

# 中国経済論

東京女子大学

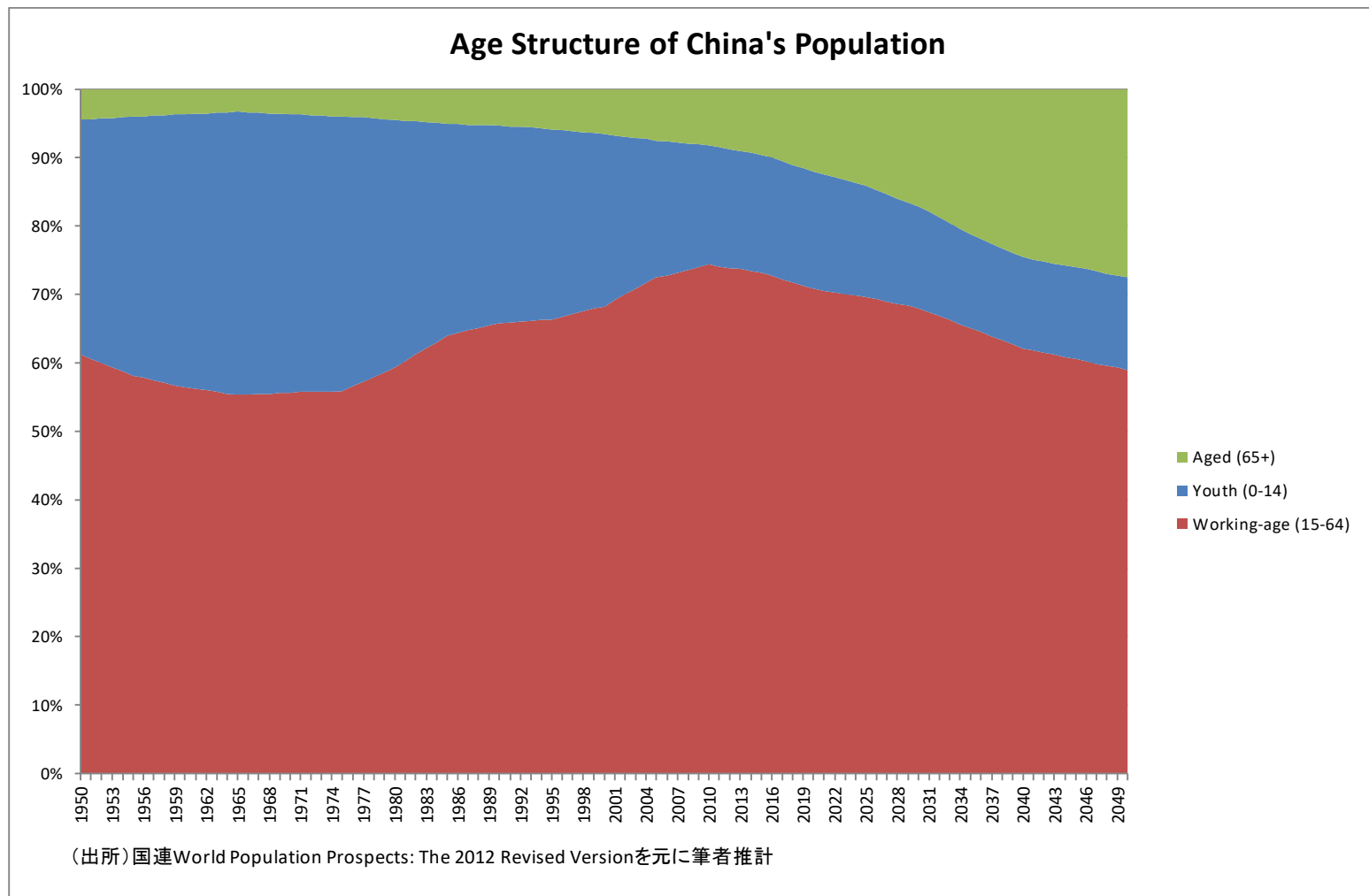
5月17日

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# Urban Labor Market and Unemployment

