4. Public policy for a modernising China: The challenge of providing universal access to education under fiscal decentralisation

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*One of the key inequalities in China today is the divide between urban residents with local registration (*hukou*) and those without. This chapter examines the historical and systemic causes of this divide between the* hukou *and non-*hukou *populations, focusing on the provision of basic education. The limited access to urban schooling for the children of rural migrants is a divisive issue in the debate on citizenship and social rights of migrants, and one with adverse implications for labour markets and intergenerational mobility. This chapter uses the provision of basic education to illustrate how fiscal decentralisation in China – under particular historical circumstances, produced a divisive, rather than inclusive growth outcome. Moreover, even though education policies have shifted over the past two decades to calling for inclusiveness, their impact has to date remained limited, leaving the government with an inequality it does not want and finding very difficult to reverse.*

4.1. Introduction

One of the key inequalities in China today is the divide between urban residents with local registration – *hukou*, and those without. The *hukou* was an administrative tool introduced in the 1950s to collect vital statistics on the population – age, gender, location (divided into urban or rural), ethnic and class identity, and other characteristics. Its uses evolved to meet changing government objectives in different periods. In the 1960s and 1970s, it was used as an instrument to control population movements, when the government imposed a ban on rural-urban migration and reinforced it with state control of basic consumer goods that were rationed to local *hukou* holders through the issuance of coupons.[1] With the end of migration control and state allocation of basic consumer goods, the use of *hukou* shifted from the 1980s onwards to identifying eligibility for public services. Up through the early 2000s, access to vital public services such as education, healthcare and housing was provided only to residents with local *hukou*. Under this system, hundreds of millions of migrants in Chinese cities were left out of the increasingly generous social welfare benefits provided by the government, as China's "economic miracle" brought rising standards of living.

China's transition to a market economy unleashed not only spectacular economic growth but also rapid urbanisation (Wong, 2013). Starting in the early 1980s, the dismantling of agricultural collectives freed rural labour to leave the land. With government restrictions on population movement gradually eased, the migration of rural workers into cities steadily accelerated as economic growth was creating many new jobs in the factories. With the urbanisation rate having risen from 18% to more than 57%, most people in Chinese cities today are new migrants. With the *hukou* having been turned from simply a registration of one's place of abode into a permanent and inheritable identification,[2] new migrants cannot easily obtain local – urban *hukou* – in their new homes, and the number of "non-*hukou*" urban residents has grown secularly.[3]

Nationwide, the 2010 census found 221 million non-*hukou* urban residents, nearly one in three in the urban population and almost 100 million more than in the 2000 census. In Shanghai, the proportion of population lacking a local *hukou* grew from 20% in 2000 to 39% in 2010. In the newly created export metropolises like Shenzhen and Dongguan, the proportion of the non-*hukou* population is even higher. In 2005, among the 8 million population in Shenzhen, it was estimated that only 1.82 million held a local urban *hukou* (Chan, 2009). For this huge subgroup of non-*hukou* urban residents, the lack of access to vital public services such as education, healthcare, housing and social welfare, hinders their full integration into mainstream society, distorts their participation in the labour market, and blocks their aspirations.

This chapter examines the historical and systemic causes of this divide between the *hukou* and non-*hukou* populations, tracing them to a combination of two factors. The first is the decentralised fiscal system in China that assigns the responsibility for both financing and the provision of public services to local governments. The second is the incremental, reactive policy making that has characterised China's gradualist transition to a market economy.

The focus will be on the provision of basic education, which is an especially apt case for highlighting, not only how fiscal decentralisation may exacerbate inequalities (Prud'homme, 1995), but that it can, in fact, be an obstacle to implementing national policies aimed at promoting inclusion. In China, even though the Education Law (2006) guarantees every child the right to receive nine years of education and has made it free of charge and compulsory,[4] and despite changes in national policy that require local

governments to provide schooling to all children residing in the locality, with repeated exhortations and increased financial inputs from higher-level governments, migrants continue to face enormous local resistance that hinders access for their children, especially to state schools.

This chapter is organised as follows: the following section provides some background to the problem, starting with the coincidence of urbanisation with a fiscal decline during China's early transition period. This is followed by a description of the financing framework for basic education. The fourth section traces the evolution of policy responses to the growing demand for school places for migrant children. The fifth section examines changes in financing education since the turn of the century and local government responses. The final section offers some concluding remarks.

