



Housing prices, rural–urban migrants' settlement decisions and their regional differences in China[☆]



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ABSTRACT

Rural–urban migrants are the major group who will boost the transformation of China's urbanization and reform of the household registration system. Their aspirations of living in the immigration area are an important premise of institutional change. The housing prices within the immigration areas are an important factor that can influence the rural–urban migrants' settlement decision. To what degree does the housing price influence the settlement decision? Do regional differences exist in the influence of house price? These issues need to be analyzed and verified in a theoretical and empirical ways. By introducing the variables of the housing price into the life-cycle theory function, we found that housing price influences the settlement decision through the welfare dissipation effect and the expected wealth effect. On the basis of welfare dissipation effect, hypothesis 1, we can come to the conclusion that high housing price will play a negative role in the process of settlement decision formation. Through expected wealth effect, hypothesis 2, we estimate that a housing price rise will promote the aspiration of living in the immigration area to some extent inversely. On this hypothesis basis, using the panel data model of China's 31 provinces and cities for the period 1995–2012, we found that, at the national level, the influence of housing price to the settlement decision is not significant. From the view of regional differences, the influence is negative in the eastern area, indicating that the welfare dissipation effect is greater than the expected wealth effect, in line with the hypothesis 1. The increase of housing prices will promote the settlement decision in the central area, this phenomena explains that the expected wealth effect is greater than the welfare dissipation effect, in line with the hypothesis 2. In the western area, the influence is non-significant.

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1. Introduction

The “Migrant Population Development Report of China in 2013”¹ shows that the main group in the migrant population is rural–urban migrants, and this group is experiencing a generational change. The average age of migrants in 2012 is about 28 years old.

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¹ Details see the “Migrant Population Development Report of China 2013” issued by National Health and Family Planning Commission People's Republic of China.

These are ‘new generation’ migrants, with 70% of them willing to settle in big cities, and whole-household migration has become the main mode. Thus, rural–urban migrants have a strong willingness to change their rural registration and to integrate into the urban life. Through observation on influence factors of their urban housing condition and settlement willingness,² it was demonstrated that the major group of rural–urban migrants in China are migrant workers (Li, Whalley, & Zhao, 2013). The two main influencing factors are the ability to get an urban *hukou* registration and whether the urban housing price is affordable. The household registration system (*hukou* system) embodies the significant difference in social welfare between the urban and rural *hukou*. This

² “Series Research on Housing Policy” is the series research launched by the Department of Land & Real Estate Management and Housing Development Research Center, Renmin University of China, to pay particular attention to migrant workers' housing conditions and their urbanization problems.

difference is caused by the national willpower and population differentiation caused by institutional restraint, which results in difficulty of collective action. In the early stage of agricultural communes, due to labor demand and reduction in food production caused by natural disaster, the Chinese Government began to implement strict restrictions and regulations on rural–urban movement (Cheng, Nielsen, & Smyth, 2014; Vendryes, 2011). These include the “Special Population Interim Measures (Draft)” in August 1950, “National Urban Household Registration” issued by the Ministry of Public Security in July 1951, “Indicates on the Establishment of Regular Household Registration System” issued by the State Council in June 1955, and “People’s Republic of China Household Registration Ordinance” in January 1958.³ The result of these changes is a widening gap between rural and urban *hukou* benefits (including education, health care, housing benefits, pension and the others), such that, now there is a clear differentiation between urban and rural residents. Urban residents who live in immigrant areas and have benefited from social welfare do not want the immigrant population, such as the rural–urban migrants, to share in their vested interest, as they are afraid that the existing level of *hukou* benefits are likely to be pared down. On the contrary, the rural–urban migrants, especially migrant workers, urgently want to obtain the urban benefits. Such benefit-sharing conflicts have led to an effect referred to as “squeeze on bus”,⁴ this effect is observed more intensely in big cities, especially when education welfare is involved. Due to different incentives between rural and urban residents, they exhibit differing behavior that leads to negotiation costs that are so high that they cannot take collective actions. Consequently there is little or no possibility to change the *hukou* system in the form of “progressive change”, which is usually launched from local action.

