

Policy Reform Proposal:

An Ethical and Economical Approach to China's *Hukou* System

HeeJu Jang

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Professor Pickett

Since the 1990s China has undergone a human movement of unprecedented scale. It is estimated that “there has been a rough doubling in the number of rural migrant workers over the decade to its current level of just over 150 million” (Rush, 2011). This phenomenon is due to the internal economic migration of peasants from impoverished rural areas to industrialized cities (Meng and Zhang, 2). After its rise to power in 1949, the China’s Communist Party established the *hukou* (户口) system in order to prohibit labor mobility between rural and urban areas.

Hukou is a household registration system that categorizes every citizen as “agricultural (rural)” or “non-agricultural (urban)” and bans the movement into different regions (Meng, 2012).

Although its restriction on migration has weakened since the economic reforms in of late 1970s, *hukou* still strictly restricts flow of population. Furthermore, *hukou* has systematically institutionalized inequality and disadvantages against the rural *hukou* holders. In this paper, I argue that the *hukou* system is unjust and there is an urgent need for reform; I aim to design reform proposal based on Martha Nussbaum’s Capability Approach, which enables me to formulate fair and holistic policies.

Firstly, I aim to justify the necessity of *hukou* reform through ethical and economic reasoning. Ethically speaking, the Chinese government has an obligation to compensate the rural migrant workers whose labor has significantly contributed to national economic growth,

especially during the period of economic reform. Furthermore, China can also gain long-term economic advantage through *hukou* reform. *Hukou*'s restriction on migration has resulted in chronic labor shortages in cities, hindering growth in productivity. Lifting the restriction on labor migration will be the most effective means to address this problem.

Secondly, I analyze the two past attempts to reform *hukou* and their shortcomings. The scheme to sell or conditionally grant urban *hukou* to rural migrants only benefitted a selective privileged minority. These attempts failed to resolve the pervasive inequality that many undereducated, poor migrant workers face due to their *hukou* status. Based on my analysis, I conclude that an effective reform should be non-utilitarian and holistic. Nussbaum's Capability Approach enables me to design policy changes with these two characteristics. Her approach acknowledges that there are multiple abilities and opportunities essential for a life worthy of human rights that should be guaranteed for everyone. Among her ten central capabilities, I particularly focus on promoting bodily integrity, bodily health, practical reason, and control over one's environment. These capabilities necessitate improvement in a range of public policy areas such as free population movement, reform in education system and health care, workers' rights and community development in order to be met.

Lastly, I discuss the most common counter-argument against *hukou* reform and argue against this opposition. Those who oppose reform worry that an influx of rural migrants would suppress employment opportunity and wage of urban workers. Although such an argument is theoretically valid, many economists have empirically demonstrated that migrant rural workers neither increase unemployment among urban workers nor decrease wages. In fact, they speculate that urban and migrant workers are complementary, thus mutually benefitting the labor market outcome of each other.

Historical background

As a national household registration system, *hukou* has segregated the Chinese population since its implementation by the Chinese Communist Party (CCP) in the 1950s. The *hukou* system has been one of the longest lasting political institutions in Chinese history. It has been in China for at least twenty-five centuries, since the Qin Dynasty in the 3rd century B.C. (Wang, 33). People adopted and enforced *hukou* as a “community-oriented, regionally based organization of families and clans for purpose of taxation and social control, in addition to common mechanisms of ranked kinship and feudal classes” (33). However, *hukou* never reached the “level of rigidity, effectiveness, and comprehensiveness in its role and capacity of division and exclusion” until the early 1950s when the CCP rose to power (22). Having won a decisive victory against the Chinese Nationalists, Mao Zedong and his allies founded the People’s Republic of China in 1949(Britannica). In 1950, the CCP nationally adopted the *hukou* system out of economic motivation in order to keep “most of the population on farms was based on the low levels of agricultural productivity and the need to ensure food provision for cities, which were deemed essential for industrialization” (Meng, 75). In order to control people’s occupations and suppress internal migration, the CCP requires that that every Chinese citizen registers with the hukou authority at birth, which categorized people into rural or urban holder (Wang, 23). The Ministry of Public Security, with its extensive police network, strictly monitors and prevents movement of people from their legal address and location as documented in a person’s permanent hukou record (115).

However, the restriction on migration started to weaken with the economic reforms of the late 1970s. In rural areas, the reform “dramatically increased agricultural productivity...that rural underemployment became a serious problem” (Meng, 76). The soaring underemployment in

rural areas met with rising “demand for unskilled labor in the [urban] limited Special Economic Zones, where imports were duty-free and exports by foreign investors enjoyed significant tax concessions” during the 1980s (76). Consequently, the young rural *hukou* holders without jobs took advantage of the weakened restriction and moved to metropolitan areas to seek opportunities. Since then, the restrictions have relaxed even further as “economic growth in the cities began to accelerate and the demand for unskilled labor rose substantially” (76). Eventually, more and more rural migrant workers seized the opportunity and migrated, their number quickly increased from 25 million in 1990s to 145 million in 2009 (76). Despite the relaxation, the *hukou* system continues to impose restrictions on the migration of workers from rural to urban areas. The systematic segregation that *hukou* enabled since the 1950s has resulted in pervasive inequality against rural *hukou* holders.

