

# The Evolution of Labor Policy in Mainland China

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*Thanks to the government's Marxist employment policy, under which every individual had to have a job, mainland China enjoyed a low unemployment rate during the first three decades of the Chinese Communist Party regime. With the coming of economic reform, however, the side-effects of this full employment policy have been exposed one after the other and unemployment has become an increasingly prominent problem. Over the past decade, the regime has made efforts to reform its labor employment system on market-oriented lines. But solving the unemployment problem will require further reforms in areas other than the employment system.*

**Keywords:** employment, unemployment, labor market

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For decades, the Chinese mainland has been troubled by a high population growth rate, with an age structure in which young people predominate. The combination of a massive labor force and a backward economy has made unemployment a prominent problem. This problem remained latent in the years before the end of the Cultural Revolution, thanks to the implementation of a Marxist labor policy under which every individual had to have a job. But with the introduction of market-oriented economic reforms and the relaxation of social controls in recent years, the Beijing regime has been forced to revise its labor policy.

## Pre-1978 Labor Policy

After it seized power in 1949, the Chinese Communist Party (CCP) declared that everyone who was able to work had a duty and a right to participate in labor and that under a socialist system there

was no such thing as unemployment. Article 92 of the 1954 Constitution states that “every citizen has the right to work,” and “to guarantee enjoyment of this right, the state, by planned development of the national economy, gradually creates more employment.”<sup>1</sup>

The full employment policy was also introduced for reasons of political and social stability during the early period of the regime. It was necessary to placate the massive number of employees of the Nationalist government and of private enterprises who had suddenly been thrown out of work. At the same time, Beijing implemented a strict household registration policy which prevented mobility between urban and rural areas. This measure gave the regime more freedom to concentrate on solving the urban employment problem, particularly that of the big cities.

In order to eliminate unemployment, the regime assumed full control of the labor force. The placement and transfer of employees was the responsibility of state labor departments, and enterprises and other units in the state sector were forbidden to hire and fire at will. This system was introduced gradually, however, because in the early 1950s there were still quite a few private enterprises in existence, and these recruited workers freely.<sup>2</sup> The system was also influenced by the cycles of decentralization and recentralization that took place in the regime. For example, in 1958, the power to recruit and transfer workers was delegated to provincial-level Party committees. Although recentralization took place in 1959, even in the urban areas, both Liu Shaoqi and Zhou Enlai emphasized that enterprises should have autonomy in employment when they were mapping out reform of the economic management system in the early 1960s.

It was not until the period of the Cultural Revolution that the centralized labor employment system was implemented in full. During this period, almost all people of working age—from college graduates to ex-convicts—were allocated jobs by the labor departments.<sup>3</sup> In short, no one could find a job for him/herself, and no enterprise or unit could recruit workers according to its own needs. In accordance

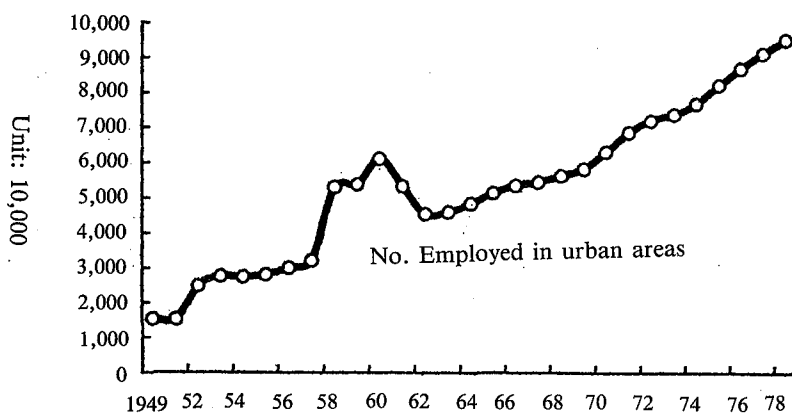
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<sup>1</sup>Harold C. Hinton, ed., *1949-1957: From Liberation to Crisis*, vol. 1 of *The People's Republic of China, 1949-1979* (Wilmington, Delaware: Scholarly Resources Inc., 1980), 106.

