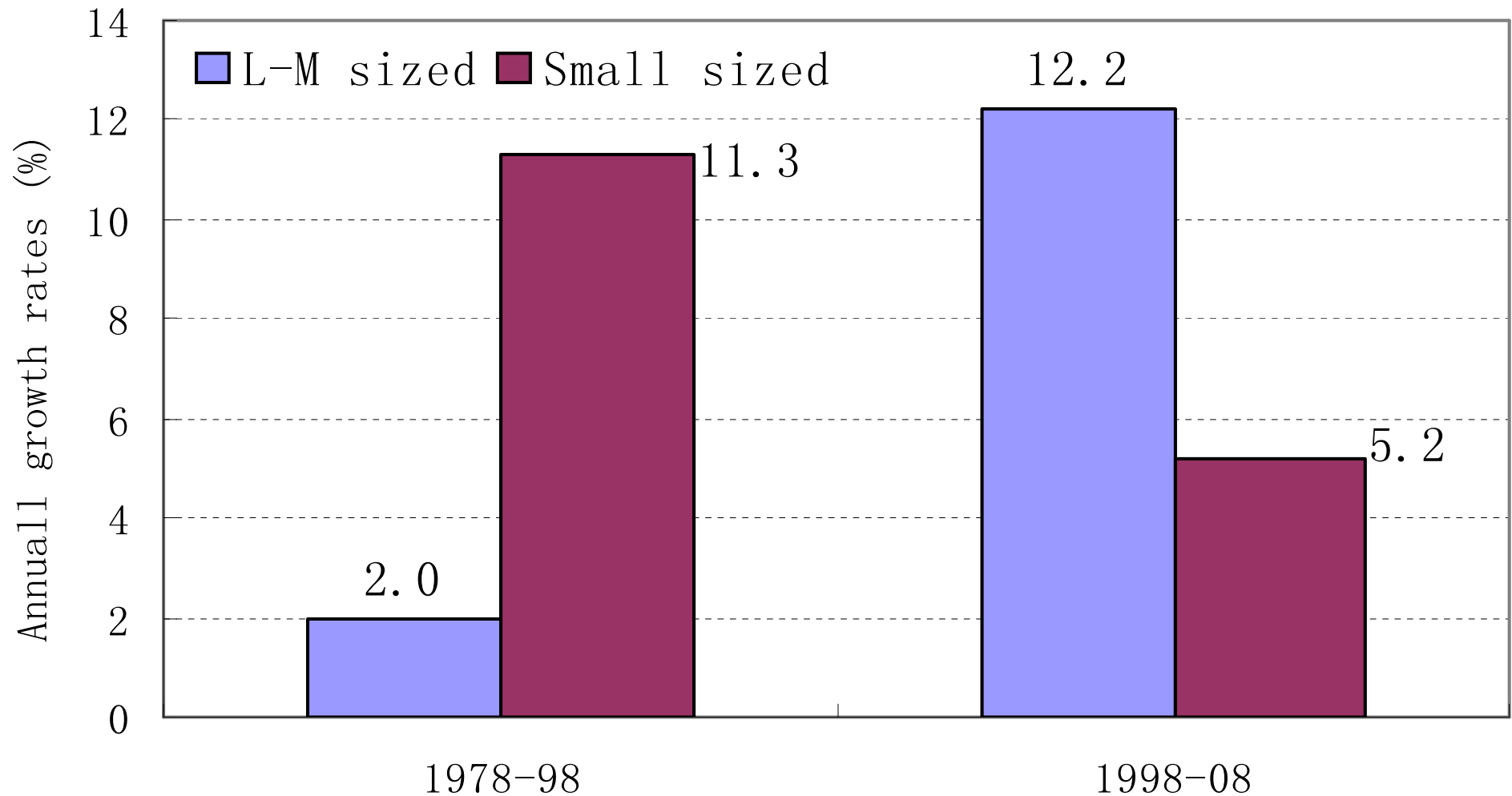
Expansion of Urban Employment and Its Sources



