

**The Consistency of China Statistics on Employment:  
Stylized Facts and Implications to Public Policies**

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# **The Consistency of China Statistics on Employment: Stylized Facts and Implications to Public Policies**

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## 1. Introduction

Since the late 1990s, China's labor markets have experienced great pressure characterized by several million workers being laid-off from the state-owned enterprises (SOEs). The causes of the severe unemployment are threefold. First, due to the downturn of macro economy and rapid industrial structural change in late 1990s, SOEs, which lost their comparative advantage and competitiveness, have been unable to fully utilize their production capacity and became loss-makers. Second, the radical reform of SOE employment system, known for "breaking up the iron-rice-bowl", has worsened the situation. Third, massive rural laborers have migrated to cities, seeking urban jobs and bring competition into urban labor markets. In addition, since China is in its peak of working age population, new entrants keep entering the labor force every year.

However, the official statistical system so far has not been able to provide sufficient information to depict this situation. Officially used indicator of unemployment is the registered unemployment rate, but it is widely believed as underestimating the actual unemployment and therefore questioned by domestic and international scholars (e.g. Solinger 2001). Trying to fill the statistical gap, researchers have utilized indirect measures to estimate the "real level" of unemployment, producing various figures much higher than what officially admitted<sup>1</sup>. Meanwhile, researchers have observed a contradiction between the declines in all sectoral employments and increase in aggregated employment of the economy as a whole, and this phenomenon puzzles some researchers. Because of the existence of household registration (or *hukou*) system that socially and statistically divides rural and urban residents, there is a lack of overall statistics on how many migrant workers there are in urban job markets and what role they play in urban sectors. As of new entrants, while the Chinese media overstate the difficulty of employment that college graduates face, they fail to capture the virtual matter behind it.

In general, since the late 1990s, there have been widely existing doubts and confusions in research circle about statistical figures on employment and unemployment, which leads to misunderstanding of the real situation in labor market developments and leads to a conclusion that the current situation of unemployment in China is not manageable. On the other hand, these confusions prevent policy-makers from identifying policy priority to coping with the situation. To understand China's statistics on employment requires us to bear in mind that the Chinese economy is a fast growing and drastically transitional economy. That way various and sometimes seemingly

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<sup>1</sup> For example, UNDP (1999, p. 99), by summing up the numbers of registered unemployment, officially reported laid-offs and unemployed migrant workers, estimated urban unemployment rate of 7.9 to 8.5 percent at the time. Also see Solinger's (2001) review on the issue.

unreal statistical sources on employment can be consistent, and finding this consistency will give us different notions on the situation and reveal implications to policies coping with it.

By exploring the authenticity and consistency of China's official statistics on labor markets, this paper examines real developments of the labor market, discusses whether or not the severe unemployment is manageable and suggests appropriate policies related to fostering the expansion of employment of the economy.

## 2. How Do We Read the Statistics on China's Labor Market

A sound statistical system is bound to provide a sufficient database revealing figures and dynamics of employment, lay-off, unemployment, labor force participation and, when people are unemployed, the benefits they receive. Based on the information, a comprehensive understanding can be reached on states of labor force, enabling public policies to touch the actual problems existing in labor markets. By unscrambling the published statistic sources, we try to draw a panoramic picture of labor markets in China as following.

### *Lay-off vs. registered unemployment: the revealed indicators*

Mass unemployment in urban China is a phenomenon emerged as the result of economic transition and structural adjustment in 1990s. Under the planning system prior to 1980s, urban laborers enjoyed a full employment guarantee and there didn't exist overt unemployment, so at the time when unemployment first appeared in latter part of 1990s, there wasn't an unemployment insurance system available to secure the laid-off workers. To avoid a possible social shock, a unique form of unemployment insurance was arranged by Center for Reemployment Service, which is established at enterprise level and provides the laid-off, or literally *xiagang* workers by the Chinese expression, with basic living allowance and pays social security premium for them. Enterprises as former employees, governments at central and local levels and unemployment insurance fund share the expenses needed. Although prevailing parlance is that each of these three parties bears one third of the expenses, the fact is that the three parties somewhat equally share the part of expenses paid for the laid-off's basic living allowance, as to the insurance premium paid for the laid-off, government budgetary money take a lion share. In 2002, the total amount of money that Centers for Reemployment Service raised were 17.86 billion yuan, with a 17.2 percent contributed by enterprises, 17.5 percent transferred from insurance fund and 65.2 percent budgeted by government revenue. In the same year, the total amount of money that Centers for Reemployment Service expended were 17.76 billion yuan, with 62.2 percent on paying the laid-off for basic living allowance, 28.9 percent on paying pension premium for the laid-off, 5.1 percent on paying medical insurance premium for the laid-off, and 3.7 percent on paying unemployment insurance premium for the laid-off (NBS and MOLSS 2003, p. 152). Since in reality the numbers of the registered unemployed and the numbers of the laid-off are trade-off, government expenditure on either category is sacrifice of another. Having recognized that *xiagang* arrangement is not effective and market-oriented solution to secure unemployment, the government considers the *xiagang* as an interim program that should be replaced by explicit unemployment insurance.

