

## The Effect of Raising Compensation of Employees on the Prices in China

Topic: Input-output and prices

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The amount of compensation of employees in China has developed quickly since China launched its opening-up policy in 1978. From input-output tables of China we could find that the compensation of employees in 1997 is 415.4 billion yuan, and that in 2007 is 1100.5 billion yuan. In 10 years the annual growth rate of compensation of employees is 9.02%. Because the annual growth rate of GDP in period from 1997 to 2007 is 9.64%, increased more quickly than compensation of employees, then the proportion of compensation of employees in GDP is decreased. It is 54.87% in 1997, and 41.36% in 2007. From input-output tables of 1997 and 2007, we also find that the proportion of operating surplus is up very quickly, from 17.97% in 1979 to 30.15% in 2007. In 10 years the proportion rose about 68%. It is important to raising compensation of employees more quickly.

Using input-output table of non-competitive type of 2007, constructed by National Bureau of Statistics of China, we calculated that if compensation of employees raises 10% and other conditions are not be changed, then the prices of each sector will change as follows: agriculture, forestry, animal husbandry & fishery-7.52%, education-5.63%, manufacture of foods and tobacco-4.69%, mining and washing of coal-3.72%, processing of petroleum, coking, processing of nuclear fuel-1.87%, real estate-1.33%.

We also find that if compensation of employees raises 10%, that the household consumer price indices will raise 3.77%, and producer price index for manufactured goods will raise 2.68%

China's exports can be split up into two categories: processing exports and non-processing exports. According to statistics released by China Customs, in recent 5 years the ratio of processing exports in total exports is about 50%. The characteristic of processing exports is that the ratio of value added in gross output is very low. It is 20.19% in 2007 and 16.62% in 2002. Using a non-competitive input-occupancy-output table that captures the characteristics of China's processing exports in 2007, constructed by National Bureau of Statistics of China and Academy of Mathematics and Systems Science, we could calculate, if compensation of employees raises 10%, how much the prices of processing exports and non-processing exports will be changed. The results are as follows: the average price change of processing exports will be raised 1.40%, and the average price change of non-processing exports will be raised 3.03%. There is big difference in processing exports and non-processing exports, for example, manufacture of textile, the price change in non-processing exports is 3.88%, and that in processing exports is 1.92%.

If the amount of compensation of employees raised 10%, and other conditions are not be changed, then the structure of value added will be changed as follows, first, the proportion of compensation of employees will be changed from 41.36 % to 43.69%, the proportion of operating surplus will be changed from 30.15% to 28.95%. By the way, the proportion of GDP in total gross output will be changed from 32.49 to 33.38%.

In order to raise the proportion of compensation of employees in GDP from 41.39% (2007) to 54.87% (1997), it is necessary to raise compensation of employees 72.35%. Then, the proportion of GDP in total output will be changed from 32.49% to 38.47%, and the proportion of Value added will be changed as follows: ratio of compensation of employees in GDP will be 54.87%, Taxes-11.14, Depreciation of fixed assets-10.78% and operating surplus-23.21%.

The saving rate of China is very high. It is 47.5% in 2005, 49.9% in 2009 and 54.3% in 2009. The

Gross Domestic Savings are consists of household savings, enterprises savings, and government savings. From distribution of value added we could find that the proportion of enterprise income in value added, including depreciation of fixed assets and operating surplus, is too high in China, it is 44.15% in 2007. The saving rate of enterprises is very high and most savings come from enterprises. In 2008 the total investment in fixed assets is 17283 billion yuan, which comes from government budget is 796 billion yuan, foreign investment-531 billion yuan, enterprise self raising funds-11851 billion yuan. Raising the amount of compensation of employees will be much benefit to decrease savings rates and raises the consumption rate.