

# Effectiveness of Social Welfare Programs on Poverty Reduction and Income Inequality in China

Shuang Lu\*, Yi-Ting Lin\*\*,  
Juliann H. Vikse\*, and Chien-Chung Huang\*

Using the 1989 and 2009 China Health and Nutrition Surveys, this paper examines the effects of social welfare programs on poverty and income inequality in China in 1989 and 2009. The findings indicate that social welfare programs have played an important role in poverty reduction, reducing poverty rates by approximately 32%. The effects on income inequality, however, were reversed. For example, the ratio of top to bottom income quintiles grew after government transfers, suggesting the programs benefitted higher income families more than their counterparts. The inequalities among regions and income quintiles also increased over time.

\* School of Social Work, Rutgers University, USA.

\*\* Department of Social Welfare, National Chung-Cheng University, Taiwan

## Introduction

Social welfare is a set of programs that redistributes resources among people, with the goal of improving the well-being of individuals, families, and society. The redistributive effects of social welfare systems, however, vary starkly across countries and change over time (Esping-Anderson, 1990; Holliday, 2000; Huang & Ku, 2010). China in particular has experienced dramatic socioeconomic changes in the past several decades, but its social welfare system has responded to the changes relatively slowly (Li & Greve, 2011; Zhao, 2012). Amid such rapid development, there are substantial gaps in the understanding of the effectiveness of the Chinese social welfare system. The aim of our paper is to examine the effectiveness of social welfare programs on poverty reduction and income inequality in China, with special focus on regional differences and income quintiles. Additionally, we will compare the changing social welfare system in China to those of other East Asian regimes. Understanding the effectiveness of various forms of social welfare will also inform future efforts to develop and improve social welfare systems and programs in China.

## Socioeconomic Changes and Development of Social Welfare Systems in China

The economic reforms initiated in 1978 have generated significant changes in China's economy. In 1978, the total gross domestic product (GDP) of China was Renminbi (RMB) 3.6 billion, which increased to RMB 18.7 billion in 1990, RMB 99.2 billion in 2000, and RMB 340.5 billion in 2009 (National Bureau of Statistics of China, 2010). Likewise, the per-capita income in Chi-

na increased from RMB 381 in 1978, to RMB 1,644 in 1990, RMB 7,858 in 2000, and RMB 25,575 in 2009 (National Bureau of Statistics of China, 2010). China is the world's fastest-growing major economy, with average growth rates of 10% for the past 30 years (Cai & Wang, 2002 and 2010). However, China's per capita wealth remains relatively low. Using a purchasing-power parity method to measure per capita income, the World Bank estimated that in 2009 the average per capita income worldwide was \$10,604, whereas for China it was \$6,890 in 2009 (World Bank, 2010).

Prior to 1978, the Chinese social welfare system was regarded as Socialist, and featured separate systems for rural and urban residents (Chan & Zhang, 1999; Lin, 2009; Zhao, 2012). In urban areas, workers were protected by comprehensive social welfare programs, including guaranteed life-time employment and subsidized housing. In rural areas, farmers were protected under a collective welfare system with very limited resources. The 1978 economic reforms changed the economic system in China by terminating the lifetime employment guarantee and stimulating the growth of private companies. Although the economy experienced rapid growth, the gap between urban and rural areas grew tremendously. For instance, the per capita income of urban residents rose from RMB 344 in 1978 to RMB 13,786 in 2007. For rural residents, however, per capita income only rose from RMB 134 to RMB 4,141 during the same timeframe.

Social welfare also changed significantly in the wake of the 1978 economic reforms. (Chan & Zhang, 1999; Lin, 2009; Han, 2011). From 1978 to 1996 the system was influenced by the concepts of "socialization" and "privatization." The state responsibility to provide social welfare was shifted to the private sector, in the name of

"socialization." For many urban workers, the reforms caused benefits' costs to rise, and their quality to diminish. In rural areas, the reforms created township enterprises. Although these township enterprises were financially successful, they provided limited social welfare protection for rural workers and farmers.

