

Contents lists available at [ScienceDirect](https://www.sciencedirect.com)

## China Economic Review

journal homepage: [www.elsevier.com/locate/chieco](http://www.elsevier.com/locate/chieco)

## Why do migrant households consume so little?

Xiaofen Chen

Department of Economics, Truman State University, 100 East Normal Avenue, Kirksville, MO 63501, United States

### ARTICLE INFO

#### Keywords:

Consumption  
Migrant household  
Marginal propensity to consume

### ABSTRACT

Exploring data from the migrant and urban household surveys of the Chinese Household Income Project, this paper dissects the underlying causes of the depressing effect of the *hukou* system on migrant household consumption to two channels. On one hand, migrants' disentanglement to local urban *hukou* creates financial insecurity through barriers to employment, social welfare, medical insurance, etc., thereby encouraging precautionary saving. On the other hand, it promotes temporary migration, allows divergence in tastes and values from local urban residents to persist, and incentivizes migrant households to save their transitory income. Factors reflecting these two channels, such as medical and pension insurances, the duration of migration, and local homeownership, are specifically modeled, and they are found to contribute to the discrepancies in consumption between migrant and local urban households, among other factors. In addition, the marginal propensity to consume exhibits heterogeneity across migrant households; it is higher with a longer duration of migration, local homeownership, and self-employment. The lack of these attributes further reinforces the reluctance of migrant households to consume.

### 1. Introduction

In recent decades, urban areas in China received large flows of migration from rural areas. In the meantime, persistent low domestic consumption has raised concerns over insufficiency of demand to cope with external shocks and slowdown in growth. Since migrant workers account for an increasing portion of the urban labor force, the importance of their consumption expenditure also rises to the local economy as well as to the national economy.

This paper contributes to the scant literature on explaining migrant consumption in China in the following aspects. First, it attempts to dissect the effects of the *hukou* system (i.e., the residence registration system) on consumption, rather than considering the *hukou* system as a whole as in the existing literature. It argues that the *hukou* system affects consumption and saving through two distinctive channels. On one hand, migrants' disentanglement to local urban *hukou* creates financial insecurity through barriers to employment and social benefits such as medical and pension insurances, thus increasing the need for precautionary saving. On the other hand, the non-local *hukou* and the resulting effects, such as lack of access to affordable local housing, lead to the temporary nature of rural-to-urban migration, and hence the treatment of urban income as transitory income. As argued by [Dustmann \(2003\)](#) and [Dustmann and Görlach \(2015\)](#), temporary migration results in increased saving, consistent with the permanent income theory. These motives for saving should be clearly modeled to disentangle the underlying causes of the depressing effect of the *hukou* system on migrant consumption. By doing so, this paper contributes to the understanding of how the lack of various privileges associated with local urban *hukou* curbs migrant household consumption, thereby providing implications for possible paths of reform to accommodate the ongoing rapid urbanization and economic transformation.

Migrant households' short duration of urban residence also allows their divergence in tastes and values from local urban residents

E-mail address: [xiaofen@truman.edu](mailto:xiaofen@truman.edu).

<https://doi.org/10.1016/j.chieco.2017.11.005>

Received 6 August 2016; Received in revised form 25 March 2017; Accepted 14 November 2017

1043-951X/ © 2017 Elsevier Inc. All rights reserved.

to persist as a factor contributing to the consumption gap. There have been a few papers relevant to the role of cultural values in migrant household consumption. For example, [Acharya and Leon-Gonzalez \(2015\)](#) find that consumption of migrant households in Nepal gradually increases and converges to the level of local residents; [Danzer, Dietz, Gatskova, and Schmillen \(2014\)](#) discover that recent migrant workers may resort to conspicuous consumption in an effort to gain higher social-economic status in spite of similar income levels.

With the above considerations, this paper examines new household characteristics that have not been specifically studied by the existing literature on migrant consumption in China; for example, medical insurance coverage (relevant to the precautionary saving motive), local homeownership (an indicator for permanent migration), duration of migration (to represent the transience of migration and convergence in tastes and values), and employer provided room and board subsidies (as an unreported source of income and a substitution for consumption to some extent).

The literature on migrant consumption in China has been sparse, and the connection of consumption to institutional conditions and household characteristic is far from being adequately explained. Recent studies, including [Chen, Lu, and Zhong \(2015\)](#), [Wang and Fang \(2015\)](#), [Dreger, Wang, and Zhang \(2015\)](#), and [Fang and Sakellariou \(2016\)](#), stressed the role of the *hukou* system. However, the models in these studies tend to treat the *hukou* system as a whole and specific disadvantages of non-local *hukou* are rarely examined, with the exception of [Wang and Fang \(2015\)](#), where household pension coverage rate is investigated as a specific variable.

