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**Deinstitutionalization of the Hukou System**

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# **Deinstitutionalization of the *Hukou* System and Social Change in China**

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## Abstract

China's transition involves the disintegration of some core economic and social institutions, among which the *Hukou* system (*Household Registration System*) is the last backbone in the formal institutional composite of the Chinese central planning economy. *Hukou* as a status symbol has been weaved into the social fabric of daily life in China during the past several decades. On the other hand, it is becoming increasingly incompatible with free market economy. This paper attempts to explain its ongoing processes of *deinstitutionalization* during China's transition. The system's legal ambiguity and regional variation make it a very complicated topic for analysis. During the dual transition of industrialization and urbanization, *Hukou* control has been loosened, and China has entered an era of mass migration. Workplace discrimination against rural migrants is widespread, which incurred more criticism against this system. However, *Hukou* reform has been in general not only ineffective, but also generated new patterns of inequality during this process. The process of *deinstitutionalization* include changes not only in the core institution itself, but also in other institutional elements (such as political opportunity structures, market regularities, norms formed around collective identities, dynamics of collective action, etc.) that are closely associated with it.

## **Deinstitutionalization of the *Hukou* System and Social Change in China**

China's transition from plan to market since 1978 makes it a natural laboratory for economic sociologists to observe institutional changes. The transition between these two ideologically opposed economies involves dramatic transformation of core institutions, both formal and informal ones.

From late 70s to mid 80s, rural China witnessed the collapse of rural communes, one of the main organizational forms in socialism. After that, households regained autonomy in agricultural production. Township-and-village enterprises (TVEs) developed rapidly. Since the early 90s, the state pushed forward privatization of State-Owned Enterprises, another key institution of central planning. China took the path of "partial privatization", and the formal institutionalization of private property right happened much later in 2004. During the intervening years, hybrid organizations and "red-hat" enterprises (private firms that were registered as public or collective) emerged out of consideration for both efficiency and political legitimacy.

During these processes, newly introduced institutions coexist with old institutions that are gradually disintegrating. Tensions between the new and the old, and between efficiency and legitimacy led to observable social consequences. Before the mid 90s, centralization of distribution power has expedited capital accumulation and industrialization. But later with deepening reform and with market mechanisms playing a more dominant role, the tension between authoritarian control and the "spontaneous order" become hard to ignore. This tension is most telling in the reform of the *Household Registration System* (also called the "*Hukou*" system, which classifies residents into 'agricultural' or 'non-agricultural' categories). A once backbone institution in the central planning system and authoritarian regime, it is now subject to widespread criticisms for its inefficiency and injustice. This paper is to review the causal processes of its ongoing disintegration. At a more general level, I will use this case study to examine the processes of what I term *deinstitutionalization*.

## **A Core Chinese Institution**

Institutions originate from ‘socially habituated behavior’ (Smelser and Swedberg, 1994). Institutions include formal rules, informal norms and the enforcement of these constraints (North, 1990). They may be seen as ‘*a system of interrelated informal and formal elements—custom, shared beliefs, conventions, norms and rules—governing social relationships within which actors pursue and fix the limits of legitimate interests.*’ (Nee and Ingram, 1998) Enduring institutions entail social legitimacy (Meyer and Rowan, 1977). Swedberg conceptualizes institutions as ‘distinct configurations of interests and social relations’ (Swedberg 2003). Institutions convey interests, and interests can only be expressed and realized through social relations.

The *Hukou* system is a formal institution in the Chinese society. A *Hukou* refers to a type of residency permit issued in China. It classifies the individual into either ‘agricultural’ or ‘non-agricultural’ category. *Hukou* files include detailed personal information for the purpose of population control. And most extraordinarily, *Hukou* status is passed down on a hereditary basis. The system was established in 1958, and has functioned as one important instrument of central planning of the labor force.

Systems of registration existed in special times of non-socialist societies. *In Discipline and Punish* (1975), Foucault examines the methods of registration adopted in a plagued town at the end of the 17<sup>th</sup> century in Europe. He illustrates the momentary nature of this form of surveillance as response to the plague. In socialist countries, such systems of confinement are revised into durable social systems to mobilize resources.

