

# Tackling urban poverty in China: the Minimum Living Standard Scheme and its limitations

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As a cash transfer programme aiming to guarantee a minimum income for registered urban residents, the urban Minimum Living Standard Scheme (MLSS) has played a vital role in tackling the new poverty. This article explains the driving force behind the expansion of the urban MLSS, describes how it works, and analyses its key limitations. It stresses that the decentralised programme administration without practical accountability means that the localities provide protection based on their capacity to finance it and the political will to do so. And urban dwellers living in poverty cannot therefore in practice receive assistance based on their social rights and needs.

## Introduction

China was an egalitarian society some 30 years ago, but has been experiencing sharply increasing income inequality resulting from market-oriented reform since the beginning of the 1980s. Although the poverty rate has seen a considerable decline in the last three decades, poverty is still a serious social problem. To help address increasing rates of urban unemployment and poverty caused by economic reconstructing, the Chinese government introduced the urban Minimum Living Standard Scheme (MLSS) in the 1990s. The urban MLSS guaranteed a minimum income defined with respect to a local poverty/assistance line for registered urban residents. Based on the targeting of the MLSS, other social assistance programmes were established to deliver additional help alongside food to the eligible population living in urban poverty. Therefore the MLSS-based social assistance system, functioning as a social safety net, has become the main mechanism by which urban poverty is tackled.

The urban MLSS is a typical residual welfare programme marked by selective eligibility rules, limited coverage, an absolute poverty line and significant welfare stigma. The focus of this article is therefore an investigation of the driving force behind the establishment and expansion of the urban MLSS, as well as how it works and its anti-poverty effects. The rest of this article proceeds as follows. The next section outlines the socio-economic context in which the urban MLSS was formulated and the policy development process. In the following section, the targeting, delivering and financing of the MLSS are examined in detail, in order to explain how administrations combat urban poverty in decentralised China. The fourth section profiles MLSS recipients, based on official statistics. The next section

### Key words

urban poverty • social assistance • decentralisation • social rights • China

assesses the performance of the MLSS, stressing the limitations of current policy design. This is followed by the concluding section.

## From the 'iron rice bowl' to 'social safety net': market transition and the development of the urban MLSS

The urban MLSS was initiated in the early 1990s in a limited number of Chinese cities and was adopted nationwide in 1999 during transition. Through the trickle-down effects of economic growth, the market-oriented economic reforms have contributed significantly to the decline of the income poverty rate in China in the early 1980s, but in particular to the decline of extreme poverty in rural areas (Chen and Ravallion, 2007). These impressive reforms have, however, also produced a widening gap between rich and poor. Against a background of an under-development of social policy, new social problems such as poverty without protection and inequality are emerging as transition and reform have an impact on urban areas.

In the 1950s, a labour and social security system was established in Chinese cities that was based on the work unit (*danwei*) and biased towards urban areas. Under the full employment policy, all registered urban residents when they attained working age were assigned a job in some work unit for life without any risk of unemployment. The urban social security system was based on the work unit, and resulted in employment-related entitlement to social and occupational welfare. So the so-called 'iron rice bowl' entitled the able-bodied urban dweller not only to guaranteed employment but also to income security. The work unit provided income maintenance covering the risks of old age, illness, work injury, disability and maternity through the labour insurance system, and subsidised or free primary education, low rent housing, childcare, and even entertainment services through a system of fringe benefits, functioning like a 'mini welfare state' (Leung and Nann, 1995: 57).

Against this background, most people living in poverty in urban areas were those outside the work unit. Usually, they formed part of the 'Three-No' category – people who have no working ability, or no stable income, or no dependable providers – consisting largely of the childless elderly, disabled people and orphans. A social relief programme administered by the Ministry of Civil Affairs was established for these disadvantaged urban residents, providing temporary relief in cash or in kind, with strict eligibility rules about capacity to work. Urban dwellers with the capacity to work cannot receive any support from this programme, but can instead apply to the urban labour administration department for a job and then the subsequent labour insurance cover.

