

The Impact of Household Registration Restrictions and the Integration Reform on Urban-Rural Disposable Income Disparity in China

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Abstract

This thesis studies the effects of the restrictions on the agriculture and non-agriculture household registration system often called urban and rural hukou, and its abolition on the disposable income disparity between urban and rural areas in China. This thesis uses the difference between the non-agriculture hukou and urbanization rates to measure the hukou limitation and its impact on income disparity in urban and rural areas. As for the integration reform, the study uses a dummy variable about before and after the integration reform and a dummy variable with additional regression specification of year to estimate the impact of such dichotomy on the income gap among Eastern, Western, and Central China. The results suggest that the stronger the hukou limitation, the more significant the income inequality between urban and rural areas, but the results are not valid in Eastern developed regions. The dual-track system has a more substantial impact on increasing the income gap in economically underdeveloped Western China. However, the thesis suggests that the integration reform cannot significantly diminish the income disparity between cities and the countryside.

Introduction

This thesis studies two questions about the agricultural and non-agricultural household

registration system (hukou) in China: what is the impact of hukou limitation on the income disparity between urban and rural areas? Moreover, what is the impact of the hukou integration reform on the income disparity between urban and rural areas? According to the State Council Information Office (2021), Chinese people's mean income has significantly risen. The per capita disposable income has increased from 171 yuan in 1978 to 32,188 yuan in 2020 since the country adopted the reform and opening-up policy. From 1978 to 2020, the urban Engel coefficient decreased from 57.5% to 29.2%, and the Engel coefficient of rural residents fell from 67.7% to 32.7%. However, according to the Office for National Statistics (2022), the long-existing problem of the urban-rural income disparity has not been solved. The urban-rural disposable income ratio exceeded 3.00 in 2002 and even reached a historical peak of 3.14 in 2007. Although this incredible disparity no longer exists, the urban-rural income gap was still above 2.5 until 2021. The income gap between cities and the countryside is the most severe and long-standing problem that is difficult to solve in Chinese society. According to previous studies, hukou restrictions can increase the income gap between urban and rural areas.

After founding the People's Republic of China in 1949, China employed the Soviet Stalinist model with industrialization as its aim: using the rural surplus to support urban development. In 1958,

to diminish migration from rural to urban areas, the Chinese government issued Regulations on Household Registration of the People's Republic of China to restrict rural-urban mobility. The Chinese government classified all people as agricultural or non-agricultural hukou based on the regulations. The government tied rural people to their land, and if they wanted to convert their rural hukou to urban hukou, it was severely limited and challenging. As a decree to support industrialization, it aimed to limit the unwelcome rural to urban mobility (Chan, 2010). Urban citizens could enjoy better welfare than rural citizens, including better education, medical care, pension, and employment. During the planned economy period, rural people needed to get urban hukou if they wanted to settle in cities because of the enormous welfare differences. After the reform and opening-up policy, the welfare gap based on household registration gradually decreased, but it still existed (Zhou et al., 2022). Because of the relaxed restrictions, after the 1980s, millions of people could work in cities even if they had rural hukou (Fields and Song, 2013).

In Table 5, the government used five-stage reform policies to relax the hukou limitations after the opening-up and reform. The social mobility from rural to urban areas was not strictly restricted. From 1978 to 2001, eligible farmers could get non-agricultural hukou, and the government gradually reduced the requirement for obtaining a non-agricultural hukou. After 2002, some provinces no longer recorded residents' hukou nature, but most provinces still showed their hukou locations, and the integration reform could not wholly diminish the welfare gap between urban and rural residents. In order to further reduce the hukou restrictions, The State Council issued opinions on further promoting the reform of the household registration system in 2014. By January 1, 2017, all provinces had abolished the division of agriculture and non-agriculture

hukou and unified registration as resident hukou. The reform also includes establishing education, health, employment, social security, housing, and population statistics systems compatible with the resident household registration system.

This thesis uses panel data from 31 province-level administrative regions in China from 2007 to 2019. This thesis employs the urban and rural disposable income ratios to compare income differentials. It also used dummy variables with additional year regression specifications to examine the long-term and short-term effects of the household registration integration reform on the urban-rural income ratio. At the same time, the methodology adds control indicators such as some primary macro data, such as the education gap between urban and rural areas, age structure, etc. It controls the province fixed effects and year fixed effects in the methodology.

Previous studies have studied the effect of hukou restrictions on the rural-urban development disparity, which is the result of principal component analysis of different indicators rather than just the income gap (Li & Hu, 2015). Compared with previous studies, this thesis analyzes the impact of hukou restrictions on the urban-rural income gap at the macro level and the change in the annual income gap before and after the hukou integration reform to study whether this policy would have a significant impact on the income gap. Compared with Song (2015), which suggests that there is gender discrimination on income, this paper indicates that the impact of gender ratio on wage differences between urban residents and rural residents is not significant. This thesis also studies the impact of age structure, family size, agricultural modernization, educational level, economic growth, divorce rate, urbanization rate, healthcare, and infrastructure on urban-rural income inequality in China.

This thesis has found that hukou

limitations can increase the urban-rural income ratio in economically underdeveloped Western and Central regions. However, there is insufficient evidence to show that the integration reform can reduce the income disparity after using a dummy variable to compare the income gap change before and after the reform, especially by adding additional specifications of year. Urbanization, infrastructure, and agricultural mechanization developments

can positively reduce the urban-rural income inequalities. Reducing the education level and healthcare differences between urban and rural areas can also reduce income inequalities. However, the impacts of economic growth, age structure, family size, gender ratio, and divorce rate on the urban-rural income gap are not significant.

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