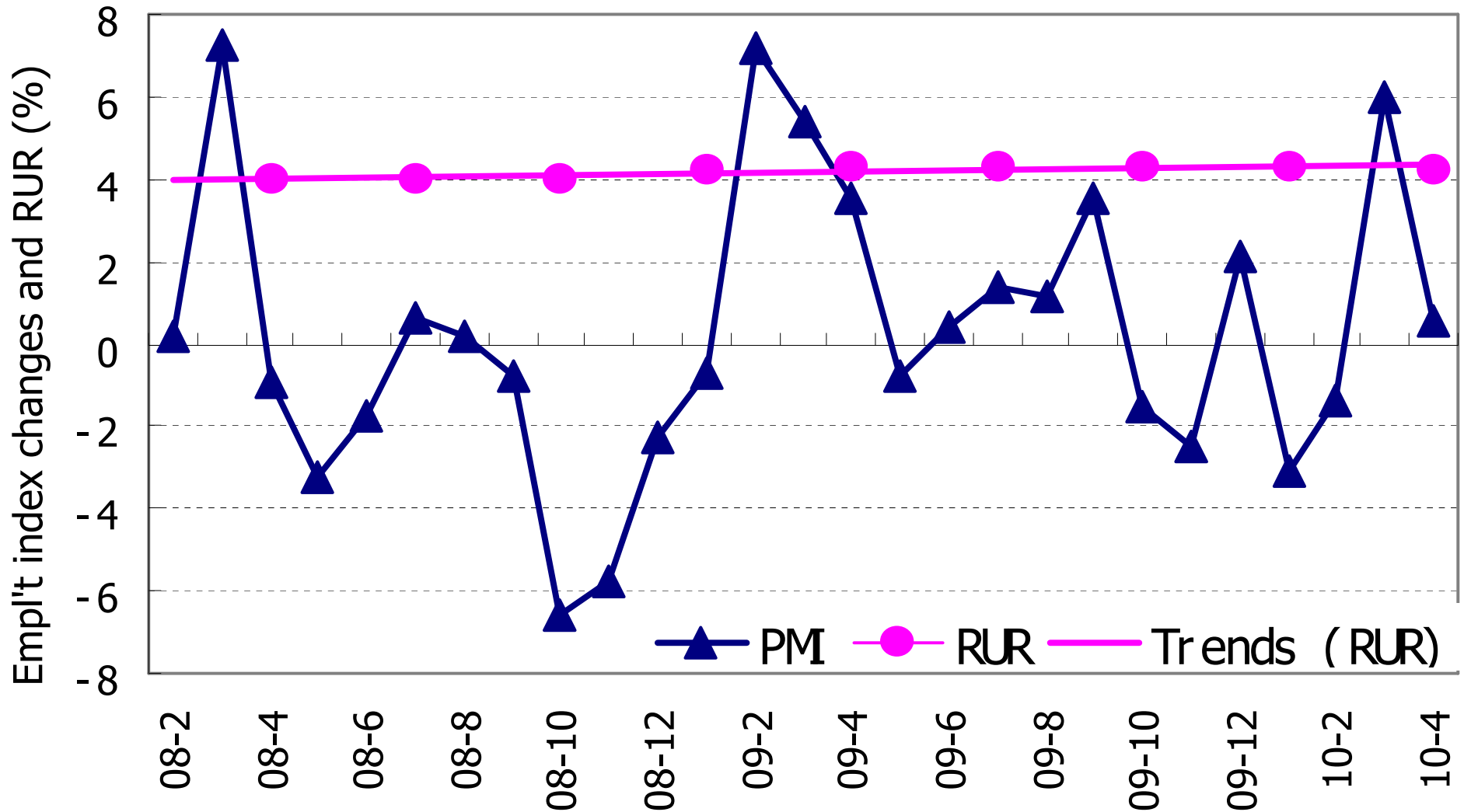
Wages Increase in Manufacturing Migrants and Grain Workers