4.2. Background on China's urbanisation during the early transition period

From the start of China's transition to a market economy, urbanisation has proceeded on a scale that is unprecedented in human history. From 191 million in 1980, the urban population grew to 302 million in 1990, an increase of 110 million during the intervening decade. In the next decade, the increase grew to 157 million, and 210 million during the following decade. By 2016, the population living in cities had reached almost 800 million, fully 600 million more than at the outset of market reform. Judging from the 2016 number, urbanisation appears to be continuing apace. The dramatic pace and scale of this change can be seen in Table 4.1, which shows that in each of the three successive decades from 1980 to 2010, urban population grew by roughly half, on a rapidly growing base. The population of metropolitan Shanghai, China's largest city, grew from 16 million to 23 million between the 2000 and 2010 censuses, a 43% increase (China Statistics Press, 2011). Beijing grew at roughly the same rate during the period, from 13.6 million to 19.6 million (National Bureau of Statistics of China, 2011).

Table 4.1. Urban population and growth in China per decade, 1950-2010

	Urban population (millions)	Increase over past decade	Urbanisation rate
1980	191.4	47.16	19.4%
1990	301.95	110.55	26.4%
2000	459.06	157.11	36.2%
2010	669.78	210.72	49.9%
2016	792.98	123.2*	57.3%

Note: *since 2010 census.
Source: National Bureau of Statistics of China (2011), *China Statistical Yearbook 2011*; National Bureau of Statistics of China (2016), *China Statistical Yearbook 2016.*

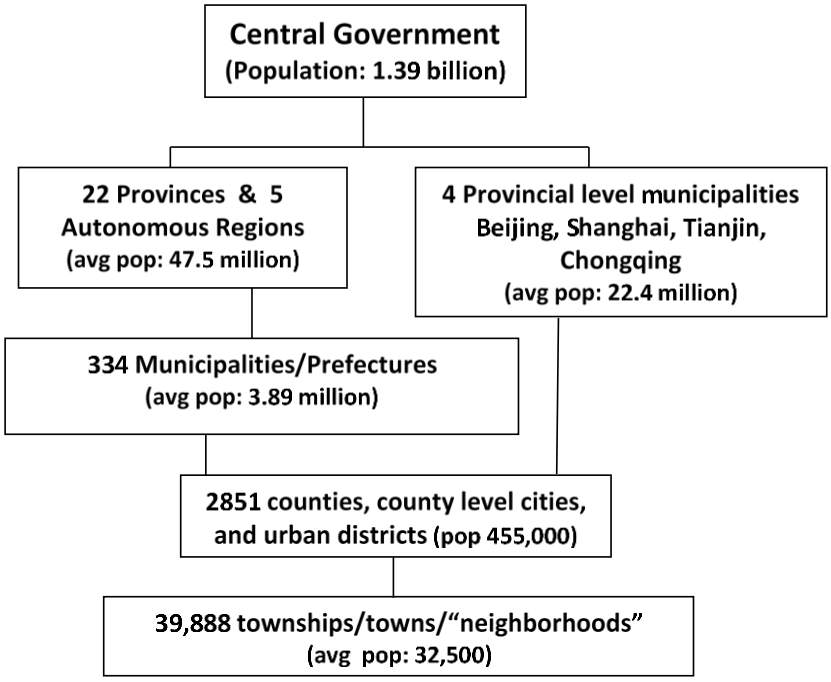
Providing infrastructure and public services to accommodate urbanisation of this scale would pose a gargantuan challenge to government finances anywhere. In China, the challenge was all the more daunting because the upturn in urbanisation coincided with a deepening fiscal crisis, as the dismantling of the planned economy brought a catastrophic collapse in the government's revenue mechanisms, and the budget fell from more than 30% of gross domestic product (GDP) at the outset to a nadir of just 10% before a new tax system was installed in 1994 and began to restore fiscal health from the late 1990s onward (World Bank, 2002) (Wong and Bird, 2008). Through the 1980s and 1990s, with the central government preoccupied with the relentless fiscal decline, cities – and indeed all local governments - were left to fend for themselves (Wong, 2009) (Wong, 2013). When the

1994 reform imposed a recentralisation of revenues without adjusting expenditure assignments, local governments were left facing a large vertical fiscal gap and great difficulty in meeting their responsibilities for providing services (World Bank, 2002[21]) (Wong, 2009). The mechanisms and strategies of Chinese municipal finance were forged in this difficult fiscal environment.

