

The Household Registration System in China works as a domestic visa to regulate migration by official permission. Despite of this strict system, huge amount of migration has been flowing into developed provinces during the last decades. This raised heated debates on the system and many relative researches were done based on principle of social equity. This work, however, focuses on the efficiency of the system and shows backward of it to efficient labor allocation. Also, as a fiscal policy, intergovernmental transfer is fund to be effective to ensure this efficiency. Comparing provincial social marginal benefit (SMB) between each pair of provinces, we can characterize provinces to be under- or overpopulated, and it is recognized that currently in China, developed provinces are underpopulated, meanwhile developing provinces are overpopulated. As migrations are observed to move from developing to developed provinces, we thus argue that HRS which restricts the migration process is a hindrance to achieve the efficient allocation of labor. In the presence of this inefficiency, empirical analysis II presents positive influence of intergovernmental transfers on migration, respecting to the second argument in theoretical model. We implemented regression models named Full Adjustment, Partial Adjustment and Stock-Flow model, in which migration is regressed on provincial net fiscal benefit (proxy variable for transfers), disposable income and individual expenditure level. First two models strongly confirm the hypothesis that intergovernmental transfers are positively related to migration and should be effective to ensure an efficient labor allocation. Results from empirical analysis I and II correspondingly confirm two arguments in the theoretical model. Besides, considering real situations in China, in this work, we further give two political suggestions that, (1) Current Household Registration System in China should be reformed as it is a hindrance to the efficient adjustment of labor allocation, (2) Intergovernmental transfers should be implemented to ensure the efficiency as it has significantly positive influences on migration.