

## **Anti-Poverty Family Policies in China: A Critical Evaluation**

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## 1. Introduction

China has experienced the largest and fastest poverty reduction in history since the launching of its economic reforms in the late 1970s, making it currently the second largest economy in the world. Yet, due to its enormous population size, China is still very much a developing country. Its per capita GDP currently ranks only the 94<sup>th</sup> (International Monetary Fund, 2011). Coupled with this laggard status has been China's staggeringly rising income inequality. China's overall Gini coefficient reached 0.48 in 2007, with the top 1% income group enjoying 41.4% of the national wealth (Cong & Li, 2010). One of the most persistent and threatening inequalities faced by China is its drastic urban-rural gap. In 2009, the average per capita household income of rural residents was only 30% of that for their urban counterparts. China's regional developments are also highly unequal. In 2010, per capita GDP in Shanghai, China's most developed city, was nearly seven times that of Guizhou, the least developed province (The Economist, 2011).

Poor families in China are particularly vulnerable as they are not only left behind by the market competition, but also by the substantial cutbacks in public benefits formerly provided by their employers or the state. Before the economic reforms, China's urban citizens were covered by comprehensive and generous welfare benefits, usually offered by their employers. However, these welfare provisions—including social insurance, health care, housing, education, and food assistance—became heavy burdens for the state-owned and collective enterprises and decelerated China's economic growth as well. Therefore, one of the major goals of China's economic reform in the urban areas has been to shift the welfare burden borne by the state-owned and collective enterprises to individuals. As a result, the urban social benefits have retrenched to a great extent. In the rural area, social benefits have always been minimal, covering only a small fraction of people, usually those in desperate need (Davis, 1989; Gao, 2006, 2010; Gao & Riskin, 2009; Guan, 2000; Leung, 2003; Li & Piachaud, 2004; Saunders & Shang, 2001; Wong 1998).

To provide a basic safety net for the urban poor, an anti-poverty program was initiated in Shanghai in 1993. The program, called the Minimum Living Standard Assurance (MLSA, or *Dibao*), aimed to serve as a last resort for families' sustenance. The city government set up a local minimum living standard (also called the MLSA line) to reflect the income level that could meet a person's basic consumption needs. The MLSA line is measured at per capita monthly amount in yuan. If a family's per capita household income is lower than this standard, then the family is eligible for MLSA assistance, calculated as the difference between the family's per capita income and the MLSA line. The MLSA line is adjusted annually to take into account changes in living standards and consumer prices.

Following Shanghai's successful experience, MLSA was quickly adopted by several other cities. In 1999, the central government stipulated that MLSA should be implemented in all cities and all city governments should set up their respective MLSA lines and commit a budget to this program. Since then MLSA has been rapidly expanded, serving as a last resort to the urban poor. In rural China, MLSA was introduced as an experiment first in Shanxi province – one of the provinces with the largest number of peasants and highest rural poverty rates – in 1994. Several other provinces started their experiments in 1996. However, it was not until 2007 that the rural MLSA was formally established nationwide (*Farmers' Daily*, 2007).

How have MLSA developed over the years? More importantly, has it been effective in eliminating poverty and supporting poor families to meet their needs? In recent years, local governments have put forward a series of supplementary policies and programs—including

health, education, housing, and work support programs—to help reinforce MLSA’s anti-poverty impacts. Have they been effective? Assessing these policies and programs are important as they provide direct implications for the ongoing expansions of the Chinese government’s anti-poverty efforts. In particular, if empirical evidence reveals certain adverse effects of MLSA and the supplementary policies, these aspects should be addressed immediately. On the other hand, if certain elements of these policies are found to be especially effectiveness, then policy makers should find ways to strengthen and expand these elements to maximize their positive effects on the lives of China’s poor. How effective are these supplementary policies and programs? This article aims to address these questions.

The rest of the paper is organized as follows. Section 2 provides an updated overview of MLSA’s development over the years and offers a critical evaluation of MLSA’ effectiveness in targeting and poverty alleviation. Section 3 provides an overview of a series of supplementary policies and programs and assesses their effectiveness. Section 4 concludes and offers policy recommendations.