<sup>2</sup>Feng Lanrui and Zhao Lükuan, “Current Urban Employment Problems,” *Zhongguo shehui kexue* (Social Sciences in China) (Beijing), 1981, no. 6:190.

<sup>3</sup>*Ibid.*, 192.

**Figure 1**  
**The Growth of Urban Employment in Mainland China**



Source: Zhang Fengbo, ed., *Zhongguo hongguan jingji jigou yu zhengce* (Macroeconomic structure and policy in China) (Beijing: Zhongguo caizheng jingji chubanshe, 1988), 305.

with the centralized economic plan, the state labor departments set a quota of employees for each unit, and local labor departments were responsible for placing individuals in the vacancies available.

The centralized employment system ensured that the number of people employed in urban areas in mainland China increased continuously over the years 1949-78, with the exception of 1961 and 1962, the years immediately after the Great Leap Forward (see figure 1). In rural areas likewise, the employment rate rose from 37 percent in 1949 to 72 percent in 1978. The country-wide employment rate was maintained at over 35 percent (see table 1) while the rate of participation in the work force remained at over 50 percent.<sup>4</sup>

In short, the centralization policy helped Beijing achieve its goal of eliminating unemployment and also played an important role in guaranteeing sufficient manpower for key enterprises and units. However, the policy also proved to be a great obstacle to the development of enterprises in mainland China. First of all, the allocation of labor resources was directed from the top. As the central leadership could not possibly have a full understanding of grassroots needs,

<sup>4</sup>Kao Charng, *Zhongguo dalu renli ziyuan fenpei wenti zhi yanjiu: Cong zhidumian fenxi* (The allocation of manpower resources in mainland China: An analysis of the labor system) (Taipei: Chung-Hua Institution for Economic Research, 1982), 34-37.

Table 1  
The Employment Situation in Mainland China before 1980

Unit: 10,000

Year	Total population (A)	Total employment (B)	B/A(%)
1952	57,428	20,729	36.1
1953	58,796	21,364	36.3
1954	60,266	21,832	36.2
1955	61,465	22,328	36.3
1956	62,828	23,018	36.6
1957	64,653	23,771	36.8
1958	65,994	26,600	40.3
1959	67,207	26,173	38.9
1960	66,207	25,880	39
1961	65,859	25,590	38.9
1962	67,295	25,910	38.5
1963	69,172	26,640	38.5
1964	70,499	27,736	39.3
1965	72,538	28,670	39.5
1966	74,542	29,805	40
1967	76,368	30,814	40.3
1968	78,534	31,915	41
1969	80,671	33,225	41.1
1970	82,992	34,432	41.5
1971	85,229	35,620	41.8
1972	87,177	35,854	41.1
1973	89,211	36,652	41.1
1974	90,859	37,369	41.1
1975	92,420	38,168	41.3
1976	93,717	38,834	41.1
1977	94,974	39,377	41.5
1978	96,259	39,856	41.4
1979	97,542	40,581	41.6

Source: State Statistics Bureau, ed., *Zhongguo tongji nianjian 1983* (Statistical year-book of China 1983) (Hong Kong: Jingji daobaoshe, October 1983), 103, 120.

and because its interests often conflicted with the grassroots, it was hard for the center to make correct decisions about opportunity cost. Besides, many local labor departments, eager to reach their placement targets, often forced subordinate enterprises or units to accept employment arrangements that disrupted management and production efficiency.<sup>5</sup>

<sup>5</sup>Feng Lanrui, Zhou Beilong, and Su Chongde, "On the Relationship between Labor Employment and Economic Growth" (Part I), *Jingji yanjiu* (Economic Research) (Beijing), 1983, no. 1:53.