The launch of a local level, and subsequently national level, of urban MLSS was a consequence of the reconstruction and reform of state owned enterprises (SOEs) during China's transition from central planning to a market economy starting from 1978. Following the Third Plenum of the Fourteenth Party Congress in 1993, the Chinese government decided to accelerate economic reforms and improve living standards by introducing a socialist market economy, which initiated market-

oriented reform. Although income increases resulted from economic reform, and restructuring in urban China pushed up the living standard of the average household to higher levels, economic circumstances among urban households living in poverty, especially those with workers laid off from SOEs, were not likely to have seen any improvement in the 1990s.

Shifting from being work/production units in a planned economy to being players in a market economy, SOEs were the target of reform in the reconstruction of their ownership and financial and human resources management. The work-unit-based labour and social security system was regarded as part of this process. When the labour contract policy was adopted in the 1980s, it could be said that the 'iron rice bowl' was broken, following large-scale redundancies that directly threatened the livelihood of hundreds of thousands of laid-off workers (Wong and Ngok, 2006). In order to deal with the deficit, employee contributions and public (not work-unit-based) risk pooling were introduced into labour insurance programmes, which resulted in their transformation into social insurance programmes with much lower levels of generosity. Unemployment insurance, formerly not part of the labour insurance system, was also established in 1986 in order to address urban unemployment. However, between 1995 and 2001 around 43 million workers were laid off (Ministry of Labour and Social Security, 2002) and the urban unemployment rate doubled (Giles et al, 2005). The newly launched social insurance programmes could not tackle the large-scale structural unemployment because of their limited coverage and financial capacity. Even the Re-employment Services Centre programme, temporarily targeted at SOEs' laid-off workers in order to give them help with employment and livelihoods, proved unable to meet their basic needs (Solinger, 2002).

SOE reform directly accelerated China's urban poverty through the above-mentioned large-scale unemployment and radical reform of the social security system. Together with price reform, which led to significant increases in food prices, urban poverty increased considerably during this period (Meng et al, 2005). Compared to the traditional 'Three-Nos', however, these able-bodied people were the new 'urban poor' (Leung, 2006), who were not even entitled to the traditional social relief programme.

SOE reform therefore inevitably caused confrontations between workers and the government (Chan, 2010). Without the means to earn a livelihood, many laid-off workers had little choice but to take aggressive action in order to fight for their minimum subsistence needs (Cai, 2002). Soaring levels of social protest and collective action threatened social stability. Directly facing this social unrest, local authorities were more eager to pacify the workers by providing protective social policy programmes concerning laid-off workers' livelihoods (Wong and Ngok, 2006). The urban MLSS was therefore introduced first at local government level.

In fact, the MLSS was initially piloted by the Shanghai municipal government in 1993 to deal with the increasing social protests by laid-off workers. Recognising the positive effects of the MLSS on stopping social unrest, the Ministry of Civil Affairs decided to extend the MLSS pilot to other coastal cities in 1994, and on a nationwide basis in 1996 (Tang et al, 2003). In 1997, the State Council issued its first

document on the urban MLSS, *The circular on establishing the MLSS for urban residents throughout the country*, (State Council of the People's Republic of China, 1997) which facilitated policy implementation and marked the establishment of the urban MLSS. In conjunction with the 50th anniversary of China on 1 October 1999, the central government promulgated the regulations on minimum living standards for urban residents, the first administrative regulation about the MLSS, which set up its policy framework (State Council of the People's Republic of China, 1997). The introduction of this policy improvement, together with an increase in the budget, accelerated the development of the MLSS. Both the assistance line and the coverage rate of urban MLSS increased sharply from 1998 to 2000 (see Table 1). It did not follow, however, that the registered urban residents were entitled to benefits based on their needs. When the above-mentioned two documents are examined, we find instead that it was the aim of stopping laid-off workers' social protest actions, the maintenance of social stability and the smoothing of the process of economic transition, rather than addressing the social rights of the new 'urban poor', that triggered the establishment of the MLSS nationwide.