Under the unique institutional arrangement for the laid-off, those who had lost previous jobs did not have to be registered as unemployed; instead they have remained in contracting with their

former employers and enjoyed the basic benefits that Reemployment Center provides. As a large number of the laid-off are settled at the Center, the burdens by open unemployment can be eased, which has kept the registered unemployment rate low. Therefore, statistically, both lay-off and registered unemployment are all phenomena identical to what unemployment means in the western market economies, but their scalars are complementary and can be traded-off one for another. Figure 1 shows a pattern of their relationship: as one rises, the other falls. As is shown in Figure 1, in 1998, total number of urban *xiagang* workers was 8.8 million, of which nearly 6 million were laid-off from SOEs. In addition to that, 5.7 million were registered as unemployed. All in all, 14.5 million urban workers were officially considered as losing their jobs. In 1999, without significant increase in registered unemployment, the numbers of the laid-off increased to nearly 9.4 million, of whom 6.5 million from SOEs, causing totally 15.1 million urbanites losing jobs. Since then, the numbers of the laid-off declined and the numbers of the registered unemployed increased, indicating a transformation from *xiagang* arrangement to unemployment insurance scheme.

Table 1 Complementarity in Numbers of Lay-off and Registered Unemployment

	SOE layoff	Total layoff	Registered unemployment
1998	595	877	571
1999	653	937	575
2000	657	911	595
2001	515	742	681
2002	410	618	770
2003	260	-	800

Source: NBS and MOLSS, *China Labor Statistical Yearbook 2003*; NBS and MOLSS, *Statistical Bulletin on Labor and Social Security Development, 2003*

In 1999, the government promulgated *the Regulations on Unemployment Insurance*, which creates necessary institutional conditions helping the transformation from layoff subsidy system to unemployment insurance system. Under the condition that unemployment insurance system gradually matures, the government encourages the transformation of layoff workers from being protected under the reemployment service center to being covered by scheme of unemployment insurance. After this transformation, enterprises no longer shoulder the burden of taking care of the laid-off, while the unemployed have to face job competition, which helps the labor market develop. While Centers were terminated in ten municipalities and provinces and the number of SOE *xiagang* workers were reduced to 2.7 million in the end of 2003, it is scheduled that all Reemployment Centers will be phased out by the end of 2004. This transformation conditioned by enhancement of social security has lessened enterprises' burden and got labor market work. Meanwhile, thanks to the government proactive employment policies, the decline in the numbers of *xiagang* workers has exceeded the increase in numbers of registered unemployment. By 2002, while the numbers of urban *xiagang* people decreased to less than 6.2 million, of whom 4.1 million were laid-off from SOEs, and the numbers of registered unemployment increased to 7.7 million, the sum of the two categories dropped to 13.9 million.

Since the *xiagang* arrangement was mainly designed to cope with and to cover job losses of SOEs and urban collective enterprises, it is unable to reflect the actual situation of urban unemployment. In the mean time, because the registered unemployment scheme by definition only

covers those job losers who (1) are at ages 16-50 for male and 16-45 for female, (2) receive *xiagang* benefits, and (3) are locally registered as urban *hukou*, registered unemployment is not a sufficient indication of actual situation of unemployment. Recognizing the complementarity in numbers of lay-off and registered unemployment, some scholars simply sum up the two groups of people as a proxy of total urban unemployment. This is inappropriate, because in reality a large proportion of the laid-off and registered unemployed actually found a work while receiving benefits (Cai, 2002, p. 103). Therefore, only by a survey in accordance with commonly used international definition can we obtain a comparable indicator of unemployment.