In 1997 the social welfare system changed once again. In that year China instituted a basic old-age insurance system for enterprise employees, and a minimum income guarantee for urban households. In the following two years it established a basic medical insurance plan for urban employees, and strengthened unemployment insurance. The 2000s saw the establishment of the National Social Security Fund, a minimum income guarantee for rural areas and legislation supporting the disabled. These new measures certainly affected the socioeconomic security and well-being of the Chinese people. In the late 1990s, as state owned enterprises became increasingly privatized, many workers had lost their jobs; these unemployment insurance reforms provided much needed help to these workers. In rural areas, the traditional income guarantee programs continued as the primary means of support, which was limited. A voluntary old-age insurance program was developed in the early 2000s, as well as a new type of medical co-op system in 2003. This system was financed by pooling funds from individual medical fees, local enterprise contribution, and government subsidies. Overall, rural welfare provision improved slightly but the system remained residual (Lin, 2009; Han, 2011).

## Review of Social Welfare Regimes

In 1990, Danish sociologist Gøsta

Esping-Andersen formulated his “three worlds” typology of modern, developed welfare regimes (Esping-Andersen, 1990). These three regime types—Social Democratic, Conservative-Corporatist, and Liberal—were based on Esping-Andersen’s analysis of the decommodification of wage earners, social stratification, and employment in each respective country. His analysis relied on a decommodification index whose calculation accounted for several components: coverage, duration, replacement rate, and qualifying conditions. The Social Democratic regime features universal entitlements that are shared by the middle class. In contrast to systems that place weight on the family unit as an important provider of welfare, these “universalist” systems consider social welfare provision an important *preemptive* means to offset the costs of family participation. Within conservative-corporatist regimes, welfare benefits and social rights are fundamentally related to status and occupation. This type of system preserves class hierarchies, and as the state does not actively engage in redistribution, often leads to minimal redistributive effects. Conservative regimes are often ideologically committed to the strengthening of family. This endows the family unit with greater autonomy, and also greater responsibility. Finally, the liberal regime type provides modest, means-tested benefits according to market logic. This tends to promote social stratification and stigmatization of welfare recipients, as the state plays a limited role in defining or conferring social rights.

Within this framework, East Asian regimes are typically considered conservative-corporatist, with some features resembling the liberal model (Esping-Andersen, 1990, 1999). In 2007, Lee and Ku focused on the developmental characteristics of Taiwan and

South Korea to assess the validity of Esping-Andersen’s typology as expressed within East Asian regimes. Through empirical research they determined that while both resembled the conservative-corporatist regime type in terms of welfare stratification, they resembled the liberal regime type with respect to non-coverage of welfare entitlements.

East Asian countries’ classification within Esping-Andersen’s framework is also based on outcomes. Extensive research has demonstrated that social democratic regimes have the greatest impact on poverty reduction, followed by conservative-corporatist regimes; liberal regimes have the least impact (Cantillon & Bosch, 2002; Brady, 2004, 2005; Caminada & Goudswaard, 2009). Poverty and inequality levels in East Asian regimes such as Taiwan and South Korea most closely resemble those of other conservative-corporatist regimes (Huang & Ku, 2011).

Other scholars have posited that East Asian regimes do not, in fact, fit within Esping-Andersen’s tripartite typology (Ku, 1997; Holliday, 2000; Tang, 2000; Holliday & Wilding, 2003). Supporters of East Asian exceptionalism point to several important realms, including culture, political ideology, and religion, in which significant divergence exists between East Asian countries and their Western counterparts. Tang, for instance, pointed to widely held beliefs and longstanding social policy strategies that uniquely shaped welfare regime structures in East Asia. These included the belief that economic growth spreads benefits to all, the greater degree of social stigma attached to social-assistance programs, and what he perceived as cultural bias against social welfare expansion (Tang, 2000).

