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May 2010

The Growing Number of Non-Workers in Urban China – Causes and Distributional Consequences.

Abstract

This paper analyzes the growth of non-work in urban China for 1988, 1995, 2002 and 2007 using surveys covering large parts of the country. Employment rates by age and gender are reported for each year under study. Non-workers are categorized into the states of being students, unemployed, early-retired, homemakers and a residual category. Probability models relating labor market state to household variables and the city employment rate are estimated. Furthermore, personal income and disposable income of non-workers and workers is examined.

We show that while only 6 percent of people in work active ages were non-workers in 1988, the proportion had increased to 15 percent in 1995, to 29 percent in 2002 and to as much as 36 percent in 2007. This development is driven by newer cohorts of young adults studying longer than previous cohorts, as well as the process of economic restructuring. The latter led to increasingly higher probabilities for older, shorter-educated and female workers being unemployed, early-retired, and homemakers in urban China up to 2002. Thereafter, however, a larger number of workplaces were created in urban China, and such patterns were weakened while unemployment became more concentrated to young adults. Local employment conditions understandably affect the probability of being in many states of non-work. A main conclusion of the study is that many impulses towards increased income inequality from an increased number of non-workers were absorbed by the households, as many students and unemployed live with persons with above-average incomes. Still, the unemployed and homemakers are concentrated to the lower part of the distribution of income, particularly in 2002.

Key words: China, Education, Unemployment, Early retirement, income

JEL Classification codes: D31 J16 J21 J26 J64