## **2. Minimum Living Standard Assurance (MLSA): Generosity, Coverage, Targeting, and Anti-Poverty Effectiveness**

### ***Generosity***

Overall, MLSA has become increasingly more generous in supporting poor families, as indicated by the constantly rising MLSA assistance lines in both urban and rural China. However, the pace of its increase still lags behind that of the average consumption level, reflecting the relative deprivation of these poor families even with the MLSA subsidy as compared to the rest of the population.

Figure 1 presents trends in the national average of assistance lines for urban (1999–2010) and rural (2007–2010) areas respectively, before and after adjusting for Consumer Price Indices (CPI). In urban China, the average unadjusted assistance line fluctuated between 1999 and 2001 but has risen constantly since 2001. The increase has been especially significant since 2007, with an annual lift of about 11%. The adjusted line, which fluctuated during 1999–2004, however, has since increased but to a much less extent than the unadjusted line. The rural MLSA assistance line has been consistently much lower than the urban line, averaging only about 42% of the urban line. Similar to the urban trend, the annual increase of the rural MLSA line could not keep pace with inflation.

[Figure 1 about here]

How generous were the MLSA benefits when gauged against the average consumption level? Figure 2 shows that the national average urban assistance line had a persistent decline during 1999–2007 relative to the national average per capita consumption in urban China. It rebounded in 2008 and 2009, but still remained only 22% of the average urban consumption level. The rural average assistance line as a percentage of the average rural consumption level increased slightly from 2007 (26%) to 2008 (27%) but then dropped sharply from in 2009 (to 23%). However, somewhat surprisingly, MLSA was more generous in rural China than in urban areas as measured by the average MLSA line as a percentage of the average consumption level. This finding helps offset some worries of the much lower MLSA line in rural than in urban China as revealed in Figure 1.

[Figure 2 about here]

### ***Coverage***

MLSA’s coverage has broadened in both urban and rural areas over time. Figure 3 shows that the total number of urban beneficiaries was 0.8 million in 1996 and increased to 4.0 million

by 2000. It then rose sharply during 2000–2002 to 11.7 million in 2001 and 20.6 million in 2002. The increase leveled off after 2002 and the total number of recipients has remained around 23 million since 2003, accounting for about 4% the urban population.

[Figure 3 about here]

The rural number of MLSA beneficiaries has increased much more dramatically over the years. Only about 3 million rural residents received MLSA benefits in 2001. The number of rural recipients increased incrementally to 15.9 million by 2006. It then more than doubled to 35.7 million in 2007 when MLSA was implemented in rural areas nationwide. Since then MLSA's rural coverage has continued to broaden, reaching 52.3 million beneficiaries. The sharp rising trend in the number of rural beneficiaries demonstrates the government's efforts to address rural poverty. It may also indicate that there are many more people in need of support in rural than urban areas of China.

### ***Targeting***

Despite the increasing assistance lines and coverage, has MLSA been effective in reaching its target population? Existing studies have identified that only 28% to 51% of MLSA eligible families were actual beneficiaries (Du & Park, 2007; Gao et al., 2009; Ravallion, Chen, & Wang, 2006; Wang, 2007). Based on international standards, such targeting performance is considered excellent for a means-tested public assistance program (Ravallion, Chen, & Wang, 2006). However, even if families participated in MLSA, they often did not receive the full amount of benefits to which they were entitled. A recent study found that the eligible MLSA participating families on average only received a quarter of the full amount they were entitled to, yielding a large benefit receipt gap (Gao et al., 2009). It is important to note that these evidences are based on urban MLSA only due to the unavailability of data on rural MLSA.

Who benefits from MLSA and who do not? Existing literature has identified unemployment, low wages, and inadequate pensions as the major factors associated with MLSA participation (Hong, 2005a; 2005b; Leung, 2006; Tang, 2004). Some demographic characteristics, such as low education, bad health (including health problems, disabilities, and chronic diseases), larger household size, and not being a Communist Party member, have also been linked to MLSA participation (Ravallion, Chen, & Wang, 2006; Du and Park, 2007). In addition, higher household dependency rates (measured by the number of children and older persons without pensions relative to the number of working members and older persons receiving pensions) contribute to MLG participation (Gustafsson and Deng, 2011).