Culture certainly plays an important role in determining East Asian

attitudes toward social welfare. The role of family is central in East Asian cultures. As Jones pointed out, the nuclear family and extended kinship ties serve very important roles in welfare provision (Jones, 1990). East Asian cultures traditionally feature strong emphasis on education, filial piety, deference to authority, and patriarchy—attributes that arguably hamper the development of ‘Western’ style welfare institutions (Jones 1990; Peng & Wong, 2010). Another argument for East Asian exceptionalism is rooted in the concept of productivist welfare capitalism. A concept initially proposed by Holliday, productivism focuses on the relationship between social and economic policy (Holliday, 2000). Particularly in the wake of the remarkable economic development of East Asia during the 1990s, productivity has been increasingly viewed as a reflection of national power. In accordance with this philosophy, social welfare is considered, most importantly, to be an investment toward economic growth (Holliday, 2000; Holliday & Wilding, 2003).

Research has demonstrated the similarities among the welfare regimes of East Asian welfare regimes (Peng & Wong, 2010; Huang & Ku, 2011). These regimes analogously foster egalitarian income distribution, as demonstrated by Gini coefficients ranging from 0.3–0.4. The Gini coefficients of Taiwan and South Korea in 2008 were particularly close—0.32 and 0.33, respectively. Likewise, the ratios between top and bottom quintiles in 2008 were 6.05 in Taiwan, 6.07 in Japan, and 5.74 in South Korea (Huang & Ku, 2011). These numbers reflect the comparable proclivity of these regimes to create redistributive social welfare programs and institutions, and to expand eligibility for such programs and institutions, over the last several decades (Peng & Wong, 2010).

This brings us to the case of China, which does not necessarily fit within these possible East Asian frameworks. China's social welfare regime is clearly quite different than that of its East Asian neighbors, having been shaped by distinctive social, economic, and political factors (Lin, 2009; Zhao, 2012). An absence of electoral politics, for instance, has created less incentive for radical policy change. Under the Chinese communist system, state-owned enterprises and, later, non-state-owned enterprises, have also played a key role in social insurance and benefit provision (Lin, 2009).

In terms of classifying China's regime type, scholars have proposed several possibilities. Jonathan London labeled China a "Market-Leninist regime" (2008). He pointed to the reconfiguration of social class alongside a reconstitution of the social contract in China, and the subordination of market economic institutions to Leninist forms of political organization (London, 2008). China might alternatively be classified as a corporatist regime, given the importance of collective negotiation and settlement through consultation to welfare provision (Zheng, 2002). In many cases, the greater part of benefits distribution takes place within enterprises and "work units," which reinforces occupational and class stratification. Any attempt at regime classification, however, must account for the vast diversity of China, and of the Chinese people. Differences in ethnicity, language, and levels of development range dramatically, particularly as one moves East to West, or North to South. There are also significant disparities between the delivery of services by different local governments. In light of these factors, some researchers categorize China as having a mixed regime type (Li & Greve, 2011).

In this paper we will examine empirical data relating to the levels of poverty reduction and income inequality over a twenty-year period, spanning from 1989-2009. We will compare this data to that pertaining to other East Asian states, to understand China's social welfare development within the context of the broader East Asian region. Finally, based on our findings, we will analyze whether we believe China's welfare regime can be considered part of the East Asian typology, or, given its distinct characteristics, we should approach it as a singular case.

## Methodology

### Data

Our data comes from the 1989 and 2009 China Health and Nutrition Survey (CHNS), conducted by the Carolina Population Center at the University of North Carolina, USA, and the National Institute of Nutrition and Food Safety at the Chinese Center for Disease Control and Prevention, China. The survey covers the years 1989, 1991, 1993, 1997, 2000, 2004, 2006, 2009 and 2011, although the 2011 CHNS was not publicly available at the time of this writing. Using a multistage, random cluster sample, CHNS data covered approximately 4,400 households in nine provinces: Guangxi, Guizhou, Heilongjiang, Henan, Hubei, Hunan, Jiangsu, Liaoning, and Shandong. Although the CHNS was designed to examine the health- and nutrition-related behaviors of Chinese people, its detailed information on household income proved useful for our study. This information allowed us to analyze the effects of social welfare programs on poverty and income inequality. Several other studies have also used CHNS datasets to examine poverty and inequality in China (Bhattasali, Li, & Martin, 2004; Zhang

& Wan, 2006). The unit of analysis in this study is the family, as family members typically pool and share resources. Family is also the unit in calculating poverty threshold in China. All of the surveyed families were included in our analysis ( $n = 3,791$  in 1989, and 4,441 in 2009), with the exception of 8 families in 2009 whose family size was not included—the latter being an important variable to calculating equivalized income.