# 1. China's Economic Growth viewed from Population Dynamics

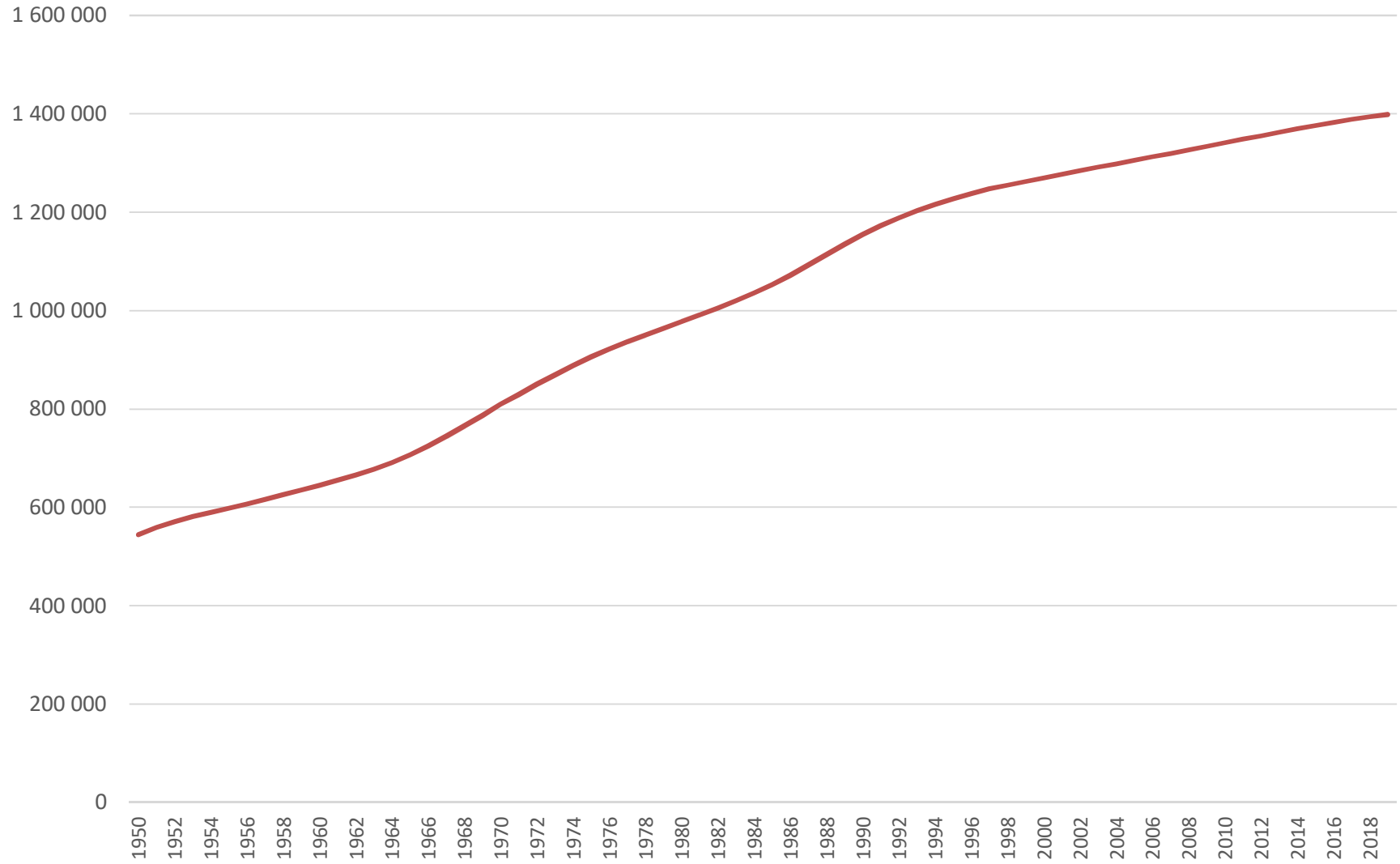
The share of working-age population was low during the planned economy period, and it kept on increasing during the reform period.



# Changes in the population policy

- Since the establishment of the People's Republic, the population increased rapidly. In 1957, the President of Peking University, Ma Yinchu, insisted that population growth must be controlled. Mao Zedong criticized his opinion as “reactionary” and the debate on surplus population became a taboo since then.
- Mao argued that “a man has one mouth but two hands.” He implied that an additional man can produce more than he consumes.
- What Mao did not take into consideration was 1) the law of diminishing returns to labor, and 2) the age structure.
- The population increased from 540 million in 1949 to 850 million in 1971.
- The dependency ratio  $(=(\text{Youth}+\text{Aged})/\text{Working-age population})$  during 1960s and 1970s was 0.8.