*Alternate unemployment rates: surveyed and estimated*

In 1996, the National Bureau of Statistics (NBS) started the household-based Sample Survey on the Population Changes (SSPC). Based on this survey, relatively accurate unemployment could have been calculated, because it follows ILO recommended definition of employment/unemployment<sup>2</sup>. Though this calculation has never been done officially, one can still do an indirect estimation. From published data on components of population, we first estimate economically active population in urban areas by subtracting rural employment from the whole country's economically active population<sup>3</sup>, then we take the difference between economically active population and employed population as unemployed population in urban areas. By definition, the ratio of urban unemployment over urban economic population is surveyed unemployment rate (see Column 4 in Table 2).

Table 2 Changes in Urban Labor Market (million and percent)

	Economic population	Employment population	Unemployment population	Unemployment rate (S)	Unemployment rate (E)	Labor force participation rate
1995	198	190	7.9	4.0	4.0	72.9
1996	207	199	8.2	3.9	4.5	72.9
1997	218	208	9.8	4.5	5.0	72.2
1998	231	216	14.5	6.3	5.6	71.2
1999	238	224	14.0	5.9	5.9	72.9
2000	251	232	19.1	7.6	6.5	68.5
2001	253	239	14.1	5.6	7.0	67.3
2002	264	248	16.2	6.1	7.3	66.5

Source: NBS, *China Population Statistical Yearbook*, various issues; NBS, *China Statistical Yearbook 2003*; Giles et al., 2003

The Institute of Population and Labor Economics, Chinese Academy of Social Sciences conducted China Urban Labor Survey (CULS) in 5 Chinese cities (Shenyang, Wuhan, Shanghai,

<sup>2</sup>A person at working ages between 16 and 64 is considered unemployed only if her labor market state meets all the following criteria. First, she did not have a paid work for more than one hour in the week prior to the surveying time. Second, she is available to take a job within two weeks if the job is provided. Third, she has been actively searching a job in the past three months. If she fails to meet the first criterion, she is actually in a position of employment; if she does not fit the second and third criteria, she is out of labor force.

<sup>3</sup>In rural areas, the household responsibility system guarantees that everybody has his or her share of land, so it is a reasonable assumption that rural unemployment is as low as negligible since laborers either work in non-agricultural sectors or in agriculture.

Fuzhou, and Xian) in 2001 and 2002. Three factors tend to overestimate unemployment rates if one takes the average of the 5 cities to represent the unemployment rate of urban China as a whole. First, according to 2000 census, unemployment rates in cities were higher than that in towns and the 5 large cities surveyed had higher unemployment rates than other cities<sup>4</sup>. Second, the main questionnaire of this survey in 2001 failed to obtain information about labor force participation and availability of accepting a job, and therefore some of out-of-labor workers might be included into unemployment. Third, spot test done afterwards shows that some of beneficiaries of lay-off subsidy, unemployment insurance and minimum living standard guarantee tended not to report their reemployment. A complementary survey was conducted in the latter part of 2002, which enables us to consider the possibility of out of labor force and thus to estimate more reasonable unemployment rates. Based on the complementary survey and 2000 census, after making some assumptions, a “real” unemployment rate has been estimated (Giles et al., 2004). As is shown in Column 5 in Table 2, this estimated unemployment is quite close to that calculated from NBS- published data.

#### *Labor force participation: discouraged workers*

Both surveyed and estimated unemployment rates reported above are lower than what most researchers and observers expected, because those people, who had experienced unemployment and later quit from labor market, or who are reemployed but their new jobs are informal and not secure, are not counted as unemployed. What follows we look into the changes in labor force participation that reflect “discouraged worker effect”. As is shown in column 6 of Table 2, labor force participation rate in urban China dropped by 9.6 percent in the period 1995 to 2002. Literature suggests that the change in labor force participation can be a cyclical phenomenon of labor markets (Clark et al., 1981; Flaim, 1984). Examining labor markets fluctuation thus requires intense consideration of labor force participation in order to gain a more comprehensive understanding of employment and unemployment, and the subsequent welfare implications of any proposed public policies on unemployment.