### Measure

**Source of family income:** The CHNS obtained detailed information on the sources of family income, which included income from business, farming, fishing, gardening, livestock, wages, retirement (retirement pensions or retirement salaries), and subsidies. Subsidies included financial assistance for food, gas, coal, electricity, and child care in both 1989 and 2009. In 1989, subsidies for health, hygiene, reading materials, and housing were made available for families deemed eligible. Cash transfers from programs targeting low-income and disabled persons were considered benefits from social-assistance programs.

Five income categories were examined in this study: (a) market income, or pre-transfer income, which does not include any government intervention; (b) market income plus income from social-assistance programs; (c) market income plus income from subsidies; (d) market income plus income from retirement benefits, mainly social-insurance programs; and (e) total income, or post-transfer income, which includes market income plus income from all of the aforementioned government transfers (social assistance, subsidies, and retirement benefits).

**Effectiveness of social welfare programs:** Four measures of effectiveness were used in this study: change in family income, poverty rate, Gini co-

efficient, and ratio of top to bottom income quintiles. Family income was calculated before and after social welfare provision, in order to assess the degree to which family incomes were affected by social welfare programs. The official poverty line in China was very low, and its estimation varied by prefecture. Therefore, we chose to use a relative poverty line to assess poverty in this study. Based on relevant literature and international standards, we used a relative poverty line equivalent to 50% of the country's median equivalized income (Caminada & Goudswaard, 2009). Equivalized income was adjusted to account for different family sizes and economic scale. We calculated the equivalized income by dividing total income by the square root of household size. This type of the adjustment is widely used in studies that are based on the Luxembourg Income dataset (Nelson, 2008; Gornick & Jäntti, 2009). We also used the United Nations poverty line (i.e. one US dollar, per capita, per day; or approximately RMB 2,300 per year) to assess poverty. These results, which can be provided upon request, were not substantially different from the ones reported in this paper. The Gini coefficient, which is based on the Lorenz Curve, is another indicator of income inequality. The value of the Gini coefficient ranges from 0 to 1, with 0 representing total income equality and 1 representing total income inequality. To calculate the ratio of top to bottom income quintiles, we divided the mean income among top income quintile families by the mean income among bottom income quintile families.

**Region and income quintile characteristics:** We adopted the CHNS categorization of rural and urban families, which considers county villages and townships *rural areas*, and urban and suburban neighborhoods within cities *urban areas*. Families were then divided

into quintiles according to the ranking of their total income. Each quintile represents 20%, or one fifth, of the family income distribution.

## Analytic Approach

Our analysis began with an investigation of family income composition statistics, followed by a detailed analysis of government transfers to those families between 1989 and 2009. Finally, we conducted an analysis of the effects of social welfare programs on poverty and income inequality. To account for inflation, all currency amounts were adjusted to their 2009 values according to the Consumer Price Index.

## Results

Table 1 presents the income sources of families in China in 1989 and 2009. Overall, total family income increased by a factor of 3.1, from RMB 11,315 in 1989 to RMB 34,572 in 2009, while government transfers increased 2.3 times, from RMB 2,305 in 1989 to RMB 5,380 in 2009. These figures demonstrate that the economic well-being of families in China improved substantially—not only based on growing market income, but also because of the growing levels of welfare provision. The percentage and amount of increase in market income over time were larger than the corresponding growth levels of government transfers. The increasing levels of total family income, then, were primarily driven by the increase of market income. Sources of income substantially differed by region and income quintile. With respect to region, urban families received more government transfers than rural families did, both in terms of amount and percentage of total income. For example, government transfers represented 36% of total family

income (RMB 4801/13219) in 1989 and 30% in 2009, while the respective numbers for rural families over the same time period were 10% and 7.5%. In terms of income quintile, the high-income families received higher amounts and percentages of government transfers than low-income families. For example, in 1989, the amount of government transfers to top-quintile families was 18 times that of lowest-quintile families. The difference was even larger in 2009. In that year, top-quintile families received 23 times more government transfers than lowest-quintile families. The percentages of total income that government transfers represented in 1989 were 11%, 20%, 23%, 25%, and 18% for families in the first, second, third, fourth, and fifth income quintiles, respectively. The 2009 data demonstrated a similar pattern.