In addition, the use of sample weights is neglected or not explained in the above studies, likely resulting in estimation biases. In contrast, the sample weights adopted in this study are carefully constructed in line with the design of the surveys as described in [Song, Terry, and Yue \(2013\)](#). Other advantages of this paper include the consideration of a nonlinear model, extensive interactions between the explanatory variables, and the employment of a larger database. Most of the aforementioned papers mainly use data from the 2007 Chinese Household Income Project (CHIP); one is based on a different but smaller survey. This paper employs data from both CHIP 2007 and 2008, thus has the benefit of a substantially larger sample.

The paper finds that consumption and the marginal propensity to consume exhibit heterogeneity across households, unlike in [Chen et al. \(2015\)](#) and [Wang and Fang \(2015\)](#). Social welfare programs (especially medical and pension insurances), self-employment, a local urban *hukou*, longer durations of migration, and living in self-owned homes all have sizable positive effects on consumption. In addition, the marginal propensity to consume is higher with a longer duration of migration, local homeownership, and self-employment. The lack of these attributes further reinforces the reluctance of migrant households to consume. To increase migrant households' consumption, policies improving these conditions for migrant households may be designed, among which providing adequate medical and pension insurances may be the easiest to adopt.

## 2. Financial insecurity, temporary migration, and consumption

Consumption and saving are essentially two perspectives of the same issue in that a lower consumption rate represents a higher saving rate. Thus, theories on household saving behavior also explain household consumption. Typical theories on household saving examined in the empirical literature include the permanent income theory, the life cycle theory, the precautionary saving motive, and the intergenerational transfer motive. Based on these theories, factors such as per-capita income growth, income uncertainty, the age dependency ratios, inflation, and real interest rate are commonly tested in the literature. Other determinants specific to China may include housing price ([Wang & Wen, 2012](#)), health insurance ([Cheung & Padieu, 2015](#)), bequest ([Yin, 2012](#)), the pension reform ([Ang, 2009](#)), family structure ([Zhou, 2014](#)), the pre-marital sex ratio ([Wei & Zhang, 2011](#)), and so on. Studies specifically on migrant household consumption in China are rather scant, as reviewed in [Section 1](#).

Data used in this paper is from the urban and migrant household surveys in CHIP 2007 and 2008, obtained from China Institute for Income Distribution.<sup>1</sup> The urban household survey in CHIP 2008 does not include expenditure data, thus, the analyses are mainly based on the 2007 urban and migrant household surveys and the 2008 migrant household survey. Each survey contains about 5000 randomly selected households in 15 large and medium sized cities from 9 provinces and provincial level metropolises.<sup>2</sup> A household consists of members living in the same residence who share resources, and does not include family members living apart. The migrant surveys are in essence surveys of rural-to-urban migrant households, with the vast majority (81%) of household heads holding non-local rural *hukou*, an additional 18% local rural *hukou*, and the remaining 1% non-local or local urban *hukou*. Likewise, the urban household surveys are essentially surveys of local urban households.

A comparison of data from the 2007 migrant and urban household surveys reveals that migrant households consume much less than their local urban counterparts, consistent with the findings in the literature. As shown in [Table 1](#), the mean consumption rate for all migrant households is two percentage points lower than that for all local urban households, even though migrants' income per capita is less than half of the local urban level.<sup>3</sup>

Three types of households are further compared: unmarried individuals without children, married or cohabiting couples without children, and married or cohabiting couples with one child.<sup>4</sup> To limit the differences in income and household structure between

<sup>1</sup> CHIP 2007 and CHIP 2008 were actually conducted in 2008 and 2009, respectively. The urban household surveys were conducted by the China National Bureau of Statistics; the migrant household surveys were part of the Rural-Urban Migrants in China survey project.

<sup>2</sup> For detailed descriptions of the survey design, see [Luo, Li, Sicular, Deng, and Yue \(2013\)](#), [Kong \(2010\)](#) and [Akgüç, Giuliatti, and Zimmermann \(2013\)](#).

<sup>3</sup> Summary data presented in this section are not adjusted by sample weights.

<sup>4</sup> Composition of household structure differs widely between the 2007 and 2008 Migrant Household Survey, with a much higher portion of unmarried persons living alone in the 2008 survey. The mean consumption rates are higher in 2008 than in 2007 for all three subgroups in the table (although still lower than the local urban level in 2007), especially for unmarried persons living alone. This is likely caused by macroeconomic reasons, since the survey time is toward the end of a global

Download English Version:

<https://daneshyari.com/en/article/7342341>

Download Persian Version:

<https://daneshyari.com/article/7342341>

[Daneshyari.com](https://daneshyari.com)