Unlike what have happened in most developed countries where labor force participation tends to decline because of income effect (Mincer, 1993, Section 1; Hamermesh and Rees, 1993, Part One/Labor Supply), the decline in labor force participation in urban China comes from a discouraged worker effect – that is, the long term unemployed lose their faith in the labor market and no longer look for jobs, and potential new entrants to the labor market delay their job search. This labor market state produces problems similar to unemployment. Based on 2000 census data, we calculate both unemployment rates and labor force participation rates of population aged above 16 by province and plot them on the maps in Figure 1, respectively. The contrast from two maps is obvious – that is, in provinces, where unemployment rates are high, the labor force participation rates are low, and *vice versa*. Statistically, the correlation coefficient between the two rates is -0.64, proving a discouraged worker effect.

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<sup>4</sup> According to 2000 census, the unweighted average unemployment rate for 345 cities at prefecture level and higher was 7.91 percent, whereas it was 16.08 percent in Shenyang, 10.57 percent in Shanghai, 9.51 percent in Fuzhou, 11.83 percent in Wuhan, and 8.22 percent in Xian.

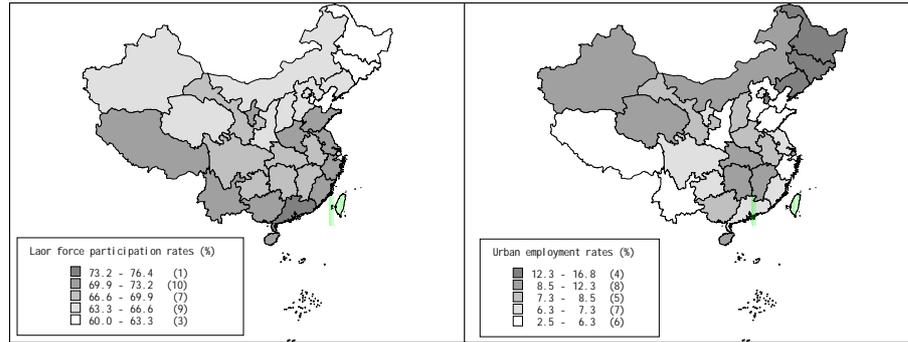


Figure 1 Comparison between Unemployment and LFPR by Province

Source: Author's calculation from 1 percent sampling of 2000 census long form

### 3. How Has Employment Been Created Since the 1990s?

Unemployment rate increase and labor participation decrease caused many to have the impression that there has been no increase in employment in China since the 1990s, or even there has been absolute decrease in employment. For example, Rawski (2001) takes “zero employment increase” as evidence to question on China’s GDP growth performance after the late 1990s. If we just observe the state and urban collective sectors that were traditionally only absorbers of urban employment, the employment has indeed declined year by year since the latter part of 1990s, as is shown in Figure 2. However, because the components of China’s economy become diversified, the employment structure experienced huge changes. Only changes in unit employments in state and urban collective sectors could no longer fully reflect changes in total employment.

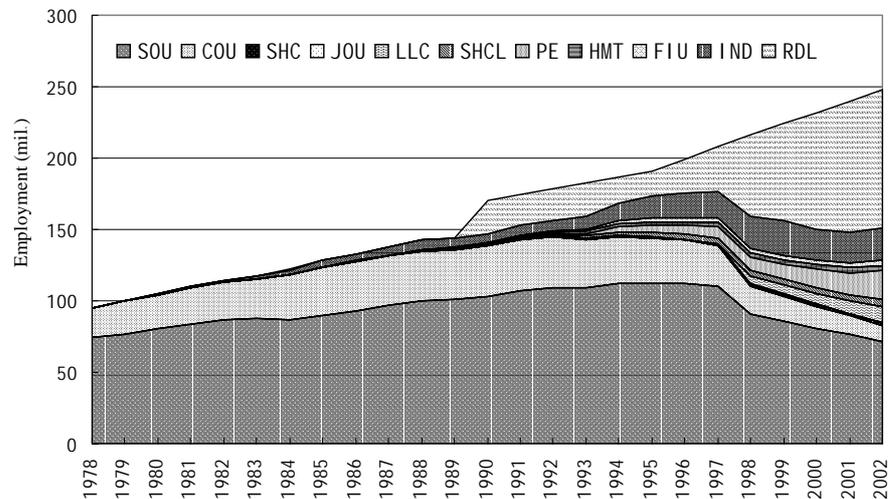


Figure 2 Changes in Employment Structure since the Reform

Note: SOU – State-owned Units, COU – Collective-owned Units, SHC – Share-holding Cooperative Units, JOU – Joint Ownership Units, LLC – Limited Liability Corporations, SHCL – Share Holding Corporations, Ltd., PE – Private Enterprises, HMT – Units with Funds from Hong Kong, Macao and Taiwan, FIU – Foreign Funded Units, IND – Self-employed Individuals, RDL – Residual.

