

Discussion on Resource Misallocation in China's Urbanization

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Abstract: After reviewing the existing literature, a reinterpretation of the mechanism of urbanization is proposed as follows: Along with optimizing the allocation of resources, various economic and social resources transfer to urban areas or gather to form new towns, thereby generating positive resource agglomeration effects with an ultimate objective of maximizing human welfare. Based on the new interpretation, this paper comprehensively examines the mechanism of China's urbanization and discovers problems of resource misallocation in four major areas: human resources, social security resources, land resources, and housing resources. Finally, corresponding countermeasures, including suggestions on promoting migrant workers' urban inclusion, improving social security provision, and enhancing land and housing utilization, are put forward.

1. Introduction

Over the past 40 years, urbanization has played an important role in promoting China's economic development and the transformation of China's social structure. However, we should not overlook the problems brought about by this process. As increasing laborers gather in cities, urban diseases are fermenting simultaneously. Furthermore, China's institution, including the household registration (*Hukou*) system and the land transfer system, does not seem to catch up with its rapid labor migration, resulting in the misallocation of various resources. To reflect on the nature of these problems, it is necessary to conduct a systematic analysis of urbanization. This article will provide insights from both theoretical and practical standpoints, followed by a discussion of potential targeted measures.

2. Re-understanding the Mechanism of Urbanization

Conventionally, when discussing the mechanism of urbanization, economists tend to place emphasis on the role of industrial transformation [1] and the agglomeration effect of labor factors [2,3,4] in pushing forward the urbanization process. Most of the Chinese scholars' researches focus on the role of the government since China's urbanization is mainly an outcome of government planning. In the past ten years, some Chinese scholars have also begun to explore China's urbanization from the perspective of industrial agglomeration [5] and labor agglomeration [6].

The above studies have important implications for understanding the driving factors of urbanization. However, there are two limitations: (1) Although industrial transformation, which leads to labor agglomeration, is one of the important driving forces of urbanization, it is not the only one. In fact, there are many promoting factors for urbanization. (2) The concentration of labor may generate a positive agglomeration effect, but it may also bring about urban diseases such as traffic jams and slums. Therefore, only by revealing the intrinsic mechanism by which resource agglomeration produces positive effects can urbanization be deeply understood.

In the author's opinion, the mechanism of urbanization can be summarized as: Along with optimizing the allocation of resources, various economic and social resources transfer to urban areas or gather to form new towns, thereby generating positive resource agglomeration effects with an ultimate objective of maximizing human welfare.

This new proposition has two aspects of significance: First, it comprehensively reveals the driving factors of urbanization by emphasizing on the role of "various economic and social resources" that gather in cities. Second, it further explains that the essential way of "generating resource agglomeration effects" is "optimizing the allocation of resources".

Accordingly, the key to evaluating the effectiveness of urbanization is whether the optimal allocation of resources has been promoted. In other words, from a problem-oriented perspective, the key is whether there are resource misallocations. In this way, we found an objective standard for testing the effectiveness of the urbanization. With this standard, the flaws in China's urbanization process can be easily found, and it is likely to guide China's urbanization back on the right track.

3. China's Urbanization is Facing Misallocation of Resources in Four Major Areas

Based on the new understanding, problems of resource misallocation, including unallocated resources, insufficient allocation of resources, and excessive allocation of resource, are found in China's urbanization process. Among them, misallocation in the four following aspects of resources is the most crucial:

3.1. Waste of Human Resources

Migrant workers account for a considerable portion of China's population. However, restricted by the *Hukou* system, migrant workers cannot enjoy social security benefits of urban regions. Due to the high cost of living in cities and a lack of access to urban social security benefits, most people have to rely on the rural land in their hometown as their living security. In order to continue to occupy the rural lands, many of the migrant workers only work in the cities during slack farming seasons, returning to the rural croplands during busy seasons. The "part-time working and part-time farming" pattern makes the migrants unable to devote themselves fully to both urban work and rural lands, thus causing a waste of human resources. According to a sample survey conducted by the author in Dongtou Village, Longhui County, Hunan Province, the "part-time working and part-time farming" working style caused the migrant workers to be idle in an average of about a quarter of each year.

3.2. Insufficient Allocation of Social Security

The reason why migrant workers cannot enjoy urban social security is that low-rent housing (*Lianzufang*), compulsory education, and programs such as unemployment compensation, medical security, and endowment benefits all require significant inputs of fiscal funds from the local governments. However, motivated by short-term economic assessments, local governments in

China tend to appropriate monetary funds to support economic development projects that can be effective in the short term rather than to solve fundamental social security issues for migrant workers^[7], thus causing a serious shortage of social security benefits for the migrants.

Specifically, as low-rent housing is not available, migrant workers can only rent crude and high-priced commercial housing. As the fiscal funds for compulsory education are allocated to their rural hometowns, children who followed their parents to cities are not qualified for urban public schools. Thus, they can only choose between migrant schools with poor teaching quality and private schools with high tuition fees. As a result, the improper distribution of social security hinders the transformation of migrant workers into urban residents, making them unable to obtain the same living conditions and payment capability as urban residents.