4.3. Fiscal decentralisation in China and the financing framework for basic education

China is a large country with a highly decentralised administrative structure. Below the central government are four levels: at the first level are 31 provinces, autonomous regions and municipalities with provincial status. At the second level are roughly 330 prefectures and municipalities. Below them are 2 850 counties, county-level cities and urban districts. At the bottom are 40 000 townships, towns and urban "neighbourhoods" (Figure 4.1).

Figure 4.1. China's administrative structure



Source: Chinese Statistical Yearbook (2017).

As expected in such a large country, China's regions are diverse, with large variations in the level of development and administrative capacities. For example, in 2017 per capita income ranged from USD 4 200 in the poorest province (Gansu) to over USD 19 000 in the richest (Beijing).[5]

In 1986, the government committed to providing nine years of education for all children, made it tuition-free, and compulsory.[6] Despite its high priority, this commitment was made without a special financing framework, and the arrangements were left to be worked out through the intergovernmental fiscal system.

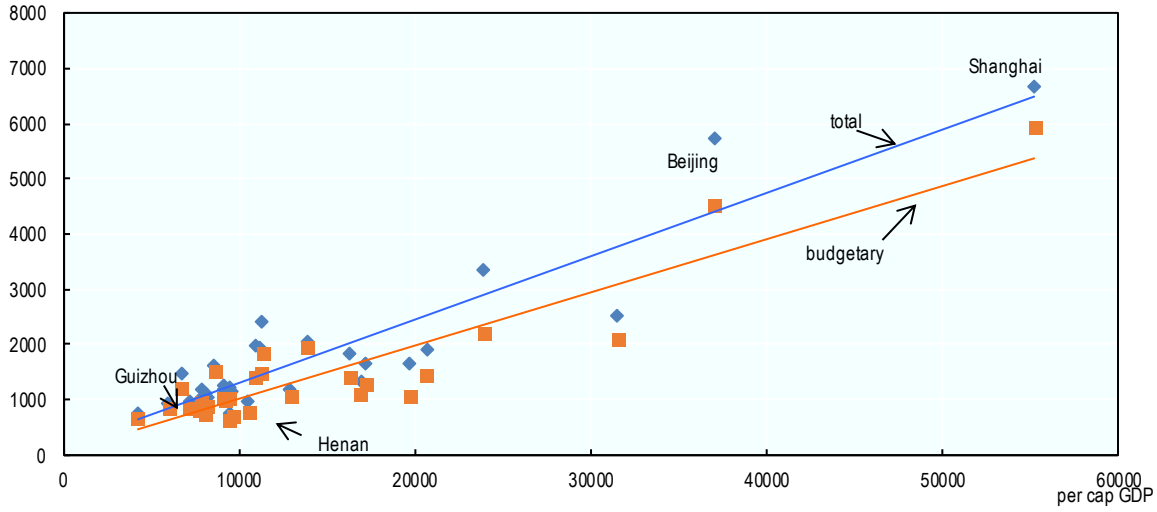
Prior to market reforms, responsibilities for providing most services were assigned to the lowest level of local governments, and these assignments formed the basis for the annual revenue-sharing arrangements that were designed to leave local governments with sufficient resources to fund them. This set-up was eroded in the 1980s and 1990s as reforms sought to impose financial discipline on local governments (World Bank, 2002[21]; Wong, 2009). The link between revenue-assignment and expenditure needs was severed in 1994 when the Tax Sharing System replaced the negotiated revenue sharing with tax assignments, and local governments had to manage their expenditures under the hard budget constraints defined by their tax bases. As a result of fiscal difficulties at the local levels, the achievement of universal compulsory education (UCE) for all children took more than two decades to realise, especially in rural areas (Brock, Hu and Wong, 2008; Wong, 2009).

Until the early part of this century, the key features of the framework for financing compulsory education were:

1. Responsibilities for providing compulsory education were assigned to local governments at the grassroots levels – districts and "neighbourhoods" for urban schools, and counties and townships for rural ones.
2. Financing was local – transfers were not targeted to ensure local governments have sufficient resources to meet their specific expenditure needs.
3. As the demand for social expenditures exceeded aggregate fiscal capacity, the central government called on local governments to mobilise extra-budgetary resources to support the continuation of service provision. Schools, hospitals, clinics and other public service providers collected fees, donations and generated other revenues, including running enterprises. In the late 1990s, extra-budgetary resources financed nearly half of total expenditures in primary and junior middle schools,[7] and school fees were often an onerous burden in the poor regions dependent on subsistence farming (World Bank, 2007; Wong, 2009).
4. Per capita funding varied widely across localities for all public services, largely corresponding to local fiscal capacities. Since fees and other extra-budgetary levies are even more tightly linked to per capita incomes than tax revenues, the high dependence on extra-budgetary funds tended to amplify regional disparities. This is illustrated in Figure 4.2, where per-student spending in primary schools is shown to be highly correlated with per capita GDP across provinces, and coastal provinces such as Shanghai and Beijing outspent the poorest inland provinces such as Guizhou and Henan by nearly ten-fold.