Source: NBS, 2003

In practice, urban employment has been always growing since the reform started and it reached

247.8 million in 2002, 8.4 million more than the previous year. During the entire period from 1978 to 2002, the average annual growth rate was 4.1 percent – that is, 63.6 million extra jobs were created each year on average. In the same period, the share of state-owned units in total urban employment declined from 78.3 percent to 28.9 percent, the share of collective units declined from 21.5 percent to 4.5 percent, while employments created by other newly emerged units such as limited liability corporations, share holding corporations, ltd., private enterprises, enterprises with funds from Hong Kong, Macao and Taiwan, and foreign funded enterprises increased from zero to two-thirds of the total, making up a diversified employment. Statistically, the substantial increase of unit employment in such newly emerged sectors, however, does not sufficiently compensate the decline in state and collective employments, causing a residual between classified and total employments. This residual of employment emerged since 1990 and represents 96.4 million urban employees in 2002, which is more than the sum of state and collective employment and accounts for 39 percent of urban total employment. Explaining why this residual employment emerges statistically and practically will help us better understand the attributes of the employment growth and the changes in employment structure under a more liberalized labor market.

Statistically, the residual between total and unit employments appeared in 1990. Prior to that very year, figures of urban employment were collected through all production units with independent accounts and registered individual enterprises. Currently, official statistics on employment come from two statistical surveys. One is the Comprehensive Labor Statistics Reporting System (CLSRS), which provides information of employment covering all independent accounting units. Another is the household survey-based Sample Survey on the Population Changes (SSPC) that covers the population of the whole country. The difference between the larger number of urban employment collected from SSPC and the smaller number of employment from CLSRS results in a missing employment (for detailed explanation, see Cai et al., 2004).

The existence and expansion of the missing employment not only manifests the incapability of the traditional employment statistics to reflecting the actual labor market situation under the diversified and complicated economic structure, but also indicates a progress of marketization and a tendency of informalization in allocating labor force, a result of increasingly severe unemployment and labor mobility. This informal channel has overwhelmingly employed rural-to-urban migrants and reemployed the urban laid-off and unemployed, making contribution to the growth of gross employment in recent years.

It is observable that after the reform labor force begins and continues to move more widely between rural and urban areas, and among different regions and sectors. Based on 10 percent sampling data of the 2000 census long form<sup>5</sup>, 131 million internal migrants, who changed resident places between 1995 and 2000 for more than 6 months by definition, were counted. Of all migrants, those who changed their resident places without altering residence registration account for 65.1 percent, of whom 45.9 percent migrated in seeking working opportunities. That is, totally 39.1 million migrant workers worked in places other than their resident places for more than 6 months in 2000. One source released in 2004 suggests that the number of rural migrants across regions reached 100 million. If one counts workers without urban *hukou* as migrant workers, currently they occupy 57.6 percent of total jobs in secondary sector, 52.6 percent in wholesale and detail trade and catering services, 68.2 percent in processing manufacturing, and 79.8 percent in construction (China Internet

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<sup>5</sup> China's 2000 census includes short and long questionnaires. Everyone was required to fill out the short questionnaire. A ten percent sample of the total population filled out the long questionnaire.

Information Center, 2004). There is one thing for sure that legitimated by *hukou* system, migrant workers are systematically discriminated against in their job entry and thus they can mainly take up jobs in the informal sectors and informal jobs in formal sectors. Since the informal jobs concentrate mainly in some industries, migrant workers' employment is unevenly distributed among industries, comparing to their urban counterparts (Figure 3).

