

Labor Migration and Intergovernmental Transfers: An empirical analysis of household registration system in China

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1 Background and Objectives

The Household Registration System in China works as a domestic visa to regulate migration by official permission. Despite of this strict system, huge amount of migration has been flowing into developed provinces during the last decades. This raised heated debates on the system and many relative researches were done based on principle of social equity. This work, however, focuses on the efficiency of the system and shows backward of it to efficient labor allocation. Also, as a fiscal policy, intergovernmental transfer is found to be effective to ensure this efficiency.

2 Theoretical Model

Labor allocation between two provinces is efficient if $f'_1 - \frac{\partial c_1}{\partial l_1} - x_1 = f'_2 - \frac{\partial c_2}{\partial l_2} - x_2$ is satisfied by Boadway and Flatters (1982), indicating provincial social marginal benefit (*SMB*) to be identical ($SMB_1 = SMB_2$). Here f'_i , $\frac{\partial c_i}{\partial l_i}$ and x_i ($i = 1, 2$) are the provincial marginal product of labor, congestion cost and private goods consumption. When the equation is violated, transfer system $s = (l_1 l_2) / (l_1 + l_2) \cdot (SMB_2 - SMB_1)$ that affect x_i in two provinces can ensure this efficiency.

3 Empirical Analysis I and II

Basing on the efficient condition, empirical analysis I shows situation of labor allocation in current China. By regression, concrete value of three components in *SMB*, f'_i , $\frac{\partial c_i}{\partial l_i}$ and x_i , are derived for 31 provinces, 12 years. Comparing *SMB* between each pair of provinces, we can characterize provinces to be under- or overpopulated, and it is recognized that currently in China, **developed** provinces are **underpopulated**, meanwhile **developing** provinces are **overpopulated**. As migrations are observed to move from developing to developed provinces, we thus argue that HRS which restricts the migration process is a hindrance to achieve the efficient allocation of labor.

In the presence of this inefficiency, empirical analysis II presents positive influence of intergovernmental transfers on migration, respecting to the second argument in theoretical model. We implemented regression models named Full Adjustment, Partial Adjustment and Stock-Flow model, in which migration is regressed on provincial net fiscal benefit (proxy variable for transfers), disposable income and individual expenditure level. First two models strongly confirm the hypothesis that intergovernmental transfers are positively related to migration and should be effective to ensure an efficient labor allocation.

4 Conclusion

Results from empirical analysis I and II correspondingly confirm two arguments in the theoretical model. Besides, considering real situations in China, in this work, we further give two political suggestions that, (1) Current Household Registration System in China should be reformed as it is a hindrance to the efficient adjustment of labor allocation, (2) Intergovernmental transfers should be implemented to ensure the efficiency as it has significantly positive influences on migration.