Figure 4.2. Per student primary school expenditures by Chinese province

In CNY, 2004*



Note: *Tibet is excluded as an outlier
Source: Ministry of Education (2004), *Chinese Education Finance Statistical Yearbook 2004*, Chinese Statistical Press, Beijing.

Since the turn of the century, new pro-poor policies and increasing central transfers have helped to vastly increase spending on education and stem the trend of growing regional disparities, but they remain large. In 2015, Beijing spent more than five times as much per student in primary schools as Henan – nearly CNY 24 000, compared to CNY 4 100 (Table 4.2). Disparities are also large across counties and districts within a province. In Guangdong, for example, while the provincial average was CNY 5 600 per student in primary schools in 2012, the average district in Shenzhen municipality spent CNY 16 000, and the province's poorest counties spent barely CNY 2 000 (Guangdong Province, 2013). In general, urban local governments can spend more on services than their rural counterparts can. In Chengdu central business districts, the average budgetary expenditure per student was CNY 12 000 in 2013, compared to the Sichuan provincial average of around CNY 5 000.[8]

Table 4.2. Disparities in provincial average per student expenditure in Chinese primary schools

In CNY

	2004	2010	2015
Highest	5 925	18 545	23 757
Lowest	620	2 170	4 575
Highest/lowest	9.6	8.5	5.2
Average	1 443	5 543	10 423
Standard deviation	1 111	3 499	4 112
Coefficient of variation	0.77	0.63	0.39
Highest province	Shanghai	Beijing	Beijing
Lowest province	Henan	Henan	Henan

Source: Ministry of Education, *Chinese Education Finance Statistical Yearbook*, various years.

This financing framework is extremely unfavourable to integrating migrant populations into urban compulsory education since municipal governments are unwilling to pay for "non-citizens". First, education is costly to provide. In Hubei, a middle-income province, expenditures on education absorbed on average 24% of county-level budgets in 2007. In the Wuhan municipality, they accounted for 25% of district expenditures and 26% in the Huangshi municipality; in some districts, they took up as much as 37%. From the turn of the century, increasing transfers from the central government began to supplement and replace some of the local government expenditures; even so, in fieldwork we found that the 13 districts in Wuhan spent on average 17% of their budget on education, and the six districts in Huangshi spent on average 18% but reaching 34% in Huangshigang District.[9] Moreover, because of better funding, urban schools are of generally higher quality than rural schools, and municipal governments fear that opening the door to including migrants may attract an unmanageable surge of new entrants. One official in a coastal city explained that "they (the migrants) will bring not only their children but their nephews and nieces and everyone else from the village!"[10]

4.4. The evolution of education policies for migrant children in China

Prior to 1990, official policy took little notice of the rapidly unfolding urbanisation and the need to accommodate a growing population of migrant children in urban schools. Under the *hukou*-based entitlement system, migrant children had few rights to education in the cities. With growing migration, the government began in the 1990s to develop a strategy of limited accommodation to enrol migrant children in urban schools, though usually in private (*minban*) schools operating at much lower standards than public schools. It was not until after 2001, but especially since 2008, that official policy shifted to emphasising the need to enrol migrant children in urban public schools. The pace of change has further accelerated since 2010, when the national Medium and Long-Term Strategic Plan for the Development of Education (July 2010) called for full incorporation of migrant children in the system and put fairness at the core of its objectives.[11] The evolution of education policy changes can be divided into three phases.

