

# THE ECONOMIC ANALYSIS OF CURRENT STRIKES IN CHINA<sup>1</sup>

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**Abstract:** The strike is an extreme form of labor dispute. We analyze the nature, causes and characteristics of current strikes in China on the basis of theories of strikes and then analyze the effects of striking on the improvement of workers' living conditions. We make use of a labor-capital bargaining model to compare the strikers' cost when there is legislation protecting workers' right to strike with the cost when there is no legislation and come to the conclusion that we should promote legislation to protect workers' right to strike according to the current labor-capital relationship in China to construct harmonious socialist society, and this is a Pareto improvement.

**Key words:** strike theory; economic analysis; legislation of the right to strike

Labor disputes are becoming increasingly common in the process of economic transformation in China. The strikes caused by labor disputes have happened frequently, especially in recent years. Currently, there is no legislation to protect workers' right to strike, but repeated strikes have shown that the labor-capital relation is becoming increasingly tense. The relevant research has been limited mainly to the academic fields of law and sociology in China. The purpose of this research is to conduct economic research into the phenomenon of strikes at present in China and then to provide a basis for the formulation of the related policy.

## Introduction

Early research into the phenomenon of strikes can be traced back to classical economics. Adam Smith once described strikes as the collective action of fighting

for increased wages or an improvement in working conditions. His thoughts about conflict of interest between the workers and the firms are reflected in his theories. It is Marxian economics that brings us a deeper analysis of the characteristics, function, meaning, and the limits of the effectiveness of strikes. Compared to classical economics and Marxian economics, neoclassical economics which is based upon the assumption that agents are fully rational doesn't mention strikes. Labor strikes are not addressed in neoclassical theories because these theories study only the manufacturer and the consumer, but not capitalist and worker, and are built on the premise that the rational person can fully adjust their behavior to obtain the optimal situation according to the marginal principle. Actually, the reason why neoclassical economic theories don't discuss strikes is that they inherited the ideas of classical economics which believe that the "invisible hand" can coordinate the benefits. These thoughts were developed by Bentham, Say, Senior and Bastiat and others, and became the foundation of neoclassic economics. Although these economists were aware of labor disputes, their theories largely ignored them because they were concerned that acknowledging these disputes would negatively impact the benefits of the employers, therefore a theory of harmonious employment relations was developed.<sup>2</sup>

Because strikes do objectively exist, what causes the strike becomes an important topic in labor economics and Western Marxian economics. According to the overview of Sapsford (Sapsford and Tzannatos 2000), we can divide the research on strikes into three categories: the relationship between strikes and the business cycle, the function of strikes, and the cause of strikes.

Earlier literature on labor economics mostly concentrated on the quantitative analysis of the strike, and used statistical methodologies and the business cycle index to study the relationship between the frequency of strikes and the business cycle. In this early research, Rees' influence is tremendous. Rees analyzed in detail the relationship between strikes and fluctuations in the economy, and concluded that the relationship between the business cycle and the frequency of strikes has a strong positive correlation. He noticed that strikes have the tendency to happen before the peak, or after the trough of the business cycle; the reason why the frequency of strikes fluctuates periodically is that the tendency of workers to strike changes in the business cycle. Rees advocated that government policies should encourage a low rate of unemployment and improve the operational environment of business enterprises at a time when the frequency of strikes is at its peak. Freeman thought that if labor supply falls short of demand in the market, then the strike would be costly to the firm, and workers would easily find work from other firms. Therefore, the frequency of strikes generally changes with the business cycle: a low unemployment rate causes an increase in the number of strikes, whereas high unemployment often causes a decrease in the number of strikes. Strikes during a

period of economic prosperity, with a low unemployment rate, occur more frequently than during a period of economic crisis with a high unemployment rate. Part of the reason for this may be because the worker can easily find a new job to minimize the impact of being made redundant. However, Neumann and Reder (1980) studied the American manufacturing industry and found that the frequency of strikes and the quantity of output have no relationship. Thus even if strikes do influence output, the net loss is minimal. As a result, strikes are irrelevant to the business cycle, and there is no possibility that strikes can cause an economic crisis.