Figure 4 shows that, in 2010, 40% of urban MLSA recipients were women, 8% were disabled, 25% were children, and 14% were older persons. By contrast, there were fewer female recipients (32%) in rural areas and slightly more disabled recipients (9%). The most striking difference across urban and rural areas comes from the age composition: only 13% of rural recipients were children as compared to 25% in urban areas, while 35% of rural recipients were older persons as compared to only 14% in urban areas. This sharp contrast directly points to the lack of a pension system in rural China which leaves many old rural residents at high risk of falling into poverty. The majority of MLSA recipients across urban and rural areas, however, are working-age adults who have no stable jobs or income sources (60% in urban areas and 52% in rural areas). To support this group to improve their employability and find jobs, many local governments in recent years have implemented job training programs for these working-age beneficiaries. There have been some reports of these programs' positive impacts in moving some recipients from welfare to work, but the recent recession has undermined their effectiveness.

[Figure 4 about here]

### ***Anti-Poverty Effectiveness***

Has MLSA been successful in alleviating poverty? The existing literature has found that MLSA has had modest impacts on poverty reduction among the beneficiaries, but these effects are limited by its partial coverage and delivery. Further, MLSA has had a larger impact on reducing poverty depth and severity than on poverty rate (Du and Park, 2007; Gao, Garfinkel, & Zhai, 2009; Gustafsson & Deng, 2011; Ravallion, Chen, and Wang, 2006). Specifically, using the China Household Income Project (CHIP) 2002 urban data and a poverty line developed by Khan (2008) according to the minimum food intake required to sustain energy, Gustafsson and Deng (2011) found that MLSA reduced the poverty rate by 16% among its beneficiaries. The poverty gap was narrowed by 29% and the poverty severity was lessened by 38%. Using National Bureau of Statistics survey data from the 35 largest cities in China, Ravallion, Chen, and Wang (2006) discovered that, MLSA lowered the poverty rate among its beneficiaries by 20%, poverty depth by 29%, and poverty severity by 37%.

However, when a relative poverty line is used to take into account the overall income distribution, MLSA's anti-poverty effectiveness is found to be much more limited. Gao, Garfinkel, and Zhai (2009) adopted a relative poverty line defined as 50% of national urban median income to estimate the effects of MLSA on poverty reduction using the CHIP 2002 urban data. Gao and colleagues found that MLSA was only able to reduce poverty rate by 2%, poverty gap by 14%, and poverty severity by 26%. This result suggests that MLSA had limited effects in raising the relative position of its recipients in the overall income distribution. Again, note that these evidences are based on urban MLSA only due to the unavailability of data on rural MLSA.

In sum, MLSA, China's primary anti-poverty family policy has had important expansions in its generosity and coverage. However, its assistance level still lags behind the average consumption level. Its targeting performance can be improved by not only reaching out to all eligible families, but also providing them with the full amount of entitled benefits. Most importantly, MLSA's anti-poverty effectiveness is still quite limited, especially when the overall income distribution is taken into consideration. As China's major safety net program, it has to do a better job in lifting the poor out of poverty and supporting them to achieve a sustainable living standard.

### **3. Supplementary Policies and Programs: Health, Education, Housing, and Work Support**

Even though MLSA is China's primary anti-poverty policy, it is far from sufficient to eliminate poverty. Poor families tend to face challenges in meeting various needs, which often cannot be addressed by the limited level of MLSA benefits. Two most notable areas of needs for poor families are health and education. Indeed, one recent empirical study has found that families receiving MLSA benefits mostly used the extra money to pay for medicine, other health-related expenses, and tuition and fees for non-compulsory education, foregoing spending more on food, clothing, housing, or utilities (Gao, Zhai, & Garfinkel, 2010). To address these needs, the Chinese government in recent years has established and expanded several programs to supplement MLSA in an effort to provide a more comprehensive safety net to the poor. This section provides a brief overview of these programs and discusses their achievements and challenges.

