

Social Assistance Policy and Its Impact on Social Development in China: The Case of the Minimum Living Standard Scheme (MLSS)

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Abstract:

China has been undergoing large-scale socio-economic transformation in the past three decades. With the shift from a planned economy to a market one, China's social security system has been transformed fundamentally. In order to make the inefficient state-owned enterprises to survive in the competitive market economy, the Chinese government has made great efforts to transform the traditional danwei (work unit)-based social security system into a multiple-tier social security system based on social insurance programs since the mid-1980s. However, the embryonic social insurance system has proven inadequate and inefficient to cope with the mounting unemployment and urban poverty caused by the reform of SOEs, and left more urban people outside the social protection system, which imposed a negative impact on social stability. In the late 1990s, to pacify the vulnerable social groups consisting of laid-off workers, unemployed, retirees, and poor farmers, the Chinese government started to reform its public assistance policy, and establish a social assistance system with the minimum living standard scheme (MLSS) its core. Focusing on the policy pertinent to the MLSS in China in general and in Guangdong in particular, this article aims to examine the social assistance policy in China and its impact on social development. It argues that though the MLSS indicates a statist approach to social development, the residual nature of the MLSS and the localization of the financial responsibility have hampered the role of social assistance policy in promoting people's wellbeing and social development in China.

Keywords: Social assistance; Social security; Minimum Living Standard Scheme (MLSS); social development

China has been undergoing large-scale socio-economic transformation in the past three decades. With the shift from a planned economy to a market one, China's social security system has been transformed fundamentally. Through restructuring the old employment-based social security dominated in the planned economy, the Chinese government has tried to establish a multiple-tier social security framework based on

the contributory social insurance programs since the mid-1980s. The social security system under construction is an umbrella of China's social protection schemes, encompassing mainly programs relating to social insurance, social assistance and social welfare. The social insurance programs cover five main social risks, such as old age, unemployment, health care, maternity and work-related injury. Social welfare programs provide funds and service to ensure the livelihood of senior citizens, orphans and persons with disabilities who are in extraordinarily straitened circumstances. Social assistance programs give support for social vulnerable groups, such as urban and rural poor. They are regarded as the final safety net in the hierarchy of China's social security system (Information Office of the State Council, 2004).

In order to establish a partially funded social security system to replace the old pay-as-you-go system, the Chinese government concentrated its efforts on establishing social insurance programs for social risks such as retirement, unemployment and diseases since the mid-1980s. However, the emerging social insurance system was proved inadequate and inefficient to cope with the mounting unemployment and urban poverty caused by the reform of SOEs, and left more people outside the social protection system which has threatened social stability. In the late 1990s, to pacify the deprived social groups consisting of laid-off workers, unemployed, retirees, and poor farmers, the Chinese government started to reform its public assistance policy, and establish a social assistance system with the minimum living standard scheme (MLSS) its core. Focusing on the policy pertinent to the MLSS in China in general and in Guangdong in particular, this article aims to examine the social assistance policy in China and its impact on social development. It argues that though the MLSS indicates a statist approach to social development, the residual nature of the MLSS and the localization of the financial responsibility have hampered the role of social assistance policy in promoting people's wellbeing and social development in China.

Market-oriented Reform, New Poor and the Emergence of the New Social Assistance Policy Framework in China

Soon after the founding of the People's Republic of China, a universal lifelong employment policy was adopted in urban China that guaranteed urban workers job security. Comprehensive welfare packages were provided for workers through work units (danwei) in accordance with the Ordinance of Labor Insurance, which was first enacted in 1951. As a basic socioeconomic institution in Mao's China, danwei refers to SOEs, state agencies, government departments, and other organizations in the public sector. Among them, SOEs were typical. Danwei controls personnel, provides communal facilities, operates independent accounts and budgets, has an urban or industrial role, and is in the public sector. Functioning as a self-sufficient "mini welfare state", the danwei system was composed of three basic elements: job tenure (iron rice bowl), an egalitarian wage (big rice pot), and a welfare package. Danweis provided comprehensive protection to their employees and their families. Prior to

economic reform, more than eighty percent of the urban labor force was covered by the danwei system (Ngok, 2008).

For those who were not included in the danwei system, mainly the marginal groups the government set up some social relief programs, which provided temporary relief in cash or kinds for mainly three types of people: victims of natural disaster, “three-no’s” households (e.g., no sources of income, no work ability, and no family caregivers), and other people receiving special preferential treatments (MCA, 2001). In cities, a very limited relief programs were operated to cater mainly for disabled veterans and so-called “three nos”. In rural areas, the government introduced the “five guarantees” system to cater for the poorest rural residents, which was funded by rural collectives and targeted for the “household with five guarantees”. However, such a social relief system was very residual, and subject to policy change. Its level of benefit was very low, and its recipients were very limited. It was the traditional social relief system practiced before the economic reform.