In 1932, the Soviet Union designed an internal passport system, ‘the *propiska*’, for the urban population alone. The privileges were extended to the rural population after 1974. China copied this institution with its own adaptations. The *Hukou* system was established when central planning was the absolute organizing principle of China’s economy. Mao advocated *The Regulation on Hukou Registration of the People’s Republic of China*, formally creating the system. It categorized citizens

according to the *place of residence* (i.e. “agricultural” or “non-agricultural” residents). And such social categorization was made hereditary. In 1985, the central government passed the *Regulations on Resident's Personal Identification Card in the People's Republic of China*. These two sets of regulations have been the quasi-legal basis for the *Hukou* system ever since. The system was only recognized as an administrative system, which is not written in the Constitution (Wang, 2005). In China, “regulations” that are commanded by the state take on a pseudo-legal effect, despite the fact that they are not exactly formal legal codes. These *Hukou* regulations are implemented by the Ministry of Public Security and its local branches implement. The system requires everyone to be registered with the local public security bureau. Specialized *Hukou* police officers are assigned to specific administrative areas. With the system in place, one cannot obtain legal permanent residence outside of his *Hukou* location. Voluntary residence mobility was strictly controlled before the mid 80s. During the time of restricted residential mobility, the only few mobility channels are through attending universities, joining the military, and marriage migration. Visitors and temporary migrants were required to register with the local *Hukou* police for permission to stay. Before the repatriation regulations were abolished in 2003, violators are subject to fines and detention.

The *Hukou* system was set up to serve three major functions in socialist China. Firstly, following the Soviet model, China made heavy industry as the priority of economic development in the 50s and 60s. The *Hukou* system was set in place to prioritize resource allocation and subsidization for selected groups, mainly urban residents. The rationale was toward an urban-centered political economy. Some scholars discuss that it is because Mao believed that the working class and cities are the future of China, and all other classes, including the peasants, were seen as transitional classes (Cheng and Selden, 1994). Prices for agricultural goods were artificially manipulated: the state used ‘price scissors’ to underprice agricultural products and overprice industrial goods, in order to ensure sectoral transfer of resources from agriculture to industry. This dualistic development strategy has shaped China’s economic trajectory for the past half century.

Second, the *Hukou* system was used as a tool to regulate internal migration, especially the rural-to-urban migration. As an observable regularity in many countries, urbanization and demographic changes are interrelated. When the rate of urbanization is slower than the rate of industrialization, and when there is significant regional inequality, there will be migration flows. Central planning requires a tight control over the labor force. With the *Hukou* system in place, voluntary migration is minimized and labor input is predictable. Before 1993, *Hukou* regulations stipulated that the *Hukou* status is passed on through the mother. This is said to ensure minimum upward mobility of peasants, because women are less likely to marry down (Davin, 1999). And lastly, it was set up for monitoring some targeted groups (*zhongdian renkou*) that are considered as potential threats to the regime.

The persistence of this system has much to do with China's development strategies under an authoritarian regime. By pooling up labor resources, it has contributed to the country's rapid economic growth and political stability. Until today, the *Hukou* system continues to be a major social institution that relates to everybody in China. In fact, *Hukou* status has been internalized as part of the Chinese culture. However, with deepening market reform, it is becoming more and more incompatible with market demands for free allocation of resources. Hall and Soskice (2001) term this incompatibility as '*institutional complementarity*'. Because each institution is a system of shared beliefs and rules that are dictated by interests and social relations, there may be circumstances of interest incongruence when new institutions are introduced. As an institution, the free market requires free exchange of economic resources (including various forms of capital) via market mechanisms. It entails an open economy system. The primary interest of the *Hukou* system, on the contrary, is to enforce closure and minimize labor mobility. In China, when these two institutions are put together to form a functioning society, they are naturally working against each other. From this point of view, with the central government favoring a more open economic system, it is to their long-term interest that the *Hukou* system be abolished.

The force of coercive isomorphism in the international community has affected changes of a few core economic institutions in China. Also with China being part of the international community which acknowledges that “everyone has the right to freedom of movement and residence within the borders of each state” (Article 13.1. *Universal Declaration of Human Rights*), the Chinese government is aware that the *Hukou* system violates international covenants on citizens’ economic, social and political rights.

### **Changing Political Incentive Structures**

Institutional changes are closely related to the political environment which provides incentives for collective action from below. Tarrow (1994) phrases it as the “political opportunity structure” which affects the probability of success when policy changes are made. Economic and political incentive structures are changed since market reform (Nee and Matthews, 1996). Take property rights for example, the state kept public ownership as the dominant formal institution while informally gave consent to private enterprises to develop. Such informal, incremental transition proved to be more successful than the more radical ‘shock therapy’ in other transitional economies. The pace of designed social changes is critical, because ‘humans are creatures of tradition and habits’ (Goldstone, 1998). Thus here is a learning process for actors to adjust to new ways of life. Such learning processes are also rule-generating processes. For all these reasons, intended policy outcomes may lag behind the equilibrium state (Stinchcombe, 1968). Policy-makers also need to attend to unintended outcomes from time to time. Thus, a smooth and gradual transition is more likely to succeed.