Ethical Problems

The *hukou* system has been increasingly criticized for its long history of unfair treatment toward citizens with rural *hukou* status. Chinese citizens are classified into two categories since birth: one of which deprives them of social benefits, upward mobility, and equal respect for their human rights. I divide this section into two parts in order to better portray the unethical aspects of hukou system.

1) Life-long classification and unequal treatments

Firstly, *hukou* unfairly decides almost every aspect of an individual’s life at his or her birth. At the time of registration, every Chinese citizen gains “a geographically defined [*hukou*] location and an associated socio-political status and identity practically for life” (Wang, 22). The *hukou* location is determined by one parents’ location rather than an individual’s actual birthplace. In other words, a child born to migrant workers in city will still be regarded as a rural

hukou holder. Therefore, *hukou* fundamentally determines “not only much of the people’s rights and benefits, also their and their children’s life chances” (25). This intergenerational classification has allowed the Chinese government to unequally treat its citizens based on their *hukou* identification. For instance, the Communist government restricted the rural *hukou* holders from receiving generous benefits that were available to their urban counterparts. During the Maoist era, “urban citizens were given food coupons or grain coupons to purchase food from market monitored from state [while] the rural *hukou* were on their own to generate food supply” (Fan, 45). Since the majority of Chinese citizens have rural *hukou*, the “much smaller urban population (only between 14 and 26 percent of the total population) has had decisively much better access to economic and social opportunities, activities, and benefits, and has dominated Chinese politics” (Wang, 24). Additionally, the government intentionally set “prices of agricultural goods...low and prices of industrial goods...high... under the unified purchase and marketing system,” (45). This pricing system placed rural *hukou* holders at economic disadvantage, which led to the development of a dual economy and society in modern day China. According to numerous studies, estimates of the “rural population in poverty in the mid-1990s were in the range of 70 to 80 million and the Chinese government has indeed identified rural poverty as an urgent problem” (Fan, 123). Therefore, people born into rural *hukou* households are not only deprived of social benefits available to minority of population, but are also bound to live in severe poverty. Their situation does not improve much when they move to cities to escape rural poverty.

2) Discrimination in cities

The unequal treatment of rural *hukou* holders continues when young, able-bodied peasants migrate to cities as a means to escape poverty. In cities, there are many *hukou* based obstacles

that prevent rural migrant workers from attaining social upward mobility. Firstly, there is huge income inequality that migrant workers face due to *hukou*. According to Meng, “migrants have always been at the lower end of the wage distribution, earning on average only 45 percent of the average urban hukou workers’ hourly wage in 2009” (Meng, 88). Additionally, the *hukou* system strictly prohibits migrant workers from social benefits such as “unemployment supports, health care, retirement pensions, or the Minimum Living Allowance scheme available to urban hukou holders as a last resort of poverty alleviation in urban areas” (Meng, 88). Since the majority of the Chinese are born in the countryside, the proportion of rural *hukou* holders greatly outnumbers its urban counterparts. Consequently, the “much smaller urban population (only between 14 and 26 percent of the total population) has had decisively much better access to economic and social opportunities, activities, and benefits, and has dominated Chinese politics” (Wang, 24). The jobs available to migrant workers are also strictly limited, preventing chance of social upward mobility. The Chinese government follows a ‘guest worker’ system in which it controls the “type of jobs rural migrants are allowed to have and the social welfare and social service to which migrants are entitled” (88). The jobs for migrant workers are those which urban workers are unwilling to take, normally regarded as 3D (Dirty, Dangerous, and Demeaning) jobs (88). Furthermore, rural migrants in cities face hostility and discrimination. Since “migrant workers from other cities and especially from rural areas have been responsible for most crime in Chinese cities [,] the hukou police are instructed to have complete up-to-date information on those people, openly and secretly monitor them as closely as possible...and detain them...without evidence of criminal activity” (Wang, 107). A growing number of scholars and human rights activists have criticized the injustice of *hukou* and argued for the need for reform.

Need for reform

Notwithstanding the resistance against *hukou* reform among the government officials, there are strong ethical and economic reasons for reform. Chinese government officials are highly in favor of protecting the *hukou* system, which “continues to be the backbone of Chinese institutional structure and fundamentally contributes to...China’s rapidly developing market economy and the remarkable stability of political monopoly” maintained by the Communist government (Wang, 23). Due to its long history, analysts also credit that *hukou* has played an “important historical role in facilitating implementation of the central planning system, fostering orderly allocation of labor, food and health care, and controlling the size of large cities” (23). Thus, a complete elimination of *hukou* is virtually impossible. However, the Chinese government has a moral responsibility to compensate migrant workers for their labor. In meeting this obligation, China can also improve its national economy.