# China's Population



# Birth Control Policy

- After 1970, Chinese leaders started to worry about surplus population, and in 1973, the birth control policy started. In 1979, the Chinese government adopted the “one-child policy.”
- The birth rate declined rapidly during the 1970s. Since 1977, China started to enjoy population dividends. The dependency ratio declined to 0.4 in 2010.
- In 2001, China entered an aging society (aged population ratio 7%+), China will become an aged society (aged population 14%+) by 2026, and will be an ultra-aged society (aged population 21%+) by 2038. (Japan has become an ultra-aged society in 2007. Its aged population ratio in 2018 was 28%.)
- In 2015, all couples in China are allowed to have two children.

## 2. The Labor Market during the Planned Economy Era

- At the time when the People's Republic of China was established, only 1.6 percent of the total workforce, or 3.06 million people, were working in modern industry (manufacturing and mining, not including cottage industries). The illiteracy rate of the adult population was above 80 percent.
- In order for the state sector to make full use of the workforce that were qualified to work in industry, from 1953 the government started the allocation of new graduates from colleges, secondary technical schools, and vocational schools.
- Since 1955, the recruitment of all sorts of workers was controlled by the government.

# The *hukou* system

- To prevent spontaneous migration of workforce from the countryside to the cities, the household registration system (*hukou*) was introduced in 1958, which divided the whole population into agricultural and non-agricultural households.
- Those with agricultural *hukou* are entitled to work in rural collectives. Those with non-agricultural *hukou* are allocated with job opportunities when they graduate from schools.
- People are born to become peasants or urban workers. When two people with different *hukous* marry, their children inherit their mother's *hukou* status. The peasant class could never work as urban workers unless the state ordered them to do so, or when one entered college, or when one entered the army and got promoted.