Labor-Saving Technological Changes in Agriculture



Migrants Are Subject to Cyclical Unemployment

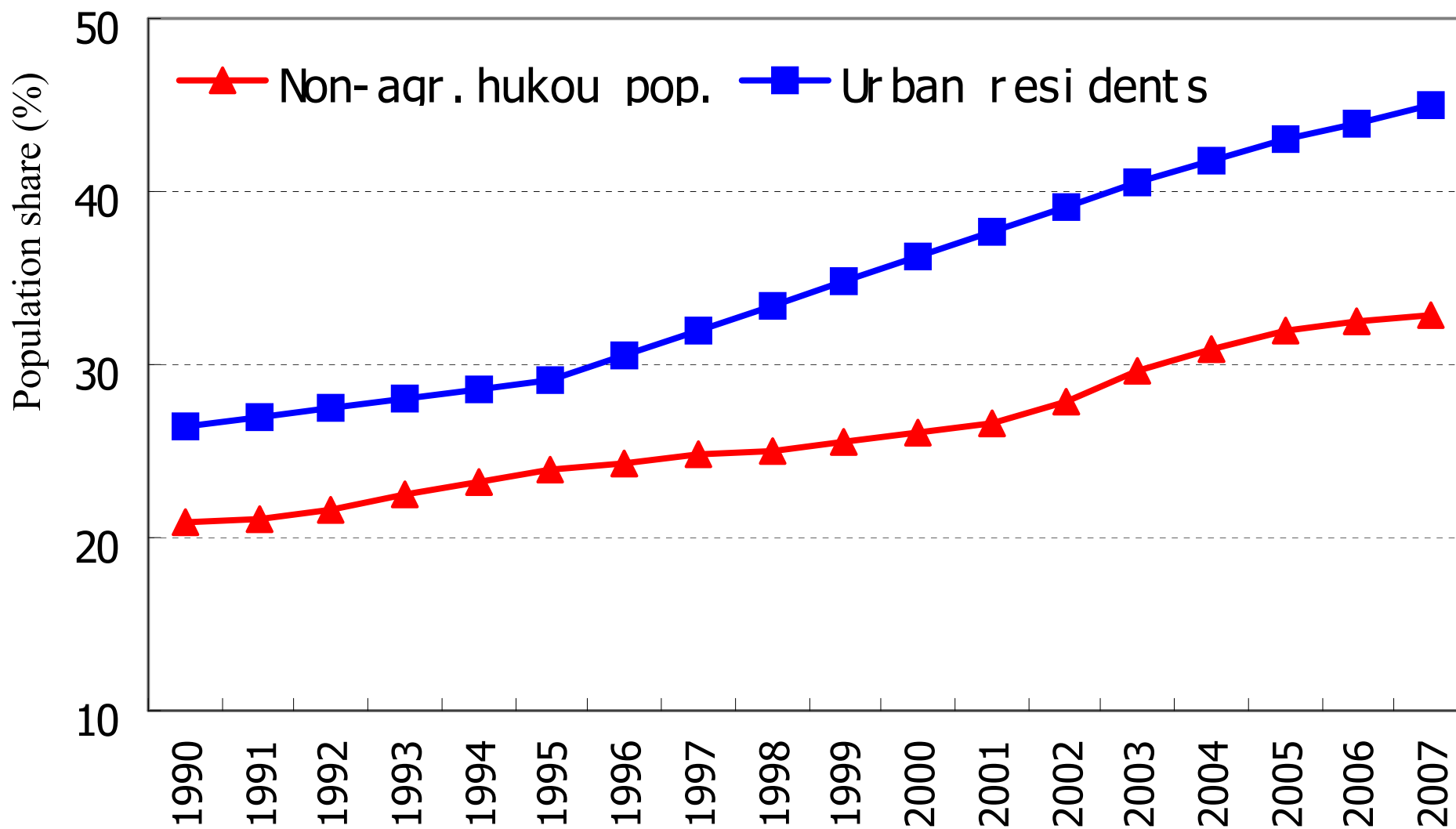


Important Consequences Are...