#### ***Health***

To supplement MLSA and to provide basic health care for the poor, rural and urban Medical Assistance Programs (MAP) were established in 2003 and 2005 respectively. Funding for MAP is mainly from government expenditures and supplemented by voluntary donations.

The target population of MAP was poor families without health insurance or those with health insurance but still have excessive out-of-pocket medical payments. To qualify for MAP benefits, two lines are set up by the local governments. The first is a minimum expense line. Families have to have medical bills that surpass this line to be eligible for MAP benefits. The second is a maximum benefit line. The possible amount of MAP benefit that any family can receive is capped at this level. Usually MAP only covers a portion of the medical care cost beyond the minimum expense line. Families applying for MAP have to go through a strict screening process to establish their eligibility for the benefit and the entitled amount.

MAP has had significant expansions since its inception, providing much needed medical assistance to more and more people in need. In urban areas, the total number of MAP beneficiaries increased from 1.1 million in 2005 to 4.1 million in 2007. After staying stable for two years, it then declined to 3.7 million. Many more rural residents received MAP benefits over the years. In 2005, there were 2.0 million rural MAP recipients. It jumped to 6.0 million by 2007 and then kept rising to 7.3 million in 2009 and 8.1 million in 2010 (MCA, various years).

To accommodate the increasing number of recipients, the total MAP expenditures also had huge increases over time. The total expenditure on urban MAP increased from 0.32 billion yuan in 2005 to 4.12 billion yuan in 2009, and the total expenditure on rural MAP increased from 0.78 billion yuan to 6.46 billion yuan during the same period. In 2009, the average MAP assistance level for rural recipients was 676.6 yuan per person, as compared to 764.7 yuan for urban recipients (MCA, various years).

Despite these expansions in coverage and expenditures, there are some serious challenges in MAP that undermines its effectiveness in supporting those most in need and lifting them out of poverty. First, inherent in the design of MAP, the minimum expense line excludes many poor families who are unable to afford the medical care expenses lower than the line but still quite significant given their meager income. Second, coupled with this line is the maximum benefit line that limits the maximum amount of MAP benefits families can receive. This poses a threat to poor people who have serious disease and incur large amounts of medical care expenses. Third, MAP also specifies the types of illness and disease that can be covered, excluding many high occurrence and chronic diseases. Lastly, even for those who actually receive MAP benefits, the average benefit level remains very low in both urban and rural areas, given the soaring medical care cost in recent years. Therefore, the MAP system by design targets only a subgroup of poor families and excludes some that may be in greater need (Wang, Liu, & Tang, 2007).

Another series challenge embedded in the MAP system is its excessively high administrative cost. Because many government departments, health care agencies, and local community officials (for screening eligibility) are involved in the implementation of MAP, applicants who are in desperate situations have to deal with endless paperwork and procedures and therefore become distraught and deterred by the process (Wang, Liu, & Tang, 2007).

### ***Education***

Since the higher education reform in 1996, cost for attending college in China has risen sharply and become a barrier especially for children from low-income families. Recognizing this challenge, many local governments in recent years have started to provide education subsidies to children who have passed the national college entrance exam and need help with tuition and fees. Priority is also given to MLSA-recipient families as they can barely meet basic survival needs and have no additional resources to afford higher education for their children.

This program, however, is initiated and implemented by local governments on a case-by-case basis. Therefore, its coverage is very small, nowhere near to cover all those in need. As

higher education cost is very high, especially to rural families relative to their income level, those who qualify for the education subsidy need to receive a rather substantial amount to be able to afford going to college, while those who are considered ineligible are often left desperate and sometimes have to forego the education opportunity. Scholars believe that even though this education subsidy program is helpful, it will take a larger policy initiative to address the needs of poor children to attain higher education and better life opportunities.

### ***Housing***

The skyrocketing of housing prices in China during the recent years has left poor families very vulnerable. This is especially the case in urban areas where many housing has become higher-end residential and commercial buildings. To address the housing needs of low-income families and also to prevent potential social instability, over 80% of city governments have established low-rent housing and cash subsidies for housing in the urban areas.