1) Ethical argument: reciprocity

Through *hukou* reform, the Chinese government should reward the rural migrant workers whose labor has made significant contributions to the modern Chinese economy. Since its economic reform, China has transformed from one of the poorest countries to the world’s leading economic power. Back in 1978, “the real per capita GDP in China was only one-fortieth of the U.S. level”. However, the national economy has grown at an impressive average rate of more than 8 percent per year since then, eventually becoming the second largest in the world (Zhu, 103). The unnoticed driving force behind this impressive growth is the labor of migrant workers. Economist Loren Brandt and Xiaodong Zhu sought to study the pure contribution of labor migration to China’s economic growth in their study. In order to do so, they hypothesized a situation in which there is no migration of labor. They calculate the impact of eliminating labor

migration from the agricultural to the state sector by “[forcing] the share of employment in agriculture to remain at the 1978 level” (Brandt and Zhu, 2). Using this model, we can quantify the degree to which aggregate productivity would shrink in the absence of migration. Between 1978 and 2007, China’s aggregate growth in labor productivity was 7.25. If there were no migration between agricultural to non-agricultural (urban) sector, the aggregate growth would have been 6.28. On average, the aggregate labor productivity growth would have declined by 0.97 annually in the absence of migration. By raising this difference to the 30th power, we can calculate that this annual loss in productivity from 1978 to 2007 would be compounded to 41.34 percent. In other words, the migration labor has contributed to approximately 40% growth in aggregate labor productivity over the past 30 years.

Brandt and Zhu’s finding makes it clear that the Chinese economy could have not grown to today’s level had it not been for the labor of migrant workers. Therefore, the Chinese government has an obligation to guarantee equal rights and benefits to migrant workers who have contributed as citizens. William Galston, Stuart White, and Lawrence Mead describe this duty as compensation for ‘conditionality as a norm of citizenship’. China can be thought of as what Galston terms a political community, an association for mutual advantage and the common good. He argues that an efficient political community “must be produced and sustained through the appropriate kind of human endeavor” (Galston, 120). White asserts, “[all] are to do their part in society’s cooperative work” in order to be considered as equal citizens (White, 87). One of the most important human endeavors that Mead considers is work, which “the public views as essential to full membership of the society” (Mead, 176). In return for their endeavor, the community ought to reciprocate toward its citizens with “full participation in the system of mutual advantage and the common good” (121). This reciprocation can be in many forms: equal

protection under the law, safer work environments, and increased public assistance. Evidently, migrant workers have done their duty as citizens. However, they have not received appropriate recompense for their fair performance. *Hukou* reform will engender better treatment and equal entitlement to social benefits. Additionally, the Chinese government should realize that treating migrant workers fairly will positively affect the overall economy.

2) Economic argument: further growth

The reform of *hukou* is important for further improving the Chinese national economy. Although China has already experienced impressive economic growth, it has the potential for even more progress. As Zhu argues, “despite the rapid growth of the last three decades, China’s productivity is still only 13 percent of the U.S. level, which suggests that China still has plenty of room for productivity growth through further economic reforms” (Zhu, 104). Such growth could be achieved by eliminating *hukou*’s restriction on labor migration. Numerous scholars have found the alarmingly low quantity of human capital in Chinese cities to be detrimental to the potential growth of the national economy. According to Meng, “since 2004, there have been reports of...labor shortages in coastal Chinese cities” (Meng, 94). He argues that such a shortage is “unlikely to be the result of an absolute labor shortage but rather an effect of institutional restriction on migration” (94). As a result of *hukou*’s systematic restriction on labor migration and access to social benefits in cities, “only 22 percent of the rural *hukou* labor forces has migrated to cities so far, and they often stay for a relatively short time” (94). This indicates a massive missed opportunity in terms of potential labor. Neoclassical economists argue that “*hukou* impedes the establishment and operation of a labor market, hinders efficient allocation of human resources, and in turn holds back marketization (Fan, 48). Allowing migrant workers to freely move and work in cities can effectively address the problem of urban labor shortages.

Furthermore, the liberation of labor migration can be even more effective than increasing national saving or investment. Since its economic reform in the late 1970s, China's general strategy for economic growth has been high savings and investment rates (Brandt and Zhu, 6). Recently, however, numerous scholars have debated whether this is sustainable for future growth. Many of them have criticized that the current saving and investment rate is "too high to be sustainable and China needs to rebalance its growth strategy from promoting investment to promoting consumption" (6). Sharing this concern, Brandt and Zhu propose that "China could potentially reduce the investment rate without lowering growth through better allocation of existing capital in the economy... [by] reducing distortions in the capital markets" (6). They calculate, "if [human] capital had been allowed to flow freely between the state and non-state sectors, the aggregate labor productivity growth rate would have been increased by 0.06 percent" (4). Although a 0.06 percent increase could seem negligible, the impact of eliminating migration restrictions could be magnified. By allowing the free movement of labor, the Chinese government can cut down its high saving and investment rates and instead promote consumption. Brandt and Zhu believe that such a reform "could help China...maintain its high growth performance and restore the imbalance between consumption and investment at the same time" (6). Recognizing the increasing necessity and support for a change, the Chinese government has attempted limited reform of the *hukou* system in the past. However, these past experiments either failed or yielded only marginal success.