Centralization also gave workers no scope to develop their initiative and creativity. Prospective employees simply waited passively for job placements while units and enterprises had no power to increase or cut back their work forces according to production needs or to reward or punish workers according to performance. This gave rise to the phenomenon of "hidden unemployment," with massive numbers of redundant workers retained on unit payrolls. In the urban areas, it was said that "the work of three people is shared among five," and in the countryside, the vast surplus labor force had a negative impact on agricultural production.<sup>6</sup>

### Post-Cultural Revolution Labor Policy

The launching of the economic reform program in 1978 marked the beginning of the end of mainland China's Marxist employment policy. At the end of the Cultural Revolution, the economy was stagnant and in particular, the collective and individual sectors had come under such severe ideological attack that they hardly existed at all, except in name. At a time when employment opportunities were shrinking, more than 17 million young people, rusticated at the height of the Cultural Revolution, started returning to the cities, and the problem was compounded as youngsters born during the baby boom of the 1960s began to reach working age. Under these circumstances, the centralized placement system began to break down.

The economic reforms themselves were another factor in the breakdown of the employment system. The adoption of market-oriented practices calls for more than just commodity markets; it calls for markets in other essential factors of production, including labor. Therefore, as the rest of the economy was reformed, the regime had no choice but to change its negative attitude toward the existence of a labor market<sup>7</sup> and set about reforming its employment system.

The Trial Regulations for Enlarging Enterprise Autonomy, which permitted enterprises to select recruits, were promulgated in 1979.<sup>8</sup>

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<sup>6</sup>Zhang Fengbo, ed., *Zhongguo hongguan jingji jiegou yu zhengce* (Macroeconomic structure and policy in China) (Beijing: Zhongguo caizheng jingji chubanshe, 1988), 291-95.

<sup>7</sup>Feng Lanrui, "Six Issues about Employment," *Jingji yanjiu*, 1980, no. 10:31-32; Huang Zhengshen, "Is the Implementation of the Two-Track Labor System a Restoration of Capitalism?" *Xinhua yuebao* (New China Monthly) (Beijing), 1980, no. 5:26-27.

<sup>8</sup>Feng, "Six Issues about Employment," 35.

This new recruitment policy was reaffirmed in August 1980 by the CCP Central Committee during its work conference on employment, which issued the "Decision Concerning Broadening All Avenues for Employment, Revitalizing the Economy, and Solving Urban Employment Problems." According to the new policy, under the overall planning and guidance of the government, prospective employees would find work either with the assistance of the labor departments or through their own efforts.<sup>9</sup> The decision encouraged enterprises to get rid of redundant or incompetent employees and hire workers under contract.

Labor contracts clearly defined the rights and obligations of both employers and employees. As the system was expected to increase job mobility, labor departments at various levels were also urged to form labor service companies. These companies were different from employment agencies in the West in that they not only had to introduce applicants to new jobs, but also to conduct job training and actually run their own production enterprises.<sup>10</sup> This kind of entity had actually been suggested by Li Xiannian as early as September 1978, before the centralized system was abolished.

In the late 1970s and early 1980s, the labor contract system was still operating on a trial basis. The original state-controlled system and all its attendant malpractice remained intact.<sup>11</sup> Then in 1984, the Third Plenum of the CCP's Twelfth Central Committee finally decided to shift the focus of reform to the urban areas and to set about revitalizing state-owned enterprises. In 1986, in order to eliminate the "iron rice-bowl" mentality and liberalize the internal management of enterprises, Beijing started to implement the contract system nationwide.<sup>12</sup> Enterprises were given autonomy in employing labor and individual workers were free to choose their jobs. Both sides had to face competition in the job market.

In 1990, reform of the labor system entered another stage, the stage of job mobility within enterprises. The goal was to "optimize

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<sup>9</sup>*People's Daily*, November 24, 1981.

<sup>10</sup>Duan Xingmin, ed., *Zhongguo youjihua laodongli shichang yanjiu* (A study of China's planned labor market) (Shaanxi: Renmin chubanshe, 1990), 7.

