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Henry Ford Raising Wage May Give China Tip on Worker Prosperity

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Jan. 19 (Bloomberg) -- "Little" Xie says he wants to own one of the autos he helps build at Ford Motor Co.'s assembly plant in the Yangtze River city of Chongqing. With his mortgage payment taking about 60 percent of his 2,000 yuan monthly pay, that won't happen soon.

"It isn't even worth talking about company incentives to help buy a car, since I can't afford one in the first place," said Xie, 28, a six-year Ford employee, as he approached the factory gates for his night shift. Xie, whose nickname comes from his youthful age, asked that his full name not be used.

Higher wages for people like Xie would help resolve China's biggest economic challenge: shifting away from growth fueled by exports and investment and moving toward an economy driven more by domestic consumers. China's communist leaders might learn a lesson about how to create a more prosperous working class from American industrialist Henry Ford.

The founder of the auto manufacturer that bears his name generated headlines around the world in January 1914 by doubling the average autoworker's pay to \$5 a day. The move made Ford's Model T more affordable, created a more stable workforce and helped stoke the growth of the U.S. middle class, according to Bob Kreipke, the historian for the Dearborn, Michigan-based company.

"This allowed people to increase their buying power and, at the same time, they produced a better product," Kreipke said.

Consumer Culture

Low wages in the world's third-largest economy are slowing the rise of a consumer culture that Premier Wen Jiabao and President Hu Jintao have said China needs to maintain expansion at the 8 percent a year that will generate jobs for its 1.3 billion people. The current growth pattern is "unsustainable," Wen said Dec. 27.

That hasn't stopped China's auto industry from booming, with sales last year of 13.6 million vehicles, eclipsing the U.S. as the world's top market for the first time, according to figures from the China Association of Automobile Manufacturers in Beijing. The surge in purchases was spurred partly by government subsidies to help farmers buy autos.

Encouraging higher pay might help sustain the boom and boost consumption, which currently accounts for about 35 percent of China's gross domestic product, compared with 70 percent in the U.S. It would also help ease income gaps between the rich and poor, which are higher than those in South Korea and Taiwan at similar stages of development and have led to riots and other labor unrest.

Buying Power

Ford's \$5 daily pay allowed an employee to buy a Model T that cost \$440 with the equivalent of about four months' wages. Chinese factory workers averaged 24,192 yuan (\$3,544) a year in 2008, according to figures from the National Bureau of Statistics in Beijing, so it would take more than three years worth of wages for them to afford the cheapest car advertised on the company's Chinese-language Web site: a four-door hatchback with a 1.3 liter engine listed for 78,900 yuan.

While the auto company declined to comment on worker pay, Ellen Hughes-Cromwick, Ford's chief economist, said Ford projects growth 10 years into the future for the countries where it operates, and it sees China's economy in a period of expansion characterized by rapid rises in employee compensation similar to South Korea's economy starting in the 1960s.

"We are at a situation where wages are moving up and doubling in a very short period of time," Hughes-Cromwick said in a telephone interview from Dearborn. "We do expect takeoff to generate pretty substantial wage gains."

Boost Pay

One way China's government might help boost pay would be to raise the value of the yuan, said Nicholas Lardy, who studies the Chinese economy as a senior fellow at the Peterson Institute for International Economics in Washington.

U.S. and European officials have said China keeps the yuan artificially low to boost sales in foreign markets. An undervalued currency encourages manufactured exports at the expense of developing the more labor-intensive service sector, depressing job growth and keeping wages low, Lardy said.

"Appreciation would lead to more rapid growth in the demand for labor and thus to more employment growth and more wage growth," he said.

China should also spend more on education for peasants and migrants to raise their skill levels and employment prospects, said Xiao Geng, director of the Brookings-Tsinghua Center for Public Policy in Beijing.

Rural Migrants

Henry Ford employed some of the millions of eastern European immigrants who poured into the U.S. a century ago, as well as migrants from the South and Midwest lured by high wages. China's leaders must deal with hundreds of millions of rural laborers coming to cities, who put downward pressure on salaries.

"Unskilled workers are condemned for generations to low wages," Xiao said.

Even a skilled worker like Gong -- who also asked that his full name not be used -- said he makes only 6 yuan (\$0.88) an hour as a welder at Ford's Chongqing plant, 9 yuan an hour for overtime.

"I have a dream of someday buying a car," said Gong, 29, as he walked home in the rain after a 10-hour shift. "I guess it will take six years of saving."

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