The history of internal migration in China shows how changing political incentive structures configure the patterns of population movements. It is a general pattern that economic growth is often accompanied by population movement. Migration studies show that when regional economic inequality is considerable, people are more likely to migrate. In China, the central government’s

preferential policies led to inequality of resource allocation, which is a key condition facilitating collective action (Macy, 1990). Like many other countries, rural-urban inequality pushes and pulls peasants to be on the move. Political and economic factors make the Chinese case especially dramatic. Since the 50s, the government has directed population reallocation in the case of huge projects, such as the 'Third Front', the 'send-down' campaigns, the Three Gorges Dam construction, etc. But spontaneous and voluntary migration became a new phenomenon only in the 80s. Official statistics show that the urban and rural incomes were disparate by a factor of about 2.2 in 1964, 2.6 in 1978, 2.7 in 1995, and 2.8 in 2000. Including indirect income in the form of state subsidies, the gap stood at a staggering 5.0-6.0 by 2001 (*State Statistics Bureau*, 2001). In 2003, urban residents' average income is six times of the average income of rural residents (*State Statistical Bureau*, 2003).

### **Rural Decollectivization and Emergence of the Floating Population**

Before the economic reform in 1978, three mechanisms were used by the central government to check voluntary migration: rural communes, food-rationing system in cities, and the *Hukou* system. The *Hukou* system in the pre-reform era functions as 'an internal de facto passport mechanism', blocking peasants from upward mobility (Knight and Song, 1999). Peasants were stuck scraping a living out of their land. Ironically, after the communist-led peasant revolution, peasants became 'victims of internal colonization' (Solinger, 1999) on their own land. In Sections 15 and 16 of the 1958 *Hukou* regulations, procedures are needed for rural residents to stay for longer than three days in cities. With the release of these regulations, food rationing was enforced, and anyone without proof of valid registration was not provided with food in the cities. In rural communes, the work-point system created huge free-rider problems and made surplus labor salient. After 1978, agricultural reform accelerated the decollectivization and the collapse of rural communes. Actually, rural decollectivization can also be seen as a social movement which was initiated by peasants themselves. Through adoption of the *Household Responsibility System*, individual households regained autonomy

in agricultural production, and productivity increased by 61% from 1978 to 1984 (McMillan et al, 1989). With the collapse of communes, public funding allotted to the rural areas was withdrawn. Rural households regained autonomy over deploying labor. In a word, organizational rearrangement in rural areas pushed peasants into the floating population (Solinger, 1999). Meanwhile in the mid 80s, urban industry needed cheap and flexible labor. In 1984, a new category was created in the *Hukou* system: ‘township *Hukou* without food ration’. In 1985, regulations permitting temporary residence were implemented nation-wide. By that time, communes and food ration system have completely disintegrated. The *Hukou* system became the only policy instrument for the state to control voluntary migration.

By being categorized as temporary residents, rural migrants have the legal right to stay and work in the cities, but do not have access to local resources, such as education, health care and even job opportunities in some specified industries. Rural spontaneous migrants at the earlier stage of the reform were seen by many Chinese scholars as “pioneers” in a “new revolution”, playing out their agency, contesting the socioeconomic and political boundaries demarcated by the state, and challenging the rural-urban cleavage through actively participating in the newly-emerging non-state market.

### **“Rural Elites” Encounter Institutional Exclusion**

Today’s China is witnessing an extraordinary stage of migration. It is seen as ‘the biggest peace time wave of internal migration the world has ever seen’ (Knight and Song, 1999). It is estimated that rural migration has reached a scale of over 100 million in early 21<sup>st</sup> century. Some scholars express worries by naming this wave of mass migration as ‘China’s living volcano’ (Leuninger, 1998). Due to institutional constraints, rural-to-urban migration has been characterized by ‘floating migration’: they enter and leave with regular cycles but rarely make permanent settlement in the cities. This ‘floating population’ (*liudong renkou*) maintain close connections with

their places of origin where their *Hukou* registration stays. With the *Hukou* system in place, migration in the strict sense is not possible. Because the system prevents them from gaining complete residency rights in the cities. For many, the experience of migration is a temporary stage in their life cycles (Davin, 1999). In other words, *Hukou* system forced transient migrants to become floaters and commuters between the rural and the urban (Solinger, 1999). From a transitional point of view, peasants are rational actors who are ‘positioned at the intersection of multiple temporal-relational contexts’ (Macy and Flache, 1995). The fact that they’ve survived the hardships of institutional exclusion and developed a coping method—‘circulated migration’—shows their capacity for institutional innovation.