Table 2 further examines the types of government transfers in China. First, the table clearly shows that the composition of government transfers has changed over time. Various types of subsidies represented the majority of government transfers in 1989, or 65% (1968/2305). The relative percentage of subsidies sharply fell to 2% in 2009. In contrast, the percentages of retirement benefits increased from 14% to 96% over the same time period. The amount of social assistance benefits increased substantially, from RMB 7 in 1989 to RMB 99 in 2009, but the absolute amount of social assistance benefits remained small. Notably, the distribution of benefits differed by region and income quintile. Urban families consistently received higher amounts of subsidies, retirement benefits, and social assistance; the only exception was the distribution of social assistance benefits in 1989. In addition, families with higher income consistently received a higher proportion of benefits from subsidies and retirement

programs. In contrast, low-income families received many more of their benefits from social assistance programs than high-income families did.

Table 3 describes the coverage and average amount provided by government transfer programs in 1989 and 2009. In 1989, approximately 53% of families received subsidies, which amounted to an average of RMB 3,725 per year. These figures respectively dropped to 19% and RMB 518 in 2009. Approximately 11% of families received retirement benefits, totaling on average RMB 2903 in 1989. These figures increased to 21% and RMB 24,530 in 2009. With regard to social assistance benefits, only 1.3% of families were recipients in 1989, and they received, on average, RMB 531. Both the percentage of recipients and amount received increased to 4.1% and RMB 2,403, respectively. In 1989 about half of the families surveyed received at least one type of subsidy, while only one-fifth of families received subsidies in 2009. Retirement programs, on the other hand, doubled their coverage and increased their benefits by approximately 8 times over the same twenty-year period. Finally, the coverage and benefit levels of social assistance programs increased, but continued to represent a residual system.

Studies have shown that measures of total income that do not adjust for family size and economic scale may not accurately represent the well-being or poverty levels of families (Cantillon & Bosch, 2002; Caminada & Goudswaard, 2009). Therefore, we accounted for these variables in our analysis using the OECD equivalized scale. Table 4 presents poverty rates based on a poverty line that represents 50% of equivalized median income in China. In 1989, about 32% of families' market income fell below the poverty line; this figure decreased to 22% after government interventions. As a result,

poverty reduction caused by government transfer programs was 32% ( $[32.18-21.87]/32.18$ ). The relative rates for 2009 were 36% for market income, 25% for total income, and 32% for poverty reduction by government intervention. It is evident that poverty reduction resulting from government transfers was similar in both years, at approximately 32%, a rate similar to corporate-conservative regimes (Caminada & Goudswaard, 2009; Huang & Ku, 2011). Table 4 also demonstrates remarkable differences in poverty reduction among regions and income quintiles. Poverty reduction was far more substantial in urban areas and among high-income families, and lower for rural areas and low-income families. For example, in 1989, government transfers reduced poverty rates by 75% for urban families, but only 12% for rural families. With respect to income quintiles, government transfers produced only 4% and 2% reductions in poverty rates among bottom-quintile families in 1989 and 2009, respectively. In contrast, the sizeable transfers shown in Tables 2 and 3 effectively reduced poverty rates for high-income-quintile families.

It is important to point out that the low effectiveness of government transfers on poverty reduction may be due in part to the poverty line we used. The government's standard is widely criticized for being too low to account for acceptable living standards. A relative poverty line is widely used in international comparisons, but it is higher than the absolute poverty line set by the Chinese government. As a result, some families that would be considered poor under the relative poverty standard were not targeted for social assistance programs in China. When we adopted the United Nations "one dollar per day" poverty line, which is closer to the Chinese government's standard than the relative pov-

erty line is, the overall reduction rate increased to 41%, and the reduction rate for the bottom quintile increased to about 7% (results upon request).