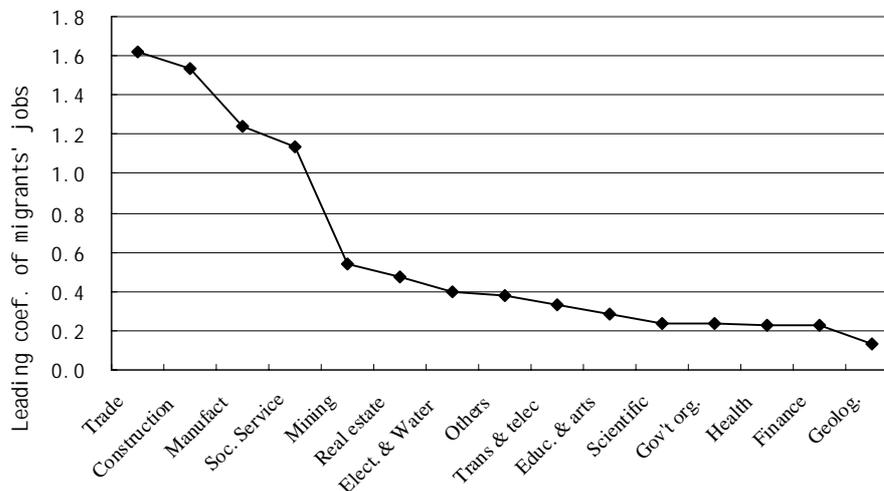


Figure 3 Relative Shares of Migrant Workers in Urban Industries

Source: Author's calculation from 1 percent sampling data of 2000 census long form

During the period 1998 to 2002, totally 41 million urban workers were laid-off by their employers and about two-thirds of them were reemployed. While being reemployed, they often either changed types of post or changed their industries, experiencing an informalization of jobs. In CULS samples, there are 949 people who had experienced job changes resulted from lay-off, unemployment, involuntary early retirement and voluntary turnover. Comparing the difference in job concentration between original and displaced jobs shows the structural changes in urban employment (Figure 4). Significant changes can be seen in three aspects. First, while manufacturing employed 42.1 percent of total 949 urban workers before their job separations, the proportion of reemployed workers in their second and third jobs dropped to 14.4 percent. Secondly, proportion of workers engaged in retail and wholesale trade and catering service in their original jobs was 13.1 percent, but it increased to 25.9 percent in second and third jobs. Thirdly, proportion of workers in social service was 8.4 percent of the total as original jobs, it increased to 18.9 percent in redeployed jobs. In general, industries having absorbed most of the workers who changed jobs are more likely to be informal.

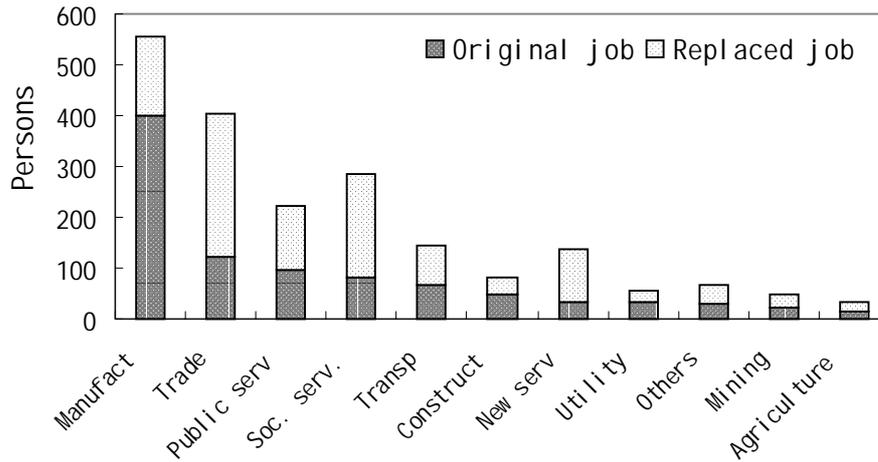


Figure 4 Structural Comparisons of Original and Displaced Jobs

Source: CULS

This universal informalization of employment helps utilize the immature labor market to relocate labor force and solve the problems of urban unemployment and rural underemployment during the transition period, on the one hand, and meanwhile it brings about a reduction of security and safety in labor market, on the other (Solinger, 2001). First, this has greatly reduced the coverage of social security and other benefits related to work units that once existed at least for urban workers. In 1990 to 2002, despite it was declared to be a period of rapid reform and rebuilding of public pension system, the coverage rate of public pension for the employed only increased from 30.5 percent to 41.7 percent – almost unchanged. This, to great extent, goes along with a surge in short-term, temporary and non-contracted jobs and self-employment. Secondly, to migrants without *hukou* identity in cities where they find a job, the informal jobs they take up, which are commonly regarded as three-D-jobs – dangerous, dirty and demanding, guarantee little job security, working conditions and work protection. It is common for migrant workers to work over hours without extra pay, and their wages are low and very often in arrears, only because the informal nature of those jobs make it easy for employers to evade from formal rules regulating the labor markets. According the 5<sup>th</sup> National Census in 2000, the proportion of migrants who work 6 days a week is nearly twice over urban local employees, and the proportion of migrants working 7 days a week is 58 percent higher than that of local workers.

