

Title	Wage Reform and the Web of Factory Interests
Author	Andrew G. Walder
Source	The China Quarterly
Pub Date	1987
Keywords	
Abstract	<p>Wage Reform and the Web of Factory Interests*</p> <p>Andrew G. Walder</p> <p>China's industrial wage reforms, initiated with much fanfare in 1977, have currently reached an impasse. Despite large increases in wages over the past decade, the expansion of incentive pay, and several new schemes to link incentive funds to factory performance, low labour productivity and lax work discipline remain major problems in state industry. Moreover, the reforms have created consequences that were unintended: they have heightened contention over wage matters in the work place; they led in the initial years of the reform to uncontrolled increases in bonus expenditures that outstripped increases in productivity and profitability; and they have inadvertently provided an incentive for sharp business practices and financial deception, both of which hinder broader industrial reform.</p> <p>These unintended consequences have not yet led to any vigorous new initiative to address the labour problem. Rather, the response has been inaction. This is partly due to the reformers' understandable fear of alienating workers and thereby strengthening the conservative forces of opposition to reform. Lack of initiative on the labour front also reflects reformers' deepening understanding of the irrationalities of China's pricing, investment and finance mechanisms, which do not provide sufficient managerial incentives for efficiency, and undercut the desired link between enterprise performance and compensation. These deeper economic irrationalities, thrown into relief by the first stages of reform, must be resolved before there can be real progress on the labour problem. New wage mechanisms alone have not worked. As a result, despite almost a decade of reform, the situation in state enterprises remains virtually unchanged: high job security, low labour productivity, and a weak link between performance and compensation.</p> <p>These disappointing outcomes are the result of social processes at work at the factory level. At the grass roots wage reform has become enmeshed in a web of factory interests. This web ties the interests of workers to those of their managers; and it also connects reforms within the factory to the broader systemic reforms that have only just begun. A tacit alliance has emerged between managers and workers, both of whom have an interest in retaining the highest amount of incentive funds while distributing it relatively equally. The successive waves of reform aimed at urban industry may, as an optimistic view suggests, reflect a pragmatic learning process and a deepening of reform. But they just as surely represent an effort to struggle free of</p>