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**Household Structure and Labor  
Demand in Agriculture: Testing for  
Separability in Rural China**

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**HOUSEHOLD STRUCTURE AND LABOR DEMAND IN AGRICULTURE:  
TESTING FOR SEPARABILITY IN RURAL CHINA**

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**Abstract:** Economic reforms in China have brought rapid growth in nonagricultural employment in rural areas and a substantial shift in the structure of rural employment. These changes have led researchers to question the conventional view of rural China as a labor surplus economy with poorly functioning factor markets. We contribute to this debate by testing for separability between the labor demand and supply decisions of households in a typical rural county in northern China. Our test, which makes use of unique panel data that enable us to control for time-invariant unobservable household characteristics, yields the following results: (1) separability is rejected across a variety of specifications, indicating that factor markets in the early 1990s remained underdeveloped; (2) the conventional view of surplus labor oversimplifies the situation as we find that, while some localities have a labor surplus, others may face labor shortages; and (3) separability does hold in areas where substantial employment opportunities exist at the township level, suggesting the need for employment opportunities that transcend village borders so as to create competitive pressures on villages and promote the inter-village movement of resources.

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