Past reforms and shortcomings

The past attempts to reform the *hukou* system have either failed or marginally succeeded because they were only applicable to a minority of rural *hukou* holders and were limited in geographic scope. While acknowledging the ineffectiveness of *hukou*, many critics and scholars

are reluctant to completely abolish the system. One of the reasons for this hesitation is due to the nature of Chinese governance. The *hukou* system still plays a vital role in population control by the central government. Although the “economic liberation has reduced the scope of central planning”, the Communist government still “remains prominent in its role to guide the course of the national economy” (Fan, 49). Furthermore, many local governments fear that “abolishing the *hukou* system will result in sharp pressure on employment, security, traffic and schools” (49). Such a concern is understandable since the sudden removal of migration restriction could cause explosive population growth in cities. Therefore, there has been a tendency of favoring an orderly reform by experimenting with changes in certain localities rather than a wholesale abolition of the system. In this section, I identify two reform experiments that have been in place and their shortcomings.

1) Blue seal *hukou*: selling of urban *hukou*

Many local governments, especially those of the big cities that attract major labor migration, created a transitional *hukou*, which only benefitted the privileged minority. Beginning in the late 1980s, the demand among migrant workers for permanent residence in cities started to increase (Yusuf and Saich, 67). To accommodate this growing request, a wave of local governments created a transitional *hukou* called blue seal *hukou*. This special *hukou* allows its holders to claim “same rights and status as local *hukou* holders, with the possibility of becoming a permanent local *hukou* holder after five years of qualified residency” (Meng, 96). To obtain the blue seal *hukou*, migrants had to pay “high fees-ranging from several thousands yuan to tens of thousands yuan-in exchanging” (Fan, 50). Those local governments that implemented the blue seal *hukou* “justified this practice on the ground that they should be compensated for extending urban benefits to migrants” (50). Aside from the high price, the governments also made requirements

for eligibility such as “home purchase, investment, age, education, and skills” with varying degree (50). This legal migration only benefitted selected group of people, mainly the rich, talented, or educated (Meng, 96). Already facing systematic discrimination, “vast majority of peasants were not eligible for and could not afford blue [seal] *hukou*” (Fan, 50). As previously mentioned, rural *hukou* holders migrate to cities to escape pervasive poverty in countryside. Intuitively, the majority of them lack the financial resources to afford the blue seal *hukou*. Moreover, the majority of rural migrants are undereducated, meaning that they cannot meet the level of education required for eligibility of blue seal *hukou*: in 2009, “the proportion of employed migrant workers with college or above education was 5.7 percent and the proportion with senior high school or above education was 33 percent” (Meng, 86). Rather than eliminating inequality, the blue seal *hukou* created a new kind of discrimination based on wealth and education. Such a practice cannot be regarded as successful because it did not mitigate the injustice of *hukou* system.

2) Conditional grant of urban hukou: limited success in towns and small cities

There has been another attempt to reform the *hukou* system that achieved success on a limited scale. In 1997, the State Council approved testing a reform experiment in 450 towns and small cities. In those selected regions, the local government granted “urban *hukou* to rural migrants who have a stable job and have resided in selected cities and towns for more than two years (Fan, 50-51). For convenience, I will call this scheme the conditional grant of urban *hukou*. Unlike the blue seal *hukou*, the conditional grant “did not require migrants to pay a large sum” (51). Since then, rural migrant workers in small cities and towns could obtain urban *hukou* based on a fixed and legal residence and a stable source of income” (51). Originally, it was intention of the State Council to further expand the *hukou* system reform upon the success of

experiment (51). However, the conditional grant has not been not strongly enforced since “adherence to these guidelines and directives is...up to individual city governments (Fan 51). Large cities such as Beijing and Shanghai with some of the highest number of migrant workers firmly resist this expansion. Instead, these cities have preferred the blue seal *hukou*. Those towns and small cities that did implement the conditional grant are in fact too small to be economically viable (Meng, 95-96). Unless large cities start adopting the conditional grant system as well, the *hukou* reform could only make modest impact at best. No matter how effective the scheme has been in small to medium size regions, its geographic limitation will prevent it from positively affecting the entire migrant population. Evidently, the Chinese government needs to propose a new reform that can successfully mitigate the institutionalized inequality.

Capability approach inspired reform

In this section, I propose specific reform policies based on the Capability Approach. The past two reform attempts failed because they did not address the reason that rural *hukou* holders choose to migrate to cities in the first place. They neglect the fact that many rural residents have no choice but to migrate to cities because there are no opportunities for them in the impoverished countryside. Selling or conditionally granting local *hukou* to migrants in cities does nothing to address the root cause of the problem. Therefore, the real goal of the reform should be the expansion of opportunities for rural *hukou* holders to choose between staying in countryside and migrating to cities. To achieve this goal, the reform should be non-utilitarian in that it positively affects every rural resident, not just the privileged minority. Also, it should be multi-dimensional in that it involves necessary change in many other public policy areas. Using Martha Nussbaum’s Capability Approach as the foundation of reform, I develop policies with these two characteristics.

