Rural Surplus Labor Transfer and Change in Urban-Rural Income Disparities

- Analysis Based Upon the Situation Since China’s Reform and Opening Up

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I. Since China’s reform, the rural surplus labor transfer has been accelerated, promoting the rural poverty reduction and rural development.

II. During the rural labor transfer, the urban-rural income disparity continues to increase.

III. Cause of faster rural labor transfer and increased urban-rural income disparity

IV. Countermeasures
I. Since China’s reform, the rural surplus labor transfer has been accelerated, promoting the rural poverty reduction and rural development.

- **(I) Before the reform:** Under the restriction of system and development strategies, industrialization was separated from agricultural labor transfer. Farmers’ migration and employment was slow.

  Before the reform, China carried out a strategy of planned economy and giving priority to the heavy industry development. To centralize limited resources on the development of industry, governments conducted monopoly for the purchase and marketing of the farm products, obtaining agricultural products and industrialization accumulation from farmers at low prices while classifying the urban and rural residents into two sorts of “hukou”, carrying out urban-rural-areas-separated social management, and restricting farmers moving into cities to find a job. This has led to separated industrialization from rural surplus labor transfer.

  The people’s commune system in rural areas has also restricted the free employment of farmers.

  In 1949-1978, the percentage of the secondary and tertiary industries of the social total output value rose from 41% to 77%.

  The proportion of urban population rose from 11.2% to 17.9%, only an average annual growth of 0.2 percentage points.

  In 1952-1978, the percentage of employees in the secondary and tertiary industries rose from 16.5% to 29.5%, only an average annual growth of 0.4 percentage points.

  Rural population did not decrease. Instead, it increased by nearly 300 million.

  In 1978, the urban-rural income disparity was 2.57:1.
(II) Since the marketization reform, rural surplus labors have moved toward non-agricultural sectors and urban areas rapidly.

- In the reform, farmers became masters of land operation, and were free to choose a job; township enterprises and private economy have developed; China was open to the outside and introduced international labor-intensive industries, with increased demand for employees. Farmers moved on the basis of supply and demand. Farmer transfer accelerated.

- In 1978-2008, the percentage of employees in the secondary and tertiary industries rose from 29.5% to 60.4% of national total employees, with an average annual growth of 1.03 percentage points. This grow rate represents 2.5 times of that before the reform;

- the proportion of urban population living in towns and cities for more than half a year rose from 17.9% to 45.7%, with an average annual growth of 0.93 percentage points. This grow rate represents 4.5 times of that before the reform.

In the agricultural labor transfer:

1. According to statistics in recent years, 85 million labors moved to local village enterprises;

2. 141 million labors moved out of villages and find jobs in cities in 2008.

Agricultural surplus labors have changed from infinite supply to finite supply, going through the test of crisis.
(III) Accelerated transfer of rural labors plays a positive role in rural poverty reduction and rural development.

- The percentage of farmer’s wage income of per-capita net income rose from 20.2% in 1990 to 40% in 2009.
- In 1978-1984, Chinese rural poor population reduced from 250 million to 125 million, which was primarily caused by agricultural land contracting system. In 1985—2007, this figure fell from 125 million to 26 million, which was partially contributed by employment outside.
- Vacating land for farmers remaining in countryside and going-out farmers on agricultural product markets created the urban-rural and regional human flow, information flow and capital flow, promoted the concept transformation. Some farmers returned to villages to run enterprises. Some acted as village leaders to promote the rural development.
II. During the rural labor transfer, the urban-rural income disparity continues to increase.

1. Increased jobs and sources of income of rural labors should have narrowed the urban-rural income disparity. But in fact, the disparity becomes wider and wider.

   In the initial stage of reform, China’s urban-rural income disparity shrunk slightly. In 1978-1985, the ratio of urban residents’ disposable income to farmers’ per-capita net income fell from 2.57:1 to 1.86:1. This was because the rural land was contracted to farmers, the labor efficiency improved, and farmers’ income from agriculture grew extraordinarily. Hereafter, the ratio increased to 2.71:1 in 1995, and 3.3:1 after 1995. The urban-rural residents’ per-capita consumption costs reached 3.35:1.

   In 2008, the ratio of disposable income of urban residents to per-capita net income of farmers in middle and western China was 3.6:1 and 4.6:1 respectively.

