

Mediation over Arbitration

Institutionalization of Labor Dispute Settlement in China

Yujeong Yang
University of Michigan, Ann Arbor

> Overview

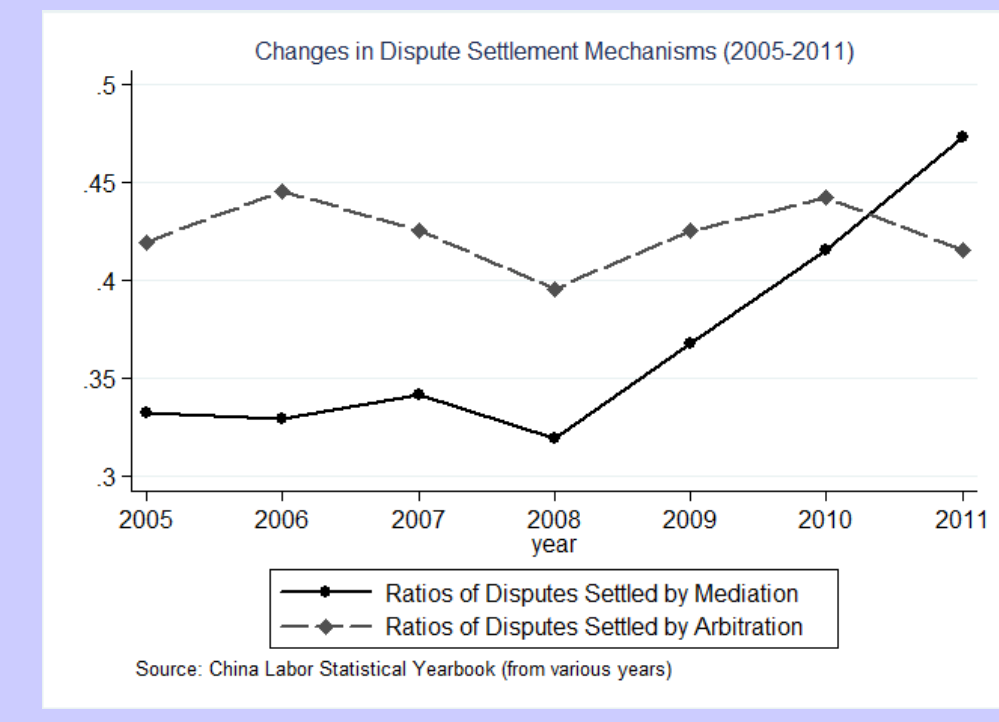
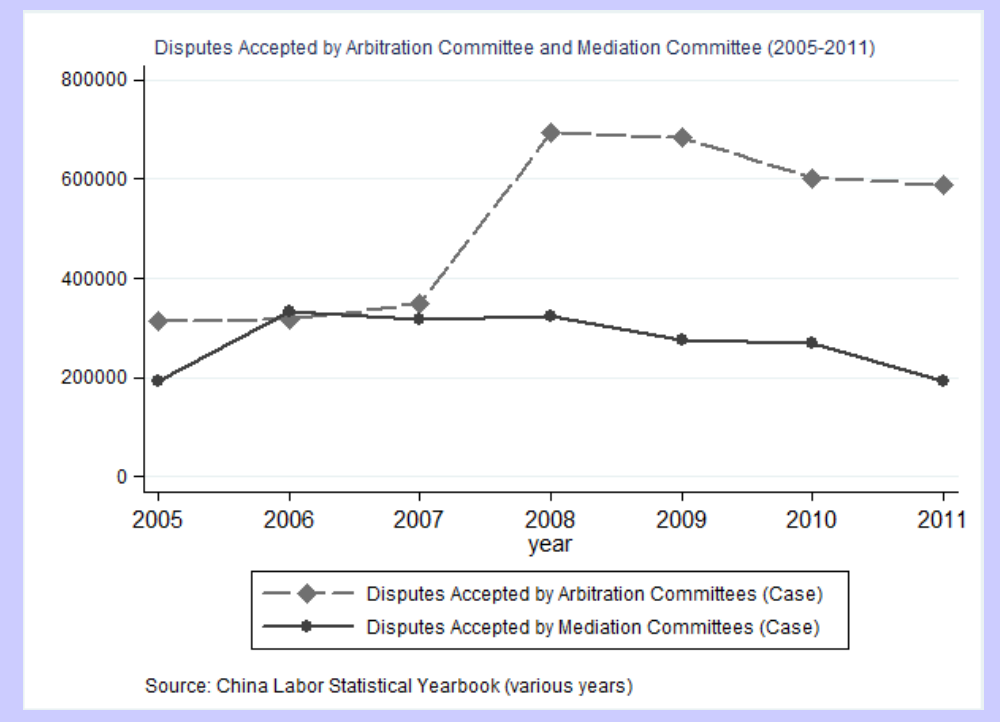
- Local government can forego the institutionalization of dispute resolution only when they can convince workers.
- Local workers' experience with the existing institutions matters.
 - Workers' experience with the informal negotiation mechanisms inside firms
 - Workers' expectation of arbitrated outcomes

> Research Questions

- What explains the regional variation in the level of **institutionalization of labor dispute resolution**?
- Why do some local authorities settle more disputes through formal mechanisms (**arbitration**) while others rely extensively on informal settlement mechanisms (**mediation**)?