Rural migrant workers were a self-selected group. They are usually the more adventurous and educated in the rural population, mostly males in their prime age. They mainly work in construction, manufacturing, and service industries. This group has contributed greatly to China’s fast growing economy, but the cities do not include them into the welfare system. The “rationale” is that cities are not capable of bearing the burden brought by massive permanent migration. The *Hukou* system is used as the main instrument to impose administrative commands on migrants.

*Hukou*-based discrimination can be observed from several aspects concerning rural migrant workers’ rights to work, their rights to get paid, and their rights for welfare benefits. Firstly, the *Hukou* system has enforced a ‘first-order segmentation’ in urban labor markets (Davin, 1999). An urban *Hukou* has been a condition of employment for many formal jobs. Rural migrants are segregated in low-skill jobs in the informal economy. In Beijing, for example, the government listed jobs for migrant workers that are categorized into A, B, C types. Each category requires a certain kind of permit. Most of them work on temporary contracts, earn lower wages, and are not entitled to welfare benefits. Most jobs in state-owned industries, foreign enterprises, governments, and education institutions are only open to those with urban *Hukou*. Based on this ‘first order’, there are other mechanisms of segmentation: public vs non-public, and skilled vs unskilled. Enclaves of

migrants form in suburban areas of big cities. These clustered settlements are either from the same place of origin (like Wenzhou Village) or from doing similar jobs (like garbage-collectors Village).

Secondly, lack of legal protection and unionization put migrant workers in a vulnerable position for exploitation. There have been numerous cases when employers delayed payments or even ended up not paying. The disturbing fact is that both state and private enterprises engage in this. Statistics from the Ministry of Construction show that in 2003, the construction industry alone has owed rural migrants 3.2 million yuan in total (roughly 0.4 million USD). Considering the low level of wage these migrants usually get, one could imagine the scale of such labor abuse must be strikingly large. Actually the situation became so serious that the new leadership put this issue on top of the agenda in the government report at the *Annual Meeting of the People's Congress* in 2004. In some private enterprises, rural migrants are treated without human dignity. Media exposure of migrant workers living in humiliating housing conditions, and being fed with stale rice or leftover food 'recycled' from restaurants have incited public outrage.

Thirdly, in most cities, there is a clear income gap between local hires and rural *Hukou* holders for the same kind of job. For example, statistics show that in Shenzhen, the average wages have not changed for these assembly line workers for almost 10 years.

Fourthly, rural migrant workers are not eligible for enjoying welfare and public goods. Social welfare system in China is highly urban-centered. In cities, the state pays for a minimum social insurance to support the unemployed, the handicapped, or the poor. The majority of the rural population were not covered by any safety net. Although the Labor Law stipulates that workers enjoy insurance, most employers evade this responsibility for migrant workers. In my interviews, one construction team leader expressed genuine concern for the well-being of migrant workers for his project, but he soon says that it is impossible to cover everybody's insurance because the cost would be too high for him. Without institutional check, employers encounter a sort of "cognitive dissonance" between acknowledging the pitiful conditions of workers and their selfish interests.

In most cities, although migrant workers contribute to infrastructure construction, they do not benefit from local facilities. Education is the best example. It was not until 1998 when migrant children were allowed to enroll temporarily in local schools in cities, provided that they register with a local administrative organ and pay the ‘temporary enrollment tax’. In fact, this policy only benefited the wealthier stratum of rural migrants. New policy adjustments like these are still particularistic. Their implementations have slightly changed the stratification mechanisms among this group—institutionalized discrimination anchored in the *Hukou* system is being coupled with discrimination against the have-nots. As Wang (2005) points out, Chinese rural migrants are treated in their own country in a way similar to how illegal immigrants are treated in the US—some obtain a ‘green card’ according to their merits. Public policies function as a tool to filter this population and control urbanization by deliberately excluding the poorest and transients. These policies create a tiered management of the population.

