

Analysis of Inflation and Unemployment in China

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Abstract. This paper mainly focuses on the analysis of the relationship between inflation and unemployment, their mutual influence, interaction, and transformation. It highlights the importance of carefully handling the relationship between the two factors for sustainable economic development. Based on this understanding, it proposes corresponding measures to address these two problems in light of the current economic situation in China. The paper also provides a summary and conclusion of various research findings both domestically and internationally, with the aim of serving as a reference for China to better navigate economic fluctuations and maintain smooth macroeconomic operations. Amid the current situation of increasing downward pressure on the economy and employment pressure in the labor market, this paper argues that China's rapid economic growth rate, high unemployment rate, and inflation rate are the root causes of the causal relationship between unemployment and inflation. Therefore, in order to effectively prevent the emergence of unemployment and inflation, it is necessary to take effective measures to curb inflation.

Keywords: Inflation, unemployment, correlation.

1. Introduction

1.1. Research Background

Since the 1990s, with the deepening of China's reform and opening up, China's economy has developed rapidly. Especially at the end of the 20th century and the beginning of the 21st century, China's economy has continued to grow at an average annual rate of 9.7% [1]. At the same time, China's economic development is also facing serious challenges, on the one hand, with the rapid development of the economy and the increasing population, China is facing increasing population and employment pressure; on the other hand, due to the impact of the international financial crisis, China's macro-economy has experienced a certain degree of decline. At the same time, the large amount of unemployment generated in the course of rapid growth has also posed a great threat to social stability in China. Therefore, how to solve these two problems has become an important issue that China's economic development must now face.

1.2. Literature Review

1.2.1. Review Of Foreign Studies

In the 1930s, Keynes proposed that there is a stable relationship between unemployment and inflation and put forward the theory of wage rigidity. However, Keynes's theory could not explain the relationship between unemployment and inflation in the long run because it only considered the short-term problem but not the long-term factors [2]. In the 1990s, people began to recognize the inconsistency between nominal and real wages, which gave rise to wage rigidity. However, Keynesian theory itself is flawed because it only takes into account short-run factors and ignores long-run factors. As a result, the relationship between prices and wages is not stable in the real economy. Since the 20th century, foreign scholars have studied the relationship between inflation and unemployment from different angles. These include new Keynesian theory, neoclassical theory, behavioral economics theory industrial organization theory, etc.

1.2.2. Review Of Domestic Studies

Huang Yaoyao (2021) draws on the Phillips curve theory to construct a linear regression model of inflation and unemployment and takes the data from 2010-10 as a sample to conduct an empirical

study on the mutual impact of the two, conducts a preliminary discussion on the mutual impact of the two and tries to give the relevant policy recommendations. According to Qiao Shuaixin and Qiao Shuaiyan (2020), in the 21st century, under the hypothesis of "technological upgrading", due to the rapid growth of market demand, which leads to technological upgrading, automated production lines replace manual production lines, and automation replaces manual labor, but the result of this is not to reduce unemployment but to increase unemployment, which violates the Phillips curve. Phillips curve. Xiao Xue (2019) argues that it is necessary to ensure both full employment and price stability. Given that the current employment situation in China is very serious, some problems in employment can be better solved through the study of the Phillips curve. Using the Phillips curve and combining it with the reality of China, Zhang Hui-Yun (2016) made a preliminary explanation of this phenomenon and gave corresponding policy suggestions. Yang Bin (2014) summarizes the vivid practice of China's early reform and opening up, as well as the outstanding contributions of theorists, which is of great practical significance to the development of the theory of socialism with Chinese characteristics, the maintenance of China's economic and financial security, as well as the maintenance of the interests of the people, and its successful experience will provide us with firmer confidence in the system, the road, and the theory for the comprehensive deepening of reform in the new period.

2. The General Trend Of China's Inflation And Unemployment Rates

2.1. General Trend Of China's Inflation Rate

Inflation is a widespread economic phenomenon in today's world, which not only plagues countries around the world but also many economists [3]. The problem of inflation will arise as long as the market exists, and so does China. However, due to the differences in China's national conditions and the level of development of the market economy, inflation has a certain specificity in China. China experienced its first period of high inflation after the reform of its economic system, and the main reason for this period was the change in the direction of China's economic reform. In the 1950s, China began to adopt a comprehensive reform that synchronized urban and rural areas, replacing the original single rural reform program, and this change led to a large degree of relaxation of the price control of consumer goods prices and prices of various means of production, which stimulated demand and led to soaring prices, but at the same time, it also made the people's cost of living rise sharply and suffered tremendous pressure [4]. Since then, our country's inflation rate has been increasing every year, albeit with occasional slight reductions, but overall.