Essentially, capabilities are “what a person is able to do and to be” (Nussbaum, 20). They are “not just abilities that [reside] inside in a person but also the freedoms or opportunities created by a combination of personal abilities and the political, social... and economic environment” (20). For instance, a person’s intellectual ability to become a doctor and her access to medical school are both considered as her capabilities. Since capabilities decide what an individual can do or be in her life, they are essential for later development and training of each person. (25). Galston’s earlier concept of reciprocity requires a community to provide its citizens with “substantial equality of developmental opportunity-that is, a fair chance to make a meaningful contribution to their community” (Galston, 122). Combining the notion of capabilities and reciprocity, I argue that a political community has a responsibility to ensure a certain set of capabilities, which enables its citizens to provide resources required for sustaining the community.

The Capability Approach is as an assessment of whether a community has ensured essential capabilities to promote fair opportunity for every citizen to contribute. Policies based on this approach can be very effective. Firstly, the Capability Approach is non-utilitarian because it “takes each person as an end, asking not just about the total or average well-being but about the opportunities available to each person” (Nussbaum, 18). Rather than “making people function in a certain way”, the Capability Approach promotes choice and freedom, “holding that the crucial good societies should be promoting for their people is a set of opportunities, or substantial freedom, which people then may or may not exercise in action: the choice is theirs” (Nussbaum, 18-25). Secondly, the Capability Approach is multi-dimensional because it recognizes that the “most important elements of people’s quality of life are plural and qualitatively distinct” (18). Recognizing the plurality of capabilities, Nussbaum proposes ten Central Capabilities that a life worthy of human dignity requires. Among them, I particularly focus on four central capabilities

to construct the details of a reform proposal: practical reason, bodily health, control over one's environment and bodily integrity. The first three capabilities focus on creating opportunities for rural *hukou* holders through universal education, health care reform, enforcement of workers' rights, and rural community development. Changes in these public policy areas will ensure two things for those with rural *hukou*. First, they will have more options than just moving to cities in search of opportunity. Second, they will receive equal treatment and respect in cities. The last capability will necessitate the elimination of *hukou* restriction on migration as to allow those who do decide to migrate to freely move.

Practical reason: education system reform

Firstly, there should be an equal opportunity to seek decent education in order to cultivate practical reason in all citizens regardless of their *hukou* status. Education is an important input for the capacity of practical reason, which enables one to "engage in critical reflection about planning of one's life" (Nussbaum, 34). Through education, people attain the knowledge and skills required for the career they desire. The more education people acquire the greater their job perspectives become. By providing people with the prerequisites for a career, education helps people plan how to lead a meaningful life. However, the current Chinese education system has neglected to provide decent education to people with rural *hukou*. Although the national education law mandates that every child must attend school for at least nine years, "many poor rural areas have yet to fully implement...[the] law, mainly because poor families are unable or unwilling to pay required school fees" (Yusuf and Saich, 56). Children of migrant workers living in cities also face obstacles in obtaining education. The urban schools require migrant workers without local *hukou* to pay higher tuition for their children's education than their urban counterparts (Fan, 127). A more affordable alternative for migrant families has been sending

their children to ‘migrant children schools’ usually organized by migrants themselves (107). These schools are common in cities with large migrant populations. For instance, it is estimated that “in 2004 there were 280 such schools in Beijing alone, enrolling about 50,000 migrant children” (107). However, migrant children schools are not a good option because “the vast majority of these schools are not licensed and their quality is low” (127). As a result, there have been large disparities in educational attainment between rural and urban *hukou* holders; according to the China Health and Nutrition Survey, conducted in eight provinces, years of schooling were 11 years for urban workers and 6.6 years for rural workers (Yusuf and Saich, 56).

The limited education achievement has prevented majority of rural population from attaining essential skills and knowledge, thus restricting their career perspectives. Therefore, there is an urgent need to ensure universal access to education, which will promote fair opportunities for all to enter and compete in the labor market. Expanding education to the rural population is important for the modern Chinese economy as well. The modern global economy demands a more educated labor force with skills and knowledge of high technology. Meng worries, “if rural education does not catch up, it will place significant pressure on the quality of China’s future labor supply and generate a mismatch between demand and supply for labor” (Meng, 96). By expanding job perspectives for rural *hukou* holders through education, China could improve the overall quality of national labor. There are several measures that must be implemented in order to reform the education system. Firstly, the central government must enforce the nationwide compulsory nine-year education. In this mandate, the government will provide funds to schools in impoverished rural areas that struggle to recruit students. Although such funds are already in place in the form of special funds supporting schooling in poor and minority counties, they have remained small relative to the size of problem (Yusuf and Saich, 56). These subsidies should

expand in order to lower tuition and thus incentivize rural parents to send their children to school. In cities, children from migrant families without local *hukou* should be permitted to attend the school in their residency. Any discrimination in forms of higher tuition should be abolished. Education reform will ensure that every citizen can acquire essential skills and knowledge for a job inside or outside their *hukou* location. However, reducing the educational achievement gap alone does not ensure equal opportunity for rural *hukou* holders. With the skill and knowledge they acquired through education, rural *hukou* holders should be able to seek a career either in the countryside or the city. Wherever they choose, they should receive equal treatment and respect. Therefore, the education reform should be complemented with two other policies: community development and worker's rights protection.