Private schools built up by migrant workers themselves appeared in the mid 90s. Poor conditions of these “floating schools” (*liudong xuexiao*) have attracted attention from the public. With the rising number of migrant children in cities, some local governments passed new regulations and supportive policies. Some encouraged building up more private schools, some require public schools to accommodate more migrant children. Prime Minister Wen Jiabao proposed this issue in the annual session of the National People’s Congress in March 2004. One of the most important decisions was to waive temporary enrollment fees for migrant children. This serves as an example of how the state responds to public outcry of injustice which led to adjustments of the *Hukou* system.

Another source of tension comes from vested interest groups who have been guarding the “value added” of this institution. Materially, an urban *Hukou* ensures minimum wage and welfare benefits. Symbolically, it has become ‘an emblem of citizenship’ (Solinger, 1999). Spatial inequality has made it an eagerly sought-after status. Rural migrants, on the other hand, are politically ignored. Solinger (1999) compares the life experiences of these Chinese peasants to that of black people in

South Africa before the 90s'. What they have in common is a form of institutionalized discrimination so stringent that it prevented them from becoming full citizens in their home countries.

For the above reasons, the *Hukou* system is seen as economically inefficient and socially unjust. However, with China's current infrastructure capacity, its complete abolition will very likely lead to chaos. In some cities, public transportation and housing are challenged by waves of rural migrants. A sense of insecurity and discrimination against outsiders prevail the urbanites, who had been accustomed to the 'urban public goods regime' (Solinger, 1999).

Also, while the unprecedented wave is underway, urban unemployment rate is still high. Low-skilled urban workers compete with rural migrants for unskilled jobs and small business opportunities. Competition for job opportunities and public resources has created hostility and discrimination. General theories of prejudice show that when groups differ in social status are in contact, especially when there is competition between the two, the high-status group tend to hold prejudice against the low-status group (Duckitt, 1992). Nowadays in China's cities, rural migrant workers are a visible type, with darker skins from having worked outside. This 'color line' is easily picked up by urban residents. Emily Honig (1992) conceptualize "ethnicity" in China as a composite concept based on linguistic, lifestyle, custom, self-perception and identify. To urban residents, rural migrants are identified almost as an ethnically distinct group.

### **Identity Politics and Trends of Migration**

'Citizenship' as a concept of identity has been defined differently by scholars, consisting of ideas like social membership, allocation of resources, rights and privileges, legal status, political identity, civic duties and responsibilities, etc. The differences may be a function of how status is acquired in different societies. The concept thus reflects the norms of affiliation and the nature of established institutions. Solinger (1999) discusses that given China's marked disparity in social

status and benefits between the rural and the urban, the conceptualization of ‘citizenship’ should encompass both the political identity and the distributive components.

Migrants themselves construct their identities and understand their experiences within the framework of state and popular discourse in which they are cast as a group outside of urban citizenry. The label of this group, ‘peasant workers’ (*nongming gong*), reflects a dual identity. Most migrants do not identify themselves with this label. They are caught between being the ‘rural elite’ and being the ‘urban marginalized’, and are discouraged by social alienation in the cities. This group mentally suffers from multiple dimensions of ‘mismatch’: historical, spatial, and aspirational. Their self-perceptions are caught between environments of traditional upbringing and modernity, between rural and urban, and between expectation and the reality. The awareness of such a ‘collective identity’ vary greatly across age groups and education levels. The younger group express more concern over ‘identity’ issues.

Sense of economic insecurity aggravates their identity crisis, which is an extreme case of Durkheimian ‘anomie’. Previous generalizations of social anomie show that institutionally excluded groups tend to develop downward leveling norms that led to a truly disadvantaged ‘underclass’ (Wilson, 1987). Similar patterns of residential segregation are displayed in urban areas.

When there is no other means to get around discriminatory practices, voluntary turnover is the only way for migrant workers to protect themselves. It is a form of ‘exit’ in the language of Hirschman when the ‘voice’ of this group is not expressed through viable channels (Hirschman, 1970). In early 2000s, it is reported that the Peal River Delta, which used to be the number one receiving region of migrant workers, have experienced lack of workforce. Fewer and fewer migrant workers go there because of the poor working and living conditions offered by employers there. Such massive withdrawal functioned as *a social movement* against existing institutional injustice.

In 2005, the central government completely abolished agricultural tax and start to subsidize peasants. These policies were implemented to increase the incentives for returning to agricultural

production, with the purpose of reviving the rural communities that have been depleted of labor. This has had some effects on the returning wave. The trend of returning varies across age groups. The younger generation of rural migrants still find urban jobs more attracting than farming, and are more likely to stay. They find it easier to assimilate into urban life, and detests going back. For the older migrants, there is regional variation too. In most places, although agricultural taxes are erased, production cost is still high, because each household only manages a small patch of land. In places where the local authorities have a loose control over pricing, fertilizers and other industrial products are more and more expensive to purchase. Peasants are still in a vulnerable position against these risks. Thus the returning wave happened on a small scale and did not last long.