> Institutionalization of Labor Dispute Settlement

- Labor disputes settlement mechanisms
 - **Mediated Settlement:** *informal* negotiation between two parties, low enforceability
 - **Arbitrated Settlement:** *formal* adjudication ruled by arbitrators, *adversarial*, high enforceability
- Increasing cases, declining settlements



- Workers' growing reliance on formal dispute resolution systems (**Arbitration**)
- Local government's growing reliance on informal dispute settlement mechanisms (**Mediation**)

> Theoretical Motivation

- What explains institutionalization across authoritarian regimes?
 - Incentives for elite cooptation
 - Variation in local economic capacity
 - Different preferences of economic actors
 - * Firm size: large firms vs. small firms
 - * Firm ownership: state-owned enterprises vs. foreign enterprises
 - * Types of workers: low-skilled vs. high-skilled workforce

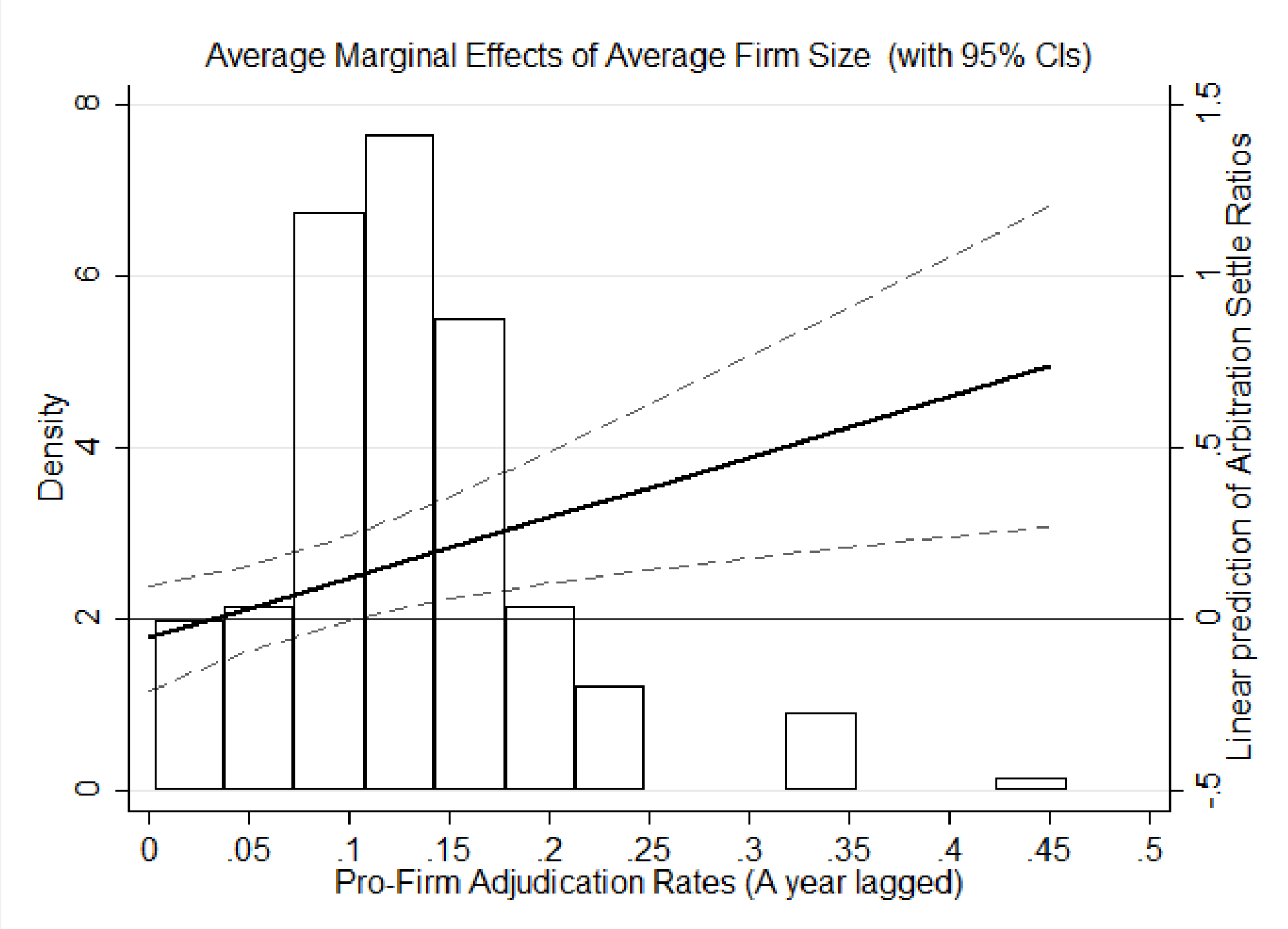
> Argument

- Local governments can persuade more local workers to settle through informal mechanisms (**mediation**)
 - when workers have *no experience* with the informal negotiation mechanisms inside firms.
 - * **Average firm size** has a **positive** effect on arbitrated settlement.
 - * No association between **average firm size** and arbitrated settlement when workers expect favorable outcomes from arbitration
 - when workers expect *unfavorable outcomes* from the formal **arbitrated settlement**
 - * **Pro-firm adjudication rates** have a **negative** effect on arbitrated settlement.
 - * No association between **pro-firm adjudication rates** and arbitrated settlement in provinces with large firms