The original research into the function and causes of strikes was conducted by Hicks. He put forward a strike theory in his book entitled *The Theory of Wages*. The threat of strike is a weapon which can exert pressure on the employer through collective negotiation, resulting in forcing the employer to pay higher wages. Labor unions can succeed in the times of rising wages and improving working conditions because the potential losses would be larger if the employer refused the requests of labor union.

The employer has to weigh the cost of paying higher wages and the loss of revenue caused by the strike—the employer's concession and the labor union's resistance are the functions of the strike length expectation. On this basis, Hicks constructed an upward sloping concession curve and a downward sloping union resistance curve, with the intersection being the highest wage the employer would like to pay, and whether the labor union can reach this point or not depends on its negotiation techniques. Hicks admitted that thoroughly removing the possibility of a strike is impossible. Labor unions occasionally use the threat of strike as a weapon to make the employer realize the labor union has the power to ask for higher wages, even when they are not serious about obtaining them. According to Hicks's theory, the primary cause of strikes is the labor union and the employer having incomplete information and making inaccurate judgments about the position and shape of the other party's curve. Hicks used the comparative cost faced by each party to do strike analysis and he found that inaccurate information was the only reason for strikes. All of these findings had significant influence on subsequent research.

In their paper "Bargaining Theory, Trade Unions and Industrial Strike Activity," Ashenfelter and Johnson (1969) introduced the so-called A-J strike model, which was obviously influenced by Hicks. In this model, the employers have to make a choice of accepting the wage requirement or accepting the strike according to comparative cost. The parties involved in the negotiation include the employers, and the leaders and members of the labor union, and the growth of wages must be acceptable to ordinary members of the labor union. Suppose the downward sloping curve of union resistance existed and the maximum current value of expected profit depends on the time of strike,<sup>3</sup> Ashenfelter and Johnson then presented the main factors affecting whether the strike occurred or not according to the model.

They used econometric measures and American data to empirically test the hypothesis of their theory in their research, which was totally different from former research, and the result showed that factors such as the rate of unemployment, the rate of change in the real wage and nominal wage all have a negative relationship with the strike, and that factors such as the rate of change in the consumer price index, the after-tax profit margin and the LG Act (which protects the democracy of the labor union) all influence the strike positively. The effectiveness of changes in the nominal wage on the strike is larger than the changes of price. The Ashenfelter and Johnson's econometric model had a major influence on subsequent research.

In the R-N model, Neumann and Reder (1980) argued that the labor union and the employer should both make their decision according to comparative cost, which means both sides need to minimize the cost of the strike; this is different from the Hicks model. According to the R-N model, the internal factors including asymmetric information, union politics and the rate of injury caused by the working environment and external factors including the unemployment rate and the degree of industrial concentration, indeed cause the outbreak of striking, but meanwhile the cost of striking is the most important one. Maki's (1986) econometric empirical examination on the R-N model supported this hypothesis.

In the 1980s, the view that information plays an important role in the strike drew lots of attention and many theories subsequently came into being (Mauro 1982; Hayes 1984; Turk 1984; Crampton 1984; Tracy 1987; McConnell 1989; Booth and Cressy 1987; Card 1990). The main bearing of these is that the party which has little information can deduce the position of the other party by observing their behavior. The strike has been considered as a bargaining tool, one which can produce an effect before it occurs, and the labor union can use it to deduce the profitability or reveal the information of the company under the condition of asymmetric information. All these models predict that if the economic rent the labor union cannot observe is lower than the expectation, then the frequency of strikes will be higher and their duration longer. But Godard (1992) clearly objected to the idea of strikes being the result of incomplete information and considered them as the expression of workers' dissatisfaction. He used the method of collective employee voice to analyze the research data of 112 Canadian corporations and drew the conclusion that factors such as management level, corporate scale, product structure and labor union strategy are closely relevant to the strike.

Schnell and Gramm (1994) analyzed the empirical relationship between the strategy of firing the strikers and the duration of the strike, and discovered that firing the strikers permanently only caused a longer strike. On the basis of existing research, Clark (1997) analyzed the relationship between the inventories of finished product and the frequency of strike and promoted a dynamic strike model with incomplete information and explained the empirical result that the wage and

inventories of finished products are positively related. His explanation is that the inventory and the strikes are the weapons the employer and the workers use to threaten the opposite party; the employers accumulate finished product inventories to improve their bargaining power. Unless the workers control the inventory, the frequency of striking will be a spurious negative state dependence.