The urban MLSS is a decentralised means-tested anti-poverty programme. Local authorities, especially at county level, shoulder the responsibilities of financing and administration. Without fiscal transfer from the centre, local authorities in the

**Table 1: MLSS expenditure and coverage rate in urban China, 1997–2010**

Year	Government expenditure (hundred million yuan)	MLSS expenditure (hundred million yuan)	MLSS as % of Gov't expenditure	Number of MLSS recipients (ten thousand)	Number of urban residents (ten thousand)	Urban coverage rate of MLSS (%)
1997	9,233.56	2.9	0.03	87.9	39,449	0.22
1998	10,798.18	7.1	0.07	184.1	41,608	0.44
1999	13,187.67	13.8	0.10	256.9	43,748	0.59
2000	15,886.50	21.9	0.14	402.6	45,906	0.88
2001	18,902.58	41.6	0.22	1,170.7	48,064	2.44
2002	22,053.15	108.7	0.49	2,064.7	50,212	4.11
2003	24,649.95	153.1	0.62	2,246.8	52,376	4.29
2004	28,486.89	172.7	0.61	2,205.0	54,283	4.06
2005	33,708.12	191.9	0.57	2,234.2	56,212	3.97
2006	40,213.16	224.2	0.56	2,240.1	58,288	3.84
2007	49,565.40	277.4	0.56	2,272.1	60,633	3.75
2008	62,427.03	393.4	0.63	2,334.8	62,403	3.74
2009	75,874.00	482.1	0.64	2,345.6	64,512	3.64
2010	89,575.40	524.7	0.59	2310.5	66,978	3.45

Source: *China Civil Affairs Statistical Yearbook (1998–2011)*

impoverished western and central provinces do not have the financial capacity to help in this way. A large proportion of the 'urban poor' who qualified for the MLSS were not covered in practice. In response, central and provincial governments began to invest in the MLSS through a special fiscal transfer starting from 2001. As a result, the recipients of the MLSS increased every month in that year.

Before 2003, the primary driving force behind the establishment and expansion of the MLSS was therefore to cope with the mounting civil unrest of workers laid off from SOEs. The primary policy goal of the MLSS, as argued above, was not welfare entitlements for residents, but the government's needs for legitimacy and social control. From 2003, however, the Hu-Wen administration sought to redefine the concept of development to maintain a balance between the growth of the economy on the one hand and of society on the other. Under the policy framework of 'building a socialist harmonious society' and 'scientific development' (CCCCP, 2003), China's public policy is undergoing transformation, and a shift in orientation from economic to social policy has occurred (Wang, 2008). The stimulus for the development of the MLSS has changed accordingly. In response to the increasing social inequality caused by market competition and rising unmet welfare needs resulting from radical reform of the social security system, and in order to ensure a stable environment for sustainable economic growth, the urban MLSS was assigned other functions beside maintaining social stability, such as stimulating domestic consumption demand (and thereby economic growth), equalising income distribution and alleviating poverty. Alongside social control, poverty alleviation and social citizenship were more important than ever before in the goals of the MLSS.

Accordingly, new measures have been introduced into the urban MLSS since 2003. Among these improvements, three measures should be emphasised in particular. First, the financing was centralised to some extent to central government. Second, besides the basic allowance for survival, other social reliefs, such as a primary education subsidy, social housing and a subsidy for medical expenditure were included in the MLSS based on needs. Third, the MLSS introduced workfare measures to encourage able-bodied young recipients to look for a job in the labour market.

Since then, the urban MLSS had entered a consolidation stage. The assistance line, namely the de facto poverty line adopted for the MLSS, has been adjusted gradually. The number of recipients, however, has stabilised at about 23 million. Table 1 summarises key indicators of the growth of the programme from 1997 to 2010. Based on these statistics, we find that the urban MLSS has gone through three notable stages. From 1997 to 1999, both the headcount of those in poverty who qualified and the qualifying poverty rate tripled. The period from 2000 to 2002 saw a much more radical change in these two indices. As explained above, this expansion was facilitated by a large infusion of central government funding. Since 2003, the MLSS has stabilised. The headcount has been increasing slowly. The coverage rate (qualifying poverty rate) has been declining slowly all the time, however. Because the assistance line has been rising from 1997, we find that government expenditure on MLSS has been increasing all the time, although since 2003, the spending on the

MLSS measured as a percentage of total government expenditure has stabilised at about 0.5–0.6%.

## Decentralised urban MLSS in China: key policy features

From the beginning, central government chose to decentralise the urban MLSS. Local authorities at county and municipal level are responsible for the administration, (partial) financing and delivery of the MLSS. National and provincial regulations provide only limited guidance for policy implementation; local government must define its own operational policy. More specifically, under the current policy framework, the county or municipal Bureau of Civil Affairs, the local street office, and the township government are responsible for the administration and delivery of the MLSS. In order to know how the municipalities define and help those who qualify for it, the following key policy features should be taken into account.