Economic reforms that started in the late 1970s have brought about uncertainties and risks to hundreds and thousands of people, especially those worked in the SOEs. By the mid-1980s, many SOEs were facing increasing competition from non-state enterprises, especially from the newly emerging township and village enterprises (TVEs) and foreign-funded enterprises. In order to make SOEs more competitive in a market-orientated economy, the government tried to reform the rigid employment and wage system practiced in SOEs. The most significant break with the old employment system was, undoubtedly, the introduction of labor contracts in 1986. From 1986 onward, all new SOE recruits had to sign labor contracts with their respective SOEs. Renewal of contracts was subject to the mutual agreement of both parties and was not automatic. SOEs were given the power to dismiss recalcitrant workers. To protect those workers who lost their labor contracts, a system of unemployment insurance was also established in 1986. From the early 1990s, reforms aimed to transform SOEs into modern enterprises compatible with the requirements of a market economy. Social welfare programs such as pensions, housing, healthcare, and schooling were gradually separated from the commercial activities of SOEs. In other words, SOEs were no longer to provide generous packages of welfare and benefits to their employees.

Since the mid-1990s to the early 2000s, more than twenty million workers in SOEs were made redundant and released from the production process. These workers were named *xiagang* (laid-off) workers (Wong and Ngok, 2006). Some workers became unemployed due to the bankruptcy of their enterprises. Many SOEs had difficulty in delivering pensions for retirees and financial assistance for laid-off employees, even wages for current employees could not be guaranteed. Many urban people fell into poverty even though they were employed or had a pension or other benefits. Compared with the traditional “three nos”, they are new poor in cities. The size of new urban poor in China was estimated variously based on different methods, ranging from 12 million to 30 million (Leung, 2006). The majority of the poor consisted of retirees, the unemployed, laid-off employees and even current employees from SOEs, for whom benefits or wages could not be delivered timely and sufficiently (MCA, 2002), which

became a source of social instability.

To pacify the laid-off workers and poor retirees, the central government promised them “two guarantees”, and pressed SOEs and local governments to deliver both timely and in full amount pensions for retirees (the first guarantee) and living allowance for laid-off employees (the second guarantee). Meanwhile, the efforts were strengthened by the government to improve the existing social insurance schemes for retirees and workers in SOEs such as old-age pensions, unemployment benefits, and medical insurance.

Nevertheless, the newly emerging social insurance system was not sound and failed to protect the mounting unemployed and laid-off workers. Under these circumstances, it is urgent for the government to restructure the traditional social relief system and set up alternative welfare mechanism to address the financial needs of the new poor, that is, laid-off workers, retirees and unemployed workers. In doing so, an anti-poverty policy, known as the Minimum Living Standard Scheme (MLSS) began to be instituted throughout the country since the mid-1990s.

The first MLSS was introduced in Shanghai in 1993 to provide a basic living standard for its urban registered residents. In 1994, the Ministry of Civil Affairs (MCA), the central government department in charge of social assistance policy decided to extend the scheme to other cities in the coastal regions on the basis of experiment. Based on the successful experiments in the selected cities, in 1999, the Chinese government officially promulgated the “Regulations on Guaranteeing Urban Residents' Minimum Living Standard” to ensure the basic livelihood of all urban residents, which indicated the MLSS was established in all cities and towns throughout the country. After establishing the MLSS, the central government became more active in addressing medical, educational and housing needs of poor people. In 2003, the Ministries of Civil Affairs (MCA), Health, and Finance issued jointly the “Opinions on Implementing Rural Medical Aid”. Based on this policy document, the rural medical aid system was established in China. In 2004, the MCA and the Ministry of Education (ME) entitled “A Further Step to Improve Educational Assistance for Children and Youth with Special Difficulties”, which demonstrated the building of educational assistance system in China. In 2005, the State Council published a document jointly formulated by six central government departments entitled “The Circular on Pilot Work on Establishing Urban Medical Care System”, which signaled the urban medical assistance system took shape in China. In 2007, the State Council issued the “Circular on Establishing Rural Minimum Living Standard Scheme Nationwide” with the aim to set up the MLSS in rural areas. With the active policy initiatives by the central government, a new policy framework for social assistance has taken shape in China.

Currently, China has established a social assistance policy framework which consists of MLSS for both urban and rural residents, “five guarantees” scheme for the poorest rural residents, emergency aid for the victims of natural disasters, aid for homeless people in urban areas, and some special programs to supplement the MLSS, such as educational aid, medical aid, housing allowance. Even legal aid is regarded as an integrant part of social assistance system in China. Here MLSS and its

supplementary schemes are elaborated.

MLSS

The Minimum Living Standard Scheme (MLSS) is a means-tested social assistance program established in the late 1990s in order to deal with the increasing urban poverty caused by the market-oriented economic reform. The early beneficiary of MLSS was urban household. Under this scheme, urban dwellers whose have non-agricultural household registration status and the average income of family members is below the level of minimum living standard of a region set by local government (local poverty line), are entitled to the minimum living allowance from the local government. The target groups of MLSS are socially disadvantaged groups in urban China, including the traditional “three nos”; unemployed workers; and low income households. The rate of assistance is set according to expenses for daily necessities of a region as well as the financial conditions of a local government. The basic necessities of recipients are expenses on clothing, food, and housing. Local governments are responsible for the main expenditures of MLSS. Grassroots governing organizations, such as street offices and residents’ committees are responsible for handling MLSS applications. Applicants are required to submit application forms together with supporting evidence to the street office or residents’ committee where they live. Originally, the policy objects of the MLSS are urban poor people. Since 2007, the MLSS has been extended to rural poor population.