#### 4. Policy Demands Arising from Labor Market

Once we get a rather complete and accurate picture of China’s employment, unemployment and labor participation, we should be able to better understand the realities and answer questions as whether the situation is manageable. In the mean time, we can also draw some policy implications from it and make relevant policy recommendations.

In a market economy, industrial structure, technological structure and industrial organization are all consequences of choices made by individual enterprises, or in other words, they are induced by the economic system in accordance with relative prices of production factors. Therefore, macroeconomic policies in a matured market should mainly focus on making a balance between inflation and unemployment rates. In most market economies, “high employment” is put as number

one priority of their monetary policies (Mishkin, 2003, p. 454). This is based on the assumption that in a matured market economy, individual enterprises make rational decisions in allocating resources and therefore, mutual support between guidance by macroeconomic policies and behavior of microeconomic units could reach both macro and micro efficiencies. China, as a transitional economy, has certain special and complicated characteristics. In making all economic policies and perfecting market institutions, employment maximization should be prioritized, in general, and in promoting employment and social insurance, transitional features of China should be also considered, in particular.

During the transition period, non-market forces continue to play role in driving economic growth. For example, local governments simply pursue a growth rate of GDP, state-owned commercial banks favor large enterprises and fiscal investments show enthusiasm to large projects, which in nature does not favor employment. As a result, this part of GDP growth, which expends an overwhelming share of investment, does not create proportional employment. From the growth of urban employment and its structural changes, one can see that non-state sectors and informal sectors have been major driving forces of employment growth in recent years. However, those newly emerged sectors do not gain full support from the government industrial policies and anti-cycle macroeconomic policies, having struggled in a disfavored environment of development. For government departments, who are responsible for macroeconomic policies and state-budgeted long-term investment, economic growth rate conflicts with creation of employment opportunities, since investing in large projects and supporting large sized enterprises best serve their goals pursuing the fastest GDP growth.

Experiences from China and rest of the world show that high employment *per se* is an important source of economic growth. One study suggests that during the period 1970 to 1995, one-third to two-thirds of the excess growth rates in East Asian economies that exceed their steady-state growth rates can be attributed to their favorable age structure of population – high proportion of working-aged population. And in the period 1870 to 1913, the advantageous labor supply in the New World contributed 90 to 100 percent of its excess growth rate preceding over the Old World (Williamson, 1997). China's economic growth since the reform can also be decomposed into contributions from physical capital, raw labor force, human capital, labor mobility and technical efficiency (Cai et al., 1999), and almost all of the sources benefit from large proportion of working population, which guarantee massive labor supply and high rate of savings. On the other hand, idle use of labor force leads to a loss of economic growth potential. For example, one percentage point of unemployment in US results in slightly less than a same percentage point of GDP loss (Dawson, 1992, p.5). IMF (1994, p. 35) also estimates that the long-term economic costs measured by percentage of GDP follow the same order of magnitude as unemployment rate.

It is obvious that having employment expansion as the top priority in implementing industrial policies, industrial organization policies and macroeconomic policies will not weaken the economic growth, instead, it is a guarantee for sustainable and coordinated growth. To implement the principle of “putting employment first” requires reforms in procedures of making government policies and regulations. First of all, for industrial policy-making, all large sized investment projects that are conducted and/or encouraged by the government should be evaluated and approved under this principle. Secondly, for macroeconomic policy-decision, employment situation should become a major parameter for formulating anti-cycle monetary and fiscal policies and have reducing unemployment rate as their number one goal. Thirdly, for industrial organization policies, criteria

are whether they serve to reduce costs of economic activities, particularly the costs of government regulations, thus to generate lower natural unemployment rate. In utilizing macroeconomic policies to leverage the balance between inflation and unemployment rate, the lower the costs of economic activities are, the more possible it would be to use lower unemployment rate to trade for stable inflation, thus to achieve coexistence of low inflation and low unemployment rate (Ottosen, 1992, p.72-73).