Control over one's environment: community development and worker's right

The Capability Approach inspired *hukou* reform should entail community development and protection of worker's rights; these two policies will help rural *hukou* holders grasp control over the environment in which they seek to work. Nussbaum argues that a meaningful career requires "having the right to seek employment on equal basis with others; being able to work as a human being; exercising practical reason and entering into meaningful relationships of mutual recognition with other workers" (Nussbaum, 34). These elements compose the capability of control over one's environment. Promoting this capability will allow rural *hukou* holders to seek employment wherever they choose with assurance that their rights as workers will be respected. To help them achieve the control over the work environment, the central government should enforce the development of rural community and protection of worker's rights.

Community development could create job opportunities in rural areas by building a mutually reinforcing relationship between migrants who return home and job seekers in the countryside.

Due to the imbalance of rural-urban employment opportunities, many rural *hukou* holders leave their families and migrate to cities. Fortunately, there have been several migrants who return home with enough resources to develop the rural economy. According to the China Rural Development Research Center, “36% of rural migrants from the interior provinces of Jiangxi, Anhui, Hubei, and Sichuan are...returning home, and a portion are using their skills, capital, and contacts to establish undertakings that range from small service stalls to large manufacturing entities” (Murphy, 125). The central government also noticed this growing trend of rural investment among returnees and has “instructed administrators at all levels to support returnee entrepreneurship (125). However, the number of these successful returnees is too marginal to make significant impact. An article in 2000 issue of the China Daily finds that “in Sichuan province, [only] 4% of some 10 million surplus rural laborers have used their earnings to establish business back in their hometown” (125). This small number is due to the large socioeconomic disadvantages among rural migrants. Although the majority of migrants leave home with the intention of returning home, those who invest in the rural economy after their return have relatively more education and wealth than other returnees (Fan, 125). These potential entrepreneurs comprise only a minority of the returning population. According to the survey by Yuen-Fong Woon, the only empirical study of return migrant entrepreneurship in China, “only 28% of respondents who intended to return home were the least educated migrants” (Murphy, 125-126). Notwithstanding the small number of success stories, those who return home with enough resources often invest in the rural economy. Their new businesses create jobs and increase demand for new products (125). Entrepreneurs provide employment opportunities as well as goods and services, while local residents buy their products and provide labor. The growth and diversification of the rural economy can contribute to resolving pervasive rural

poverty and gradually eliminating the economic dichotomy between urban and rural China. With the decreasing gap between rural-urban economic disparities, rural residents would have options besides migrating to cities to find jobs. Therefore, the central governments should focus on developing the rural community by encouraging local entrepreneurship among returnees. For this goal, the governments must aid these returnees in acquiring essential capital for starting new businesses. It could be in the form of government subsidy for purchasing land and equipment. There should also be greater access to microcredit in rural area as an additional financial support for local entrepreneurs. The government could also help rural entrepreneurs to better connect with local residents. For instance, government subsidized job training programs in countryside could help employers recruit qualified workers. Entrepreneurs who hire local workers should also receive tax credits or tax breaks. All these measures will help establish greater job opportunities in rural China. If some rural *hukou* holders would rather seek careers in the cities, their decision must be respected. For these individuals, their rights to work as the equals of urban workers must be protected.

Migrant workers in cities should receive legal protection for their right to work with dignity. *Hukou* has hindered rural migrants from receiving respect and fair treatment as workers. Due to their outsider status, migrant workers in cities have been vulnerable targets of exploitive employers who maximize profits by “suppressing cost and benefits, long hours of work, minimal disruption to production, and disciplinary regulation” (Fan, 107). On average, migrants work 63 hours per week while their urban counterparts only work 44 hours a week (Meng, 89). Despite their hard work, migrant workers are also the first to lose their jobs in the case of any economic downturn. When the global financial crisis hit China in 2008, many employers fired migrant workers, “causing 20 to 45 million migrant workers to return to their home villages during the

end of 2008”. (88). In other words, migrant workers do not have any forms of legal protection for their rights as workers. For an effective hukou reform, the government must assure that those who migrate to cities receive equal treatment and respect at work. To do so, there should be several measures to firmly establish a legal framework that protects migrants’ rights as workers. Firstly, the central government should strongly enforce labor standards that will regulate work hours and safety in the work environment. The employers who fail to meet these standards should be penalized. Also, unemployment benefits should be expanded to include migrant workers who temporarily lose jobs. Such an expanded safety net would prevent their rural *hukou* status from unfairly disadvantaging them in times of economic hardship. Additionally, there should be a support system to help rural migrant workers compete for employment on even ground with their urban counterparts. Yusuf and Saich suggest establishing an “employment information and credentialing system that can help rural labor overcome information barrier” (Yusuf and Saich, 57). These proposals aim to guarantee equal treatment and opportunity for those rural *hukou* holders who choose to work in cities. One of the opportunities that deserves special attention is equal access to health services. Migrant workers have as much right to stay healthy as their urban counterparts. However, the current health insurance system in China prevents them from exercising this right.

