Labor Supply and Policies during the New Stage of Economic Development

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As the Chinese economy enters the phase of middle-income growth, a series of structural changes will follow. One important change concerns the labor market as it crosses the Lewisian turning point. Not only does this mark the end of unlimited labor supply, it also means that an economic growth model that relies on factor accumulation will increasingly become unsustainable. In terms of policy orientation in the labor market, the emphasis of proactive employment policies needs to shift accordingly. The new focus should be on increasing effective labor supply as much as possible and using labor resources more efficiently while pushing for greater employment, so as to buy time for economic transformation and restructuring.

However, there has been a relative lack of basic research on labor supply for a long time. On the one hand, in a period of economic dualism, economic development and labor policies had focused on creating as many jobs as possible and often neglected supply-side factors. On the other hand, the system for obtaining labor statistics was still being refined, thus basic statistical information (such as data on labor force participation and unemployment) was lacking. This made it difficult for us to fully grasp the changes in the labor supply situation. In view of the above, this chapter uses data that are nationally representative to discuss the characteristics of and changes in labor supply as well as comprehensively analyze basic indicators such as labor force participation, unemployment rate, employment figures, employment structure, and the working hours.

1 The Necessity of Stimulating Labor Supply

Large changes have occurred in the labor demand and supply relationship since China’s labor market crossed the Lewisian turning point. One striking characteristic is that in times of high overall demand, labor supply will become particularly tight, with severe labor shortages and significant wage increases for general workers, while in times of relatively lackluster economic growth,
the employment situation will remain stable on the whole. In terms of policy orientation, with such fundamental changes taking place in the labor market, the main objectives of proactive employment policies should shift from job creation to stimulating labor supply and raising the quality of employment. At the same time, China’s labor market has experienced profound changes since 1990, mainly reflected in a rising unemployment rate and declining labor force participation rate.1

The relationship between recent macroeconomic performance and the labor market validates the above observations. As seen in Figure 2.1, China’s quarterly economic growth had consistently fallen below 8% since the second quarter of 2012. According to the latest figures from the National Bureau of Statistics, China’s economic growth slowed down to 7.7% in the first quarter of 2013, and further dropped to 7.5% in the second quarter, marking a period of slower growth in the recent decade. This had to do with both short-term demand factors and lower potential economic growth rates in a new stage of economic development. However, unlike previous economic slowdowns that inevitably rocked the labor market, the current slowdown has yet to adversely impact the employment situation in any significant way. The labor market has maintained its balance on the whole, with the job vacancies-to-job seekers ratio consistently above the value of 1 in every quarter during this period of declining economic growth. In the second quarter of 2013, this ratio was 1.07, an increase of 0.02 over the same period in 2012. This meant that even as economic growth declined, there were more job vacancies than job seekers in the labor market at the aggregate level. Such a scenario has never occurred in any other period after China’s reform and opening up (改革开放), and it is also very different from the situation of “jobless recovery” currently experienced by some developed economies.

In order to understand why this occurred, we need to start by looking at fundamental changes in the labor demand and supply relationship. For instance, even though our economy will start experiencing lower potential economic growth rates in the next five years, but because China already has a huge economic base, there will be many more jobs created for every percentage point increase in GDP. In other words, in a situation of no fundamental economic restructuring, there would still be more vacancies created than before for the same rate of growth.

More importantly, the demographic structure of the labor market is changing rapidly, with decreasing numbers of new entrants and decelerating growth

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