### Fixing the assistance line and strict eligibility

As the last resort ‘social safety net’, the MLSS aims to provide a cash transfer to households living in urban poverty. Eligibility for the MLSS is determined mainly by whether the per capita income of the household is below a locally determined assistance line. This threshold is therefore *de facto* the poverty line adopted for the MLSS. According to the regulations on minimum living standards for urban residents, the assistance line should be based on local minimum livelihood costs for the basic needs of food, clothing and housing and expenditure on children’s compulsory education. In addition, the local authorities are asked to take account of local socio-economic conditions and fiscal constraints to decide the appropriate level. However, without a standard nationwide method for calculating basic livelihood costs and strict supervision from above, most of the localities set up assistance lines based only on their financial capacity, resulting in a much lower threshold in localities with financial difficulties. These lower assistance lines lead directly to narrow eligibility criteria.

In addition, the workfare measures also impose more conditionality on able-bodied applicants. According to the policy, able-bodied recipients on reaching working age are asked to register at employment agencies for jobseeking and retraining to keep the benefits – while in practice, maintaining eligibility is conditional on participation in community work with no pay, ranging from 10 to 40 hours per month in some cities.

### When is the co-financing triggered?

According to the 1999 regulations, sub-national governments (at provincial, prefectural and county levels) shouldered responsibility for financing the MLSS. However, without a specific co-financing measure, the responsibility for expenditure was largely delegated to local authorities at county level. Since 2000, central government

has made special transfers available to provinces with financial difficulties in the light of their specific financial capacity and the demand for the MLSS, which stimulated the radical expansion of coverage from 2000 to 2003.

Now co-financing from the centre is available to most provinces, except the prosperous coastal provinces such as Guangdong, Jiangsu, Zhejiang, Shanghai and Beijing. According to the *China Civil Affairs Statistical Yearbook* (Ministry of Civil Affairs of the People's Republic of China, 2010), in 2009 about 60% of the cost was financed by central government. The share of central financing varied across provinces, ranging from 3.45% in Beijing to 90% in Chongqing and 85% in Hunan. Government at provincial and prefectural level also invested in the MLSS, but with a much lower proportion than county authorities bore on average. On the whole, the financing of the MLSS has been 'recentralised'.

### **Targeting and stigmatising application procedures**

The urban MLSS systems are strictly means tested, with rather stigmatising application procedures. The local urban non-agricultural 'hukou' is the precondition for application. Eligibility is determined by whether the per capita income of the household is below the local assistance line. The traditional 'Three-Nos' households are entitled to receive the full amount of benefit equivalent to the local assistance line. For the 'new urban poor', the programme aims to close the gap between the recipient's household income and the assistance line, so that a minimum living standard is guaranteed. Thus, the income test is of vital importance in the decision on eligibility. Due to difficulties in measuring household income, however, some other indicators and circumstances, such as assets, consumer durables and employment and health status, are also taken into account when considering eligibility and the appropriate amount of benefit.

The urban MLSS is delivered by local government officials without the participation of professional social workers. Usually, claimants apply to their local area committee, which assesses their eligibility at the preliminary stage. The street office or the local township government screens the candidacy of applicants with a community vetting process. The final selection of recipients is under the control of the Bureau of Civil Affairs of the county or municipality. This all tends to make the application procedure stigmatising.

### **Characteristics of MLSS recipients**

The official statistics from the Ministry of Civil Affairs shed some light on the composition and profiles of MLSS recipients in recent years. By the end of 2010, about 1.81 million recipients were 'Three-Nos', accounting for 7.8% of the total; about 0.89 million were people with disabilities, accounting for 3.9%. From 2007 to 2010, the share of traditional 'Three-Nos' increased slowly, while the share of people with disabilities declined from 5.5% in 2007 to 3.9% in 2010. These two traditional groups of people living in poverty in urban areas account for a limited part of the



total, while the 'new urban poor' account for nearly 90%. The pattern and structure of urban poverty have changed substantially since the reform.