Cash subsidy has been the main form of housing support as it is easier to implement. However, it is often inadequate to enable poor families to afford the entire amount of rent. Low-rent housing is provided to a very small and select group of poor families, most of whom are MLSA recipients. The screening of eligibility for low-rent housing is very strict. Families not only have to have low income, but have to pass tests of asset ownership, family formation, and life style. Some of these eligibility rules are quite discriminating. For example, single persons under age 30 and those who have divorced for less than two years are ineligible for low-rent housing. Migrants whose household registration is not local are also ineligible. These rules exclude many in need from benefiting from this important benefit.

Because low-rent housing is scarce, very few poor families actually benefit from this program. In addition, one biggest challenge in the implementation of low-rent housing is corruption. Because housing is so precious in Chinese cities and unaffordable by many middle-income families, there is a natural sphere for bribery of government officials and/or forging eligibility. To provide more effective housing support and better regulate low-rent housing remain the two immediate policy challenges in addressing the housing need of low-income families.

### ***Work Support***

As the majority of MLSA recipients are working-age adults, many local governments have started work support programs to help move these adults from welfare to work. These include skills training and job information sessions. As one of the most progressive city governments in supporting the poor, Shanghai has made participation in these programs a requirement for most working-age MLSA recipients. However, these programs have shown limited success. Results from a 2009 survey of 500 low-income families in Shanghai reveal that, even though 89% of MLSA recipients participated in the job training programs, only 17% of them were able to find jobs. Furthermore, most of these jobs were temporary, unable to sustain these individuals and their families to be off welfare. This could be partly due to the ineffectiveness of the programs and partly due to the adverse effect of the recent recession. Such work support programs need to be expanded to more cities and their effectiveness needs to be improved.

## **4. Conclusion and Policy Recommendations**

In conclusion, despite the constant improvements and expansions, China's anti-poverty family policies are still marginal in coverage and far from effective in alleviating poverty. Most of the eligibility rules are rather stringent, with serious social exclusion built in the policies and programs. The administration of these programs needs to be streamlined to remove barriers and

improve accessibility. A “whole person” perspective should be adopted to guide China’s anti-poverty family policies to address the various aspects of poor people’s needs and improve their life quality and opportunities.

Based on the analysis in this article, the following policy recommendations can be proposed:

- To improve the effectiveness of China’s primary anti-poverty policy, the Minimum Living Standard Assurance (MLSA), the assistance lines should be adjusted to better reflect the changes in inflation and average consumption level, its targeting performance needs to be improved through better administration, and its anti-poverty efforts should take into consideration the growing income inequality gap.
- To meet low-income families’ needs in various aspects including health, education, housing, and work, a centralized administrative entity—at both the central government level and local level—can be established to oversee and coordinate the various supplementary programs, reduce corruption and delivery inefficiency, and streamline the overall performance of the anti-poverty programs.
- To minimize social exclusion and eliminate discrimination, all eligibility rules and administrative procedures of the anti-poverty policies and programs should be reevaluated from a human rights and social justice perspective. All potential beneficiaries are entitled to equal consideration for eligibility and those with special needs should be paid special attention. Benefits should be provided with respect to recipients’ rights and dignity.
- The government should extend coverage of all anti-poverty family policies and programs to rural-to-urban migrants, a rapidly growing group that has been left out by the current systems. Their basic survival needs as well as needs in health care, education, housing, and work deserve equal consideration as their non-migrant peers.
- The government should work to provide more systematic national and local data on the implementation of all anti-poverty family policies and indicators of child and family well-being. These data are crucial for the understanding and evaluation of the policies and can provide important policy lessons.
- The government should also broaden its vision to learn from other countries’ experiences to address the gaps and disparities in anti-poverty policies and programs in China. For example, China lags behind South Korea in its generosity and effectiveness in MLSA (Gao, Yoo, Yang, & Zhai, 2011). The Vietnamese social benefit system is also more generous and progressive than the Chinese one (Gao, Evans, & Garfinkel, 2011). China needs to catch up on social and family policies while keeping its leading achievements in economic growth.



