

## Comment on “The Labor Contract Law, Macro Conditions, Self-Selection, and Labor Market Outcomes for Migrants in China”

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Meng (2017) analyzes survey data from China to assess the impact of China’s 2008 Labor Contract Law on the employment outcomes of migrant workers in China. Her results suggest that the Law had mixed impacts, likely negatively affecting wages and working hours, but positively affecting social insurance participation. Meng finds that many outcomes targeted by the Law are strongly influenced by macro labor conditions as measured by city wages and unemployment rates, rightly pointing out that studies must take macro-factors into account to correctly assess the impact of labor regulations. She also points out that changes over time in the impact of labor contracts on employment outcomes could result from changes in selectivity of what types of people have jobs with labor contracts rather than the impacts of the Law itself, and presents evidence that such bias leads to an overestimation of the impacts of the Law.

Meng is up front about the difficulty of cleanly identifying the impact of the Law because it was implemented nationally at one point in time. As a result, any before-after comparisons could merely reflect changing labor market conditions in China. There are also limitations imposed by the available data. The Rural-Urban Migration in China Project (RUMICI) migrant panel data in 15 cities only began in 2008, after the law was implemented. Thus, before-after comparisons must rely either on repeated cross-sectional data using RUMICI pretest data on migrants from 4 cities in 2007 or the population mini-census data in 2005, which used a different sampling approach. Another major limitation is that the RUMICI survey did not ask questions about whether workers had signed labor contracts until 2010. As a result, Meng uses formal employment (permanent or fixed term employment, rather than temporary employment) as a proxy for having a labor contract for the years before 2010. This is a very crude and probably unsatisfactory approach given that it conflates contract status with other job attributes. Other research has found that the share of “formal” workers with labor contracts increased after the Law was implemented (Gallagher et al., 2014).

The difference-in-difference specification comparing impacts on formal employees and temporary employees while controlling for macro labor conditions produces quite different results when using the pretest data compared to the mini-census data, raising questions about the comparability of the mini-census data. The individual fixed effects specification

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using panel data helps control for selection bias but still does not address the potential bias caused by omitted time-varying factors that are associated with changes in contract status (for example, due to health or employment shocks) and is identified from a small group of workers that experience such changes. Interestingly, using panel data the estimated impacts of having a labor contract are much larger in magnitude than the impacts of having a formal job, leading to concern that using formal job status as a proxy for having a labor contract may lead to biased estimates.

Despite these qualifications, taking the results at face value, what do we learn about the implementation and impact of labor regulations in China?

We should start by clearly understanding the Law's goals and anticipated impacts. One would expect that since labor contracts are a prerequisite for social insurance participation, the two would be positively correlated. However, it is not clear that the Law should increase wages. In fact, a negative effect on wages would make sense if the additional cost of social insurance and other benefits (like higher severance pay) were partially passed on to workers. Greater enforcement of overtime pay rules for contract workers also could lead to less hours worked. Overall, there is no reason in theory to expect the Law to improve all employment outcomes, so Meng's mixed findings are hardly surprising.

What merits greater attention is explaining the continued large share of migrant workers who fail to sign labor contracts and the even larger share that do not participate in social insurance programs through their employers. Local governments, employers, and employees themselves often collude to achieve these outcomes, due to unattractive features of compliance. For instance, pension benefits are costly (high payroll deductions), of uncertain future value, and lack portability.

Thus, Meng is correct to emphasize enforcement issues, pointing out that enforcement of the Labor Law may respond to labor market conditions themselves. The economic costs of reduced labor flexibility only become evident in times of economic downturns. In China, the strictness of the enforcement of the Labor Law could indeed respond to the business cycle, which increases the vulnerability of workers but also could bring economic benefits to the economy. Greater monitoring and analysis of the enforcement of the Labor Law and other labor regulations are critical for understanding the true impacts of labor regulations on employment outcomes and informing policy design.

## References

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