The result of striking is another topic in the strike literature. McCalmont (1962) brought forward a semi-strike theory according to the strike of Miami drivers in 1960. He argued that the common strikes are violent and the strikers suffer a huge loss but in semi-strikes the labor union and members only suffer half as much as in the common ones and they are not afraid of violent threats. Krueger and Mas (2004) provided the result of case research about the effects of striking on product quality; they analyzed the effects of a long, contentious strike on the quality of production by using the monthly statistical data of flawed Bridgestone/Firestone tires. Their conclusion was that disputes and lower product quality are closely related. When workers who replace the strikers, new workers and workers who take part in the strike all work together, the product quality is very low. Evans and Lien (2005) made use of two-stage least-squares (2SLS) to examine the drop in prenatal care visits in the 1992 Port Authority Transit strike in Allegheny County and found strong evidence that the strike reduced the number of prenatal care visits. Bonin and Harrison (2008) discovered that, over a long period of strike, the possibility of the labor union and the employer rebuilding trust is very low. Their observation of strikes in Quebec showed that although the number of strikes is low in recent years, the duration is obviously long. The research discovered that after a long-term strike (more than 14 months) it is hard to build up trust between labor union and firm, mainly due to the following: the firm does not admit the existence and function of the labor union; the firm's targets do not include the value and benefits of the employees and their labor union.

Ewing (1991) challenged the view that strikes hinder efficiency in the market. He argued that the "social justice" principle is consistent with the protection that workers under coercive authority in the factory need and with the institution that the workers can participate in the establishment of factory rules through labor union. He thought workers' "extraordinary vulnerability" comes from the law doctrine that treats the strike as a "breach of the contract of employment" and the law that the employer can fire the strikers without notice. Therefore, the principle of social justice needs a "comprehensive package" of legislative reform "to provide adequate protection against coercion not only by employers but also by public authorities."

Bowles' views should be paid a lot of attention in the western Marxist economics. He pointed out that it was Marx who first highlighted the degree of workers' endeavor as work quality cannot be set in the contract, and the labor contract only set the period the workers agree to obey the employer's authority. The actual labor the

worker provides in the production is promised by the occupancy of the labor by the capital not by the contract. Bowles put forward a Marx-Coase-Simon incompletely contractual model of employment relationship including internal conflict of worker benefits and employer benefits according to a combination of the theories of Coase, Marx and Simon. According to Bowles' analysis, this kind of conflict is the reason for labor union (workers') collective action (strike), and the collective actions as an evolutionary mechanism that can improve the worker's bad conditions (Bowles 2006; Bowles, Edwards, and Roosevelt 2010).

The above-mentioned literature analyzed strike phenomena in capitalist economy from different angles of view and at various depths, and inspired current research on strikes in the modern economy.

In China, research is mainly limited to the realm of sociology, especially in the science of law. The main concentration of interest in this research is on whether or not China should resume right-to-strike legislation. We barely find the study of strikes in economics. This article tries to present an economic analysis of the strike phenomenon that has repeatedly erupted in recent years in China to fill the gap in research and to provide an empirical basis from which to formulate relevant policies.

### **Causes, Characteristics, and Nature of the Current Labor Strikes in China**

The frequency of labor disputes has increased significantly in recent years as China transforms towards a free market economy. According to the "Annual Labor Statistics Report of China" from 1994 to 2008, the number of labor disputes in China rose from 19,098 to 693,465, while the number of workers involved in disputes rose from 77,794 to 1,214,328, which represents a yearly increase of 21.84 percent and 15.84 percent respectively. (Semi-logarithms, and the same below.) Furthermore, the number of disputes involving two or more workers rose from 1,482 to 21,880, a growth rate of 16.38 percent per year, while the total number of workers involved in these collective disputes rose from 52,637 to 502,713, a yearly growth rate of 13.56 percent. This data shows that the frequency of conflicts that lead to labor strikes is increasing.