   As urban residents receive social welfare of social security, medical service and education far higher than farmers, it is generally considered that the actual income disparity between urban and rural residents is 5-6 times.

   China has been one of the world countries with the widest urban-rural income disparity.
III. Cause of faster rural labor transfer and increased urban-rural income disparity

- In China, some scholars analyze that this meets the Kuznet’s “Inverted U Curve” where the urban-rural income disparity is “first worsened, and then bettered” in the process of industrialization, and cannot be avoided. Others consider that the urban-rural separation is the root cause of greater urban-rural disparity.

- As China has been in the middle stage of industrialization, labor supply and demand has been in the stage of limited supply, and the urban-rural income disparity exceeds the level of 1.5:1 in common countries, we should examine system and policy causes for greater disparity.
(1) Influence of urban-rural system and farmers’ income driving by transfer employment

1. Urban-rural system causes lack of migrant workers’ rights and interests

Migrant workers have different identity and rights from urban residents. This sharpens the imbalanced labor relation. Their wages are relative low. In 12 years prior to 2004, the annual growth rate of economy in Pearl River Delta was 20%, with almost no growth in the migrant workers’ wages. After 2004 when labor demand became strong, migrant workers’ wage began to grow. But the growth rate is 3-4 percentage points lower than that of urban workers’ wages.

More than 70% migrant workers have no medical and endowment insurances. Thus they lose rights and interests equivalent to $\frac{1}{4}$ wages.

- They cannot receive urban public services equally, such as children education and housing. Thus the social cost becomes greater.

- Their families are separated in two places. Husbands and wives are separated. These increase the mobility cost, and their hometown houses are wasted due to long-period empty.

2. Migrant workers are not allowed to settle down in cities due to the limitation of system. Their transfer employment contribution and cost are distributed abnormally between urban and rural areas. This brings a deprivation of countryside by cities.

- According to the survey conducted by DRC in 301 villages in labor outflow counties in 2007, the accumulated number of settled migrant workers is only 1.7% of migrant workers since the reform.

- Migrant workers spend their prime of life in cities. They contribute their “population bonus” to developed areas and cities, and leave the cost of their growth, education, marriage in their hometown, child-birth, following-generation labor education and their own old-age living in countryside. This brings a deprivation of countryside by cities, and lead to greater urban-rural and regional disparities.
(II) Rural operation system and industrial structure problems

- 1. Secondary and tertiary industries are weak in villages in outflow areas of migrant workers. Farmers remaining in villages are not employed sufficiently.

- According to the survey conducted in 2006 in 1086 villages in Chongqing, Shaanxi, Guizhou, Guangxi, Henan, Hubei and Hunan, only 4-15% rural labors moved to nearby non-agricultural industries. Many surplus middle-aged labors leaving in the countryside and agricultural surplus labors were not employed.

- 2. Migrant workers couldn’t settle down in towns and cities, and failed to play the role of reducing farmers, leaving land to agricultural farmers and promoting farmer income increase.

- According to the survey conducted by DRC in 105 villages in labor outflow areas in 2009, migrant workers couldn’t settle down in towns and cities. Their families were separated in two places. Their contracted land was reserved for those who staying in the countryside, including the aged to farm on. Only 21.5% transferred their contracted land. Only 14.7% land was transferred out, mostly under additional condition of land being withdrawn at any time in the event of difficult. Non-thorough agricultural population transfer restrains the land circulation and it is hard to ease the human-land conflict in rural areas.

- Outgoing employment has weakens agricultural labors (in 2006, of the rural labors engaged in farming, 58% were female, more than 70% were 40 over, and 47% received junior school education), restraining the rural structural adjustment and technical renovation.
(3) Farmers have no self-organizations. They are on a controlled position in the fields of circulation, processing, finance and insurance. It is hard for them to conserve economic resources and obtain due interests;

Farmer’s cooperative organizations are poorly developed (they only cover 8% farmers), which influences their rights and income in the fields of circulation, processing, service and finance. Farmers face market dealers separately, and are hard to get a position of au pair negotiation. They suffer losses of benefits. Subsidies granted by government to agriculture are set off by increased price of production materials. Circulation and processing benefits do not belong to farmers.