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Figure 1. Trends in Minimum Living Standard Assurance (MLSA) assistance lines (monthly yuan).

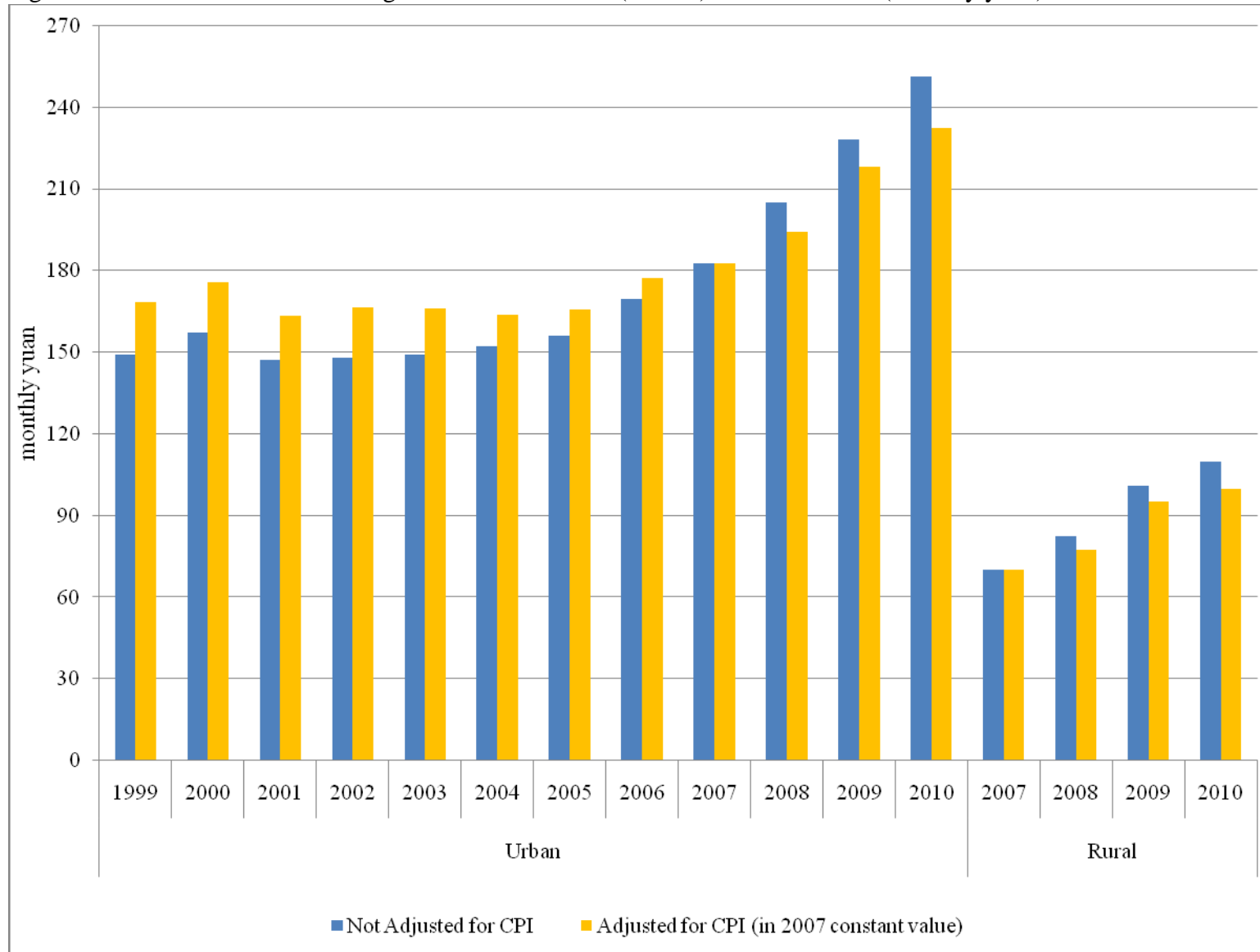


Figure 2. Minimum Living Standard Assurance (MLSA) line as a percentage of per capita consumption



