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China's labour pains

By Ivan Png
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LAST Sunday, a blast at a coal mine at Tongchuan in north-west China's Shaanxi Province caused five deaths, with a further 166 missing. President Hu Jintao directed the local authorities to spare no efforts to save the trapped miners.

Accidents in China's coal industry occur with depressing frequency. Each year, 7,000 workers die in China's coal mines. According to the State Administration for Work Safety, this number amounts to 80 per cent of coal mine deaths worldwide.

China is one of the world's leading coal producers, accounting for 35 per cent of worldwide coal production. Its mines include 3,200 operated by the government or state-owned enterprises and a further 22,000 mines run by townships and private businesses.

The coal industry has linked mine safety to the price of coal.

Coal is China's principal source of energy, both directly and indirectly. Two-thirds of electric power is generated from coal. Since the early 1990s, the market for coal has been liberalised for all uses except power generation.

Since the 1960s, the Chinese government has regulated the supply of thermal coal to electric power plants. Power plants purchase about one-quarter of their coal requirements at a contract price. Typically, the government sets the contract price below the spot market price. Between last year and this year, the spot market price of thermal coal rose by 25 per cent, but the contract price increased by only 10 per cent.

China's coal industry claims that, with higher coal prices, mines would pay for better and safer working conditions. I contend that raising coal prices would do little to improve the livelihood of coal miners, and for the same reason that separate proposals to improve the welfare of taxi drivers would also fail.

Since 2002, the Beijing city government has limited the number of taxi licences. About 200 taxi companies own 66,000 licences while individuals hold a further 1,000 licences.

Consequently, most Beijing taxi drivers rent their cars, at a monthly rate of 4,000 yuan (\$790) to 5,000 yuan. After paying for fuel and repairs, a driver's average income is estimated to be just 1,817 yuan.

Beijing taxi drivers work for an average of 427 hours per month, which far exceeds the statutory 252 hours maximum. Experts blame chronic driver fatigue for traffic accidents.

Ms Shen Mengpei, a deputy to the Beijing Municipal People's Congress, has estimated that taxi companies earn 3,303 yuan in monthly gross profit per vehicle. Ms Shen and other experts have called on the Beijing city government to liberalise taxi licensing.

Professor Shi Jichun of the Renmin University School of Law has criticised Beijing's licensing of taxis as an outdated hangover from the planned economy. Economist Zhang Shuguang has urged the city government to liberalise regulation and auction licences directly to individual taxi drivers.

I contend that liberalising taxi licensing would not improve drivers' welfare for the same reason that raising coal prices would not improve miners' welfare.

The reason is simply that China has a huge supply of labour. In Shaanxi province - the location of the most recent major mine accident - the average annual income of workers in mining and quarrying was more than 10,700 yuan in 2002.

This is quite a bit higher than the average income of 7,940 yuan from agriculture and 8,600 yuan from construction.

Nationally, the average annual income of workers in mining was over 11,000 yuan as compared with 6,400 yuan in agriculture, for 2002. Despite its hazards, coal mining will continue to attract workers.

As for the taxi industry, many drivers are migrants from rural areas or those laid off from state-owned enterprises. China Daily quoted Beijing taxi driver Liu Guangtian: 'Most of us can do nothing but endure it, given the current unemployment in the country.'

Suppose the Beijing city government were to auction licences directly to individual taxi drivers: Individuals would bid up the price of licences to a point where it makes no difference whether they drive a taxi or work in some alternative employment. This must be so, else others - whether laid-off government workers or rural migrants - would rush in to bid for licences.

So the only practical difference between the current situation and the experts' proposal is that drivers would pay fees to the city government rather than rent to a private licence-owning company.

The essential problem in both the coal and taxi industries is that the labour supply is what economists describe as being very elastic. That is, a small increase in earnings would attract a huge number of workers.

The only way that the livelihood of coal miners and taxi drivers can be improved is for China to mop up the surplus labour, especially in its rural and state-owned sectors. Once that is done, there will be no need for experts to worry about safety conditions in coal mines and taxi driver fatigue.

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