Table 5 further examines the additive effects of social welfare programs on poverty reduction. In 1989, the poverty rate in China was 32%, based on market income. However, that rate fell to 24% after income from various types of subsidies were accounted for, and would have been 29%, if we had accounted for retirement benefits. The effect of subsidies in 1989 is evident. This picture changed in 2009, however. The poverty rate, accounting only for market income, was approximately 36%, and fell to 25% after retirement benefits. It stabilized at 36% after subsidies were accounted for. Given the negligible provision of social assistance benefits, the poverty rates were virtually unchanged by those benefits in 1989 and 2009.

The additive effects of social welfare programs on income inequality in China are presented in Table 6. Two measures of income inequality are included in this table: Gini index and the income ratio of top to bottom income quintile. In 1989, the Gini index for market income was 0.437. Subsidies had the most significant effect on reducing the Gini index, to .402 in 1989. After factoring in the cumulative effects of social welfare programs, the 1989 Gini index decreased to 0.395, which is very close to the high inequality threshold of 0.4. In 2009, the Gini index of market income was even higher, at 0.546, fell to .486 after accounting for retirement benefits, and to 0.482 after factoring in all government interventions. It is notable that the disparity between top and bottom income quintiles grew after government interventions were accounted for, in both 1989 and 2009. In 1989, the income ratio of top to bottom income quintiles

was 8.92 with respect to market income, and 9.41 after subsidies. Social assistance benefits very slightly reduced this figure. The final ratio was 9.40 in 1989. In 2009, the ratio was 15.99 for market income, which increased to 17.60 after retirement benefits; in this case as well, social assistance slightly reduced the figure. The final ratio was 16.26 in 2009. It is evident that income inequality has widened in China over time, while government interventions have tended to have limited effects on reducing income inequality. Furthermore, our findings on the ratio of top to bottom income quintiles suggests that a majority of government transfers have benefited top-income-quintile families, largely due to subsidy programs in 1989 and retirement programs in 2009.

## Discussion and Conclusion

Consistent with previous findings, our study shows significant income growth from 1989 to 2009, in both urban and rural China (Brandt & Rawski, 2008; Li & Greve, 2011). During that period, China has become the world's largest exporter, and has transitioned from a planned to a market economy--which created a more individualized, diversified, and competitive economic development mode (Cai & Wang, 2002 and 2010; Brandt & Rawski, 2008). Alongside its economic rise, China's social welfare expenditures have continuously increased. In terms of absolute amounts, government expenditures on social welfare programs increased from RMB 4.96 billion in 1989 to RMB 761 billion in 2009. Meanwhile, the proportion of welfare expenditures compared to national aggregate expenditures increased from 1.63% in 1989 to 17.36% in 2009 (China Statistical Yearbook,

1990 & 2010).

Due in part to reform efforts, social welfare in China has changed significantly over time (Yang & Lv, 2005; Lin, 2009; Han, 2011; Zhao, 2012). As demonstrated by our findings, from 1989 to 2009, incomes from various types of subsidies have decreased, while incomes from social insurance (such as retirement benefits) have substantially increased. Traditionally, the essence of China's welfare system was "low wages, high subsidies and fringes," a notion based on collectivism and government control (Yang & Lv, 2005; Lin, 2009). Although the system initiated reforms in the wake of the Reform and Opening Era, traditional values continued to play an important role. During that time, Chinese subsidies included various items and services, such as food, hygiene, haircutting, and childcare. In fact, food and ration subsidies accounted for a significant part of household income (Khan & Riskin, 1998). As the social welfare system was reformed, however, the proportion of subsidized items and services decreased over time and people began to depend more on social insurance programs (Yang & Lv, 2005; Han, 2011). It is noteworthy that twenty years ago, China's retirement insurance system was barely developed, particularly in rural areas. It was characterized as minimal, inefficient coverage, and was not run according to standardized procedures or adequate supervision and accountability (Song, 2006; Lin, 2009).

With the improvement of the social welfare system, by 2009, social insurance had become the primary mode of social welfare provision in China. Additionally, social assistance programs changed dramatically with respect to their mission and beneficiaries. In 1989, social assistance programs mainly targeted the unemployed, as well as those lacking income and resources. It was only in 1997 that the

central government implemented a national social welfare system, which guaranteed basic living standards for low-income people in cities and towns, and to a lesser extent, in rural areas (Song, 2006; Lin, 2009).

