

Original Paper

An Analysis of Transaction Costs in the Evolution of China's Household Registration System

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Abstract

This paper examines the impact of reforms to relax urban household registration requirements on the institutional transaction costs associated with the migration of rural-to-urban populations and explores pathways for optimizing the household registration system. Drawing on transaction cost theory and the theory of coercive institutional change, the study categorizes migration costs into three types: pre-contractual arrangements, public service provision, and the enforcement of labor rights. It employs a variety of research methods to trace the evolution of household registration policies and conducts a multidimensional analysis using statistical data from 2015 to 2024. The study finds that relaxing household registration requirements can mitigate some of the transaction costs associated with migration. However, due to constraints such as tiered control over household registration, the dependency of public services on household registration status, and deficiencies in land exit and fiscal burden-sharing mechanisms, these costs cannot be completely eliminated. Relying solely on household registration reform is insufficient to resolve the challenges of urban integration; rather, it is necessary to improve supporting institutions to advance the reform in a coordinated manner.

Keywords

transaction costs, dual household registration system, institutional change, labor mobility

1. Introduction

Against the backdrop of large-scale cross-regional labor mobility, the institutional barriers created by the dual household registration system have increased the various costs associated with rural-to-urban migration. To remove obstacles to population mobility, China has continued to advance reforms to relax urban household registration requirements; however, during the implementation of these reforms, the institutional burdens on population mobility have not been fully eliminated. Based on this, this

paper seeks to clarify the actual impact of reforms to relax household registration requirements on the transaction costs of population mobility, analyze the practical factors hindering the reduction of these costs, and provide guidance for further optimizing household registration-related systems.

Drawing on theories of transaction costs and coercive institutional change, this paper employs a comprehensive approach combining literature review, historical institutional analysis, and examination of statistical data to trace the development of household registration reform. It elucidates the underlying logic behind policies designed to reduce mobility costs, examines the actual effectiveness of the reform from multiple perspectives using publicly available statistical data, identifies practical obstacles encountered during the reform process, and proposes corresponding strategies for improvement. Compared with existing research, this paper constructs a three-category analytical framework for mobility transaction costs from both ex ante and ex post perspectives, conducting a comprehensive qualitative examination of the institutional effects of relaxed household registration policies.

2. Literature review

2.1 Related Research From Abroad

Research on international migration and institutions has a solid theoretical foundation. Coase (1937) introduced the concept of transaction costs, demonstrating that various institutional constraints result in additional economic losses; Williamson (1985) refined the classification of ex ante and ex post costs, enabling a layered analysis of institutional costs; and North's (1990) theory of coercive institutional change elucidates the underlying logic of government-led reforms. Together, these three scholars have established the theoretical framework for this paper's analysis of household registration reform. In empirical studies of population mobility, Todaro (1969) developed a theory of urban-rural migration, demonstrating that regulatory restrictions and disparities in welfare distribution increase the costs of labor migration. However, this conclusion is based on a market environment where population mobility is unrestricted and fails to account for the long-term urban-rural identity divide caused by China's dual household registration system. It also lacks targeted discussions addressing the real-world challenges faced by China's rural-to-urban migrant population, thereby highlighting the necessity of conducting analyses that incorporate local institutional contexts.

2.1 Related Domestic Research

Domestic scholars, taking into account China's dual household registration system, have conducted research focusing on two aspects: the evolution of household registration policies and the costs of population mobility. In terms of tracing the history of household registration reform, Zhao Junjie and Zhang Xiaoxu (2022) divided the household registration system of the People's Republic of China into three phases—strict control, gradual relaxation, and deepening reform—and argued that incremental adjustments to the household registration system have long been constrained by imbalances in the distribution of urban and rural welfare benefits; Ji Jingyao and Liu Shouying (2019), analyzing the issue from the perspective of urban rights, argue that the unequal distribution of urban public

resources—such as education and social security—is the core reason why migrant workers find it difficult to settle and obtain household registration in cities. Regarding research on institutional costs, Gan Chunyu (2018), from the perspective of new institutional economics, points out that the distinction between urban and rural household registrations increases the institutional costs of population mobility in areas such as household registration, social security, and children's education; Wang Rong and Huang Guitian (2022) conducted an empirical analysis confirming that the strictness of household registration criteria in various cities directly affects the burden on migrant workers; liberalizing household registration in small and medium-sized cities can effectively alleviate migration pressures. Existing domestic research generally acknowledges that the division of household registration systems increases the burden of labor mobility, but most studies focus on calculating the fiscal costs of reform or analyzing the outcomes of population mobility, with few breaking down the transaction costs associated with household registration into distinct stages—before, during, and after—through a layered analysis.