4.4.1. Phase 1: The 1990s

The first official mention of the issue of providing education opportunities for migrant children came in the implementation regulations of the compulsory education law in March 1992, which stated that, subject to approval by officials in the home jurisdiction, children may apply to enrol in urban schools on a temporary basis (Education Commission, 1992)(Article 14). More specific guidelines for the education of migrant children in urban areas were laid out in 1996, when the Education Commission called on urban local governments to take responsibility for the education of migrant children and provide opportunities for their enrolment in urban schools on an experimental basis if they could provide the required documentation (Education Commission, 1996). If the migrant children could not be accommodated in local state schools, the guidelines allowed for non-state schools to be set up, upon approval by the urban local government, to specialise in the education of migrant children with private financing (Article 11). They also stipulated that when admitting migrant children, urban state schools may collect charges and fees, the standards of which should be reported to the municipal or district education departments and price bureaus for approval (Article 15). These calls were reiterated periodically through the late 1990s to ensure educational opportunities for migrant children.[12]

The principles were laid down that:

1. Under the Compulsory Education Law, migrant children, like all school-age children in China, have a right to compulsory education.
2. The entitlement to compulsory education is *hukou*-based and not residence-based. If parents choose to enrol children in a school, not in their *hukou* jurisdiction, approval is required both from their "home" government and the receiving government, and the children's parents must bear the costs of being accommodated by the receiving schools. This lack of entitlement was reflected in the language that was used for the various "education rental fees" (*jie du fei*), "education compensation payments" (*jiaoyu buchang fei*) and school choice fee (*ze xiao fei*).
3. In line with the second principle above, it was also accepted that migrant children could be accommodated in non-state schools that impose no financial burden on the host urban governments.

4.4.2. Phase 2: 2001-05

From the turn of the century, coinciding with the government's new focus on improving livelihood and public services in the rural sector,[13] policies toward the education of migrant children became more accommodating. In 2001, for the first time, the State Council Decision on the Reform and Development of Basic Education raised the idea of the "two mainly's" – that migrant children should be accommodated mainly locally, and mainly in state schools (State Council, 2001). This was followed in quick succession by several important documents in 2003-05, starting with the No. 1 document of 2003 jointly issued by the Party Central Committee and the State Council on improving agriculture and rural work.[14] The document emphasised the need to support the migration of farmers into cities and ensure that their rights are respected and discrimination ceased (CCPCC and State Council, 2003). Equally, this includes the right of their children to basic education.

In September, the State Council Circular on Further Improving the Work on Compulsory Education for Migrant Children spelt out in detail the requirement that urban local governments in the receiving areas must include migrant children in the local education systems to ensure that they can receive compulsory education locally (State Council, 2003). Issued jointly through the Ministry of Education, the Central Post Commission, the Public Security Bureau, the National Development and Reform Commission (NDRC), the Ministry of Finance (MOF), and the Ministry of Labour and Social Security (MOLSS) and other agencies, the circular called on local governments receiving migrants to set appropriate administrative procedures to ensure the education of migrant children. It specified that local public security bureaus should provide timely information on school-age migrant children to the education departments; the education departments should incorporate migrant children into their work plans for compulsory education; the NDRC should incorporate the schooling needs of migrant children into local development plans for capital spending, the finance departments should put into the budget the needed funding; and the post commissions should allocate posts for the needed teachers, etc. The circular even calls on the city agencies responsible for community affairs to monitor migrant children's progress, and, if necessary, urge errant parents to enrol their children in compulsory education in compliance with the law.

On financing, the circular called on the host urban local governments to establish a mechanism for guaranteeing funding for the schooling of migrant children, and provide financial assistance to schools that have enrolled more of them. It directed a part of the education surcharge receipts be set aside for the education of migrant children. It called for

a review of the fee levels for migrant children and that they be reduced to be more in line with those for local students. For the children of low-income migrant workers with unstable jobs and residences, the circular called for financial assistance to be provided to defray fees and provide free textbooks. In December 2003, the Joint Notification issued by MOF, MOLSS, the Ministry of Education, the Ministry of Public Security and the Family Planning Commission called for the establishment of a funding mechanism for public services for migrant workers by incorporating their expenditure needs, including for educating their children, into the scope of recurrent budgetary expenditures (Ministry of Finance, Ministry of Labor and Social Security, Ministry of Public Security, Ministry of Education and Family Planning Commission, 2003).

These changes brought an expansion of migrant children's rights to schooling in cities, and increasingly to being accommodated in state schools. The obligation to pay was retained, although measures were introduced to seek to protect children from excessive fees. At the same time, measures were introduced to set standards for *minban* schools, and to provide some subsidies for their upgrading.

