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Internal migration and external benefit: The impact of labor migration on the wage structure in urban China[☆]

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ABSTRACT

China provides a unique experience of massive internal (within-country) migration but with high segregation of jobs between migrants and natives. Thus, migration has a complementary external effect on native wages: the elasticities of complementarity of migrants are about 31.7%, 20.3%, and 19.9% for native workers with a college, high school and less than high school education, respectively. After the wage is deflated by the housing price, the elasticities decline to 11%, 8.2% and –4.4% for the respective education groups, which provides the lower-bound analysis results. In addition, migration has widened wage dispersion, as well as increasing the education premium and residual inequality. The elasticity of substitution in jobs between migrants and natives is very low due to the hukou restriction, and increasing proportions of migrants in any given labor force widen the migrant/native wage gap. Job segregation is an important factor that explains particular labor market findings in China.

1. Introduction

Labor migration is an important topic in labor economics. Immigration has been rising in many countries, and immigrants are expected to compete for jobs with low-skilled native workers. There is abundant literature on discrimination and convergence in wages and difference in cohort quality (Borjas, 1985, 1995, 1996, 2003) and on the impact of immigration on labor market outcomes such as wages, native employment and inequality (Card, 2001, 2005, 2009; Smith, 2006). These studies find that immigrants have imperfect substitution effects on native workers and reduce the wages of native workers to some extent. Some studies analyze the respective wage structures (Juhn, Murphy, & Pierce, 1993; Katz & Murphy, 1992; Lemieux, 2006; Murphy & Welch, 1992). In particular, studies on wage structure in China (Han, 2006; Han, Liu & Zhang, 2012; Zhang, Han, Liu, & Zhao, 2008; Zhang, Zhao, Park, & Song, 2005) mainly analyze the reasons for changes in that wage structure. Han, Liu and Zhang (2011) specifically demonstrate the effect of globalization on wage inequality. Other studies analyze the effect of labor supply of some groups on others' wages or on the wage structure (Acemoglu, Autor, & Lyle, 2004; Hsieh & Woo, 2005; Juhn & Kim, 1999) and the social returns to education (Moretti, 2004a, 2004b). And, there are some studies that focus on the immigrant (ethnic or racial) segregation (Cutler, Glaeser, & Vigdor, 2008a, 2008b). In addition, some studies analyze the external effect of labor migration in China (Combes, Demurger, & Li, 2015; Meng & Zhang, 2010). In addition, there are some studies that analyze the beneficial effect of migration on

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household economic behavior, such as household investment (Brauwu & Rozelle, 2008). However, no study has directly examined the role of job segregation on the relationship between internal migration and wage inequality. We fill this void using data on internal migration in China.

China has experienced massive internal (within-country and between-region) migration since the late 1980s. The definition of migrants encompasses those without urban household registration (named *hukou*) working in urban areas that are not their hometown. In the early 1990s, migration accelerated following the Southern Tour of Deng Xiaoping, and the southeast regions (in particular Guangdong province) are the priority choice for migrants. There were about 221 million migrants in 2011, about one-sixth of the overall population in China (National Population and Family Planning Committee, 2011). Migrants move to non-native urban areas mainly in search of a higher salary and better job opportunities. Clearly, then, the source regions of migrants are poorer provinces, such as Henan, Anhui, Hunan, Jiangxi and Sichuan. About one-third of the total adult population in Henan and Anhui has migrated to work in wealthier areas such as Guangdong, Zhejiang, Shanghai and Beijing. The figures related to migrants in China are striking, and this migration can affect the long-term development of both source and destination regions. Thus, migration and migrants are very important factors in the economic development of China.

Although there are many studies on immigration, these mainly focus on migration between countries. China provides a unique experience of massive internal migration during its recent rapid economic development and after its relaxation of migration restriction. Within-country (or internal) migration is very different from cross-country migration in several respects. First, whereas cross-country migration requires work permits issued by the government of the destination country, in within-country migration, people can migrate to work freely. Therefore, many rural residents migrate to urban areas seeking higher wages and better work opportunities. Second, although there are no restrictions on migration in China, there are requirements for household registration (*hukou*) for some jobs in some industries and occupations. For example, migrants cannot hold certain official positions in government bodies and state-owned enterprises (SOEs).¹ There is, therefore, a marked segregation of jobs between natives and migrants in Chinese cities. Even low-skilled natives can have very different jobs compared with migrants. This can result in low substitution between natives and migrants, and migration may have a complementary effect on natives' wages.

The relationship between migration and wage structure is particularly important in China, given the massive migration that began after the late 1980s. The question of the role of migration in wage inequality is of interest to many economic researchers, officials, migrants and workers. However, there has been no systematic analysis of this topic using micro datasets. China provides a unique experience of massive internal migration with a very high segregation of jobs between migrants and natives. In this context, there may be a complementary effect of migration on native wages, rather than the imperfect substitution effect found in the literature. In our study, migration has a complementary external effect on native wages, and the elasticities of complementarity of migrants are about 31.7%, 20.3%, and 19.9% for native workers with a college, high school and less than high school education, respectively. Because there exist huge price differentials across regions in China, we deflate the wage by the housing price, and find the elasticities decline to 11%, 8.2% and -4.4% for the respective education groups, which provides the lower-bound analysis results.

The structure of this paper is as follows. In Section 2, we describe the data on migration and migrants in China. Section 3 provides the theoretical framework. Section 4 analyzes the external effect, that is, the effect of migration on the wages of urban residents. In Section 5, the effects of migration on the education premium, overall inequality and residual inequality for native urban residents and on the native/migrant wage gap are presented. Section 6 analyzes the role of job segregation in the external effect of migration and the native/migrant wage gap. Section 7 concludes this paper.

2. Migration and migrants in China

The number of migrants in China has been increasing since the late 1980s, currently constituting more than one-fifth of the total working population. Migrants mainly work in construction, mining, tertiary industry, and other low-end chain or labor-intensive industries. The discrimination in employment and welfare, arising from the household registration system, results in migrant workers being situated in the lowest strata of Chinese cities, with many migrants having very difficult living and working conditions. Most migrant workers are not covered by health insurance in the event of work-related injuries or illness, nor do they receive endowment insurance paid by employers. Some employers even deliberately defer wage payments to migrants. The government is taking gradual steps to ensure fair employment and treatment of migrant workers, with the reform of the urban and rural household registration system.

We use the data from China's 2005 minicensus, which surveyed 1% of the Chinese population using a multistage sampling design.² As in the 2000 census, the 2005 minicensus covers regions from across the country. However, the 2005 minicensus is unique for its specific information on wages. The 2005 survey, which investigated people living in their residences on October 31 of that year, sought information on work (e.g., working hours, industry, occupation) during the previous week. The newly available income data are particularly valuable because they include the income of migrants, who are severely undersampled in the annual urban household survey conducted by the National Bureau of Statistics (NBS), which is the source for official estimates of income and expenditure levels in China. We also employ the 2000 census to calculate the predicted inflow rate as the instrumental variable.

The essential variables related to our study consist of *hukou*, migrant and wage. *Hukou* means the household registration status,

¹ Many of these enterprises have quotas for the household registration of high-skilled job candidates, such as postgraduate students. However, most of the migrants cannot be included in such quotas.

² Park, Cai, and Du (2010) also use this dataset and summarize its characteristics.

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