According to statistics compiled from relevant research and reports, from the beginning of 2007 to July 2010, there have been 57 labor strikes, giving an average of 16.3 per year. The number of people who participated in these strikes is in excess of 100,000, the average strike lasted 3.1 days and the total amount of days on which a labor strike occurred amounted to more than 170.

Labor strikes can be divided into two types: political and economic, which are differentiated by their cause. In the following section, a comprehensive analysis

of the 57 strikes that occurred between January 2007 and July 2010 is presented. The analysis shows that strikes can generally be divided into six groups, according to their cause:

1. Low wages and lack of a welfare system (hereby referred to GZFL)
2. A lack of overtime pay, or the failure by employers to pay wages promptly (TQSR)
3. Compensation fees are not paid and redundancy packages are low or absent altogether (TQBC)
4. The work environment is terrible, the work is very difficult and strenuous, and the working hours are very long (LD)
5. The laws that govern the reform of state-owned firms are not adhered to, and the management is unprofessional or corrupt (WGZ)
6. Human rights are ignored (SH)

Of the 57 strikes that have been analyzed, the category GZFL accounts for 36 (63.1 percent). TQSR caused 7 strikes (12.3 percent). TQBC caused 6 (10.5 percent), WGZ is 5 (8.8 percent) and LD is 2 (3.5 percent), while SH caused 1 strike (1.8 percent), this information is presented in Table 1. As this information shows, the main causes of strikes in China at present are the large inequality in income distribution, poor working conditions and illegal transition of state-owned enterprises. And among these, the inequality of income distribution is the most important and most common reason to cause a strike; this inequality being an expression of labor-capital conflict at the present stage. Obviously, a strike at the present stage of China is a kind of benefit conflict, and a “collective voice” but not an information dissymmetry.

It should be noted however that the causes of the 57 labor strikes are not completely independent. For example, categories WGZ, TQBC, GZFL, TQSR are all highly related, and LD and GZFL are highly related. In practice, most strikes are usually caused by a variety of related reasons that center on the issue of low wages. Thus, the ratio of strikes because of low income is far larger than 63.1 percent. Looking at the demands of strikers, 87.7 percent of demands relate to improving treatments and conditions. This data shows that strikes in China are mainly related to economic factors. However in China, labor strikes are very sensitive phenomena, analysis and conclusions drawn from relevant research literature may be inaccurate, and unfortunately, this is unavoidable using the current methods of obtaining relevant information. The conclusion that most strikes in China are caused by economic factors has significance when it comes to the creation of relevant policy and labor laws. Such policies and laws are important factors in maintaining a harmonious socialist society.

Table 1 Strike statistics in China (January 2007 to July 2010)

Causes of strikes	2007	2008	2009	2010	Total	Rank
GZFL	4	8	4	20	36	1
	11.1	22.2	11.1	55.6	100	
	7	14	7	35.1	63.1	
TQSR	2	1	2	2	7	2
	28.6	14.3	28.6	28.6	100	
	3.5	1.8	3.5	3.5	12.3	
TQBC	1	1	1	3	6	3
	16.7	16.7	16.7	50	100	
	1.8	1.8	1.8	5.3	10.5	
LD			1	1	2	5
			50	50	100	
			1.8	1.8	3.5	
WGZ			3	2	5	4
			60	40	100	
			5.3	3.5	8.8	
SH				1	1	6
				100	100	
				1.8	1.8	
Total	7	10	11	29	57	
	12.3	17.6	19.4	51	100	

Note: In each row, the first number is the number of strikes in that year, the second number is the ratio of that kind of strike compared to the total number of strikes in that year, and the third number is the ratio of that kind of strike in that year compared to all the strikes in the sample years.

Data source: relevant literature and reports.

Strikes at the present stage of China all share the following characteristics:

Firstly, the strikes are caused by internal factors experienced by the workforce, and they occur very suddenly. The strikes are not pre-planned, and are not organized by a labor union, thus it is said that strikes are internally motivated. Often strikes are not announced in advance, and some in their early stages have no intermediation or arbitration or other procedures, they just break out suddenly.

