



What determines employment opportunity for college graduates in China after higher education reform?

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ABSTRACT

Using the 2005 placement data from two separate colleges, this paper studies graduate job allocation in China after higher education reform. Other things being equal, graduates with better college GPA were more likely to be employed (in particular by high-pay foreign firms) in both colleges. Female advantage in GPA helped to produce a surprising gender employment gap favoring female graduates. Our empirical evidence does not support the three alternative hypotheses of such a gap. Even though the job-market returns to GPA might be higher for women, there is some weak evidence that the job-market preferred male graduates over their female peers with similar qualifications. Pre-college urban *hukou* status and a proxy of father's education had positive impacts on a graduate's educational and employment outcomes. There is no evidence that father's Communist Party membership mattered.

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1. Introduction

Before higher education reform of the late-1990s, each college graduate in China was guaranteed a government-assigned job through a centralized placement system. The reform created the world's largest graduate job-market in China. In the face of massive graduate unemployment over the past decade, the functioning of this new market has received great public attention.¹ Is job allocation determined by merit? Do household registration status (*hukou*) and family background play an important role? Is the outcome fair to the women? Etc.

These new questions are important because the job-market is still in transition. While the reform has offered graduates and their employers new opportunities, *hukou* institution still restricts labor mobility in various ways, and employers (including government recruiters) often openly discriminate against job applicants with certain characteristics.² Graduate job allocation may affect the society in many important (or even disastrous) ways. For example, if the risk of unemployment for graduates from a rural/poor background is too high no matter how hard they work in college, they may shun college education altogether even if they can pay for it, deepening the existing inequality in access to higher education and blocking a traditional channel of social mobility in a highly unequal society. According to a widely circulated media report, over 10,000 mainly-rural high school students did not sign up for the 2009 college entrance exam in Chongqing when the college graduate job-market deteriorated during the global financial crisis, despite an increase in the total number of students who did sign up in this poor western province.³

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¹ Asia Times, June 20, 2007; Women of China report, December 21, 2006, etc.

² For example, a survey conducted by the Ministry of Labor and Social Security, which covered 62 cities, shows that 67% of employers set explicit employment restrictions regarding gender. Source: Xinhua News Agency, January 18, 2007. Restrictions regarding *hukou*, height, age, etc are also common. Regulation almost does not exist.

³ The Chongqing Evening News, 3/28/2009.

Even though anecdotal stories about the graduate job-market abound, there is no rigorous evidence of any “due process” regarding the way jobs are allocated among the graduates. This is largely due to the lack of reliable individual-level data set. To fill this gap, we collected a unique micro data set based upon various administrative records in two separate colleges. Our data set contains information on family background, individual characteristics, academic performance (both before and during college), and placement outcomes, allowing us to explore the functioning of the job-market in a fairly detailed way.

Our paper touches upon several dimensions of the job-market, but we will focus upon the way academic achievement during college affects post-graduate employability and contributes to the gender differences in employment outcomes. One reason is that our findings on other dimensions (such as *hukou* and family background) seem to be consistent with the perceived view of the Chinese labor market (e.g. Bian, 1994; Knight & Yueh, 2004), while the relationship between human capital accumulation within college (reflected in college academic achievement) and job-market outcomes in China is an open question. Providing an answer to this question would help us evaluate the role of college education and individual productive characteristic in the job allocation process.

Another reason is that the gender situation is counterintuitive when we look closer at it. The popular belief that female graduates are in a very weak position (see footnote 1) is not at all consistent with the employment data we found in our samples. While there are no official national statistics available, we were able to obtain regional statistics which also suggest that the female graduate unemployment rate is not in fact higher than the corresponding male rate in Shanghai (2005), Beijing (2000–2002), or Hainan (2005–2006). Our own calculation based upon 2005 mini census shows a similar pattern (details to be explored in a separate paper). Since hiring discrimination against women is widely perceived to exist (though rigorous evidence is lacking) in China, such a success demands an explanation. Our findings show that the gender difference in college academic achievement plays an important role.

To preview our main results, we find that college GPA is an important determinant of placement outcomes in both colleges. Other things equal, graduates with better college GPA were less likely to be unemployed in both colleges. Conditional upon the employment status, graduates with better GPA were also more likely to enter high-pay foreign firms. Returns to GPA tend to be larger in firms/places situated in a more competitive labor market, consistent with our supplementary evidence that grades reflect human capital investment.

Because women from both colleges received better grades, their employability in the post-reform graduate job-market was greatly improved. This helps to explain the observed employment gap in favor of women. Direct evidence of gender discrimination exists, but is not very strong. There is some weak evidence that returns to college GPA are higher for women.

Section 2 describes the background of our research and introduces the relevant literature. Section 3 describes our data. Section 4 presents our main results on the job-market returns to college GPA and its gender implications. Section 5 discusses three alternative hypotheses. Section 6 concludes this study.

2. Background and literature

Over the last ten years, China has seen the most dramatic expansion of opportunity for higher education in human history. Before market reforms of the late-1990s, university education in China was the privilege of a very small number of bright students, for whom education was almost free. Their jobs were guaranteed and assigned to them by the government through a centralized placement system (*fenpei*). From 1978 to 1998, tertiary student enrollment increased modestly, from 0.86 to 1.08 million. After several years of breakneck expansion of the educational system, enrollment had jumped to 5.4 million students in 2006.⁴

Massive graduate unemployment followed reform and college expansion. At the national level, the statistics reported by different government ministries have relatively large variations, though they seem to be at least as high as 30%.⁵ The situation is becoming worse over time. Facing a deepening economic crisis in December 2008, Chinese premier Wen Jiabao declared that dealing with graduate unemployment was his government's top priority.⁶ The situation is popularly believed to be worse for graduates from rural and poor regions, for those without good family connections, and for the female graduates who face gender discriminations.⁷

College-educated workers also face the *hukou* institutional constraint. Even though college students can get the local *hukou* at the city where they go to college, it is only a temporary status for study purposes (like a student visa). In the Chinese legal system, the pre-college *hukou* is considered the de fault legal status for a graduate. Any graduate who moves *hukou* to another city for purpose of obtaining college education is supposed to resume the original *hukou* upon graduation. If they want to keep the *hukou* at the city where they have completed college education (if their pre-college *hukou* is from a different city), or want to get *hukou* in an entirely different city, they need to seek government approval, which is often difficult to obtain, especially in large cities. Graduates may still migrate and work without local *hukou*, just as low-skilled migrant workers always do, but they will have to overcome institutional barriers and various discriminations (Knight & Yueh, 2004) In this way, *hukou* institution helps to preserve regional labor market segregation even for college-educated workers. Since regional inequality in China is very high (see details in the next section), labor market segregation has tremendous impact on a graduate's employment opportunities.

⁴ Source: Bai (2006).

⁵ Source: Ministry of Education, 2003, 2004; Ministry of Labor and Social Security, 2006. No method of data collection and computation was reported.

⁶ Source: China Daily online Dec 21, 2008. The other top priority was migrant workers' unemployment problem.

⁷ See articles in our footnote 1. Also see The Hebei Daily, 05/22/2006 “Nongcun Nv Daxuesheng Jiuye” (“The Employment of Graduates from the Rural Areas”), The China Youth Online, <http://www.cyoul.net> 02/18/2008, “Fuqing Jiuye Shidai Daolaile?” (“Is it true that jobs are allocated through fathers' connections?”) etc.

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