2.3 Limitations of Existing Research and the Innovative Aspects of This Study

Overall, few existing studies have adopted a transaction-cost perspective to construct a unified analytical framework that encompasses both ex ante and ex post dimensions, thereby systematically elucidating the mechanisms through which the relaxation of household registration requirements affects multidimensional institutional mobility costs. Accordingly, this paper combines three types of mobility transaction cost analytical frameworks to conduct a qualitative examination of changes in the household registration system from an institutional economics perspective, thereby addressing the shortcomings in existing research frameworks.

3. Theoretical Basis and Underlying Mechanisms

3.1 Core Theoretical Foundation

3.1.1 The Theory of Transaction Costs

Coase was the first to introduce the concept of transaction costs, challenging the neoclassical economic assumption of zero transaction costs. Williamson further refined this theoretical framework by categorizing transaction costs into ex ante and ex post types, thereby providing an analytical tool for quantifying the burdens that institutional arrangements impose on the mobility of factors of production. The migration of labor between urban and rural areas constitutes a form of factor mobility. The dual household registration system, which creates institutional barriers through administrative divisions, generates additional transaction costs in areas such as residency registration applications, access to public services, and guarantees for long-term settlement. This theory serves as the core basis for this paper's analysis of the costs associated with household registration mobility.

3.1.2 Theory of Coercive Institutional Change

North classifies institutional change into two types: induced change and coercive change. Coercive institutional change is driven top-down by the government through laws and regulations, with the goal

of adjusting institutional rules and reducing the costs of social operation. Before the Reform and Opening-Up, the dual household registration system strictly restricted the free movement of people; as urbanization progressed, the economic constraints imposed by the original system became increasingly apparent. China's multiple rounds of policies to relax urban household registration requirements—coordinated by the central government and implemented at the local level—constitute a classic example of coercive institutional change; this theory serves to explain the underlying drivers behind the phased adjustments to household registration policies.

3.2 Definition of Transaction Costs for Three Types of Institutional Mobility under the Dual Household Registration System

Williamson's theory of transaction costs classifies transaction costs into two categories: ex ante and ex post. Drawing on the academic research paradigm regarding the costs of domestic labor migration, this paper combines pre-registration information search with registration eligibility requirements and categorizes the institutional mobility costs generated by the dual household registration system into the following three types.

3.2.1 Pre-contractual Costs

Policies regarding household registration, children's school enrollment, and medical treatment in other regions vary by locality. Migrant workers often struggle to quickly obtain complete and accurate policy information, requiring them to spend a significant amount of time searching for and consulting sources. At the same time, cities impose numerous strict criteria for household registration, and the procedures for transferring household registration are cumbersome; traveling back and forth to complete these procedures results in additional expenses such as lost wages, transportation costs, and document fees. The time and financial costs resulting from the combination of barriers to policy information and the thresholds for household registration eligibility collectively constitute the pre-contractual costs.

3.2.2 Costs of Public Service Infrastructure

The allocation of universal public resources—such as basic education, basic healthcare, and affordable housing—is primarily based on local household registration, meaning that people without local household registration cannot enjoy equal access to these benefits. Children of migrant worker families often face difficulties enrolling in nearby public schools and are forced to choose private educational options with higher tuition fees; reimbursement rates and the convenience of medical claims settlement for out-of-town medical treatment are inferior to those for local residents; and migrant groups are generally ineligible to apply for affordable housing. These long-standing disparities in welfare benefits force the migrant population to continuously bear additional living expenses. This persistent, extra economic burden caused by household registration divisions is known as the cost of public service access.

3.2.3 Costs of Complying with Labor Rights

Differences in household registration status lead to implicit discrimination in the urban job market, making it difficult for migrant workers to enjoy the same employment conditions as local residents in

terms of wages and social security. When labor disputes or unfair employment practices arise, the process of seeking redress in a different locality is complex and involves longer review periods, requiring more time and financial resources to resolve labor relations issues. This differential treatment in employment caused by household registration barriers, along with the additional costs associated with seeking redress, constitutes the cost of enforcing labor rights.