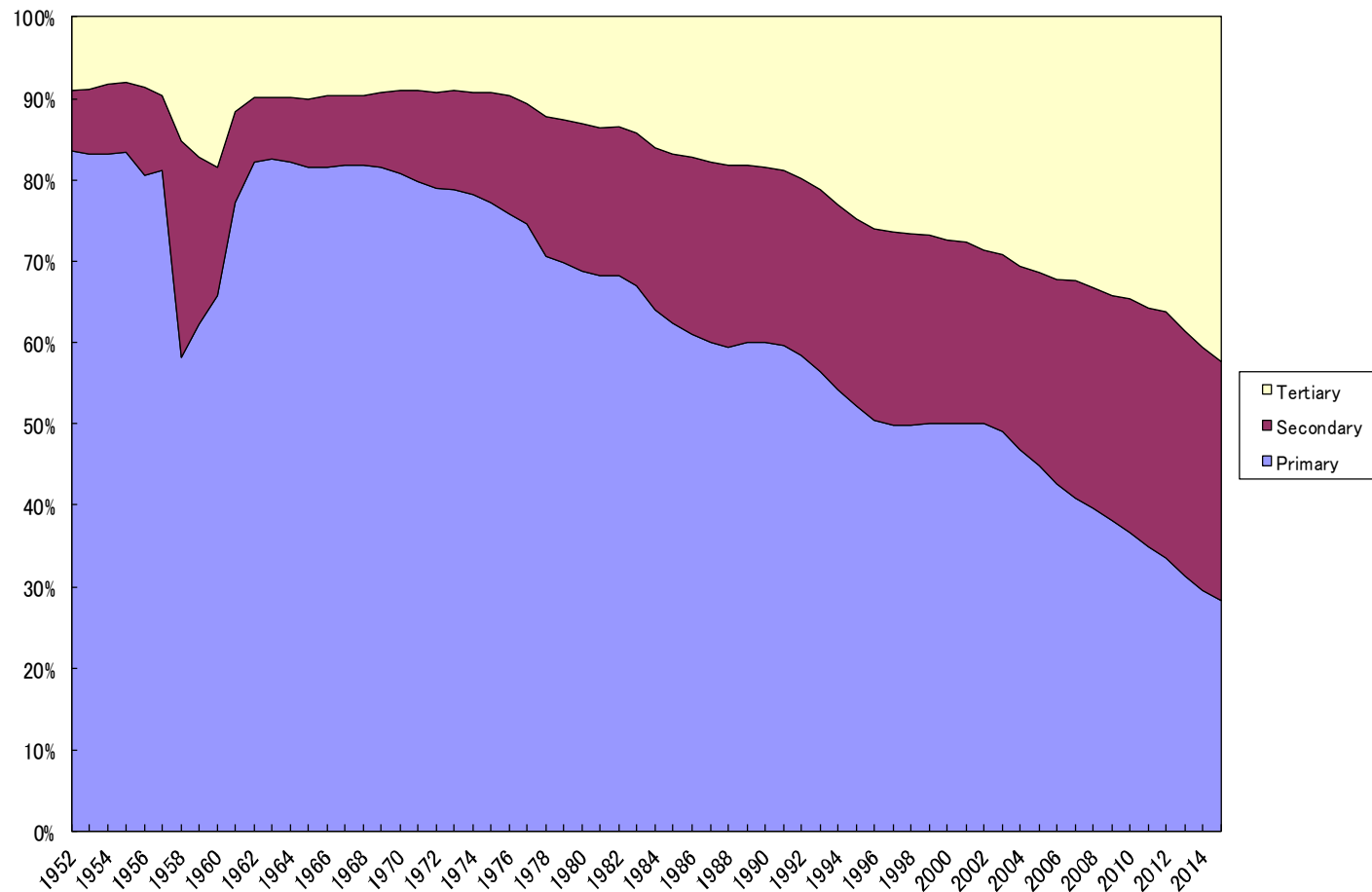


# Perfect employment under the Planned Economy

- With the elimination of market mechanism from the allocation of labor, unemployment disappeared from China by 1958.
- It seems that, with no unemployment, the planned economy can achieve the maximum utilization of the labor force.
- In reality, the elimination of market mechanism means that there are no obstacles that prevent the planners from wasteful allocations of labor. The state could and did dispatch the workforce at its will without incurring the penalty of higher labor costs.

In the “Great Leap Forward” campaign in 1958, 38 million people were removed from the primary sector. The workforce in secondary and tertiary sectors increased by 66 million. The result was a widespread starvation.

Workforce in the Three Sectors



(出所)『中国労働統計年鑑1996』11ページ、『中国統計年鑑2014』91ページより作成

# Industrialization without big structural change in the distribution of labor force

- Chinese leaders took the lesson of “Great Leap Forward” very seriously. Investments continued to be poured into heavy industries but labor forces were no longer extracted from the rural sector.
- Even the urban youths seemed redundant compared to the labor demand. In the early 1960s, state-owned enterprises mainly recruited temporary workers instead of recruiting fixed workers. The underemployment of youths was one of the backgrounds that led to the eruption of the Cultural Revolution.

# The Cultural Revolution (1966-76)



# Zhou Enlai, Mao Zedong, and Lin Biao hailing the “Red Guards”



# Urban youths during the Cultural Revolution

- Virtually all new graduates from junior high and high schools were sent to the countryside to work in rural production brigades (*chadui*). A total of 18 million urban youths (78 percent of the urban population aged 15 during 1967-77) were sent.
- Many of them stayed in rural area for very long periods. As of 1977, 8.64 million urban youths stayed in the countryside. This was equivalent to 9 percent of urban workers.

### 3. Partial Labor Market Liberalization (1978-93)

- From 1978, urban youths who stayed in the countryside were allowed to go back to their hometown at their will. 7 million people went back, which put great pressure on the urban labor market.
- Urban unemployment rate jumped up to 5.4 percent in 1979. Unemployment was euphemistically called as “waiting for work (*daiye*)” then.
- The unemployed young intellectuals marched for jobs and were at the core of the democratization movement.