The second common characteristic is that most strikes occur in privately owned firms. In the sample time period, three strikes occurred in firms of which ownership has not been identified, whereas the rest of the labor strikes occurred mainly in non-state-owned business enterprises (37 labor strikes altogether, making up 64.9 percent). Out of these non-state-owned business enterprises, 7 strikes occurred in private firms, 3 occurred in joint venture firms (5.3 percent), Hong Kong and Taiwan owned enterprises accounted for 7 of the recorded labor strikes each (24.6 percent in total, 12.3 percent each), 13 strikes occurred in foreign-owned enterprises (22.8 percent), 17 labor strikes occurred in public-owned business enterprises (29.8 percent), while out of these, 16 strikes occurred in state-owned business



enterprises (28.1 percent). This data shows that the majority of labor strikes occur in non-state-owned business enterprises, especially in the three kinds of foreign-invested companies, as well as Taiwan and Hong Kong firms (accounting for 30 labor strikes in total, 52.6 percent). However, respectively speaking, the number of strikes in state-owned enterprises accounts for the most (16 in total, 28.1 percent). This conclusion is significant in that it suggests that the employment relationship in state-owned business enterprises in China tends to be tense and is an important factor in maintaining social harmony.

Thirdly, strikes occur not only in business enterprises but also in public institutions, including schools and kindergartens (a total of 7 strikes, 12.3 percent).

Fourthly, the number of strikes occurring in the more economically developed east of China is greater than in the central and western parts of China. In the sample time period, 38 strikes took place in the eastern region, which makes up 66.7 percent of the total number. Of these 38, the majority occurred in Guangdong province, because there is a larger number of non-public-owned enterprises (27 in total, making up 71.1 percent of the east, 47.4 percent of all strikes). In Guangdong, most strikes are concentrated in Dongguan (9 altogether, making up 25.9 percent of total strikes in the east of China, and 12.34 percent of all strikes) and Shenzhen (7 strikes, making up 25.9 percent of all strikes in the east, and 12.34 percent of all the strikes). Eleven strikes occurred in western provinces (19.3 percent), and the number of strikes in the central provinces was 8 (14 percent). Analyzing the distribution of strikes by area, leads to the conclusion that the conflicts between workers and employers occur most frequently in the eastern provinces, which is likely to be directly related to the high concentration of non-public-owned companies in the region.

Fifthly, there is a variety of ways that workers will strike, including a work suspension, a go-slow strike, sitting in silence, a petition, a parade, blocking transportation etc. Some of these strikes will develop into riots. However the length of each strike is short, about 3.1 days on average.

Sixthly, all strikes have a transitive and demonstrative property, so strikes in a particular region or business enterprise can influence other related regions or business enterprises and thus increasing the likelihood of further strikes occurring. Regions and business enterprises with the same environment, industry or working conditions are particularly susceptible.

### **Function of China's Current Strikes and the Strikers' Cost Analysis under Different Rights Arrangements**

Whether strikes can improve the terms of employment can be examined by the results of strikes. Judging from the results, the claims for an increased wage get a certain response: after the Foxconn incident, the wages of their workers rose

to 1,200 yuan;<sup>4</sup> and after the strike in South China Sea Honda, the wage of their workers rose 35 percent as a result of a negotiation between workers and the firm.<sup>5</sup> In January 2010, Jiangsu province raised the minimum wage standard first and the average rise is 13.1 percent. And after that, other provinces raised their minimum wage standard one after another. Among them, Guangdong province, where strikes are concentrated, raised its minimum wage standard by 21.1 percent on average (see Table 2).

Although there are many factors urging adjustment of the minimum wage—including slow recovery of the economy, increasing prices, systematic stipulation to adjust the minimum wage standard every two years and shortage of labor supply in the Yangtze and Pearl river deltas caused by a “shortage of farmer workers,” etc.—the real reason is that the current wage rate (floor wages) based on the minimum wage standard cannot maintain the normal reproduction of labor force. And the collective action (suspension or strike) focused on the improvement of employment terms then becomes the most important factor to promote wage adjustment. Therefore, the collective actions of workers can improve the workers’ survival condition.