> Empirical Analysis

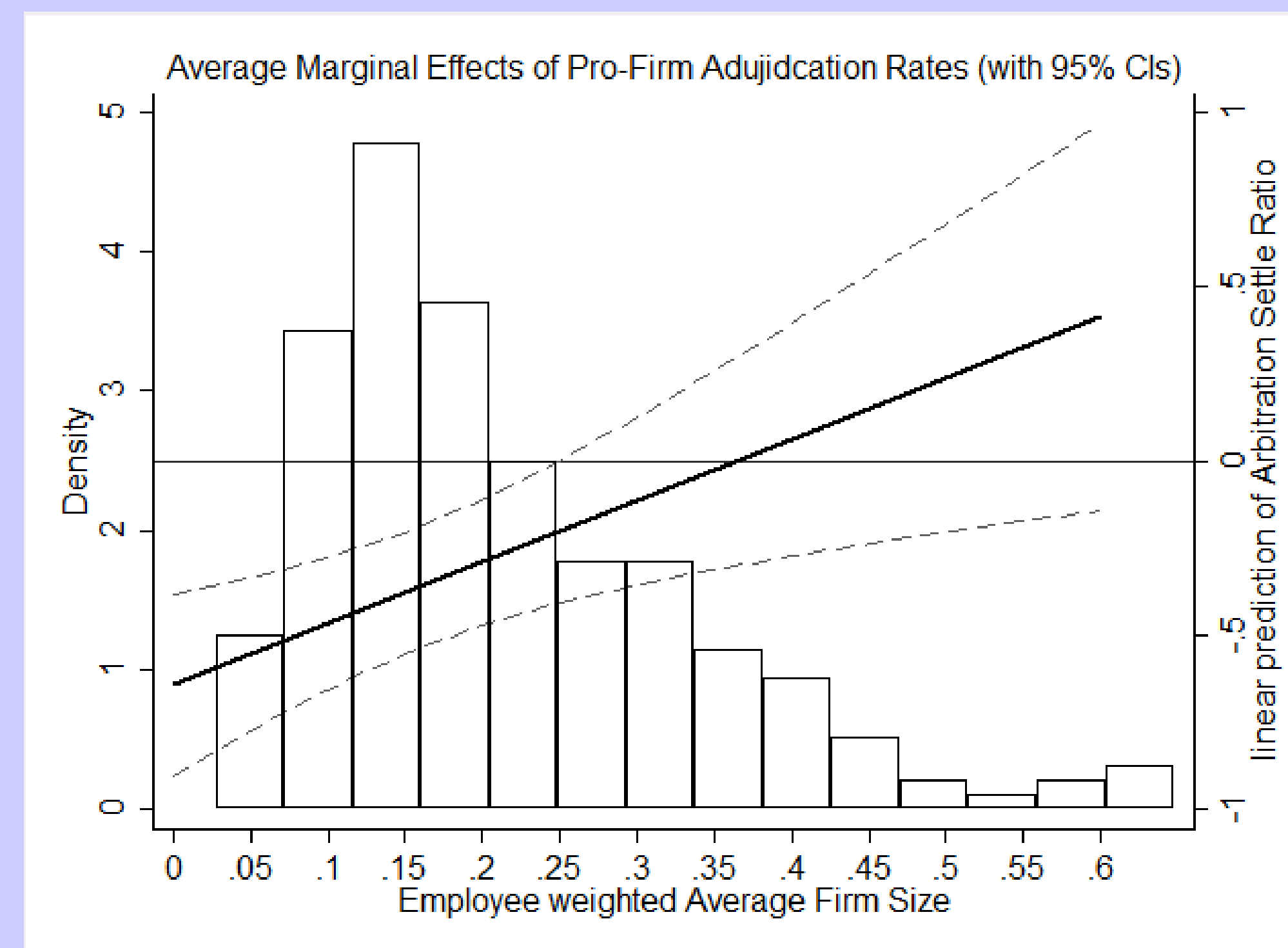
- Estimator: OLS with panel-corrected standard errors
- Data sources: China Labor Statistical Yearbook (2005–2011)
- Dependent variable: cases settled by arbitration/cases settled
- Independent variables
 - Average firm size
 - Pro-firm adjudication rates
 - Average firm size × Pro-firm adjudication rates

> Evidence 1



- When workers expect unfavorable outcomes from arbitrated settlement, they are more likely to settle by arbitration as firm size increases.

> Evidence 2



- When workers have to risk unfavorable outcomes from arbitrated settlement, those from regions with small average firm size are less likely to use arbitrated settlement.