A traditional point of influence of the *hukou* system on the urban housing price is called status discrimination (Hu, 2002; Jeanty, Partridge, & Irwin, 2010; Liu, 2015; Nguyen, Raabe, & Grote, 2013). This discrimination is caused by the difference between rural and urban *hukou* systems and has become a major obstacle to the urban and rural labor mobility. This discrimination has ultimately led to a paradox that is a coexistence of faster labor mobility and an increasing income gap between urban and rural populations (Su, Liu, Chang, & Jiang, 2015). Due to status discrimination, rural migrants are usually blocked from the urban affordable housing system that is a non-market system, so they have to resort to the open market to solve their housing problems. This will raise the market demand and result in further urban housing price increases. While some cities have provided rural migrants access to the affordable housing system, unfortunately because of location, rent-to-income ratios, as well as ancillary facilities and other considerations, they are unlikely to live in the affordable houses (Dang, Liu, & Zhang, 2014). Increasing the supply of affordable houses to ‘dilute’ market demand has limitations. In an effort to address the problem the State Council issued a resolution called “Further Reform the Household Registration System” on July 30, 2014. This resolution explicitly called for the elimination of the rural and urban *hukou* system, and the establishment of a unified *hukou* system, the Residents’ Registration

System. This institutional arrangement not only avoids status discrimination and unfair welfare between rural and urban residents, but also effectively increases the supply of human capital in urban areas. The result of these changes is that the urban housing price is likely to become the main focus affecting the rural–urban migrants’ settlement decision after the implementation of the reform of the *hukou* system.

From a review of the literature, it is evident that urban housing price can influence rural migrants’ decisions due to the effect on living costs (Costello, 2009; Michaelides, 2011; Tao, Hui, Wong, & Chen, 2015). High housing prices directly increase both the cost of buying or renting a house, so some scholars (Chung, 2015; Plantinga, Détang-Dessendre, Hunt, & Piguet, 2013) think that high urban housing prices will reduce the migration probability in some selected areas. Some scholars (Drelichman & González Agudo, 2014; Liu, 2015) think that high housing prices not only directly increase living costs, but also indirectly influence living costs as the sale price of goods increase due to the high lease cost of stores. In addition household living consumption (not include house rents or purchase costs) decreases further due to high mortgage repayments (Määttänen & Terviö, 2014; Wen & Tao, 2015).

From the above literature, it would seem that most research findings suggest that high housing prices have a ‘negative’ impact on rural migrants’ settlement decisions. Yet these findings do not explain why so many rural migrants want to settle in urban areas, even if urban housing prices are rising. It would appear that high housing prices seemingly have a ‘positive’ impact on the settlement decision. Leaving aside urban welfare, more job opportunities, more education opportunities, better medical and health facilities, etc, high housing price itself can also increase the settlement probability, because it can increase household wealth by having one or more houses. This paper proposes two hypotheses to extend the influence of housing price on the settlement decision in two ways, one is a ‘negative’ approach, the other is ‘positive’.

Before a rural migrant can make a decision to settle in an urban area, he or she may compare the expected utility of living in the urban versus the rural area. If the former is greater than the latter, the rural migrant should make a decision to settle in the urban, and vice versa. Because this comparison is not static, examining the expected utility at one point in time cannot provide an exact conclusion. The paper’s second contribution is to compare the expected utility of living in the urban and the rural areas throughout the life cycle.

The relationship between housing price and migration population is simultaneous and spatially interdependent (Jeanty et al., 2010). For China, the period 1995 to 2005 is a critical period of real estate reform, during this time, rapid urbanization and rural-to-urban population mobility had a significant impact on the housing prices. In particular migration to eastern coastal areas from western areas, lead to significant housing pressure in the eastern areas, thus promoting the rapid growth rates in housing price (Chen, Guo, & Wu, 2011; Fan & Stark, 2008). Consequently rapidly increasing housing prices are likely to impact on population movements. The long-term economic growth in China is in part due to the support of the labor supply, especially the cheap labor provided by rural workers moving to urban areas for work. Changes to the migrant structure, such as this group is aging more rapidly and young adults are unwilling to do the same jobs as the previous generation, potential labor dividends are shrinking (Zhong, Li, Xiang, & Zhu, 2013). This paper’s third contribution is to provide empirical support for the two hypotheses under the life cycle theory, with respect to the regional differences within China.

The paper is set out as follows. The next section discusses the theoretical relationship between the *hukou* system, rural–urban migration and urban housing price. Section 3 discusses the ‘negative’ and ‘positive’ influence approaches of housing price on

³ January 1958, with “People’s Republic of China Household Registration Ordinance” as a symbol, Chinese government began to implement strict restrictions and government regulation on free movement, and the first time make a distinction between “agriculture *hukou*” and “non-agricultural *hukou*” explicitly. The differences of urban and rural population identity, as well as the social welfare bundled by the *hukou* system began to move towards urban-rural dual structure.

⁴ “squeeze on bus” shows a contradiction of the vested interest groups and the other groups. It means that when getting on the bus, people who are outside the bus are very anxious, and they will not be able to get onto the bus. While those on the bus, often tell those outside that the bus is very crowded, and do not get on.

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