Table 2 Minimum wage standard in each province and its rise on average in 2010

Month	Region	Standard of minimum wage (yuan)	Rise on average	Month	Region	Standard of minimum wage (yuan)	Rise on average
February	Jiangsu	670–960	13.1%	July	Liaoning	650–900	29.00%
March	Fujian	600–900	24.5%	July	Hei	600–880	29.40%
April	Tianjing	920	12.2%	July	Anhui	500–720	27.00%
April	Shanxi	640–850	15.5%	July	Jiangxi	500–720	23.60%
April	Shanghai	1,120	16.7%	July	Henan	600–800	20.00%
April	Zhejiang	800–1,100	15.3%	July	Hunan	600–850	27.80%
May	Jiling	680–820	22.9%	July	Hainan	680–830	37.00%
May	Shandong	600–920	21.2%	July	Yunnan	630–830	22.00%
May	Hubei	600–900	28.9%	July	Xizang	850–950	30.00%
May	Guangdong	660–1,030	21.1%	July	Shaanxi	580–760	22.70%
May	Ningxia	605–710	24.9%	August	Sichuan	650–850	37.60%
June	Xinjiang	500–960	24.6%	September	Guangxi	565–820	22.40%
July	Beijing	960	20.0%	September	Qinghai	750–770	28.80%
July	Hebei	690–900	24.1%	October	Guizhou	650–830	22.50%
July	Neimenggu	680–900	34.4%	October	Gansu	630–760	23.74%

Data source: Bulletins concerning adjustments of lowest wage standard announced by local governments on website (2010).

The strike is a mechanism to balance the benefits between workers and employers. However, different from Western nations, strikes in China take place in the absence of

legislation protecting the right to strike. Deriving from this, we find a problem worth studying, that is, the strikers' cost analysis under different rights arrangements. We will use Nash's generalized negotiation model<sup>6</sup> to carry out the analysis. Supposing there is a formal systematic strike arrangement protected by the law, in this case, the labor union and the firm have equal legal rights. The first step of the formal strike procedure is the negotiation between labor union and firm about core benefits. Then, according to the negotiation result, the two parties will decide whether to strike or close business. Suppose the negotiation power difference is depicted by negotiation power coefficient  $\alpha$ ; information is complete. Labor union and firm negotiate for the partition of business enterprise income  $R$  ( $R = x + \pi$ ) standardizing to 1, wages depicted by  $x$ . Both of the utility functions are respectively  $v$  and  $u$ .  $v = v(x)$ ,  $u = u(1-x)$ , all is a line form, namely  $v = x$ ,  $u = 1-x$ . The routes of retreat are respectively  $z$  and  $Z$ . If interactions terminate, they respectively acquire utility. Maximizing the general Nash product:

$$\max_x \omega(\alpha) = (v(x) - z)^\alpha (u(1-x) - Z)^{1-\alpha}$$

Maximizing First Order Conditions:

$$\frac{\alpha dv}{v-z} = \frac{(1-\alpha)du}{u-Z}$$

The Nash negotiation solution:

$$\begin{aligned} v_N &= z + \alpha[1 - (z + Z)] \\ u_N &= Z + (1 - \alpha)[1 - (z + Z)] \end{aligned}$$

Therefore, when the negotiating power is given to one party, the Nash negotiation solution always gives a good result, and there will be no strike. Next we will consider the negotiation process in which different parties will bid in turn (Figure 1). The firm will act first and make a bid  $x$  to the labor union. If the labor union accepts the bid, the workers will work as usual in the next period of production and gain  $x$ , and the firm gets  $(1-x)$ . If the labor union doesn't accept and bids  $y$ , " $y > x$ ." The firm can choose to accept or refuse. If the firm chooses to accept, the labor union acquires wages  $y$ ; if the firm chooses to refuse, the labor union then organizes a strike. The labor union gets  $z$  and the firm gets  $Z$ .

With a backward induction method whether the firm accepts the bid or not depends on  $1-y$  and  $Z$ . If  $Z > 1-y$ , the firm by all means will choose to refuse and causes a strike. Whereas, if  $1-y > Z$ , the firm by all means will choose to accept. The labor union then decides whether to accept a bid of  $x$  from the firm or not by

comparing  $z$  or  $x$ . It is thus clear that in a strike, the actions and incomes of two players are decided by their respective route of retreat.