In the transition from planned economy to the market one, the legacies of planning continue to be in place, resulting in unique difficulties in employment and social security to China. The works that urgently need to be done include (1) eliminating institutional obstacles to provide equal rights of employment for migrant laborers, (2) helping the transitional generation to smoothly transit to the new market regime, (3) netting the vulnerable before a comprehensive social security system is established, (4) exerting labor market as the basic mechanism to allocate labor force under imperfection of labor market, and (5) protecting workers from violation of labor law and regulations. In comparison with most transitional countries in East Europe, unemployment rate in China is not very high, however, behind the simple unemployment rate is underemployment facing the reemployed and migrant workers and declining labor force participation caused by discouraged worker effect. Migrants particularly face institutional discrimination while seeking urban employment, being disadvantaged group in the labor market. Therefore, where the social security system is not sound enough, employment-related issues are translated into emergence of urban poverty.

Currently, of the urban unemployed due to being laid off, nearly half are over 40 years old, the victims of the "Cultural Revolution". They have poor education background and are encountered with the special difficulty in finding new jobs. Therefore, on the one hand, the government and the society are bond to provide particular assistance for this transitional generation to be reemployed before they lose abilities and confidence in labor market; on the other hand, once they lose working abilities, a safety net is needed to protect them from being trapped in poverty. In 2003, 21.85 million urban residents received subsidies from the Minimum Living Standard Guarantee Program set up in all Chinese cities. However, like other social security programs, this program is based on the principle "low level and wide coverage". In practice, the guaranteed level is rather low and not all eligible people are covered. As indicated by a survey, of officially designated poor households who claimed minimum living subsidies paid monthly, 62 percent received less than 100 yuan, 30 percent received 100-200 yuan, and only 8 percent received more than 200 yuan. The basic living allowance paid to the laid-off, unemployment insurance benefit for the registered unemployed and pension for the retired are also low, only at a subsistence level. Figures from CULS show that, of the laid-off, 62.7 percent of males and 69.8 percent of females live on their household savings and intra-family transferred incomes, while receiving insufficient supports from social security scheme.

The unemployment phenomenon of new entrants in labor market has different attributes. Although those who have graduated from school and waited for jobs make up 21 percent of total unemployment, in contrary to the transitional generation, they are not vulnerable in labor market at all, in terms of education attainments and ages. Of whom 53 percent receive education above senior high school, 97 percent receive education above junior high school, and 28 percent of them are 16-19 years old, 73 percent are 16-24 years old. Given the limitation of resources used to implement employment-promotion policies, the distribution of resources should be based on the principle of maximizing marginal effects of employment. That is, when laid-off workers at older ages and of

lower education remain the important part of the unemployed and their reemployment is still problematic, policy orientation biased towards new entrants will be of low efficiency. Nonetheless, the fact that graduates with higher education face difficulty in finding job in the labor market where human capital is in great shortage indicates that existing education system is out of line with the labor market. Therefore, relevant policy implications are to move forward the Chinese reform to education system – that is, education resources should be reallocated and education contents reconfigured in accordance with the principle of maximum utilization of human resources under the environment where labor demand directs education.

## 5. Concluding Remarks

In observing the statistics on employment against the backdrop of China's rapid growth and dramatic institutional transition, the seemingly conflicting figures on employment situation in fact are consistent, logically because the labor market development is internal part of China's overall reform. While *xiagang*, as a unique institutional arrangement in the transition period, has kept the registered unemployment rate at a level acceptable to the society when it lacks a sound protection mechanism, with improvement of the social security system and development of the labor market, transformation from lay-off to open unemployment insured by unemployment insurance scheme is a necessary step of reform, resulting in substitution of numbers of lay-off for that of registered unemployment and reduction of the sum of the two labor market states. Though the urban surveyed unemployment rate reflecting the real situation of the labor market sees an increase from 4.0 percent in 1995 to 6.1 percent in 2002, this figure is much lower than what most observers once guessed. Given that urban informal employment has expanded substantially, this unemployment rate can be proven authentic. At the same time, however, this unemployment rate is unable to reveal such facts as the decline in urban labor force participation and the widely emerged urban poverty.

The overall market development since 1990s is not the cause leading to mass lay-off and unemployment; instead, it is the reason for expanded employment and effective reemployment. Therefore, government policies should not aim at reducing lay-off and unemployment through slowing down development of the labor market, but should focus on expanding employment opportunities through developing the labor market. Basic policies should be adjusted and improved from the following two aspects. The first one is to base the macroeconomic policies and industrial policies on the principle of "putting employment first" and to abolish all policies and regulations that go against development of labor market and employment expansion. And the second one is to set up and improve the social security systems, to implement employment assistance policies, so as to help the special generation to successfully realize transition.

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