<sup>11</sup>Research Group for China's Labor Market and Wage Reforms, "The Cultivation of a Labor Market Demands Recognition of Labor as a Commodity," *Jingji yanjiu*, 1993, no. 3:8.

<sup>12</sup>Lin Muxi, "The Formation, Development, and Reform of Our Country's Labor Employment System," *Liaoning daxue xuebao* (Journal of Liaoning University), 1992, no. 4:48.

the structure of the labor force," "make appointments on the basis of ability,"<sup>13</sup> and raise efficiency by dismissing redundant workers. Fearing that sudden, huge layoffs would have a negative impact on social stability, Beijing encouraged the establishment of "enterprises within enterprises" to absorb the surplus labor. This created an internal labor market within enterprises which provided more choices for workers, but at the same time, it delayed the impact of the adjustment within enterprises on the nationwide labor market.

At its Third Plenum in November 1993, the CCP's Fourteenth Central Committee decided to undertake a yet more fundamental reform of the labor system.<sup>14</sup> Its goals were to allow enterprises to employ labor as they saw fit and to allow individuals to choose their own jobs. Labor supply and demand was to be adjusted through market forces, with society responsible for providing services only. To reach these goals, the Ministry of Labor and provincial-level governments were directed to adjust the allocation of labor resources in line with market requirements instead of applying a mandatory quota system for numbers of employees, wages, and enrollment in vocational colleges.<sup>15</sup> In the meantime, the authorities embarked on a reform of the wage and household registration systems and set about establishing a social security system.

The opening of the labor market has succeeded in relieving the state of the burden of solving the unemployment problem. More than two thousand manpower exchange organizations have been set up by State Council ministries and provincial-level governments, and in addition, there are around two hundred private employment agencies and a number of labor service transfer companies. By 1994, 200,000 "enterprises within enterprises" had been set up, with a total output value of 160 billion *yuan* and a work force of approximately 1.2 million formerly jobless or surplus workers.<sup>16</sup>

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<sup>13</sup>Wang Aiwen, "The Development of the Labor Market Mechanism and the Transformation of Traditional Labor Relations," *Jingji kexue* (Economic Science) (Beijing), 1993, no. 5:62.

<sup>14</sup>"Decision of the CPC Central Committee on Some Issues Concerning the Establishment of a Socialist Market Economic Structure," *Beijing Review* 36, no. 47 (November 22-28, 1993): 13, 18.

<sup>15</sup>*Zhongguo nianjian: 1993* (Yearbook of the People's Republic of China: 1993) (Beijing: Zhongguo nianjianshe, 1993), 359.

<sup>16</sup>*Zhongguo nianjian: 1994* (Yearbook of the People's Republic of China: 1994) (Beijing: Zhongguo nianjian, 1994), 75.

**Table 2**  
**Employment in Mainland China, 1980-94**

Unit: 10,000

Year	Total population (A)	Total employment (B)	B/A(%)
1980	98,705	42,361	42.9
1981	58,796	21,364	43.7
1982	60,266	21,832	44.5
1983	61,465	22,328	45.0
1984	104,357	48,197	46.1
1985	105,851	49,875	47.1
1986	107,505	51,282	47.7
1987	109,300	52,783	48.2
1988	111,026	54,334	48.9
1989	112,704	55,329	49.0
1990	114,333	56,740	49.6
1991	115,823	58,360	50.3
1992	117,171	59,432	50.7
1993	118,517	60,220	50.8
1994	119,850	61,470	51.2

Sources: *Zhongguo tongji nianjian 1993* (Statistical yearbook of China 1993) (Beijing: Zhongguo tongji chubanshe, October 1993), 81, 97; *Zhongguo tongji nianjian 1995* (Statistical yearbook of China 1995) (Beijing: Zhongguo tongji chubanshe, October 1995), 59, 84.

