

Exploring the Impact of Local Economic Growth Targets on Labor Price Distortions

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Abstract

The completion of local economic growth target designation will promote the reform of market-oriented allocation of factors and achieve a quality "demographic dividend" by reducing labor price distortion and improving labor allocation efficiency. Research and analysis of local economic growth targets acting on labor price distortions through labor bargaining power channels show that increasing local economic growth targets will intensify labor price distortions, and at the sub-regional level, the eastern region will have the greatest impact. At the sub-city scale level, large cities have the largest impact. The results of the intermediary effect analysis show that local economic growth targets will have a negative impact on labor price distortion by exacerbating the imbalance of labor bargaining power. The quantile analysis results show that the greater the labor price distortion, the greater the impact of local economic growth targets on labor price distortion. The greater the impact of labor price distortion.

Keywords

Economic Growth Targets; Labor Price Distortions; Local Economies.

1. Introduction

In the context of local government competition, the central government's performance rewards will encourage local officials to actively develop the local economy due to promotion needs. Therefore, the economic growth goals set by local governments are often constrained by the economic performance goals of higher-level governments, resulting in economic growth goals being passed from top to bottom and "increased at different levels." In addition, there is a typical "self-pressure" in the economic growth goals of local governments, that is, local governments tend to use hard constraints to set economic growth goals, such as preferring to use hard-constraint terms such as "ensure" and "above". Under dual internal and external constraints, local governments are more willing to adopt short-term economic behaviors in order to achieve established economic growth goals. Among many means, intervention in the labor market has become their main option. Due to the high mobility of capital, when local governments adopt policies that distort factor price characteristics, small differences may cause capital to choose to flow, making the intervention effect more uncertain. Labor generally only works when policy differences are large. There will be mobility only when the latter has greater mobility costs, so the differences caused by intervention in the labor market are unlikely to cause labor to flow to other regions. Therefore, if we regard local economic growth goals as the output of its production function, distorting labor prices is an important way for local governments to attract factor inputs. Since for local governments, production targets

precede production inputs, changes in local economic growth targets will directly affect the degree of labor price distortion.

With the transformation of China's population structure, China's quantitative "demographic dividend" has gradually disappeared. How to shift from the past quantitative "demographic dividend" to a qualitative "demographic dividend" has become the key to promoting high-quality economic development. In this context, it is low-cost to improve labor allocation efficiency by reducing labor price distortions and promote high-quality development of the labor market from the perspective of inventory revitalization. The reason why we pay attention to the path of labor price distortion is that since the reform and opening up, China's market-oriented allocation reform of factors has lagged behind, and local governments still have a lot of intervention in the factor market. The price distortion phenomenon in the factor market represented by labor has hindered Improvements in labor allocation efficiency.

2. The Economic Effects of China's Labor Market Distortions

2.1. Distorted Income Effect

The distorted benefits generated by labor market distortions are not conducive to improving the level of enterprise innovation. On the one hand, labor price distortion gives enterprises the opportunity to survive and make profits by relying on low-cost advantages. Due to the transfer of a large amount of rural surplus labor, there is a relative excess supply of urban labor, and the imbalance between supply and demand puts workers at a disadvantage in wage negotiations. At the same time, in order to promote rapid economic growth in their jurisdictions, local governments motivated by promotions will also acquiesce in companies taking advantage of their strong position in the labor market to pay workers wages below the market level. On the other hand, the distortion of labor allocation weakens the market mechanism's allocation function of innovative resources, resulting in low efficiency of enterprise R&D input and output, which in turn prevents enterprises from obtaining the innovation benefits they deserve from the balanced market. Therefore, when there are price distortions and allocation distortions in the labor market, out of a "cost - benefit " trade-off, companies are more inclined to improve their competitiveness by obtaining low-cost distorted benefits rather than increasing high-risk innovation inputs. This in turn inhibits the improvement of corporate innovation levels. In addition, the distorted benefits brought about by the distortion of the labor market will also induce enterprises to invest more in cheap labor factors, thereby reducing the demand for capital factors and technological innovation attached to capital goods, leading to the production activities of enterprises. Concentration in labor-intensive industries with low technical thresholds and low added value inhibits the improvement of corporate innovation capabilities and technological levels. What's more serious is that when there is market distortion in factors such as labor in a region, some enterprises with high innovation efficiency will not receive the market share and resources they deserve due to weak political connections, which will eventually lead to the overall decline of enterprises in the region. The level of innovation has declined.

2.2. Transaction Cost Effect

In areas where labor and other factor markets are severely distorted, companies need to pay higher transaction costs in production and operation activities, which may inhibit corporate innovation. On the one hand, the complexity and uncertainty of innovation cause enterprises to face greater risks in their innovation activities. Once innovation activities fail, the initial investment, including transaction costs, will become sunk costs, causing huge financial losses to the company. On the other hand, when the total investment capital is given, higher transaction costs will have a "crowding-out effect" on the company's innovation investment,

which is not conducive to the improvement of the company's innovation level. From the perspective of market transaction costs, labor price distortions will lead to price signal distortion, and market prices cannot accurately reflect the real supply and demand of labor factors in the region; labor allocation distortions will restrict the free flow of labor, resulting in labor being unable to move between enterprises according to market mechanisms. Reasonable allocation may lead to a reduction in the availability of innovative talents. In this context, enterprises need to pay additional search costs and bargaining costs to obtain the labor and talents required for innovative activities. From the perspective of institutional transaction costs, when there are serious labor market distortions in a region, it often indicates that the regional government is more willing to intervene in market transactions, the enforcement of local government laws and regulations is weak, and the property rights system and contract system are not complete. A strong degree of government intervention in the market means that companies must establish political connections with government officials in order to obtain market share or innovation resources. This not only increases the institutional transaction costs of companies, but also distracts entrepreneurs from implementing innovation strategies; the property rights system and the imperfect contract system means that in order to prevent innovative products from being imitated and to avoid the risk of default in transaction activities, companies need to pay higher supervision costs and contract enforcement costs, which to a certain extent also inhibits the development of corporate innovation activities.