Table 2 provides a profile of the people who qualified for the MLSS because of urban poverty from 2007 to 2010, from a demographic perspective. No notable changes are found in either the number or the make-up of recipient groups, reflecting the fact that the composition of urban poverty remained stable. The number of total recipients stabilised at about 23 million. The share of elderly people, working age adults and children among the total number of recipients stabilised at 15%, 61% and 23% respectively.

By the end of 2010, among the adult recipients (of working age), 5 million were in in-work poverty, accounting for 21.7% of the total; and 9.128 million were unemployed and living in poverty, accounting for 39.5%. Among the 'working poor', there were 0.682 million in formal employment, far fewer than the informally employed (with a flexible job), who amounted to 4.32 million. Unemployed people form the largest category among those living in urban poverty and qualifying for the MLSS. Among them, 4.92 million were registered unemployed and 4.2 million were unregistered. There are so many able-bodied people living on the urban MLSS that the government faces an urgent problem of improving labour supply incentives for recipients.

The extent of child poverty is also clear in the statistics. By the end of 2010, 5.58 million recipients were children, accounting for 24% of the total. Among these, 3.57 million were enrolled students, and another 2.01 million were young people below the age of 18. If it is to tackle urban child poverty, the MLSS cash transfer should be targeted at children in poverty accurately – while currently the benefit is targeted at the household as a whole, rather than at children living in poverty themselves.

## Limitations of the MLSS in tackling urban poverty: key policy debates

The urban MLSS has been found to have a modest impact on the alleviation of poverty and the maintenance of social stability (Chen et al, 2006; Gustafsson and Deng, 2011), but its anti-poverty effects are limited by the inadequacy of the benefit level, the coverage which is biased towards urban areas, the flawed co-financing arrangements and disincentives in relation to taking up formal employment. The key issues in policy debates in relation to this urban programme are as follows.

### *Inadequacy of the benefit level and limited anti-poverty impact*

When setting the amounts of assistance, localities are asked to make their decisions based on two factors: the residents' basic livelihood needs and their own financial capacity. This approach to determining the local assistance line is justified on the grounds that average per capita income, and the daily lifestyle and especially consumption, vary regionally. However, without sound supervision from government



**Table 2: The profile of MLSS recipients in urban China, 2007–10**

Year	Elderly (aged 60+)		Adults (aged 18–59)						Children (aged 1–17)				
	Number of MLSS recipients (10,000)	headcount (10,000)	as % of MLSS recipients	In in-work poverty			Unemployed and in poverty			Adults as % of MLSS recipients	Students head-count (10,000)	Others head-count (10,000)	Children as % of MLSS recipients
				formally employed headcount (10,000)	informally employed headcount (10,000)	as % of MLSS recipients	registered unemployed headcount (10,000)	unregistered unemployed headcount (10,000)	unemployed and in poverty as % of MLSS recipients				
2007	2,272.1	298.4	13.1	93.9	343.8	19.3	627.2	364.3	43.6	62.9	321.6	223.0	23.97
2008	2,334.8	316.7	13.6	82.2	381.7	19.9	564.3	402.2	41.4	61.3	358.1	229.6	25.17
2009	2,345.6	333.5	14.2	79.0	432.2	21.8	510.2	410.9	39.3	61.1	369.1	210.7	24.72
2010	2,310.5	338.6	14.7	68.2	432.4	21.7	492.8	420.0	39.5	61.2	357.3	201.2	24.17

Source: China Civil Affairs Statistical Yearbook (2011)

at the higher tier, the locality's financial capacity carries much more weight than the needs of residents in poverty in the setting of the local assistance line. Therefore, adequacy criteria are of great significance in assessing the performance of the MLSS. When studying the anti-poverty effects of the MLSS, the majority of studies usually use indicators of the assistance line in terms of its real value, to show the notable improvements of the minimum living standards of those living in poverty in urban areas. The conclusions emerging from this approach, however, are tenuous, due to their reliance on the choice of poverty measurement. Accordingly, whether the assistance line is adequate enough to meet subsistence needs is the focus of the discussion below.