- According to regional survey conducted for middle and western China, migrant workers’ remittance increased the saving deposits in labor outflow areas. But these saving deposits were in commercial financial institutions instead of farmers’ cooperative organizations. In the money outflow areas, more than 60% savings and deposits flew into developed areas and cities with higher return on capital. This shows that, the absence of farmers’ cooperative financial organizations is not helpful for conserving the economic resources in countryside, supporting farmers to develop economy and increasing their income.
（III）Urban-rural system leads to city-prioritized supply of public goods

- Getting more from and giving fewer to farmers:
  - In 1979-2008, the share of agriculture-supporting fiscal expenditures in the total fiscal expenditures fell from 13.7% to 8% around. Farmers paid 5 trillion yuan worth of unreasonable taxes, fees and allocated charges for rural public utilities and administrative services. More than 800 billion yuan worth of reserve funds and taxes in rural cooperatives flew out of countryside each year. Farmers’ land was used at low price. Farmers suffered direct losses of more than 4 trillion yuan from income of land resources.
  - Less investment in agricultural and rural infrastructures. In 1978-2007, the area of effectively irrigated farmland increased 22% only. More than half land was cropped by relying on national conditions.
  - Public goods were supplied to cities basically by using public revenues. Prior to 2003, public goods were supplied to countryside mainly by using charges from farmers, and provided by farmers themselves.
  - Education: In 1995, the urban-rural primary school students’ budgetary education fund ratio was 1.72.
  - According to national census statistics in 2000, the share of rural population with junior high school education and over was 39.1%, far lower than that of urban population, which was 65.4%.
  - In 2005, per-10,000-population enrolled senior high school students in urban areas were 12.3 times as much as those in rural areas. This figure may be higher for university students.
  - In 2000-2003, per-capita health costs in rural areas were only 24.8% of the average in urban areas. Rural cultural service funds only accounted for 26.5% of the national total. In 2005, national agricultural research investment represented only 5.2% of the national science and technology investment.
  - Disparity in the city-prioritized education investment is the most important decisive factor for urban-rural income disparities.
(IV) Weak mechanism for farmers to express their interests in social policy making

1. In the village governance, no sound democratic election, policy making, management and supervision systems are available. There’re very few representatives of farmers and migrant workers in people’s congresses at all levels.

2. Farmers have no self-organizations and are hard to express their interest need in an organized way. There’s weak management system for farmers to take part in public affairs.

3. Due to the limitation of Binary ‘’hukou’’ system, migrant workers employed and living in cities are hard to participate in urban social management.
IV. Countermeasures

1. Treating increase of farmers and migrant workers’ income, and gradual equalization of urban-rural residents’ income as the important development objective in the current stage.

Correlating the turning point in the Kuznet’s “first worsened, then bettered” urban-rural income disparity to the inherent change of labor supply from infinite to finite. China has been in this stage. But due to the system and policy reasons, urban-rural income disparities continue to widen, restricting the improvement of people’s life. Weaker consumers’ demand also restricts the economic development. Therefore, we should treat increase of the people’s income and gradual equalization of urban-rural residents’ income as our strategic objective in the new stage.

2. Breaking the system of different ID and unequal rights between migrant workers and urban residents.

Assaulting fortified position of reform, eliminating the farmers’ ID discrimination for them to find jobs in cities, further protecting migrant workers’ rights and interests, promoting equalization of public services, granting rights from migrant workers to settle in towns and cities, achieving industrialization and urbanization through agricultural population transfer in order to address the three rural issues (San Nong Wenti)- agriculture, farmers and the countryside.

3. Changing the government’s city-prioritized supply of public goods. Governments should spend more money on rural infrastructures and social services such as education, and health. Promoting development of the secondary and tertiary industries in underdeveloped areas, stimulating farmers to transfer to and find non-farming jobs in nearby areas.

4. Improving rural operation system, developing farmer operation based farmers’ cooperative organizations.

Governments shall offer preferential policies for farmers’ cooperative organizations. Farmers shall improve their negotiation position in the market through self-collaboration organizations, and increase their benefits in the fields of circulation, processing, finance and service.

5. Increasing farmers’ and migrant workers’ self-organizations and their participation in social management.

Developing farmer’ associations, strengthening trade unions, and increasing representatives of farmers and migrant workers in policy making and supervising authorities at all levels.
Thank you!