3.3 The Mechanism through which Reforms to Relax Household Registration Requirements Reduce Transaction Costs

The division between urban and rural household registration statuses is the root cause of institutional transaction costs associated with mobility. Reforms to relax household registration requirements break down institutional barriers and help mitigate three types of costs: those related to pre-contractual arrangements, public service access, and the fulfillment of labor rights.

Regarding pre-contractual arrangements, standardizing and publicly disclosing household registration policies, lowering entry barriers, and streamlining administrative procedures reduce the time and financial costs associated with information search and paperwork. In terms of public services, efforts are being made to gradually decouple public resources from household registration, expand welfare coverage for the permanent resident population, and reduce the additional burdens faced by migrant populations in accessing education, healthcare, and housing security. Regarding the fulfillment of labor rights, measures are being taken to address household registration discrimination in the job market, facilitate channels for protecting rights across regions, and minimize the institutional losses arising from labor disputes.

4. A Review of the Evolution of China's Policies on Relaxing urban Household Registration Requirements

Based on policy documents related to household registration since the founding of the People's Republic of China, the evolution of the urban household registration system can be divided into three phases.

The first phase spanned 1949-1977, a period of strict regulation under the urban-rural dual household registration system. In 1958, the "Regulations on Household Registration of the People's Republic of China" were formally enacted, clearly distinguishing between agricultural and non-agricultural household registrations and thereby institutionalizing the urban-rural divide. During this phase, household registration rules strictly restricted the migration of rural populations to urban areas, and the free movement of people between urban and rural areas essentially came to a standstill, resulting in a completely segregated dual household registration system that aligned with the institutional arrangements for industrial and agricultural development during the planned economy era.

The second phase spanned 1978-2012, a period during which the household registration system was gradually relaxed following the launch of reform and opening-up. In 1984, the state introduced a policy allowing farmers who worked or engaged in business to register as urban residents by securing their

own food rations, thereby breaking down the barrier that had completely prevented rural residents from moving to cities. During this phase, restrictions on household registration were moderately relaxed, enabling eligible rural residents to settle in small towns and creating institutional space for the flow of labor between urban and rural areas. However, the threshold for registering in large cities remained relatively high, and the dual household registration system was not completely eliminated.

The third phase, spanning from 2013 to the present, marks a period of deepening household registration reform and the comprehensive relaxation of restrictions on urban household registration. In 2014, the State Council issued the “Opinions on Further Promoting Household Registration System Reform,” which proposed eliminating the distinction between agricultural and non-agricultural household registration statuses; in 2016, the “Interim Regulations on Residence Permits” took effect, ensuring basic public services for the non-local permanent resident population; and in 2024, the system of registering household registration based on place of permanent residence was further implemented to promote the equalization of public services. The core of the reforms in this phase is to lower the thresholds for household registration, safeguard the rights and interests of rural-to-urban migrants, and continuously advance the urbanization of the population and the development of new-type urbanization.

5. A Multidimensional Data Analysis of the Outcomes of Household Registration Reform

This chapter primarily provides empirical evidence to support the theoretical mechanisms discussed earlier. Due to statistical limitations, it is not possible to directly quantify the absolute scale of institutional transaction costs. Therefore, corresponding proxy indicators are selected to examine the mitigating effect of the 2015–2024 household registration liberalization reforms on mobility transaction costs from three dimensions: pre-contractual arrangements, public service provision, and the fulfillment of labor rights. By analyzing changes in the data, this study identifies the achievements and practical constraints of the reforms, thereby providing empirical support for the subsequent analysis of institutional shortcomings.

5.1 An Examination of Pre-contractual Costs

In this section, we use the difference between the urbanization rates of the resident population and the registered population to represent ex ante contracting costs, thereby reflecting the phenomenon of “residing in urban areas but not having registered residency”—a form of semi-urbanization among rural-to-urban migrants. The larger this gap, the stronger the institutional barriers arising from processes such as residency registration and access to policy information.