Figure 3. Total Minimum Living Standard Assurance (MLSA) number of recipients (million persons)

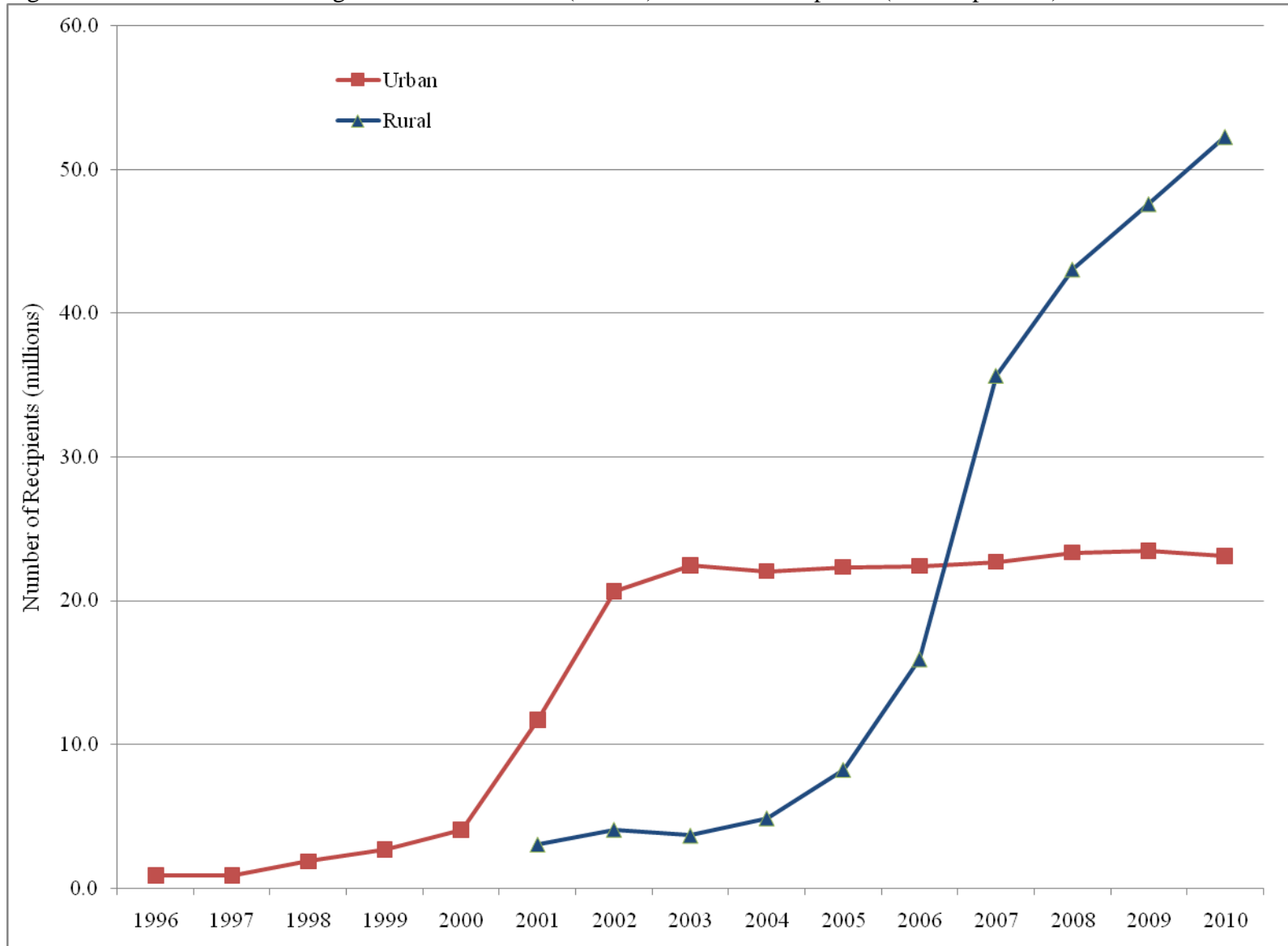


Figure 4. Demographic characteristics of Minimum Living Standard Assurance (MLSA) recipients