Supposing there is no formal systematic arrangement of strike protected by law. Under this circumstance, though the labor union still has the right to fight for its interest through negotiation, the workers lack the effective means of threatening a strike due to its disallowance, and the negotiation power actually is given to the firm unilaterally; therefore, this leads to the unequal right arrangement of labor union and firm. Under this kind of arrangement, the firm can choose to ignore the negotiation or bid a much lower wage price in the negotiation, say  $x' < x$ . Taking no account of other factors, now the union's route of retreat  $z$  changes to  $z = z(\lambda, c)$ , where "λ" is the legal punishment caused by illegal strike and "c" is the cost of finding a new job. And,  $\partial z/\partial \lambda < 0$ ,  $\partial z/\partial c < 0$ , namely, the union's route of retreat diminishes, the cost and the risk increase.

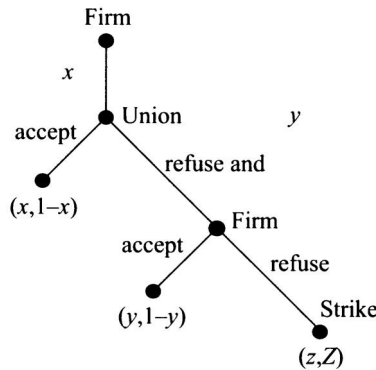


Figure 1

On the other hand, an unequal right arrangement will accumulate the contradictions between union and firm and finally cause a spontaneous strike "s." If the contradictions between union and firm submit to cumulative function  $A = a_0 + t^k$ ,  $a_0$  is the least contradictions between union and firm,  $t$  is the time,  $k > 1$ . The spontaneous strike is decided by the cumulative level of the contradictions between union and firm given by  $s = s(A)$  ( $ds/dA > 0$ ), the tolerance level of workers given by  $u = u(w, \phi)$  ( $w$  is the wages,  $\phi$  a tolerance degree,  $\partial u/\partial w > 0$ ,  $\partial u/\partial \phi < 0$ ), and the punishment degree of a spontaneous strike given by  $\lambda = \lambda(s)$  ( $d\lambda/ds > 0$ ). If  $u(w, \phi) = u(w, \lambda)$  is established, a spontaneous strike is unavoidable. However, the result of a spontaneous strike is not predictable and will increase costs of the strikers and the society.

Obviously, in the absence of a systematic arrangement of strike, the situation of the workers deteriorates and strikers' cost increases.

## Conclusion and Suggestion

The analysis shows that the current strikes in China are economic strikes held by workers to protect their economic benefits and rights. This is an inevitable outcome of China's economic marketization and a change in the labor-capital relation. Objectively speaking, those strikes help to ease the tense labor-capital relation, and they also help to protect the lawful rights of workers.

The strike is not only an extreme form of labor conflict, it is also an important mechanism and systematic arrangement to balance the labor-capital relation and it happens out of the basic characteristics of market economy. In the absence of a formal systematic arrangement of strikes protected and bound by law, the workers' negotiation power has been weakened, and they are forced to hold spontaneous strikes which have higher cost and uncertainty. Therefore, in order to support workers' rights, and balance the employment relationships, China should carry forward the legislation protecting the right to strike based on the development and orientation of the already changed labor-capital relations, and this is a Pareto improvement which has considerable significance in building a harmonious socialist society.

## Notes

1. Sponsored by the Major Project of the National Social Science Foundation of China (07& ZD003s). Professor Xian Zhang of Sichuan University is the leader of this major project.
2. For example, Senior dramatically changed his opinion of workers and poverty for fear of the British Labour movement. See Hunt (2007: Ch. 6).
3. But the reasonableness of the A-J model should be questioned. See "Bargaining Theory, Trade Unions, and Industrial Strike Activity."
4. According to reports, Foxconn later decided to raise the monthly salary of the operator and foreman who passed the three month examinations to 2,000 yuan. Li Kecheng and Shen Jing, "One week rise of wage in Foxconn surpass ten years' rise, starting salary from 2000 yuan," *Oriental Morning Post*, June 8, 2010.
5. "We are glad to see workers' wage to rise," *China Daily*, June 4, 2010.
6. See Bowles (2006).

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