Bodily health: Health care reform

There is an urgent need to reform the current health insurance system to ensure decent bodily health among migrant workers. For one to lead a good life and make meaningful contribution to society, he or she needs bodily health, the capability of “being able to have good health” (Nussbaum, 33). Bodily health is not just being physically healthy but also having opportunity to freely seek health related services. The *hukou* system has historically restricted the opportunity to

sustain a decent level of bodily health for those with rural status. In the 1950s, rural *hukou* holders did not have official health insurance programs. Mao's Communist Party mandated that "those in the countryside are excluded [from the national program]...[and] they must organize their own group insurance programs if they are to have coverage at all" (Murphy, 65). Even as the rural *hukou* holders started to move to cities, *hukou* continued to prevent them from applying for urban health care. Most rural migrant workers in cities "do not have urban *hukou*...[and] are therefore not eligible for most welfare services including health care service" (Yusuf and Saich, 93). This limited opportunity to seek health care has resulted in worse health outcomes among migrants relative to urban populations. For instance, a survey by the Ministry of Health in Beijing on migrant women found that "only 10 percent migrant woman gave birth in hospitals, and 71 percent of women dying during or as a result of child birth were migrants" (93).

Acknowledging this problem, the central government gradually established a new insurance scheme to accommodate both urban and rural population in the 1980s. Two of the major types of this program are the Urban Employee Basic Medical Insurance (UEBMI) that covers urban formal sector employees, and the New Rural Cooperative Medical Scheme (NRCMS) that insures the large rural population (Qin and Liu, 2). Both programs are jointly financed by individual contribution and government subsidies (2). Since 2003, most rural migrant workers became qualified for one or more these insurance programs (2-3). Actual cases, however, show that the majority of migrants have not benefitted from either of these programs. NRCMS, which attracts most migrant workers with its low premium cost, "requires its enrollees to seek medical care in their registered county of residence (*hukou* location), and has discriminating policies against out-of-county medical utilization (such as the required physician referrals or lower

reimbursement rates)” (7). Enrolling into UEBMI is also limited since “the eligibility...requires employment in the urban formal sector, for which most migrant workers do not qualify” (7).

Evidently, expanding insurance options have not eliminated *hukou*'s adverse effect. A more effective reform in health care should aim at improving people's opportunity to utilize health insurance without geographic limitations. Since there are variety of health insurance programs available today, it will be more effective to reform one of them rather than creating a new option. Among the currently available insurance programs for migrant workers, NRCMS seems to be the most viable option with its low premium cost and government subsidy. The central government should change NRCMS policy so that its enrollees can seek medical care when needed both inside and outside their *hukou* locations. Meanwhile, every Chinese citizen should have freedom to choose which insurance programs they want to enroll in. Although the eventual goal of health care reform is universal coverage of all people regardless of their *hukou* location, each citizen should be able to freely choose their health insurance program according to their discretion and financial situation. Ensuring equal opportunity for health care as well as education, local job opportunity, and worker's rights protection will make migration a decision based on personal choice rather than lack of opportunity in rural area.

Bodily Integrity: freedom of movement

Finally, *hukou* restriction on migration must be lifted to uphold bodily integrity of all Chinese citizens. The capability of bodily integrity is “being able to move freely from place to place” (Nussbaum, 33). In other words, bodily integrity entails a person's physical ability and opportunity to migrate. Although *hukou*'s restriction on migration has been weakened since the economic reform in the late 1970s, the Chinese government continues to limit the flow of rural population into urban areas through a very stringent migration quota system. Facing the

exponential increase of rural migrant workers in cities, the central government “reacted by setting a rural-to-urban *hukou* permanent relocation or urbanization quota of no more than 0.15 percent of the total population annually and ordered the nation to strictly enforce it” (Wang, 50). Later in the mid-1980s this quota increased to 0.2 percent and is still partially in place (50). As previously explained, this restriction on migration has caused labor shortages in cities, hindering possible productivity growth. Allowing free movement of population will enable China to not only promote the capability of bodily integrity, but also encourage economic growth. Since the Capability Approach focuses on creating opportunities, the goal of this policy should be expanding access for all citizens to enter and reside in any regions of their choice. Whether they migrate will be at their own discretion.

This particular policy proposal, however, is likely to meet opposition from local government and urban employees. They believe that “migrants are competitors of their local constituents in the urban labour market, and hence, reluctant to treat them as locals and to enforce the new laws” (Meng and Zhang, 5). Although their argument is theoretically sound, the empirical study by Xin Meng and Dandan Zhang found that migrant workers have neither increased unemployment nor decreased wage in urban sector.

