



EUROPEAN POLICYBRIEF



URBACHINA

**POLICY BRIEF: “REFORMING HUKOU
(HOUSEHOLD REGISTRATION) TO ENHANCE
EQUITY & EFFICIENCY”**

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This is a report from Work Programme 3 on “Territorial expansion and accommodating a greater population” of the UrbaChina project on sustainable urbanisation in China. It summarises evidence of the particular achievements and problems found and feasible policy solutions to these problems.

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INTRODUCTION

The focus of this policy brief is the hukou system, which weighs down heavily on the lives of ordinary citizens, migrants in particular. It has also been high up on the reform agenda. A recent policy document entitled “New Urbanisation” outlines the envisaged reforms and their time table. This brief starts with an outline of the system and then goes on to analyse first, its workings and structure; second, the aetiology of the problems associated with the system; third, possible solutions to these problems; and, fourth, the time frame of the implementation of the solutions.

STRUCTURE AND WORKINGS OF HUKOU

Hukou is a population wide system for recording data on households and individuals. In its present form created in 1958. *Hukou* is used for two broad purposes;

- identification of individuals;
- to sort the population into categories for particular purposes.

It is the latter which gives *hukou* its distinctive characteristic of putting some sections of the population at an advantage or disadvantage relative to the rest, and is the target of reform. In *hukou* there are two entries which are of central importance in respect to the second purpose; place of residence (*suozaidi*) which is normally specified at the neighbourhood level, and the *hukou* status of the holder (*hukouleibie*). The first entry is generic to all identity documents, and plays a crucial role in identifying individuals. The second entry refers to the binary classification of individuals as agricultural/non-agricultural which was introduced in 1958 and came to be used in a wide variety of contexts well beyond its initial rationale of distinguishing those entitled to the grain ration from those who were deemed to be self-sufficient in grain. The distinction still remains in force, albeit considerably weakened, even though all forms of rationing have disappeared. The reason for its survival lies in its multiple uses. The use of these two entries for determining eligibility changes their nature. In principle, the place of residence is a factual category but, when used to determine eligibility, it becomes a control variable that can only be changed through administrative discretion. Migration to a new locality is not sufficient to change it. Similarly, with the binary classification agricultural/non-agricultural, severing links with farming and the countryside, as tens of millions of rural inhabitants do every year, does not lead to a corresponding change from agricultural to non-agricultural *hukou*.

The combination of administrative control over these two categories, and massive internal migration has produced anomalies which are all too evident as a major source of problems in present-day China. The most evident is a population of individuals who are not recognised as residents of a locality where they are actually living and working, but of a different locality. Most of this population is in cities. Over time their numbers have grown and the 2010 population census puts the total at 261 million, which is close to 20% of the total population, having grown from zero in the years since 1978. This population includes not only recent migrants but also those who arrived long ago and their children who have been born and brought up in cities. Similarly, the other anomalous population consists of people who are classified as "agricultural" but with no current links to the countryside or to farming. These two factors have produced misclassifications of the population on a gigantic scale.

The fact of misclassification is obvious, but why does it matter? To begin with the misclassification with respect to locality, there is a wide range of goods and services which are only made available to the population with local *hukou*. Under the present rules, a person can remain a migrant (outsider) indefinitely. The purposes for which *hukou* is used vary across localities and change over time, for two main reasons. The first is a huge variation in the fiscal position of towns and cities, which are responsible for providing most of social goods and service, such as basic education and social security. This variation has widened over the reform period because of the decentralisation of government finances and regional differences in growth rates. The second is increasing acceptance of discriminatory policies favouring the local population.

The list of goods and opportunities provided to the local population, (with local *hukou*), on an exclusive or preferential basis is long and variable. The severity of the consequences of the exclusion of outsiders varies with individuals depending on their situation. Most of these go against the principle of equitable treatment of all citizens, which is not only desirable in itself but also conducive to social stability. Together they constitute systematic social exclusion, which is a source of social instability and hinders economic efficiency. Some notable instances where *hukou* locality still matters greatly are shown in the following table.