4.4.3. Phase 3: 2006 – Toward inclusive education

The revised Education Law in 2006 guaranteed the right of every child to receive compulsory education free of charge. This was a radical change from the past when UCE depended on "diversified funding" whereby budgetary funds were supplemented substantially by fees and other revenues. As noted earlier, for the rural sector the central government had committed to providing funding to enable rural schools to abolish all fees from 2007 onward. By 2008, free compulsory education was extended to include urban schools (State Council, 2008). The State Council notification also called for migrant children enrolled in urban state schools to receive the same exemption from fees, including the onerous "education rental fees". It called on urban local governments to treat migrant children on the same basis as local children in allocating school expenditures, both for those enrolled in state schools, as well as those enrolled in private (*minban*) schools under urban local government sponsorship. With this, official policy on the right of children to UCE has completed its move away from being based on *hukou* to residence-based.

4.5. Changes in the financing of education in China since 2000

The financing of UCE has undergone great changes since around the turn of the century. First, under policies calling for improving public services, budgetary expenditures on education have increased rapidly, from CNY 96.5 billion in 2000 to CNY 1.4 trillion in 2010, a 14.4-fold increase in nominal terms and a 10-fold increase in real terms. The acceleration of spending became especially marked after 2006, when the new Education Law (2006) stipulated that compulsory education would be "implemented free of tuition and fees," and committed the state to "… building a system of protected funding for UCE operating costs, to guarantee that it can be implemented" (Article 2). The law also laid out a framework for financing to be shared by the government at all levels and assigning the responsibility for co-ordinating its implementation to the provinces.[15] Reflecting this change, in 2010 more than 90% of total expenditures in UCE were financed by budgetary appropriations, compared with just over 50% in 1997 (Ministry of Education, 1997[35]; Ministry of Education, 2010).

To support these changes, the central government has greatly expanded intergovernmental transfers and introduced many funding programmes for UCE. The efforts began with the rural sector, where financing problems had been the most acute.

First are the earmarked, programmatic transfers. In 2003, the central government introduced a programme to provide free textbooks, in response to survey findings that the cost of textbooks was a significant barrier to school attendance for children from the poorest households. The programme had started with modest goals. Initial plans provided a subsidy of CNY 200 million, and limited eligibility only to students from families with incomes below the poverty line living in the nationally designated poor counties.[16] Once started, it was scaled up quickly. By 2005, the textbook programme had grown to include exemptions from all fees, and, for students from poor families, a subsidy to offset the cost of boarding at school. The programme became known as the "Two Exemptions (of the textbook fee and miscellaneous fees) and One Subsidy (boarding subsidy)," or TEOS for short, and it covered an estimated 30 million students. More importantly, the government had decided to extend the TEOS to all rural students in compulsory education, beginning with the western provinces in 2006, and to all provinces beginning in 2007 (Brock, Hu and Wong, 2008).

To ensure adequate funding for schools, the government introduced a new transfer, the "rural education operating cost guarantee mechanism" (often called "the New Mechanism"), and committed to raising the standards of provisions step by step. In fact, per student allocations have risen rapidly, from CNY 80 in 2006 to CNY 750 in 2017 for primary schools, and from CNY 100 to CNY 950 for junior middle schools.[17] To put in place a long-term framework for upgrading the quality of school buildings, the School Safety Programme was introduced, under which the central government provides subsidies to cover a portion of agreed maintenance and construction costs of schools. Starting in 2006, the government also rolled out a programme to help resolve the "education debts" of local governments that had borrowed for school construction, including those for many village schools.

More important than the programmatic transfers are the general transfers that support local government payrolls. As teachers constitute the majority of public employees at the grassroots levels, and since salary payments are the biggest cost component for basic education, these transfers are the main source of support for UCE, albeit indirectly. This support started with the equalisation transfer introduced in 1994, which allocates funding to provinces according to the gap between their "standard expenditure" and "standard revenue" calculated by the Ministry of Finance using a formula that includes education and teachers' salaries as core components (Li, 2006). Funding under this transfer was negligible at the outset but has grown rapidly since 2002 to reach CNY 2.07 trillion in 2016 (Wong and Bird, 2008) (MOF final accounts for 2016).[18]

Another important transfer is the "wage adjustment transfer" (WAT). First introduced in 1999 and intended only to offset the cost of the wage increase mandated by the central government, the WAT grew rapidly as public sector wages have risen steeply, and came to cover a substantial portion of wage payments at local governments before it was folded into the equalisation transfer. In Hubei province, for example, as teachers comprise 60% of public employees at the county level, this transfer was reportedly a principal source of central government financial support for rural UCE in 2013.[19]

In addition, given the key role counties play in public service provision, there is a transfer devoted to strengthening fiscal capacity at the county level. This too is aimed at supporting salaries since "fiscal capacity" is defined as the capacity to "ensure normal payment of wages".[20] The State Council's repeated calls to ensure teachers are paid "on time and in accordance with stipulated standards" (State Council, 2005) have led to the introduction of

the Rural Compulsory Education transfer, and earmarking for rural UCE 10% of the Rural Tax for Fee Reform transfer.