3.3. Ineffective Allocation of Land Resource

In general, since the establishment of People's Republic of China, land ownership has maintained a dual structure: urban land is owned by the state and can be traded in the market, whereas rural land is jointly owned by village collective members, and can only be traded in the market after being approved to be expropriated into urban land. On the one hand, this pattern has led to a large number of non-agricultural rural construction lands idle; On the other hand, urban construction land cannot meet the needs of urban construction. Furthermore, if farmland in suburban villages is requisitioned, according to the Land Administration Law^[8], the same amount of new farmland must be exploited or reclaimed. Due to the limited exploitable and reclaimable land in suburban areas, it is very difficult to expand the urban construction area by requisitioning farmland in suburban areas.

From the perspective of rural areas, two kinds of land resources are ineffectively allocated: First, agricultural land has not been fully utilized. Because land is scattered among contractors, large-scale planting is difficult to realize. Also, after a large number of migrant workers enter the city, their contracted land is usually poorly handled by the elderly, thus failing to give full play to the due efficiency. Some land is even completely abandoned. Second, a large number of rural construction lands is idle. Take homestead land as an example. Although farmers who settle in cities can choose to withdraw from their homesteads voluntarily with compensation, the transaction is still restricted to the members of village collectives, and the enthusiasm for such transactions is therefore limited.

From the perspective of urban areas, on the one hand, the land resources for building low-rent housing are generally in short supply; on the other hand, in order to attract investment, rural land was requisitioned regardless of actual conditions and needs, thus putting land resources in an underutilized state [9].

3.4. Misallocation of Housing Resources

On the one hand, since the migrant workers are not officially registered urban-residents, they cannot take part in low-rent housing programs, leading to a severe shortage of affordable housing resources in cities and towns among migrant workers. On the other hand, after earning certain income from the city jobs, the peasant workers always built large houses on their rural homestead lands. However, most of the houses remain vacant. In addition, some local governments are vigorously carrying out ultra-luxury commercial and residential constructions, neglecting the actual capacity of supporting industries and potential residents. Many of these projects eventually end up underpopulated, becoming nearly empty "ghost towns" due to the overdrive of urbanization and overplus of housing resources [10].

4. Countermeasures to Solve Misallocation of Resources

In order to solve the problem of resource misallocation in the above four major areas, it is necessary to take the following measures:

4.1. To Promote Migrants' Urban Inclusion to Make the Most of Human Resources

For migrant workers in cities and towns, the local urban government should meet their basic social security needs, reducing their living costs and risks, and reducing their dependence on the countryside. At the same time, the local urban government should provide various public welfare training services to improve the vocational skills of migrant workers and thereby promote their stable employment in cities and towns.

4.2. To Increase Government Spending on Social Security for Migrant Workers

When evaluating the performance of local administrations, the central government should not only focus on the assessment of short-term economic indicators, but also pay more attention to that of medium-term and long-term indicators. Therefore, stimulating the local governments to attach importance to the provision of social security, so that migrant workers in cities can also enjoy basic social benefits such as medical security and unemployment compensation, thus attracting more human resources to gather in cities and towns.

4.3. To Promote Rural Land Transaction to Enhance the Efficiency of Land Utilization

First, incentives should be provided to developing new arable land for expropriating additional construction land. Migrant workers who agree to reclaim their rural homestead into arable land should be rewarded with subsidized housing from the cities where they could be settled. At the same time, city governments that provide subsidized housing for such workers should be granted with rural land expropriation quota. By establishing a national-unified land transaction quota system, we can promote the optimization of urban and rural land allocation, in order to adapt to the changing demand in the process of urbanization. Second, we should allow migrant workers who have already situated in urban areas to transfer their rights of using contracted rural lands. By unbinding rural land from scattered contractors, we can promote large-scale intensive production and improve the productivity of land resources.

4.4. To Increase the Supply of Urban Low-Rent Housing for Migrant Workers and Promote the Transfer of Rural Housing

First, local governments should increase monetary investment in the construction of low-rent housing in cities and towns to meet the basic housing needs of migrant workers. Second, although the collective ownership of rural construction land occupied by rural housing cannot be changed, the right to use the housing can be allowed to transfer in the market first, thus improving house utilization in the countryside. Third, rational urban planning should be enhanced to achieve the coordinated promotion of urban housing construction and industrial development, as well as to prevent the emergence of new "ghost towns".

5. Conclusion

To sum up, this paper comprehensively reviews China's urbanization from a new perspective based on a new interpretation of its mechanism. It identifies the misallocation of resources in four major

aspects: human resources, social security resources, land resources, and housing resources. Based on the in-depth analysis of the problems in China's current urbanization process, four sets of highly targeted countermeasures are put forward.

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