### **Changing State and Public Discourse**

The interaction between state policies and public discourse has affected the reform of the *Hukou* system. Public debates on the system have been struck by sporadic events exposed by the media. Discussions on its deinstitutionalization have been divided. Urban and rural residents hold different views towards the *Hukou* system (Wang, 2005). Most urban citizens, being the privileged group, tend to take the system for granted and think that it ‘really does not make much difference in life’. But for rural *Hukou* holders, they see the system as affecting their lives greatly and persistently. The Communist party is using its propadanga machine to smooth out this tension in the public discourse.

The role of propaganda in authoritarian regimes has been to provide justifications as instruments of directing efforts of the people (Choukas, 1965). An examination of the changing political slogans used by the Communist party in different stages of its regime shows that it has been consciously using the propaganda machine to rally common interests. It played an important role in China’s ideological transition from collectivism to individual wealth accumulation. In the 80s, Deng proposed the ‘let some get rich first’ to support private individual businesses to boom. In the 90s, Jiang’s slogan was ‘make development the hard-core reason’. Now propaganda is playing an

important role in smoothing policy transition and in emphasizing equity. Shifting from the unbalanced growth model, the new leadership proposed 'building a harmonious society' in 2002 and is pushing forward the *New Rural China Campaign* in 2006. The campaign is seen as China's "third peasants liberation movement" since 1949. The emphasis now is on economic imbalances and the welfare of the rural population. In 2003, the National People's Congress Committee passed a bill that changed the "residency identity card" to "citizenship identity card" (*China News Daily*, November 2002). The act is seen as an effort to salvage state legitimacy as a response to public outcry against the *Hukou* system (Wang, 2005). These gestures have had some symbolic effects on the livelihood of migrant workers. The interaction between central propaganda and public opinion is pushing collective action.

New political orientation of the central government signals more tolerance for progressive reforms, and gave incentives for more public criticisms of the *Hukou* system. In this more open political atmosphere, intellectuals discuss more openly about giving rural residents 'equal treatment' and complete citizenship. Many see that the major problem dwells much in the government bureaucracy that is inefficient and non-transparent. Take the *New Rural China Campaign* for example. The intent of the strategic shift is constructive to the rural economy, but when it is implemented, many local grass-root authorities made it into another wave of local fund-raising and land seizure. This is because local authorities have long abused power to rent-seek and capture local resources. For some rural households, the abolition of agricultural tax does not have effect at all, because they don't have any land. Landless peasants take up an increasing proportion of the population. It is clear that although formal institutions are being reformed at the central level, the paternalistic mentality held by local cadres is hard to reverse.

### **"Institutional Incomplementarity"**

Market reform has greatly weakened the Hukou system. Both the functions and the legitimacy of Hukou system are been challenged. Firstly, key resources such as capital and labor need to be allocated through market mechanisms. Through ‘deepening reform’, administrative control over labor mobility has relaxed. Secondly, urban industries need cheap and flexible labor. This acts as a pulling factor attracting rural migration. When migration happens at a massive scale, with institutional exclusion still in place, the injustice of this system becomes more obvious. From a network perspective, institutional exclusion and conflict of interests place rural migrants in a confined network that is composed of their likes. As status characteristics theorists claim, one’s position in a stratified network decides his expectations (Lawler, Rideway and Mankovsky, 1993). As rural migrants commute between the rural and urban areas, different network configurations stimulate social comparison, and this cause the sense of ‘relative deprivation’. These “social externalities” cannot be solved through further economic reform, because economic development alone cannot replace a residency system with a citizenship system.

The ongoing reform of *Hukou* system is a parallel story to China’s incremental economic reform. Both started with spontaneous movements from below, which accumulated to a threshold level which forced the government to make policy changes. Both institutions disintegrate incrementally, and sometimes which a few steps backwards. The failure of the ‘shock therapy suggests that large-scale structural changes that entail an ideological discontinuity can only be accomplished incrementally.