Context	Type of Preferential Treatment
Employment	Preferential recruitment of individuals with local <i>hukou</i> for favoured jobs.
Education (Primary, Secondary & Tertiary)	Positive discrimination in favour of local <i>hukou</i> holders.
Means-tested social Assistance	Often only provided to local <i>hukou</i> holders
House and car purchase	In some cities only local <i>hukou</i> holders allowed to purchase a house & participate in car-purchase lottery
Professional Qualifications	Many professional and vocational qualifications are granted only to local <i>hukou</i> holders ¹

In many cities, only local *hukou* holders are eligible for sought-after jobs or licences. Discrimination in favour of local *hukou* holders in admission to local universities is common, which particularly favours local *hukou* holders in the cities that are home to China’s top universities, such as Beijing, Shanghai, Guangzhou and Tianjin. This discrimination complements the restriction barring migrant pupils from sitting the university entrance examination (*gaokao*). The interesting feature of the above list is that the areas of discrimination are of recent origin, dating from the period of economic reforms. Some, such as access to professional qualifications and house purchase, create privileges for the local population, while others, such as denying social assistance and controlling the number of migrant children in local schools, are aimed at controlling local public expenditure.

The distinction between agricultural/non-agricultural is no longer as important as it used to be, and it may seem that the problem arising from its continued use can be solved by simply abolishing the

¹ For example, in Shanghai, an individual would not be allowed to take vocational exams without having Shanghai *hukou*.

distinction, as sixteen provinces have already done. However these provinces have found it necessary to re-invent the distinction under alternative labels, because of its continued use in two crucial areas. These are, the social security system and eligibility to hold land use rights in rural (collectively-owned) land. The social security system is divided along rural (agricultural)/urban (non-agricultural) lines. This division has weakened, but still persists. In principle a holder of agricultural *hukou* is not eligible to join an urban social insurance scheme, although this is no longer the case in practice. More importantly, individuals with non-agricultural *hukou* are not allowed to buy houses or apartments built on collectively-owned land, which may actually be located within urban areas as a result of urban sprawl.

HUKOU REFORMS

Like the country of citizenship, *hukou* location can be changed only by administrative discretion. Broadly, the same holds for the distinction between agricultural/non-agricultural or its recent replacements. The conditions governing change are set locally rather than nationally; as a result, they vary across towns and cities. They are light and permissive for towns and small and medium sized cities but highly demanding for large cities, especially in the coastal provinces. The latter are highly selective, designed to disqualify all but a very small percentage of aspirants to local *hukou*. At the current rate of conversion of outside to local *hukou*, large cities such as Beijing and Shanghai would always have a substantial underclass of people who live and work in the city but are regarded as aliens. The problem with each city setting its own conditions is that each wants to cream off the most educated and skilled people in competition with others. Taking all cities together, the unintentional result is more and more stringent conditions, which would leave a huge population of migrants living and working in cities but ruled out from ever attaining urban *hukou*. The policy document “New Urbanisation” envisages the introduction of a national framework for the conversion of *hukou* to overcome this problem.

Traditionally, university education and/or a regular job in the State sector were the conditions for obtaining *hukou* of a large city. In the past, a very small number of people were selected for university education, which automatically limited the number qualifying for a change of *hukou*. Over the reform period, a number of developments led to the increase in the number of aspirants. One is a huge expansion of university education, which has led to a further tightening of conditions; an undergraduate degree is no longer sufficient for obtaining *hukou* of cities such as Beijing and Shanghai. Generally a higher degree is now required. Another is a massive increase in migration, which has led to a similar increase in the number of aspirants to local *hukou* for the large cities. In response, there has been some relaxation of conditions and inclusion of new criteria, though nowhere near enough to accommodate the increase. Among the new conditions for the conversion to local *hukou*, the most common is purchase of a house or apartment in the area, over a certain value. Given high house prices relative to income in most cities, this condition is beyond the reach of the vast majority of migrants.