There are three ways of approaching the issue of adequacy. First, adequacy can be assessed based on the assistance line itself. The second row in Table 3 demonstrates what has happened to the MLSS national assistance line over time. It has increased by 68.5% between 1999 and 2010. However, urban disposable income per capita has increased by 226% over the same period. Allowing for inflation, the real value of the assistance line will have increased at a much slower pace. Second, how the benefit scales relate to need is another way to assess adequacy. Because of the lack of budget standards relating to a basic or minimum healthy lifestyle, we use average expenditure on living costs in urban areas. Comparing this with the assistance line, we can judge whether the assistance line can guarantee a minimum income to meet subsistence

**Table 3: MLSS assistance line and its relative adequacy in urban China, 1999–2010**

Year	MLSS assistance line (yuan/month)	MLSS payments per recipient (yuan/month)	Urban disposable income per capita (yuan/month)	Urban living expenditure per capita (yuan/month)	Assistance line/disposable income per capita (A) (%)	Assistance line/expenditure on living costs per capita (B) (%)	Annual growth rate of (A) (%)	Annual growth rate of (B) (%)
1999	149.0	44.8	487.83	384.67	30.54	38.73		
2000	157.0	45.3	523.33	416.50	30.00	37.70	-1.78	-2.68
2001	147.0	29.6	571.67	442.42	25.71	33.23	-14.29	-11.85
2002	148.0	43.9	641.92	502.50	23.06	29.45	-10.34	-11.36
2003	149.0	58.0	706.00	542.58	21.10	27.46	-8.46	-6.76
2004	152.0	65.0	785.17	598.50	19.36	25.40	-8.27	-7.52
2005	156.0	72.3	874.42	661.92	17.84	23.57	-7.84	-7.20
2006	169.6	83.6	979.92	724.75	17.31	23.40	-2.99	-0.71
2007	182.4	102.7	1,148.83	833.08	15.88	21.89	-8.27	-6.44
2008	205.3	143.7	1,315.08	936.92	15.61	21.91	-1.67	0.08
2009	227.8	172.0	1,431.25	938.75	15.92	24.27	1.95	10.74
2010	251.2	189.0	1,592.42	1,122.58	15.77	22.38	-0.89	-7.79

Source: China Civil Affairs Statistical Yearbook (2011)

needs. The seventh row in Table 3 illustrates the change in national urban assistance lines relative to average expenditure on living costs in urban areas over time. We can find a notable decline of this new index, from 38.73 in 1999 to 22.38 in 2010. Third, the replacement rate – that is, the assistance line as a proportion of average disposable income for those in employment – can also be used as a measure of adequacy. The sixth row in Table 3 presents changes in the replacement rate of the MLSS between 1999 and 2010. We can find a non-negligible decline in this replacement rate over that period.

Although the assistance line itself has increased slightly in amount, if measured in relation to need and to net income in employment, a notable decline can be found between 1999 and 2010, putting the adequacy of the current assistance line in doubt. Without practical mechanisms of accountability to local residents and sound co-financing, the localities tend to maintain a much lower assistance line, and the MLSS has therefore done little to move vulnerable households out of poverty.

### **Urban bias of coverage and the exclusion of rural migrants**

Although social policy has been undergoing reform since the mid-1980s, its urban bias in terms of coverage has on the whole not changed. As a means-tested social assistance programme financed from general revenue, the decentralised MLSS maintains an urban bias in its coverage. The local urban (non-agricultural) *hukou* system entitles registered dwellers to apply for MLSS benefit. Unregistered dwellers are not covered by it.

This kind of urban-biased coverage strategy is justified on the basis that it will not induce migration in order to claim benefits. Allowing for regional diversity and inequality, it is feasible for the MLSS as a decentralised system to provide social support and relief conditionally. The point, however, is that the urban *hukou* system has adopted a selective and discriminatory measure in relation to migrants.<sup>1</sup> For rural migrants, it is more difficult to be registered as urban residents, even if they have worked and lived in cities for several years. Even though the employment-related social insurance system began to cover rural migrants, the MLSS still operates according to the old rules. Because of the exclusion of rural migrants, the MLSS does nothing to tackle the poverty of rural migrant households. Thus, the urban MLSS is based on socio-economic status rather than citizenship for those living in urban areas.

### **Formal employment disincentive and the limited effect of workfare**

Typically, the assistance line is set below both the minimum wage and unemployment insurance benefit in order to create a disincentive to welfare dependence by the able-bodied; but long-term dependence on the MLSS is widespread. Those in in-work poverty and unemployed people account for more than 60% of the total number of recipients (see Table 2). One possible explanation for this dependence is the inadequacy of the benefit level discussed above – in other words, the benefit is too

low, meaning that recipients cannot manage to live on it but have to retain it. In addition, it is important to underline the salience of the flawed delivery system of the MLSS.