2.2. General Trend Of Unemployment In The China

China is a large country with a large population, and the sheer size of its population makes it impossible to place a large number of unemployed people in the workforce every year, with the rate of growth in the supply of labor being higher than the rate of growth of the index of economic growth in demand for labor. In addition to this, another reason for the increase in unemployment is the rapid development of the socialist economy has brought to stage the covert unemployment problem which used to be ignored in the past. However, in recent years, the unemployment rate in the city has been rising every year, and so has the inflation rate, which is not quite the same as the Phillips curve [5]. According to the traditional Phillips curve, there is an inverse relationship between the unemployment rate and the inflation rate, that is to say, as urban unemployment increases, the inflation rate decreases and vice versa. Although the unemployment rate has risen over time, there have been no significant fluctuations overall.

3. The Correlation Between Unemployment And Inflation In China

3.1. Low Inflation Leads To Falling Unemployment

In Keynes's theory, the unemployment rate is an important indicator used to measure whether monetary policy is effective or not because monetary policy can only work as it should when the unemployment rate falls [6]. However, in reality, monetary policy has not been as effective as it should be because the economy is growing fast and the pressure on employment is very high. Of course, the fast economic growth rate is an important reason, but the rising unemployment rate is also an important factor. China has a very large population and if unemployment is a serious problem, then it will lead to a lower rate of economic growth, thus reducing the dependence of economic growth on employment. This suggests that there is not necessarily a relationship between inflation and unemployment in China. On the contrary, there may also be a relationship of mutual substitution to a certain extent.

The reasons for the decline in unemployment are manifold. First, the slowdown in economic growth has increased employment opportunities for the unemployed population, thus reducing the unemployment rate. Secondly, there are many imperfections in China's labor market, such as asymmetric information in the labor market, segmentation of the labor market, an imperfect mechanism for transferring information on labor supply and demand, the coexistence of excess supply and insufficient demand for labor, and uncoordinated employment structure and industrial structure. These factors make the transmission of supply and demand information poor, and there is a structural unemployment problem in the labor market, which also makes the unemployment rate show a downward trend.

3.2. High Inflation Leads To Rising Unemployment

First of all, China's economic growth and the expansion of the total economy will stimulate the development of enterprises, which will increase the demand for labor and employment opportunities for laborers. Secondly, too fast inflation is also the reason for the rise of the unemployment rate. When the economy grows too fast, it will stimulate people's desire to consume and the investment impulse of enterprises, expand the investment demand, and then stimulate economic development, which will create a large number of jobs in the process. However, if the enterprise investment projects do not bring benefits will lead to enterprise closure and bankruptcy or layoffs and wage cuts. A large number of layoffs and pay cuts will inevitably lead to a rise in unemployment. Finally, inflation is one of the macro-control tools. For the government, since price control is an important part of the government's function, the government will take some macro-control measures to curb the occurrence and development of inflation [7]. When inflation occurs in a country, the government usually adopts austerity policies to curb inflation, but austerity policies will make the recession more serious and the unemployment rate rise further. Therefore, to avoid economic recession and rising unemployment, the government usually adopts some macro-control measures to curb the occurrence and development of inflation.

4. Policy Recommendations For A Balanced Approach To Inflation And Unemployment

4.1. Constructing A New Economic Growth Mode

Since the reform and opening up, China's economy has maintained a high average annual growth rate of 9.6%, a rare economic growth miracle in human economic history. However, behind this high economic growth, there is also the problem of high unemployment and low unemployment rates co-existing. The fundamental reason is that in China's long-term implementation of the rough economic growth model, some high energy-consuming, high-polluting industries have been developed rapidly, while many labor-intensive industries in the disappearance of the low-cost advantage are difficult to

sustain [8]. Therefore, China must accelerate the economic restructuring and optimize the industrial structure. In the long run, only by relying on technological progress, industrial upgrading, and independent innovation to build a new economic growth model can we fundamentally solve the problem of high unemployment and low unemployment coexisting.

Accelerating economic restructuring is the fundamental way to increase China's labor employment rate. Specifically, it is to increase support for labor-intensive industries and increase jobs by improving the added value of products; to vigorously develop the secondary industry while actively developing the tertiary industry; to vigorously develop the tertiary industry while adjusting the internal structure of the industry; and to speed up the pace of agricultural modernization and promote the transfer of agricultural laborers to non-farming industries. Through these measures, the economic structure will be adjusted, the industrial structure optimized, industries upgraded, the competitiveness of enterprises improved, and a sound social security system established [9].