Given the preponderance of transfers aimed at supporting public sector payrolls at local governments, it is not possible to make a full accounting of all central transfers for basic education. What is clear is that the central government is funding a substantial and growing share of the costs. In Hubei, a middle-income province, officials estimate that two-thirds of total spending in compulsory education came from the central government.[21]

From examining these transfer types, we can identify two salient characteristics of current central government support for UCE. First, they are strongly targeted toward lower-income western and central provinces. For the TEOS and the New Mechanism, the central government provides 80% of the costs for western provinces, 60% for central provinces, but only a minor percentage for the eastern provinces, with the three metropolises of Beijing, Tianjin and Shanghai receiving no support. Second, they are targeted almost entirely at rural schools. The costs of urban schools are left to local governments, mostly at the lower administrative levels (State Council, 2008).

Despite growing awareness of the problem of migrant children at the sectoral level, transfers policy continues to lag behind. Only one small programme appears to be aimed at subsidising the costs of educating migrant children. Introduced in 2008, the programme provides fiscal incentives by rewarding provinces that have performed well in absorbing migrant children into urban schools.[22] The rewards are very small. In August 2011, the Ministry of Finance announced that CNY 4.57 billion had been earmarked for this programme (People's Daily, 2011). In 2014, it had grown to CNY 13 billion, a tiny amount compared to costs.[23]

If we turn to examine where migrant children are concentrated (Table 4.3), we can see an almost perfect mismatch between central subsidies and where the children are - predominantly concentrated in rich coastal cities that are largely outside the orbit of intergovernmental transfers. While these cities are rich, the financing of basic education takes up a significant share of municipal budgets; at the districts and counties where the expenditure occurs, it takes up an even larger portion of budgets. As a result, these local governments continue to view the education of migrant children as an unwelcomed, costly unfunded mandate, irrespective of how education policies have changed.

Table 4.3. The distribution of migrant children and the cost of financing in China

City	Education in budget expenditures (2011, %)	Share of migrant children in compulsory education (%)	Year of enrolment data
Dongguan	23.7	71.4	2010
Foshan	21.5	45.0	2011
Ningbo	15.7	42.6	2012
Beijing	16.0	40.0	2009
Hangzhou	17.7	38.9	2009
Shanghai	14.0	36.0	2009
Guangzhou	14.8	30.0	2011
Tianjin	17.2	17.9	2011
Chengdu	13.7	16.0	2010

Source: Statistics Yearbook for each city, 2012; and press reports.

4.6. Conclusion

In China, at the heart of the challenge of providing universal access to education that includes migrant children – and indeed to all social services - is the misalignment between the national government's commitment to universal provision and the decentralised financing framework, where local governments often lack adequate resources and/or incentives for implementation.

The evolution of education policies for migrant children illustrates the process and limitations of incremental, reactive policy making in China, where the top leaders were slow to respond to the dramatic change brought by rapidly unfolding urbanisation. In the absence of a set of accepted standards for equality and fairness in the process of economic change, decentralised policy making proceeded along traditional, cellular lines, and migrants had few champions to defend their rights. Three decades later, the government finds itself facing an inequality it does not want and is finding very difficult to reverse.

That this problem has persisted despite rapidly increasing central government financial injections over the past decade illustrates the sclerotic nature of decision making – central funding continues to be wholly targeted to rural schools even though rural children have decamped and moved *en masse* to cities. Since central transfers are funding fully half or more of total expenditures for compulsory education, it should in principle be possible to make the funding follow the children and finance their costs in urban schools. The New Mechanism (for non-salary operating costs) and TEOS (for fee and textbook waivers and boarding school subsidies) are well designed for this purpose since the funds are allocated on a capitation basis by enrolment. The vast majority of central funding, though – as much as three-quarters of the total – go to salary support and are largely immobile. To make the transfers better meet the needs of China's increasingly mobile population will require a fundamental revamping of the system – a considerable task involving making them more transparent, changing the basis for allocation, and shaking up the rural administrative structure. A great deal of political resistance will also have to be overcome to radically change the distribution of transfers, withdrawing them from schools in the lower income provinces such as Henan, Gansu, and Sichuan in the central and western regions and giving them to those in the richer coastal provinces like Guangdong, Jiangsu, Beijing and Shanghai that are magnets for migrants. A better solution would be to wholly revise the revenue and expenditure assignments with provinces and give them a bigger role in both financing and managing service provision – in other words, a thorough revision of the intergovernmental fiscal arrangements. Intergovernmental fiscal reform is, at long last, a priority on the government's reform agenda for 2018-20, but it will unlikely be quick or smooth.