With a 'top-up' design, the MLSS benefit aims to fill the gap between a qualifying urban household's per capita income and the assistance line, implying that the benefits received will decrease as income rises. For some recipients with less employability, the programme will create an unemployment trap and they will have no incentive to work, because their incremental increase in income through gaining employment could result in a drastic reduction in their household's benefit. When the supplementary in-kind benefits targeted at MLSS recipients are taken into account, the marginal tax rate will be raised much higher. If they no longer qualify for the MLSS, the recipient will lose not only the cash subsidy but also these related in-kind benefits.

Because payment from formal employment is easy for the local authorities to measure accurately, more and more recipients tend to do flexible jobs or to be informally employed; informal employment can therefore succeed in increasing their net income.

Although the original policy framework for the MLSS designed by central government had no clear-cut idea about workfare, changing attitudes as expressed in policy documents thereafter encouraged local government to embrace workfare measures at their discretion. Local authorities have introduced a range of measures corresponding with the general idea of workfare, such as 'work first', training and financial incentives to require MLSS recipients to look for jobs and to improve their employability (Ngok et al, 2011). The workfare measures adopted under the MLSS scheme, however, have done little to help recipients to move from welfare to work, because few employability enhancing services have been provided effectively. Unlike the introduction of workfare as the reaction to welfare dependence in other countries, local authorities' workfare initiatives are largely motivated by the imperative of reining in spending.

### ***Flawed co-financing and the fiscal conditionality of social rights***

The decentralisation of social expenditure responsibility to local government without secure arrangements for fiscal transfer has resulted in financial pressure on the MLSS. What is more important, without sound accountability in local governance local citizens' social rights will be fiscally conditional and unprotected.

By and large, the financial situation of localities determines to a great extent the setting of the assistance line, and therefore the adequacy, generosity of the benefits, coverage rate and overall strategy. With a more significant poverty problem to be addressed, and fewer financial resources to cover their share of the cost, poorer localities prefer to set the assistance line lower to minimise the coverage rate and therefore the outlay on the MLSS scheme. While facing a lower poverty rate and poverty gap, better-off localities may feel less fiscal pressure to set the assistance line at a higher level, because the coverage rate will be much lower and the outlay on the

MLSS scheme will be under control. Figure 1 demonstrates the relationship between the replacement rate of benefit, the coverage rate and the extent of decentralisation of the financing of the programme in 2009. The central and western provinces face a more serious poverty rate and poverty gap, so the coverage rate will be much higher than in the coastal provinces. With a moderate replacement rate, the localities in these provinces will confront a much heavier financing responsibility. For coastal provinces such as Guangdong, Jiangsu, Zhejiang, Shanghai and Beijing, the poverty rate is much lower. The increase in the assistance line will not induce a radical increase in the coverage rate; so the financing responsibility is much lower than its counterpart in central and western provinces.

