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Long Run Trends in Unemployment and Labor Force Participation in Urban China

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Highlights

- Unemployment rates in countries across the world are strongly correlated with GDP. China is an unusual outlier from the pattern, whose official government statistics show abnormally low, and suspiciously stable, unemployment rates relative to its GDP. This paper reports estimates of China's unemployment rate for its local urban Hukou population using a more reliable, nationally representative dataset for that population than in prior work, and which spans a longer period of history than in the past literature. The unemployment rates we calculate differ dramatically from those supplied in official data and are much more consistent with what is known about key historical developments in China's labor market. The rate averaged 3.7% in 1988-1995, when the labor market was highly regulated and dominated by state-owned enterprises, but rose sharply during the period of mass layoff from 1995-2002, reaching an average of 9.5% in the subperiod from 2002 to 2009. The rates were even higher when demographic composition is held fixed. We can also calculate labor force participation rates, which are not available in official statistics at all. We find that they declined throughout the whole period, particularly in 1995-2002 when the unemployment rate increased most significantly. We also find that the impacts of these changes fell most heavily on the unskilled (women, those with less education, and younger individuals). Finally, estimates of unemployment and labor force participation rates are also provided for all urban residents, including migrants without local urban Hukou, and show the same patterns of change over time.

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