A notable innovation, pioneered by Guangdong province, the premier destination for migrants, has been the replacement of a list of conditions to be satisfied by a points system. Under this system points are awarded for various personal attributes, such as the level of education (middle school, high school, tertiary, technical), years of regular employment, adherence to family planning, contribution to social insurance schemes, and so on. The points system has received the seal of approval from the central government and is now widely used and accepted. . It will form the basis of a reformed system. It brings in considerable flexibility compared to the previous procedure which required every condition in the list to be satisfied. Failure to satisfy even one minor condition

resulted in disqualification. The points system makes it possible to make up a shortfall on one criterion, such as educational attainment, with a high score on another.

Even after reform, conditions for acquiring *hukou* will differ between cities. The proposed reform envisages that conversion will be straightforward for towns and small-to-medium sized cities, and for applicants holding a regular job, but will remain difficult for larger cities. In particular, the conditions for cities such as Beijing, Shanghai and Guangzhou will remain very stringent, probably not very different from the present. The reform proposal is a considerable improvement over the present situation but still raises the question of what criterion to use to assess its adequacy.

TIMETABLE OF REFORMS

One criterion is the number of years it would take to clear the existing backlog of aspirants to local *hukou*. Over the last few years, the rate of conversion of outside into local *hukou* has been about 10 million per year, which is considerably higher than the previous rate, but still seems very low relative to the total migrant population of 261 million people at the end of 2010.. Assuming that the whole of this population applies for a change of *hukou*, it would take almost 27 years to clear the backlog at the present rate, and this figure does not take account of any further increase in the population of migrants. The proposals envisage doubling this rate to 20 million conversions per year to achieve the target of 100 million conversions by 2020, which still leaves a massive shortfall. At least in the near future, the reform may eliminate the segmentation between residents and outsiders in small and medium cities, but not in large cities. There would be a sizeable population of people still waiting for local *hukou*. This leads to the next question of how the proposed reform would alter their condition. The proposal recognises that it would take considerable time to settle all migrants, and provides for significant improvement of the conditions of applicants. It provides them with access to the important goods and services, such as elementary education, on a par with permanent residents, although substantial differences would still remain. In particular, migrant school pupils would be allowed to take the university entrance examination in their current place of residence. Thus although the segmentation would remain it would lose much of its importance.

The discussion so far has not gone into why the backlog cannot be cleared completely in the next 5 to 10 years - by 2020 for example. The reason is the high fiscal cost of providing a rural to urban migrant who has just acquired local *hukou* with the social goods and services provided to residents, such as social security, education and health facilities, social assistance, and social housing. According to calculations done by the Development Research Centre of the State Council, each conversion from rural to urban *hukou* would cost roughly 80,000 RMB to provide the new *hukou* holder with the same social goods and services as a current holder. This suggests that the backlog cannot be immediately cleared. The implication is that the overhaul of the *hukou* system has to go hand in hand with a complementary reform of the public finance system.

Most of the social goods and services provided to residents are actually provided by lower-tier government, generally city governments, which suggest that conversion will create a problem of public finance at the lower government tiers. The expenditure of these government tiers already far exceeds their tax revenue, and the accelerated conversions would require an increase in the capacity of these government tiers to raise further tax revenue, transfer from higher government tiers, or a combination of the two.

A further condition for the reform of the *hukou* system is addressing the consequences of abolishing the distinction between agricultural and non-agricultural. This applies particularly to two areas, the first of which is the social security system. The requirement is the replacement of the current divided system into one integrated system. The central leadership has already decided to integrate the pension system. The other area will concern conditions for acquiring and using land use rights (LURs) in collectively-owned land, which at present are restricted to holders of agricultural *hukou*. There are a number of proposals and a number of pilot experiments are already under way, but no definite decisions have yet been made. Drawing on previous experience of reform, the best course would be to try out a number of alternatives in various localities, and then on the basis of field trials choose one or more alternatives for general application.

What will be the eventual outcome of a reform of the *hukou* system? *Hukou* will remain as a system of identification, but not as an instrument to differentiate one section of the population from another. As far as the place of residence is concerned, it would follow the usual form taken in many countries, that upon migration, a person's place of residence is automatically changed to the current location after a period of time, such as six months or a year. With reform of the land tenure system and integration of social security, the distinction between agricultural and non agricultural will become redundant.

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FURTHER READING

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