Notes

1. During the 1960s and 1970s, coupons were required for the purchase of grain, cotton and scarce items such as bicycles and wristwatches. Local *hukou* holders picked up their monthly coupon rations at the neighbourhood public security bureau – for example, an adult male received coupons for 30 kilograms of grain per month. The coupons were required to be turned over for purchases, including for restaurant meals.

2. The *hukou* was historically passed along from mother to child, but some flexibility has been introduced in recent years, with some localities permitting urban *hukou* to be passed on from either parent (for example, see a news report from Qingdao, Shandong at http://news.163.com/14/1017/11/A8OMGIQ600014Q4P.html).

3. In legal terms, everyone in China has a *hukou*, be they rural or urban. To minimise confusion, in this chapter, we will use *hukou* as a short hand to denote the status required for access to (excludable) public services in cities.

4. Compulsory Education Law of the People's Republic of China (2006). The 1986 law was amended at the 22nd Session of the Standing Committee of the Tenth National People's Congress on 29 June 2006. For more information, see http://old.moe.gov.cn/publicfiles/business/htmlfiles/moe/moe_2803/200907/49979.html.

5. Chinese Statistical Yearbook 2017.

6. The Compulsory Education Law of the People's Republic of China was adopted at the Fourth Session of the Sixth National People's Congress on 12 April 1986 and promulgated by Order No. 38 of the President of the People's Republic of China on 12 April 12. See www.china.org.cn/government/laws/2007-04/17/content_1207402.htm.

7. Budgetary appropriations accounted for only 56% of total revenues for primary schools and 54% in junior-middle schools in 1997 (Ministry of Education, 1997).

8. Fieldwork information, June 2013.

9. Figures from 2011-12.

10. Fieldwork information, June 2013.

11. See the Outline of China's National Plan for Medium and Long-term Education Reform and Development (2010-2020) at https://internationaleducation.gov.au/News/newsarchive/2010/Documents/China_Education_Reform_pdf.pdf.

12. See, for example: (State Council, 1997) and (Education Commission, 1998).

13. These changes came under the "three rurals" strategy emphasising investments in agriculture, farmers and rural villages. Under these pro-rural policies the government introduced numerous programmes intended to improve rural incomes and raise standards of living, and improve rural public services (World Bank, 2007) (Lin and Wong, 2012).

14. The No. 1 Document of the State Council – the first one issued in the new year, usually focuses on issues representing the government's highest priority for the year.

15. Including autonomous regions and municipalities directly under the central government.

16. These are the 592 "Key Development Counties" that are the main recipients of assistance under the national poverty-reduction programme.

17. For more information, see www.xinhuanet.com/politics/2016-12/18/c_129409391.htm.

18. In the mid-1990s, the equalisation transfer provided less than 10% of the gap between "standard revenue" and "standard expenditure".

19. Interview at the Comprehensive Department, MOF, March 2013.

20. This comes under the awkwardly named "incentive funding mechanism to ensure basic functioning at the county level", which has grown to CNY 204.5 billion in 2016.

21. Fieldwork information, March 2013.

22. The rewards are to be based on several measures: the total number of migrant children enrolled in school, the proportion of migrant children enrolled in state schools, the proportion of enrolled migrant children from outside provinces, and the amount of fiscal input and subsidies provided.

23. For more information, see http://shs.ndrc.gov.cn/shfzdt/201407/t20140717_619148.html.

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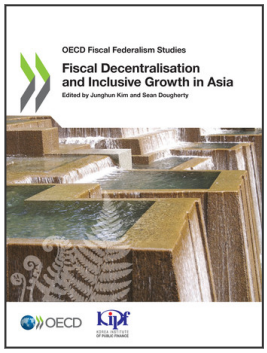

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