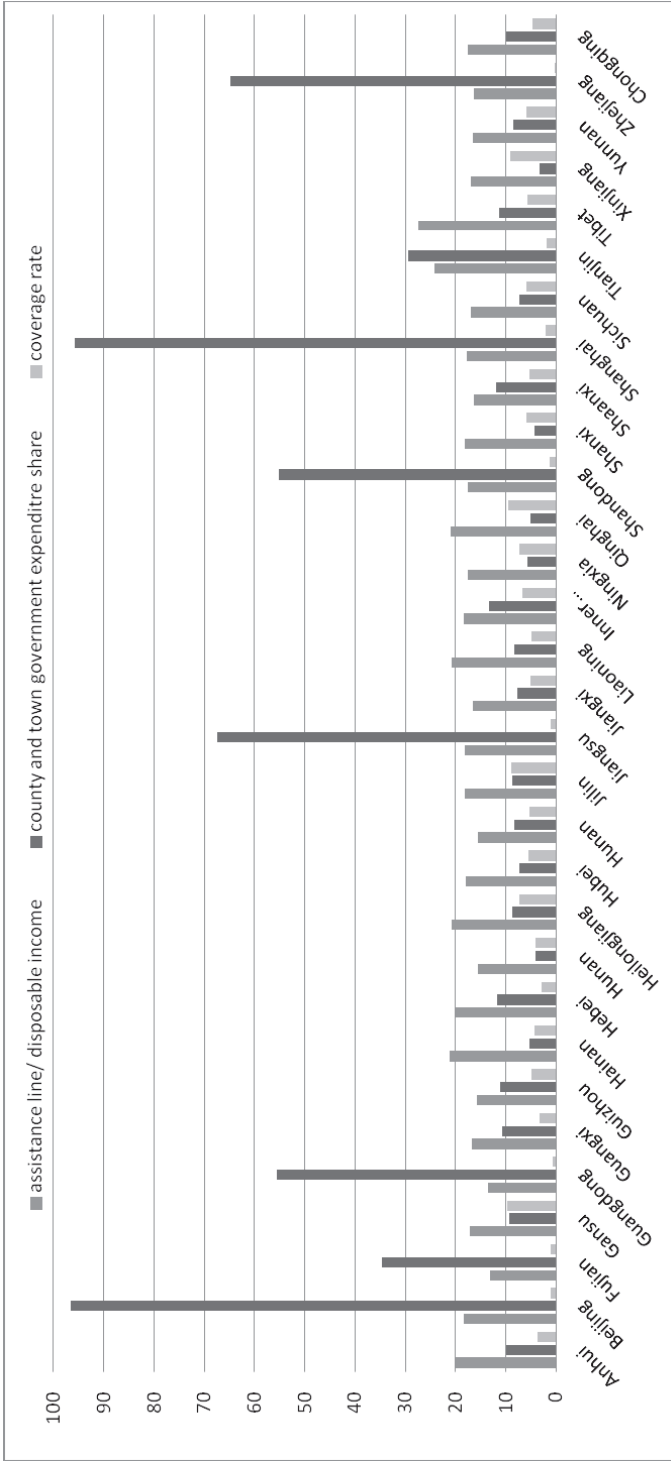
Though initially it was projected that the outlay on the MLSS scheme would be shared relatively equally between government bodies at different levels, in practice the portion borne by the localities has varied significantly. What is more, the public transfer from the centre and from government bodies at upper levels are not based on needs accurately, but on informal negotiation and on financial capacity; the localities still have to shoulder the final financial responsibility. Without sound accountability to the public through mechanisms of local governance, the localities provide compensation to those left behind in urban poverty based on their financial capacity. So trade-offs between coverage rate and benefit level due to limited financial resources can be found in the urban MLSS scheme.

## Conclusion

In response to the 'new urban poverty' resulting from economic reconstructing since the reform, China adopted a social assistance system approach as a supplementary measure to its development policy in the 1990s. However, the driving force for the establishment and expansion of the urban MLSS was not the social rights of urban residents, but the transition to a market economy, economic growth, social control and political legitimacy. The policy shift since 2003 has had a limited impact on the development of the urban MLSS scheme. On the whole, the urban MLSS, together with other social policies, are still subordinate to economic policy, functioning as tools for social stability and economic growth. Only limited compensation for the disadvantaged left behind by market competition is provided by the urban MLSS.

Despite its aim of eliminating poverty, the decentralised urban MLSS has shown limited anti-poverty effectiveness, due to its strict eligibility rules, low coverage rate, and low levels of benefits. The results here provide new insights regarding the limitations of the current urban MLSS policy design in tackling urban poverty. Because of the flawed co-financing of the urban MLSS scheme and the underdevelopment of accountability in local governance, the entitlement of urban residents to the MLSS is conditional on the financial capacity of localities. The coverage rate and the replacement rate of benefits are a trade-off to keep the financial burden on localities affordable, resulting in a limited coverage rate, an urban-biased coverage strategy, and inadequate benefit levels. This inadequacy then leads to long-term and large-scale welfare dependence. As a reaction, workfare measures are also taken in

Figure 1: Financing decentralization and MLSS standards and performance between provinces in Urban China, 2009



Source: China Civil Affairs Statistical Yearbook (2010) and China Statistical Yearbook (2010)

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order to move the recipients from welfare to work, which imposes another kind of conditionality on the social rights of urban residents.

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### Note

<sup>1</sup> Ngok's article in this issue gives an explanation of the *hukou* system and rural–urban migrants in China in detail.

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