Table 1. Permanent and Registered Population Urbanization Rates and Their Gaps

Year	Permanent urbanization rate	Urbanization Rate Based on Household Registration	Difference between the two rates
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2015	56.10%	39.90%	16.20%
2016	57.35%	41.20%	16.15%
2017	58.52%	42.35%	16.17%
2018	59.58%	43.37%	16.21%
2019	60.60%	44.38%	16.22%
2020	63.89%	45.40%	18.49%
2021	64.70%	46.50%	18.20%
2022	65.20%	47.70%	17.50%
2023	66.20%	48.30%	17.90%
2024	67.00%	49.20%	17.80%

Table 1 presents the data for the two types of urbanization rate indicators from 2015 to 2024; the difference between the two rates for each year was calculated based on the original indicators. The data for 2020 comes from the comprehensive survey of the Seventh National Population Census, while the data for other years is based on sample-based extrapolation. The census corrected for underestimates of the floating population; therefore, the increase in the difference between the two rates for that year includes statistical adjustment factors and should not be simply viewed as the result of institutional changes. As shown in Table 1, the urbanization rates for both the permanent resident population and the registered population rose steadily and in tandem from 2015 to 2024; however, the difference between the two rates remained within the range of 16%-18.5% over the long term and did not narrow significantly. These macro-level estimation results are corroborated by the micro-level empirical indicators discussed earlier regarding household registration eligibility, education, and healthcare. Together, they demonstrate that the mitigating effect of household registration reform on the transaction costs of population mobility is limited, and the urbanization of rural-to-urban migrants still faces significant institutional costs.

5.2 A Study on the Costs of Public Service Infrastructure

This subsection conducts a quantitative analysis using time-series data on the proportion of migrant children enrolled in public schools at the compulsory education level nationwide from 2015 to 2024. The higher the proportion of migrant children enrolled in public schools, the weaker the educational welfare barriers associated with household registration, and the lower the additional financial burden on migrant families for private education.

Table 2. Migrant Children in Compulsory Education and Their Public-school Enrollment

Year	Total number of migrant children enrolled in compulsory education	Number of migrant children enrolled in public schools	Percentage of public schools
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2015	1367.10	1092.31	79.90%
2016	1394.77	1124.18	80.60%
2017	1406.63	1146.40	81.50%
2018	1424.04	1130.69	79.40%
2019	1426.96	1184.38	83.00%
2020	1429.73	1226.71	85.80%
2021	1372.41	1214.58	88.50%
2022	1364.68	1239.13	90.80%
2023	1353.99	1289.00	95.20%
2024	1308.83	1239.46	94.70%

Unit: 10,000 people.

Using the time-series data in the table, create the following combined bar-and-line chart to visually illustrate the trends in the three types of indicators.

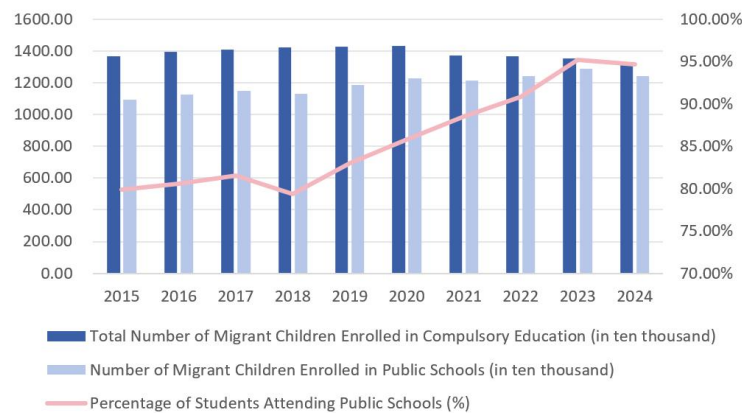


Figure 1. Trends in the Number of Migrant Children in Compulsory Education and Their Enrollment Rate in Public Schools

As shown in Table 2 and Figure 1, the proportion of migrant children enrolled in public schools rose steadily from 2015 to 2024, and the capacity of the public education system to provide for their needs continued to strengthen. This indicates that the constraints imposed by household registration barriers on migrant children's access to compulsory education resources have gradually weakened, and the costs associated with providing public services in the field of compulsory education have been effectively mitigated.