As shown in Table 4 and 5, social welfare programs have played an important role in poverty reduction in China. The inequality between urban and rural areas, however, has increased over time. This may have both economic and political causes. Economically, China has implemented a dual Urban-Rural System since the nation's establishment in 1949. Intended to encourage and support industrialization, this policy led to urban and rural regions being governed as separate systems (Chan & Zhang, 1999; Li, 2002). Urban areas have typically been characterized by modern industry and well-developed infrastructure, in spheres such as transportation, communication, health care, and education. Urban areas were also marked for high levels of productivity and consumption, and higher welfare benefits. Alternatively, rural areas have been characterized as dependent on agriculture, and featuring underdeveloped public infrastructure, lower levels of productivity and consumption, and limited welfare benefits. In 1989, for instance, food coupons, which accounted for a large percentage of food subsidies, were only available to urban residents. Likewise, rates of social assistance, which covered less than 5 percent of the national population, were higher for urban residents (Cui, 2008). These differences between the two systems are also reflected in our data. Although the dual system experienced a series of reforms since the Reform and Opening Era (Li, 2002; Han, 2011; Zhao, 2012), our findings show that urban-rural inequality remains a critical issue in contemporary China.

Secondly, Urban-rural inequality

is also related to the Household Registration System, a policy that aims to ensure social stability by strictly limiting internal migration from rural to urban areas (Lin, 2009; Sia, 2010; Josephs, 2011). Under this system, individuals are categorized as “rural” or “urban” inhabitants based on birthplace, and “rural” residents must complete a complicated application process in order to migrate to a city. The Household Registration System, which substantially limits social mobility between urban and rural population, also reinforces the urban-rural inequality.

Thirdly, government monopolies control some of China’s key industries, such as electricity, water, and gas. These state-owned enterprises accrue tremendous amounts of wealth given favorable policies and limited competitors. This results in enormous disparities among different industries. On an individual level, employees of these state-owned enterprises receive more subsidies and retirement benefits than those working for other companies.

Our findings indicate that social welfare programs have affected China’s levels of poverty reduction and inequality differently than in other East Asian countries. For example, while the Gini coefficients in most East Asian countries have ranged from 0.3 to 0.4, China’s Gini coefficient has been consistently higher. Additionally, the ratio of top to bottom income quintiles in China was 9.4 in 1989, and 16.26 in 2009—both exceeding the 2008 ratios in Japan, South Korea, and Taiwan (Huang & Ku, 2011).

Like other East Asian countries, China’s strong focus on economic growth is certainly important in determining the structure of its social welfare regime. Given the interplay among various political and economic factors, China’s social welfare system has changed almost continuously, par-

ticularly at the local level (Wu, 2007; Han, 2011; Zhao, 2012). As a result, some scholars regard China as representing a “mixed type” of social welfare regime (Li & Greve, 2011; Zhao, 2012). Our findings suggest that in 1989, the most significant welfare programs in China were subsidies; this shifted to social insurance programs such as retirement benefits in 2009. Both subsidies and retirement benefits, however, are distributed based on status and occupation, a key feature of Conservative-Corporatist regimes (Esping-Andersen, 1990). The low redistributive effects of social welfare programs in China are different than those in other East Asian countries, that feature productivism with modest redistribution (Lee & Ku, 2007; Huang & Ku, 2011). Despite some universal welfare initiatives that have been implemented at the local level in recent years, China’s social welfare programs are still in a nascent stage. Therefore, further studies are needed to further investigate the possibility of China representing a “mixed type” of social welfare regime.

