

CHINA'S MOBILITY BARRIERS AND EMPLOYMENT ALLOCATIONS

L. Rachel Ngai

London School of Economics

Christopher A. Pissarides

London School of Economics
and Institute for Advanced Study,
the Hong Kong University of Science and
Technology

Jin Wang

Hong Kong University of Science and
Technology

Abstract

China's *hukou* system imposes two main barriers to population movements. Agricultural workers get land to cultivate but are unable to trade it in a frictionless market. Social transfers (education, health, etc.) are conditional on holding a local hukou. We show that the land policy leads to over-employment in agriculture and it is the more important barrier to industrialization. Effective land tenure guarantees and a competitive rental market would correct this inefficiency. The local restrictions on social transfers also act as disincentives to migration with bigger impact on urban migrations than to job moves to rural enterprises. (JEL: J61, O18, R23)

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E-mail: l.ngai@lse.ac.uk (Ngai); C.Pissarides@lse.ac.uk (Pissarides); sojinwang@ust.hk (Wang)