Be that as it may, the old “iron rice-bowl” system still lingers on in state-owned enterprises, and the arrival of a labor market has not brought down the unemployment rate as expected. On the contrary, as surplus agricultural labor leaves the countryside and further reforms of state-owned enterprises expose more hidden unemployment, the unemployment rate has actually increased (see table 2).

### Conclusion

Over the past five decades, the Beijing regime has repeatedly revised its labor policies in an effort to cope with the task of providing jobs for its vast work force. In the pre-reform era, a system of mandatory job placement was applied at the expense of economic efficiency. Then in the 1980s, changes in the economic situation forced the regime to abandon the centralized system and permit the development of a labor market. If the pre-reform policy was based on ideology, the present one is firmly rooted in practical demands.



**Table 3**  
**The Employment Situation in Mainland China and Other Countries**

Unit: 10,000

Country	Year	No. Employed	Unemployment rate
Mainland China	1993	60,220.0	2.6
United States	1993	11,930.6	6.7
Japan	1993	6,450.0	2.5
Germany	1992	3,009.4	—
United Kingdom	1993	2,531.7	10.4
France	1993	2,202.4	11.6
Italy	1992	2,160.9	11.5
Canada	1993	1,238.3	11.2
Australia	1993	768.0	10.9
Russia	1992	7,207.1	0.8
Poland	1991	1,656.0	15.7
Hungary	1992	431.7	12.3
Romania	1992	1,045.8	8.4
Indonesia	1992	7,810.4	—
Philippines	1993	2,444.3	8.9
Thailand	1991	3,113.8	2.7
Singapore	1993	159.2	—
Malaysia	1990	668.5	—
Pakistan	1992	3,075.3	6.3
Myanmar (Burma)	1992	1,573.7	—
South Korea	1993	1,920.3	2.8
Brazil	1990	6,210.0	3.7

Source: *Zhongguo tongji nianjian 1995*, 763-64.

The first and foremost goal of the economic reforms is to establish a “socialist market economy,” and to reach this goal, it is necessary to develop markets of various kinds, especially markets in the factors of production. These markets enhance the rational allocation of resources, optimize industry and industrial structure, and improve economic efficiency.<sup>17</sup> The labor market is the most important of these production factor markets, and some economists believe that it plays a decisive balancing role in all the other markets. However, in mainland China, the labor problem is exacerbated by the immense size of the labor force and the imbalance between labor supply and

<sup>17</sup>Xiao Liang, “Four Theoretical Issues Concerning the Labor Market,” *Zhongguo jingji wenti* (Chinese Economic Issues) (Xiamen), 1993, no. 4:6.

demand. It is no use relying on the market alone to solve the unemployment problem; increased employment opportunities still hinge on economic growth and investment.

Compared with other countries, mainland China has maintained quite a high rate of employment (see table 3). In 1990, for example, 79.17 percent of the total population aged fifteen years and above were employed, whereas in 1988, the employment rate was 57.19 percent in the United States, 48.81 percent in France, 61.22 percent in Japan, and 53.49 percent in the United Kingdom.<sup>18</sup> Mainland China's unemployment rate of 4 percent counts as full employment according to Western standards.<sup>19</sup>

The problem in mainland China is that a one percentage point increase in the unemployment rate represents another 10 million people out of work. Added to this is the fact that almost the entire population of working age is demanding work, while some individuals below the official working age have already entered the work force. In sum, many of today's employment problems are the result of the erroneous policies of the past and the economic environment. Their solution hinges not only on reform of the labor system itself but on reform in other related areas of the economy. The difficulty and urgency of the issue can be discerned from the fact that nearly 300 million jobs must be created in mainland China by the end of this century.

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<sup>18</sup>Sun Huaiyang and Ye Liqi, "The Employment Situation in China and Its Development Trend," *Renkou yanjiu* (Population Studies) (Beijing), 1994, no. 4:11.

<sup>19</sup>Zhang, *Zhongguo hongguan jingji*, 307.