2.3. Talent Agglomeration Effect

The development of corporate innovation activities needs to be supported by a strong reserve of innovative talents. The inhibitory effect of labor market distortion on talent agglomeration may hinder the improvement of corporate innovation levels. As mentioned above, labor market distortions will have an impact on talent agglomeration from both talent accumulation and talent flow; from the perspective of talent accumulation, the "pre-market discrimination" theory believes that the human capital level of workers before entering the labor market will be discriminated against by the market. Sexual expectancy effects. When employment prospects in the labor market are uncertain and labor market distortions make it difficult for wage income to cover the cost of their efforts, potential employees will take the initiative to reduce their level of human capital investment. For those who have entered the labor market, the income effect of labor market distortion will also weaken their motivation to improve their human capital levels through learning and training, which is not conducive to the cultivation and accumulation of regional innovative talents in the long run. In addition, serious labor price distortions will increase the probability of employees leaving the company, increase the company's vocational training costs, dampen the enthusiasm of companies for talent training, and are not conducive to the gathering of innovative talents in companies. From the perspective of talent flow, the distortion of labor allocation caused by factors such as the household registration system reduces the allocation efficiency of innovative talents, and may also restrict the market demand for innovative talents by enterprises. More importantly, innovative talents have a large space for employment choices in the labor market, and their flow is greatly affected by relative wages and remuneration between regions. In areas with serious labor price distortions, lower wages will inhibit the inflow of innovative talents from outside areas and may aggravate the outflow of innovative talents in the region, thereby reducing the level of talent agglomeration in the region and leading to enterprise innovation. The activities lack necessary talent support.

2.4. Market Demand Effect

Market demand is an important factor affecting an enterprise's R&D investment level and independent innovation capabilities. The theory of "demand-induced innovation" holds that only when the market's demand scale and demand level reach a certain level, companies will

have the motivation to engage in the research and development of innovative products and technological innovation to obtain higher profits. Both the "local market effect" theory and the "market scope" hypothesis believe that product market demand of sufficient scale can enable enterprise production to achieve increasing returns to scale and promote the specialization of enterprise production and the improvement of technological innovation capabilities. However, severe labor market distortions have reduced workers' consumption power and demand level, limiting the scale of market demand for innovative corporate products. The price distortion of labor causes workers to have relatively less disposable income. Rational consumers will choose to tighten household budget constraints and reduce market demand for non-essential high-end products and innovative products. Not only that, according to the "Permanent Income Hypothesis", workers' consumption levels are also affected by expected income. The price distortion of labor will increase the uncertainty of workers' future income. Under the condition that the social security system is not yet perfect, workers will respond to future uncertainty by increasing precautionary savings, thus reducing workers' consumption level and the innovation motivation of enterprises.

3. Policy Recommendations

First of all, in the process of promoting the market-oriented reform of labor allocation, it is necessary to gradually reduce the pursuit of economic growth goals by local governments and build a more reasonable performance evaluation system. At different stages of economic development, the goals pursued by local governments should also be different. In the stage of economic take-off, the pursuit of economic growth goals is both reasonable and necessary, and many problems will be solved in the process of economic growth. However, take-off is only a stage after all. After this stage, the pursuit of economic efficiency will become a more reasonable and necessary goal. In the process of pursuing efficiency, a certain amount of economic growth may be sacrificed, but from the perspective of sustainable development, long-term benefits still outweigh short-term losses.

Secondly, while reconstructing the local government performance evaluation system, accelerating the upgrading of industrial structure and reducing the preference for capital accumulation can be included in the evaluation system. By reducing market segmentation and improving labor bargaining power to reduce labor price distortions, economic development can be implemented in conjunction with regional integration development and trade union system construction and other development strategies to achieve a policy combination effect of one plus one greater than two and boost the economy. The reducing effect of development on labor price distortions. All reforms will have pros and cons. It is crucial to promote reform through a combination of policies and use mutual hedging to build a more stable reform environment. Since there are large differences in economic development in different regions of China, reforms can be accelerated in the eastern region, while reforms can be promoted gradually in the central and western regions.

Finally, in the process of promoting the market-oriented reform of labor allocation, the construction of labor market employment information platform should be accelerated. Promote the construction of market-led employment platforms and encourage various regions and industries to build information platforms that suit their own characteristics. At the same time, strengthen government monitoring of the accuracy of platform information, take into account the joint development of information platform quantity and information platform quality, and pay attention to reducing labor price distortions. other measures to a certain extent.

4. Conclusion

The reform of market-oriented allocation of labor is the focus of the next step of market-oriented reform. One of the main reasons for the lag in China's labor market-oriented reform is the intervention of local governments in the labor market. Behind the intervention of local governments is the pursuit of economic growth goals. This article examines the impact of local government economic growth targets on the degree of labor price distortion. Local economic development has a significant effect on reducing labor price distortions. From a time perspective, at each time section, local economic development has a reducing effect on labor price distortion, but the impact is not significant in the early years, and the impact continues to be significant after 2012. The panel quantile model analysis results show that in cities with greater labor price distortion, local economic development has a better effect on reducing labor price distortion. Local economic development will reduce labor price distortions by mitigating market segmentation and increasing labor bargaining power.

Acknowledgments

This work is supported by Anhui 2022 provincial college student innovation and entrepreneurship training program, Project number: S202210378047.

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