Another common pattern is that reforms are implemented at local levels. The relationship between the central and the local government adds another layer of complication to the story. Policy enforcement in the history of PRC has undergone cycles of decentralization and recentralization. Usually, the central state set up the general guidelines, and local governments adapt it in their local regulations according to their financial resources and so-called “local conditions”. Thus, during the same phase of a structural reform, different emphasis or priorities can be found locally. In the partial

privatization reform, local policy variations create new stratification patterns. Zhejiang province, for example, has actively supported private enterprises to develop. Private sector now is the pillar of its economy. Implementation of *Hukou* reform need to be handed over to local governments because of local variations in terms of rural-urban inequality, scale of rural migration, intensity of conflicts between the rural and the urban.

Privatization affects migration flows. From the very beginning, regions that have privileged from central policies attracted larger scale of migration. Major cities in coastal areas enjoy policy privileges under Deng's 'Let Some Get Rich' slogan. These are regions where private economy develop fastest and attract both rural and urban migrants. Almost every significant shift of policy emphasis at the central level has led to greater regional variation. The same institutional framework is usually implemented locally and results in varying local institutions that are conditioned by local culture and norms. Actions of rural migrants interact with and existing local institutions. During these interactions, actors modify or create new norms and institutions. For example, labor market institutions at different localities demonstrate great variations. All these local variations further weaken state's ability to dispose labor force.

### **Opinion-Pushed Deinstitutionalization**

From the very beginning, the *Hukou* system has been an administrative system with sketchy legal foundations (Wang, 2005). It has been regulated by mostly "internal" decrees. Although it affect every aspect of an average Chinese's life, it is not in the Constitution, either is it in the civil code. Strangely enough, there is no law about it. Although the principles are determined by the central government, decisions are handed down to local officials, especially local Public Security bureaus and police departments. Without a constitutional legal basis and with local implementations, the system has been made nontransparent and thus easy for manipulation by its administrators. The proposal to make a *Hukou* law has been put forward at the NPC since the 90s, but there has never

been real effort. This difficulty is largely due to internal diversification of interests within policy makers. Conservative members from the previously empowered organs, such as the Ministry of Public Security, voiced against any significant reform. Other departments, such as the Ministry of Agriculture, have been advocating radical changes. For a long time, the MPS has become the decision maker of the system. It has been the only government organ that initiates major changes to the system. These conflicts of interests often slow down legal processes.

Progresses of reform are often triggered by sporadic incidents that sparked heated public outcry against the system. For example, the *Custody and Repatriation System* was abolished in 2003 following the Sun Zhigang case. The custody and repatriation centers in China were set up to accommodate the homeless but was later used by local police to detain migrants without residential permits. In April 2003, a migrant worker Sun Zhigang was arrested in Guangzhou and taken by the police to one of these centers where he was later found dead. The case triggered a public outcry that eventually led to the abolition of the Custody and Repatriation System.

Wang (2005) claims that the Chinese Government clearly intends to maintain the *Hukou* system. But they have to make adjustments in response to unintended consequences of market reform. In this sense, the reform of the *Hukou* system is induced by market, not initiated by the government. He argues that deinstitutionalization comes from spontaneous bottom-up pressures, rather than intentional design to restore social justice. However, I tend to disagree. During the process of deinstitutionalization, intended policies and unintended consequences interact with each other. When social inequality and regional discrepancies accumulate to such a level that incurs great public criticism against the old institutions, the communist party has to go with the wind instead of pursuing its original plan. Surely it is never an easy effort to generalize the characteristic or rationale of its development strategies. Since 1978, the central government has been pragmatic in order not to lag behind as an international player. It has been active in dealing with economic externalities and been responsive to public request. However, like all political parties, internal conflicts of interest and

shortsightedness also often led to short-term policy orientations and negligence of the welfare of some groups. But overall, I observe a changing political climate that has more tolerance for expressions of public opinion.

## **Discussion**

Economic sociologists study institutional changes, but not very often do they examine the process of *deinstitutionalization*. It refers to the gradual disintegration of core social and economic institutions, and the replacement with new institutional arrangements, in both formal and informal sense, as a result of intended and unintended social processes. China's social transformation serves an ideal case to study how institutions that were designed for central planning are caught in this institutional contention and disintegrate.