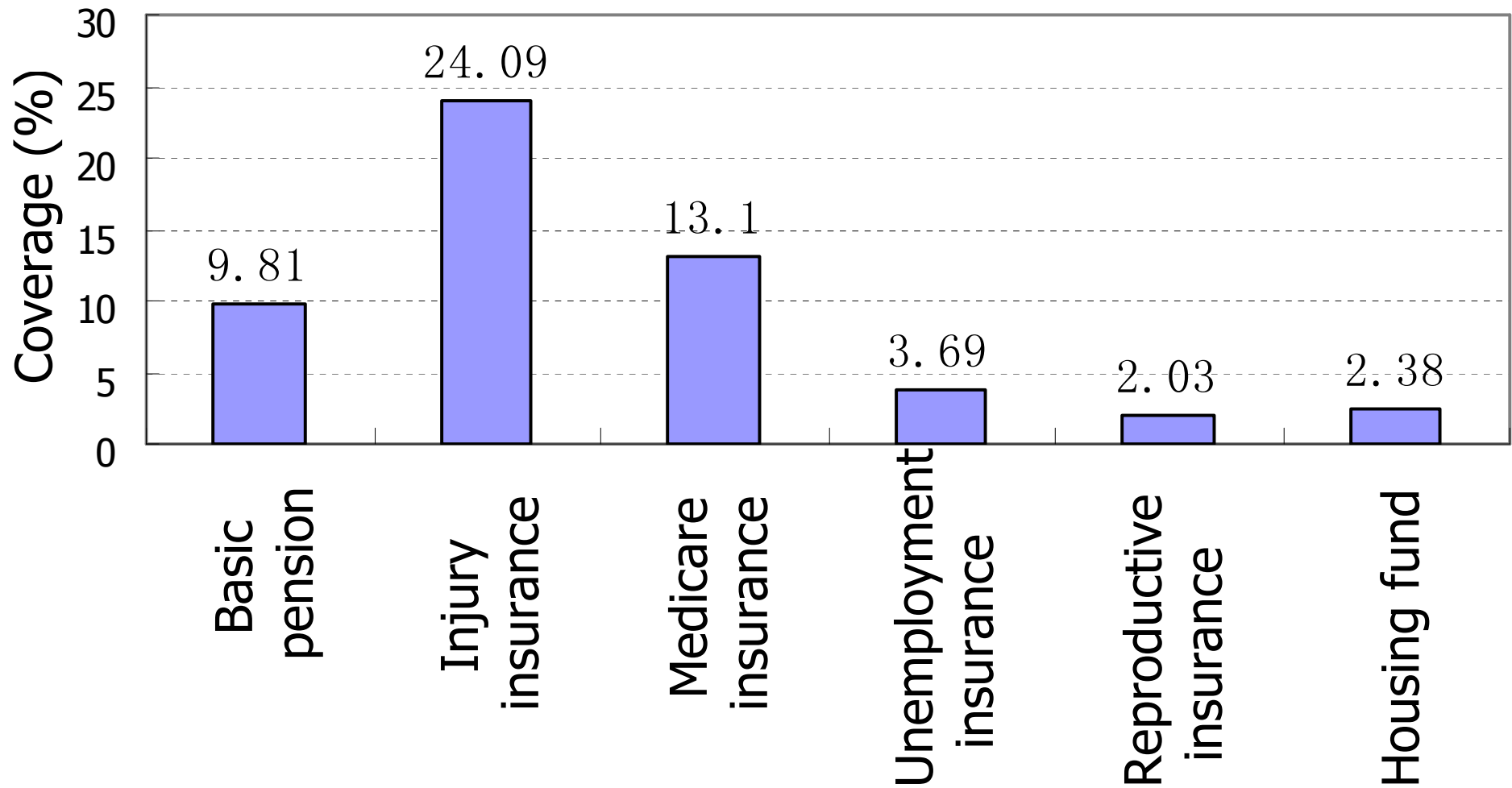
1. Agriculture no longer serves as a pool of surplus labor force
2. Migrant workers become main labor supply of urban sectors
3. Migration is no longer a come&go type - ending of Todaro paradox
4. Migrants need to be protected by urban safety nets and LM institutions