5.3 An Examination of the Costs of Complying with Labor Rights

This section uses the average monthly income of migrant workers from 2015 to 2024 as an indirect proxy to examine changes in the costs associated with enforcing labor rights. If institutional barriers—such as employment discrimination based on household registration and the difficulties of

asserting rights in areas outside one's home region—gradually diminish, leading to a more equitable labor market, the income of migrant workers will improve accordingly.

Table 3. Average Monthly Income of Migrant Workers Working Away from Home

Year	Average Monthly Income of Migrant Workers Working Away from Home
2015	3359
2016	3572
2017	3805
2018	4107
2019	4427
2020	4549
2021	5013
2022	5240
2023	5441
2024	5634

Unit: Yuan.

The data compiled over the years are presented in Table 3. It should be noted that the sample for the migrant worker monitoring survey has undergone minor adjustments over time. Additionally, migrant workers' incomes are influenced by multiple factors, including macroeconomic conditions, industry wage levels, and labor supply and demand dynamics; therefore, income growth cannot be entirely attributed to household registration system reforms and should only be considered as an indirect reference. As shown in the table, the average monthly income of migrant workers continued to rise from 2015 to 2024, reflecting, to some extent, improvements in employment protection for migrant workers.

6. An Analysis of Current Shortcomings in the Evolving Household Registration System

First, there are varying degrees of strictness in urban household registration controls. Household registration reform exhibits a tiered pattern: while eligibility requirements in small and medium-sized cities are gradually being relaxed, those in central and megacities remain relatively strict. The mismatch between where migrant workers are employed and the channels for obtaining household registration exacerbates institutional barriers to pre-employment contract formation.

Second, the allocation of public resources remains tied to household registration status. Core public services, such as education and affordable housing, remain deeply tied to household registration status. Non-registered permanent residents who have long worked and lived in cities find it difficult to enjoy urban benefits on an equal footing, and the costs associated with providing public services cannot be

fully offset.

Third, channels for divesting rural land property rights are inadequate. Rights to contracted farmland and residential land are deeply tied to rural household registration, and market-based mechanisms for compensated divestment are not yet fully developed. Migrants from rural areas are concerned that they will lose their rural rights after obtaining urban household registration, which dampens their willingness to do so.

Fourth, the fiscal cost-sharing mechanism for urban integration needs to be improved. Expenditures on public services for migrant populations are primarily borne by the receiving localities, but fiscal transfer payments do not match the scale of the permanent resident population. Local governments face significant pressure to provide public services, which constrains the advancement of equitable public service provision.

7. Conclusions and Recommendations

7.1 Conclusions

Drawing on transaction cost theory and using data on migrant workers' incomes, the education of their accompanying children, and two types of urbanization rates from 2015 to 2024, this paper analyzes the institutional transaction costs resulting from changes in the household registration system. The study shows that linking household registration to social security and housing security increases transaction costs for the mobile population, and that the welfare gap resulting from non-household-registration status offsets the income gains of migrant workers; furthermore, the allocation of compulsory education resources based on household registration increases the migration burden on migrant families. The tiered thresholds for urban household registration and the restrictive policies of large cities have created a gap in urbanization rates, resulting in a significant problem of "semi-citizenization." The lack of smooth channels for relinquishing rural land rights and the inadequacy of mechanisms for sharing the costs of urbanization are the underlying reasons why transaction costs remain difficult to eradicate. In summary, relaxing household registration requirements can alleviate some of the transaction costs associated with mobility; however, lowering these thresholds alone is insufficient to achieve the full urbanization of the rural migrant population, and coordinated reforms of supporting institutions are still necessary.

7.2 Recommendations

Moderately relax residency restrictions in major cities, simplify the residency registration process to help migrant workers find stable employment and settle down, and narrow the gap in the two types of urbanization rates.

Promote the decoupling of urban medical insurance, public housing subsidies, and employment benefits from household registration requirements, so that permanent residents who have lived and worked in the area for a long time can enjoy equal access to these benefits, thereby reducing the additional financial burden on migrant workers.

Establish channels for the compensated transfer of rural land rights to alleviate concerns among rural-to-urban migrants about the loss of their rights and interests after obtaining household registration.

Improve the cost-sharing mechanism for integrating migrants into the local community, allocate fiscal transfer payments based on the size of the permanent resident population, and alleviate the pressure on public service provision in destination areas.

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