Opposition and Counter-argument

Although critiques of reform argue that the free flow of labor will adversely affect the wage and employment opportunities of urban workers, empirical studies find that migration actually brings zero to positive effect on the labor market outcome. Opponents of the relaxation migration policy worry that “migrant influx may reduce urban workers employment opportunities [and] suppress their wages” (Meng and Zhang, 2). According to the economic model of immigration, this concern is theoretically valid. The model of a competitive labor market generally suggests,

“the influx of unskilled migrants should have an adverse effect on the employment and wages of local people...immigration may increase unemployment, or lower the wages of those with similar skills” (Meng and Zhang, 2). Labor Economist Richard Freeman further argue, “in the basic model of immigration, immigrants reduce earnings of substitute factors and raise the earnings of complementary factors, where complements might include capital and some types of native-born labor... immigration affects the earnings of workers for whom the immigrants are assumed to substitute” (Freeman, 155). Since majority of rural migrants are undereducated, they are likely to compete with unskilled urban workers (Meng and Zhang, 8). Therefore, the question is whether influx of rural migrant workers has indeed negatively affected the labor market outcomes of local workers in cities.

Meng and Zhang sought to find the impact of a labor influx on urban workers’ employment outcome and wage. First, they calculated the impact of rural-urban labor migration on the employment rate among urban workers. Using Ordinary Least Square (OLS) as the estimator, they regressed the ratio of total employed urban workers to urban natives in the labor force against the migrant ratio $\log(R/U)_{it}$, the logarithm ratio of rural migrants to the urban labor force of city i at the time of t (7-12). Surprisingly, their regression result showed a positive relationship between urban employment and labor migration that “every one per cent increase in migrant ratio is associated with a 2 per cent increase in the urban employment rate” (13). When they adjusted the equation to only account employment among unskilled urban workers, the coefficient remained at 0.20, suggesting that “unskilled urban workers’ employment opportunities are not hindered by the rural migrant inflow” (15). Furthermore, Meng and Zhang found a similar positive relationship between migration and urban workers’ wage. When they conducted the same estimation with log of city level wage for urban workers as their dependent variable, they

found that “every one percent increase in the migrant ratio increases urban workers’ wages by 0.13 percent” (13). When they adjusted the wage for unskilled labor only, the coefficient actually increases to 0.157, meaning that the positive “effect [of migration] is even larger than the effect on the average wage of urban native labour force” (15). These results seem to be at odds with economic theory. However, “many existing empirical studies in the field of international migration have found that immigrants only have a modest impact on the labour market outcomes of native workers” (Meng and Zhang, 2). For instance, Freidberg and Hunt (1995) find that “a 10 percent increase in the fraction of immigrants in the [U.S.] population reduces native wages by at most 1 percent” (Freeman, 157). Another economist David Card (1990) found “virtually no labor market effect of the 1980 Mariel boatlift of low-skilled Cuban immigrants into the Miami area” (157). For their case, Meng and Zhang give two potential reasons for the positive relationship between migration and urban employment and wage. First, they suspect that this correlation is due to segregation in labor markets for rural and urban workers. With the pervasively low education level among migrant workers, “migrants are restricted from obtaining certain jobs, and hence jobs and earnings for local workers are insulated” (Meng and Zhang, 18).

Some might argue that the reform in education policy that aims to improve practical reason among rural *hukou* holders will eventually make them substitute for urban workers and bring down wage and employment. However, “the fact that we observe some small positive effects of migrant inflow on urban native workers’ employment” provides some support to the possibility that “migrants and urban local workers are [actually] complements to some extent” (19). In the low skill sector, both migrant and urban workers should have similar training and educational background. If rural migrants were indeed substitutes to urban workers, there should have been negative correlation between migration and urban labor outcome. However, the study found no

impact on employment and marginal yet statistically significant increases in wage. Based on this finding, Meng and Zhnag argue that migrant and rural workers might actually be complements. Therefore, the local governments and urban *hukou* workers need not worry about the potential negative impact of free migration on labor market. Rather, they should welcome migrant workers because the expansion in supply of migrant workers would increase the demand for urban workers, thus increasing urban employment and wage level (19).

Conclusion

The *hukou* system that has historically restricted migration and disadvantaged those with rural status poses serious ethical problems. There is strong ethical and economic justification for the reform of this unjust institution. Ethically, the Chinese government has an obligation to reciprocate towards migrant workers who have greatly contributed to national economic growth. By fulfilling this moral obligation, China can also experience even further economic growth. Although scholars and critics are in favor of the reform, they agree that reform should be gradual and orderly. This cautious attitude has resulted in two previous failed reform attempts; the sale or conditional granting of urban *hukou* to migrants in cities only benefitted a certain privileged minority with high level of education and financial resources. Even the modest success of past reform cannot be effective because of its geographical limitation. Analyzing the shortcomings of past reform policies, I decide that a more effective reform should be non-utilitarian and holistic. Martha Nussbaum's Capability Approach provides a great insight in designing detailed reform policies with these two characteristics. Having the Capability Approach as the core of reform necessitates ensuring multiple sets of opportunities and abilities to improve the wellbeing of all individuals. In designing specific policies, I particularly focus on four of the central capabilities: bodily integrity, practical reason, bodily health, and control over one's environment. These

capabilities offer a framework that allows me to target multiple public policy areas including free migration, education system, health care, workers' rights, and community development. Many opponents of the *hukou* reform worry that migrant workers will decrease job opportunity and wages of local urban workers. However, many scholars including Meng and Zhang empirically demonstrated that low-skilled migrants do not adversely affect the labor market outcome of local workers.

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