2. Migrants' Exclusion from Social Protection and Labor Market Institutions

The Difference Indicates Migrants' Exclusion from SP&LMIs



Migrant Workers' Low Coverage by Social Security Programs



3. What Have Governments Done, Which Governments?

Hypotheses about Gov't and Application to China Case

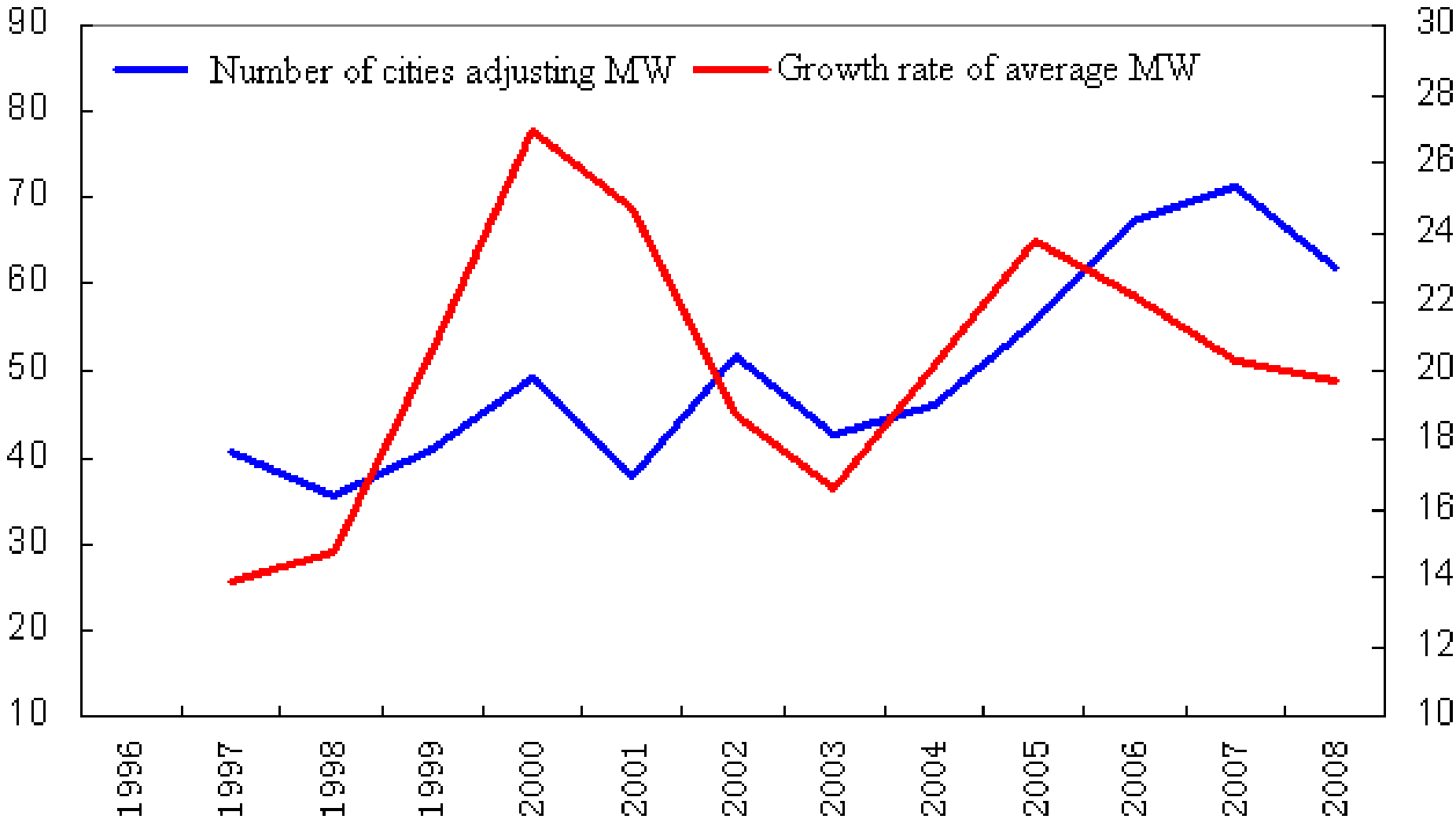
- Developmental state or entrepreneurial state – the economic promotion type Chinese governments
- Competitive governments – strong motivates of developing local economy
- Tiebout model – transition from receiving investment to attracting human resources

Legislation & Law Enforcement To Regulate LM & Strengthen SP

In 2008, 3 labor related laws issued

- *Employment Contract Law* enhances employment security & provides better protection for migrant workers
- *Employment Promotion Law* claims responsibility of gov'ts promoting employment and eliminating labor market discrimination
- *Labor Disputes Mediation and Arbitration Law* lowers costs for migrants to claim rights

More Cities Enhancing Minimum Wages and Bigger Increase Each Adjustment



More Public Services To Migrants

- All levels of gov't have enlarged financial inputs to build infrastructure of public employment services from national to grassroots levels, services are extended to cover migrant workers
- Migrants were officially announced one of the 3 groups who were entitled to special assistance during the crisis

Acceleration of the *Hukou* System Reform

- Annual growth rate of share of population with non-agricultural *hukou* increased from 2.3% in 1990-1999 to 3.2% in 1999-2007
- Viewing this as narrowly defined urbanization, it's also the fastest in the world

4. Stylized Facts about Social Protection in China

Stylized Fact I

- To create sustainable sources of economic growth with more human capital reliance, incentives that have motivated the Chinese governments as a developmental and competitive type to spur economic growth can be transformed to incentives of strengthening social protection after Lewis turning point arrives

Stylized Fact II

- Conforming to Tiebout model, the above mentioned transformation of governments motivation has been best identified in local governments' behaviors and gained breakthrough in provisions of local public services and social protection

Stylized Fact III

- Because willingness to enhance social protection is rooted in gov'ts' motive to promote the local development, strengthened social protection will be confined to an appropriate level. It'll induce inst'l innovation allowing gov't to avoid Mill dilemma facing gov't in choosing to provide social protection

A Footnote about the Dilemma

- Mill: 2 sets of consequences: that of the assistance itself, and that of relying on the assistance... the latter, for the most part, injurious
- Lindbeck: the tighter the link (between contribution and benefit), the less redistribution across individuals there is

Stylized Fact IV

- Since major measures of social protection are to supply more equitable public services, intrinsic gov'tal responsibility, shift in public policy focus from economic promotion to social protection is in line with desirable government reform

Thank you!