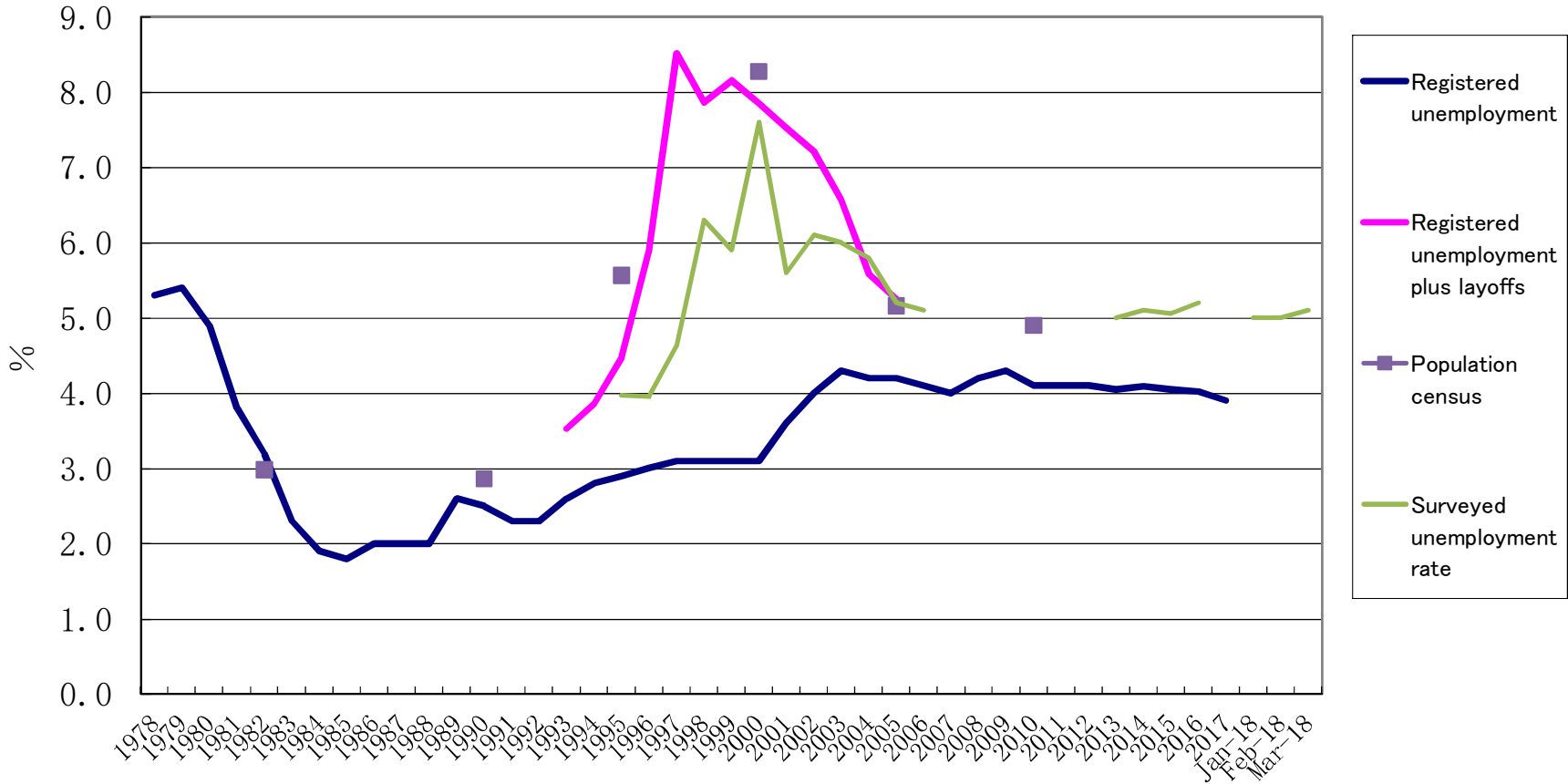
# Partial Liberalization

- To relieve the unemployment problem, the government allowed and encouraged the unemployed youths to start their own business in the form of “individual entrepreneur (*getihu*)” or collectively-owned enterprises. Hence, free labor markets emerged.
- On the other hand, the graduates from colleges, secondary technical schools and vocational schools were still allocated by the government to the state sector.



# Unemployment statistics

Urban Unemployment Statistics



(出所)『中国労働統計年鑑』各年版をもとに作成、人口センサス失業率は表3-1参照