



The Effectiveness of China's Unemployment Policies During the Pandemic Economy

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With the waves of the Omicron variant of COVID-19, the Chinese economy took several hits. To push the economy back onto the path of development, one of the Chinese government's focuses has been refining the unemployment policy to create and stabilize more jobs (Bloomberg Correspondent, 2022). This large policy takes many more minor actions to bring down the unemployment rate. This essay will evaluate the unemployment policy of China and analyze the short- and long-term effects.

To combat unemployment, China first aims to lower the cost of unemployment insurance and allow a default on payment until April 2023 (经济日报, 2022). This part of the policy targets all firms in five industries, and the individual workers can choose to pay a smaller cost at a later time (经济日报, 2022). This decision can bring beneficial short-term impacts. According to official calculations, it can add another ¥80 billion (roughly \$12 billion) worth of cash flow for consumers and firms, which is "crucial to support unicorns (a term used to describe small firms and startups) and individuals who have financial issues" (sina_mobile, 2022). In the long run, more affordable unemployment insurance is expected to help stabilize and restore market confidence. This restoration will likely lead to more consumption and investment, resulting in a steady rise in GDP (Mankiw, 2020). However, such a drop in unemployment insurance costs can also lead to unintended consequences in both the short- and long-run. For example, disaggregated U.S. data demonstrates that for every standard deviation increase in state unemployment insurance benefits, a country's total deposits decrease by 2.2%, causing banks to reduce lending and discourage corporate investment (Arslan et al., 2019).

Another way the Chinese government aims to tackle unemployment is by reducing taxes on small firms. In more precise terms, the government reduced ¥83 billion worth of tax for small enterprises for the first half of 2022 (北青网-北京青年报, 2022). These firms, although small in size, make up about 80% of the workforce in China (北青网-北京青年报, 2022). Under the stringent Zero-COVID Policy, many small firms are facing their death knell, and entrepreneurs are not feeling confident in opening new businesses. This beneficial decision will likely incentivize firms in the short term, leading to a greater labor market demand. A greater demand will cause a drop in the unemployment rate and increase production levels and total revenue. Data shows that for the first quarter of 2022, the total revenue for small-to-medium sized firms in China amounted to ¥949 million, which is a ¥346 million increase year-to-year (工信部, 2022). But on the other end, a tax reduction can also increase the government deficit due to a decrease in tax revenue and a rise in government or sovereign debt, potentially straining the macroeconomy in the long run (Tax Policy Center, 2012).

The third component of unemployment policies is the government's decision not to adjust the minimum wage this year (上海人力资源和社会保障, 2022). A raise in a binding minimum wage in a labor market will likely cause a labor surplus, which translates into unemployment. A study found that a "10 percent increase in the minimum wage depresses teenage employment by 1 to 3 percent" (Mankiw, 2020). Thus, this policy section aims to prevent a further rise in unemployment, thus stabilizing the labor market in the short term. In the long while, fixing the minimum wage can benefit small firms suffering from losses, as doing so will guarantee that a

crucial factor of the fixed cost will not rise (Mankiw, 2020). The strategy might even encourage firms to hire more employees from across China in the coming months (经济日报, 2022). However, this action is still controversial. Thepaper.cn, an authoritative news source in China, argued that the standard of living for the impoverished in the country could further fall, especially as inflation rises (劳动午报, 2022). Additionally, consumer spending usually rises with wages. If one stretches the time horizon, the decision not to adjust the minimum wage can hurt people's confidence in the bottom strata of Chinese society. As a result, in the future, China's GDP might experience more sluggish growth or even stagnancy, as 600 million people live around the minimum wage line (劳动午报, 2022).

The key to China's unemployment policy is to assuage fear in producers' and consumers' minds by injecting stability into the economy via artificial or genuine means. According to *The Economist*, China's economy has been badly hit by its strict policies regarding the pandemic, and the government is feeling increasing pressure from the Chinese public (*The Economist's Correspondent*, 2022). In these difficult times, the government realizes the importance of protecting employment. As long as firms feel safe producing, China's huge consumer market will be confident to purchase, invest, and fuel GDP growth. By lowering the cost and allowing the default of unemployment insurance, reducing taxes for small firms, and broadly fixing the minimum wage, workers will feel encouraged to keep working while firms will remain confident in hiring employees due to the lower operating cost (经济日报, 2022).

Although the prospect of the unemployment problem in China is uncertain, there have been some positive signs. For example, the State Statistics Bureau of China announced that the unemployment rate has been dropping since May 2022, though young people in China still have difficulty finding jobs (sina_mobile, 2022). Moreover, the internet economy has been more powerful than expected, and many Chinese are seeking creative solutions to work flexibly. The Chinese government should note such trends and work out policies based on the actual development of the situation. Granted, the pandemic era is one of economic retreat and challenges. Still, it is also an extraordinary period for the government to test new policies and accurately observe the patterns of economic development.

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