4.2. Development Of Targeted Measures To Solve The Employment Problem

In China's labor market, the interaction between unemployment and inflation is mainly manifested in the fact that, on the one hand, inflation leads to increased unemployment and a rise in the unemployment rate; on the other hand, a rise in the unemployment rate leads to increased inflation. Therefore, only an effective combination of the two can fundamentally solve our current employment problem.

Concerning the high unemployment rate, the Government should take various measures to promote employment and expand consumer demand to offset the negative impact of insufficient demand. At the same time, the Government should also take various measures to curb the impact of inflation. For example, the Government can reduce the unemployment rate by appropriately raising the level of social security, improving the education and training system, and promoting industrial restructuring. In addition, it should also give full play to the role of intermediary organizations in the labor market and actively help the unemployed to find jobs or promote employment through their referrals, and so on.

Concerning the phenomenon of a high unemployment rate but a low consumption rate, the Government can alleviate it by first, expanding domestic demand; second, adjusting income distribution; and third, improving the social security system [10]. In addition, the Government can take the following measures to mitigate the negative impact of low unemployment but high consumption: first, promoting industrial restructuring and technological progress; second, accelerating the urbanization process and agricultural restructuring; third, establishing a sound and unified urban and rural labor market; and, fourth, giving full play to the role of unemployment insurance.

To alleviate the phenomenon of low unemployment and high consumption rates, the Government should take the following measures: first, improve the social security system; second, accelerate the process of urbanization and agricultural restructuring; third, develop the tertiary industry and implement re-employment projects; fourth, establish a sound unemployment insurance system; fifth, improve the information network of the labor market; and, sixth, strengthen the supervision of the labor market.

5. Conclusion

5.1. Key Findings

In the long run, inflation and unemployment will increasingly become major challenges in China's future economic development. Inflation can lead to rising prices and decreased purchasing power, while unemployment can result in widespread job losses and social unrest. These two problems are not only important indicators of economic performance, but also factors that can have short- and long-term negative impacts on China's economic development. Therefore, it is crucial to address the relationship between inflation and unemployment to create conditions for the sustainable

development of China's economy. To ease the pressure of rising prices, the Chinese government should strengthen its macro-control measures, which aim to regulate the overall economy and maintain price stability. By implementing appropriate monetary and fiscal policies, the government can control the growth rate of money supply and inflation expectations, thereby containing inflationary pressures. Additionally, the government can also utilize employment policies to promote employment opportunities and job creation. However, addressing the employment problem is not solely the responsibility of the government. To truly solve the employment problem, it is essential to give full play to the market's decisive role in allocating labor resources. The government should actively utilize public policies to adjust the social security system and improve it. By providing comprehensive social security coverage and ensuring that all unemployed individuals receive timely and sufficient assistance, the government can strengthen its care and assistance to the unemployed. To reduce the likelihood of structural unemployment in China at this stage, several policy measures can be implemented. Firstly, it is necessary to construct a new model of economic growth that emphasizes sustainable development and high-quality employment opportunities. This can be achieved by promoting innovation, technological advancement, and a shift towards higher value-added industries. Secondly, targeted measures should be formulated to address specific employment problems. This may include providing training and skill development programs for workers who are at risk of being displaced by technological improvement, enhancing vocational education and apprenticeship programs to improve labor market flexibility, and promoting entrepreneurship and small businesses to create more job opportunities. By taking these measures, China can reduce the likelihood of structural unemployment and promote a more sustainable and inclusive economic growth.

5.2. Future Studies

In the long run, China will increasingly face the problems of inflation and unemployment in its future economic development. Both of them are important factors that cause many problems in China's economic development, both in the short and long term. Therefore, the relationship between the two should be properly handled to create conditions for the sustainable development of China's economy. The government should ease the pressure of rising prices by strengthening macro-control and utilizing employment policies to promote employment. But the employment problem cannot be solved by the government alone. It is necessary to give full play to the decisive role of the market in allocating labor resources and to actively use public policies to adjust the social security system and improve it. The Government should strengthen its care and assistance to the unemployed. To reduce the likelihood of structural unemployment in China at this stage, the following policy measures can be taken: on the one hand, a new model of economic growth should be constructed, and on the other hand, targeted measures should be formulated to solve the employment problem to reduce the likelihood of structural unemployment.

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