Our results should be interpreted in the context of three limitations. First, CHNS does not collect information on taxes paid. Given the progressive nature of taxation, our failure to account for tax information might have led to an underestimation of the redistributive effects of social welfare programs in China (Garfinkel, Huang, & Naidich, 2006; Wu, 2007). Second, we adopted the CHNS categorization of rural (e.g. villages and townships) and urban (e.g. urban and suburban neighborhoods) regions. It is important to note that some researchers consider it difficult to determine the level of urbanization in suburban neighborhoods and county towns (Xinzheng, Sicular, & Zhao, 2002). Some researchers have actually re-categorized suburban

neighborhoods as *rural*, and county town as *urban* (Lei, Yin & Zhao, 2010). In light of this debate, the CHNS categorization might have led us to over-estimate the income levels in rural areas and underestimate the income levels in urban areas. Lastly, CHNS data was collected in nine provinces in China. Due to interprovincial inequalities in China (Candelaria et al., 2009), the data might not be representative of the national situation. Despite its limitations, this study advances our understanding of the effectiveness of social welfare programs on poverty and income inequality in China.

**Table 1: Sources of Family Income in China, 1989 and 2009**

	1989			2009		
Income (\$RMB)	Total	Market	Government Transfers	Total	Market	Government Transfers
<b>All sample</b>	11315	9010	2305	34572	29192	5380
<b>Region</b>						
Urban	13219	8418	4801	38394	26870	11524
Rural	10374	9303	1071	32750	30300	2450
<b>Income Quintile</b>						
First	2347	2086	261	4603	4052	551
Second	5963	4773	1190	14653	12372	2281
Third	9262	7108	2154	24636	20218	4418
Fourth	13085	9850	3235	38633	31494	7139
Top	25920	21235	4685	90347	77836	12511

Note: RMB, Renminbi.

**Table 2: Sources of Government Transfers in China, 1989 and 2009**

	1989			2009		
(\$RMB)	Subsidy	Retirement	Assistance	Subsidy	Retirement	Assistance
<b>All sample</b>	1968	330	7	99	5181	99
<b>Region</b>						
Urban	4004	791	7	155	11249	120
Rural	962	102	7	73	2287	90
<b>Income Quintile</b>						
First	212	39	9	44	246	261
Second	924	258	8	48	2113	120
Third	1852	296	7	67	4310	41
Fourth	2846	382	8	143	6960	36
Top	4007	675	3	194	12277	40

**Table 3: Coverage and Benefits of Government Transfers**

	1989			2009		
	Subsidy	Retirement	Assistance	Subsidy	Retirement	Assistance
Received (%)	52.8	11.4	1.3	19.1	21.1	4.1
Amount (if>0)	3725	2903	531	518	24530	2403

Amount: \$RMB.

**Table 4: Relative Poverty Rates Before and After Government Transfers**

(%)	1989			2009		
	Market Income	Total Income	Poverty Reduction	Market Income	Total Income	Poverty Reduction
	(1)	(2)	(1-2)(1)	(1)	(2)	(1-2)(1)
All Samples	32.18	21.87	32.04	35.98	24.5	31.91
Region						
Urban	31.10	7.89	74.63	43.79	18.06	58.76
Rural	32.72	28.77	12.07	32.26	27.57	14.54
Income Quintile						
First	97.23	93.67	3.66	96.96	95.50	1.51
Second	42.74	15.7	63.27	42.34	26.91	36.44
Third	12.91	0	100.00	18.45	0.11	99.40
Fourth	6.6	0	100.00	14.19	0	100.00
Top	1.45	0	100.00	8	0	100.00

**Table 5: Additive Effects of Social Welfare Programs on Reduction of Poverty Rate**

	1989	2009
Market	32.18%	35.98%
Market + Assistance	32.13%	35.80%
Market + Subsidy	23.58%	35.85%
Market + Retirement	28.86%	24.81%

**Table 6: Additive Effects of Social Welfare Programs on Income Inequality**

	1989		2009	
	Gini Index	Top/ First Quintile	Gini Index	Top/ First Quintile
Market	0.4368	8.92	0.5457	15.99
Market + Assistance	0.4362	8.86	0.5411	14.80
Market + Subsidy	0.4022	9.41	0.5445	15.85
Market + Retirement	0.4190	8.97	0.4862	17.60
Total Income	0.3950	9.40	0.4820	16.26

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華民研究中心  
Huamin Research Center

Rutgers, The State University of New Jersey  
School of Social Work  
390 George Street, Room 503  
New Brunswick, NJ 08901  
848-932-5383, ext. 25383  
[socialwork.rutgers.edu/huamin](http://socialwork.rutgers.edu/huamin)