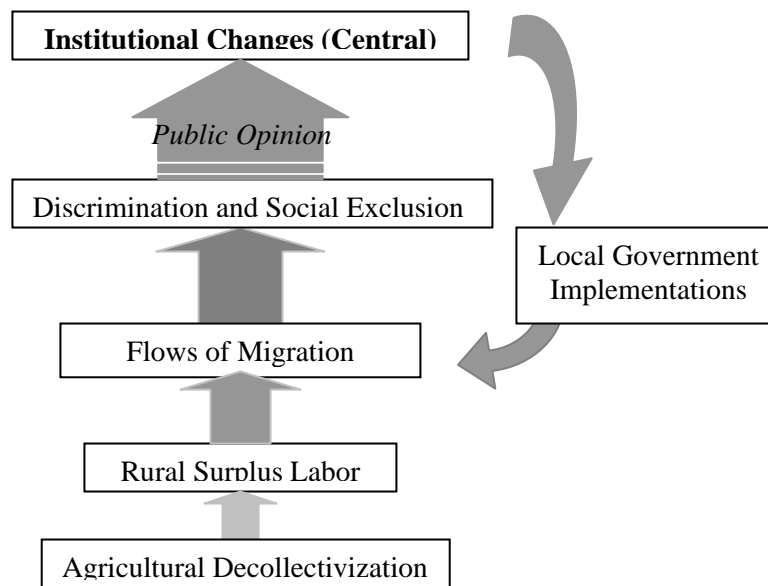
Economic reform in China involves not only marketization, but also the transformation of social relations. Social status and identity matter as noneconomic interests that drive human behavior. Polanyi (1944) argues that capitalism entails not only the economic system, but also the social relations that are interweaved in it. Along this line, the question of interest here is: how have market processes or changes in the economic system transformed social relations in China?

Since its establishment, the *Hukou* system has played an important role in China's political economy. It has stabilized the communist regime and promoted economic growth through sectoral transfer of resources. Through perpetuating the 'dualistic' nature of the economy, it also created a hierarchy of social status. There are few other durable institutions like the *Hukou* system in conditioning political, economic and social life in China. In China, *Hukou* reform encounters great resistance. There are two primary reasons. Firstly, because the system has been in place for so long, vested interest groups tend to guard their interests by maintaining their 'positional goods' that are legitimized by old institutions. Secondly, because the problem lies not in the system *per se*, but in the

‘value added’ of *Hukou* status in terms of social welfare distribution, the reform requires infrastructural resources to support a nation-wide welfare system.

I focus on the mutual contingency between the formal and informal processes of deinstitutionalization. The deinstitutionalization process of *Hukou* system includes interactions between political climate, public opinion, and collective action. Deinstitutionalization of core institutions in state socialism (e.g. communes, collective ownership, and the *Hukou* system) involve changes in other institutional elements, such as the education and welfare system. A one-dimensional analysis of the system itself is not sufficient. As these institutions are inter-related with each other, changes of one affect the rest in significant ways. A better understanding of this complicated process also requires observation across levels of ideological contentions, structural inertia, market demands, and regional variation.

**Figure 1. A Process Analysis of Deinstitutionalization of the *Hukou* System**



The key rationale driving these drastic institutional shifts is ‘institutional complementarity’ (Hall and Soskice, 2001). The systems of central planning and market economy entail completely

opposite organizing principles that represent conflicting interests. In China, the oscillation between liberal and conservative forces behind the *Hukou* reform represents the conflict of interests behind these policy gestures, even within the communist party. After the launching of market reform, the central government gradually loosens control over many economic resources. At the same time, control over key resources is crucial for a post-socialist authoritarian regime. Although the Chinese government has been under the pressure to open up markets for key resources (such as banking, telecommunication, education, etc.), protective measures are still in place. Here we see the tension between economic and political interests. The invisible hand of market forces has pushed changes in political incentives and social reforms. With deepening market reform changing the structure of political incentives, the central government is more tolerant for constructive advice for the economy. This gives much room for public opinion to play a more important role in social reforms, and it is beginning to show its force as a social surveillance mechanism.

After its establishment, the *Hukou* system has developed from a one-dimensional population management system to one complex “institutional matrix” that interconnects with other institutional elements at different levels. Its deinstitutionalization should not be a one-dimensional one. There are theoretical as well as empirical challenges to take up this topic. Researchers often face operational difficulties when trying to obtain data to document changes of *Hukou* policies, because its main administering organ, the Public Security Bureau, is highly non-transparent. To make sense of key processes, one needs to tap into the decision-making of local and central governments. The most crucial but complicated process is at the local level. Due to resource constraints and legal ambiguity with the system as a whole, ongoing local reforms are based on particularistic standards. We see cities such as Beijing uses quota when issuing Beijing *Hukous*. The selection criteria are arbitrarily decided and not intended for the have-nots. Transitory *Hukou* categories, such as the township *Hukou*, are invented to mediate between structural inertia and trend of urbanization. This has further reconfigured the stratification patterns significantly. More quality research needs to be done on this.

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