Other social assistance programs

Besides MLSS, there are also special social assistance programs, such as medical aid, education assistance, and housing assistance. These programs are considered as the supplements to MLSS. All these supplementary social assistance programs were launched by local governments after the establishing of the MLSS with the encouragement from the central government, and are financed and managed by local authorities. Until now, none of them have been established nationwide, and their coverage is limited. Details of these supplementary assistance programs are as follows:

(1) Educational Assistance for Poor Families

This program was set up in 2004 in accordance with a joint circular issued by the MCA and ME entitled “A Further Step to Improve Educational Assistance for Children and Youth with Special Difficulties” (MCA & ME, 2004). The target groups of this program are children and young people in both urban and rural areas. Under this program, the government aims to provide free primary and secondary education for holders of certificate of “five guarantees” in rural areas and “three nos” in urban areas, and provide fee exemption textbooks and special charges to poor pupils receiving compulsory education.

(2) Medical aid

Due to the marketization of health care services and the collapse of traditional

Co-operative Medical Scheme in rural areas, many poor families are unable to pay for expensive medical care service. Against this background, various types of medical assistance measures were initiated by some local governments, including discounted charges, temporary assistance, specific medical grants, medical assistance foundation, medical mutual help schemes, and charitable aid. Until 2004, the central government took its first step to provide financial support for rural poor families in need of health care services. The central government agreed to provide financial support for poor local authorities in central and western parts of China to provide medical aid for poor families. In 2005, medical aid scheme started to establish in cities after the central government issued the notice of “Opinions on the Pilot Work of Establishing Urban Medical Assistance Scheme” (MCA, MH, MLSS & MF, 2005).

(3) Low Rental Housing (LRH) for Poor Households

This policy targets for poor urban households suffering from shortage of housing. Its objective is to address the basic housing need of poor urban households. The main form of housing aid is cash for setting rents, supplemented by arranging low rental housing and rent reduction. Applicants are not necessary to be recipients of the MLSS.

Social Assistance Policy in Action: the Nationwide Evolution of the MLSS

The Minimum Living Standard Scheme (MLSS), China’s key social assistance policy was initiated by Shanghai municipal government in 1993 with the purpose to cope with the increasing number of poor urbanites. Then it was recognized and adopted as a national policy in 1997 when more and more workers were made redundant in the accelerated process of SOEs reform. Although the introduction of the MLSS was a reactive policy response of the government to the pressing urban poverty problem in China’s market transition, the implementation and institutionalization of the MLSS reflects that the Chinese government has realized its responsibility to guarantee the basic living needs and promote the well-being of all citizens. The whole process of development of the MLSS can be divided into three stages: formation (1993-1997), extension (1997-2003) and consolidation (since 2003).

The stage of formation (from June 1993 to September 1997): From local policy initiative to national policy.

Decentralization is the basic strategy used in the reform China for economic development. Under the policy framework of decentralization, the central government encourages local governments to promote local economic growth by their own initiatives. Meanwhile, in the social sectors, local authorities are urged to use multiple sources and take initiatives to cope with the escalating social problems aroused in the market-oriented economic reform and meet the diversified social needs. As a result, local solutions in response to local social problems become a key feature of China’s welfare system in the transition from socialism.

In this regard, the development of MLSS is a typical example. Being the biggest

industrial base in China, Shanghai was suffering economic hardship in the mid-1990s as many SOEs, especially in the textile and machine-making industries were losing money and many workers were laid off. Many laid-off workers and retirees fell into poverty. However, the traditional social relief system targeting the old poor could not cover the new poor. Under these circumstances, Shanghai was the first local authority to explore the reform of social assistance system. As a result, the MLSS was introduced in Shanghai in 1993 to provide a basic living for individuals or families to overcome their difficulties, maintaining social stability and promoting social development. On June 1st, 1993, the municipal government in Shanghai took initiative to set up the minimum living standard guarantee system for its urban registered residents, which indicated the beginning of the MLSS in China. Shanghai's policy initiative was confirmed by MCA, the central government department in charge of social assistance policy in 1994, and the latter decided to extend the scheme to other cities in the coastal regions on the basis of experiment. By the first half of 1995, there were six big cities had set up the MLSS with the encouragement from the central government (Tang et al. 2002). By the end of 1995, twelve cities had established their own MLSS. Based on the positive experiences of the pilot cities, the MCA decided to extend the MLSS nationwide in 1996. Since then, the development of the MLSS was under the direct intervention of the MCA, policy entrepreneur of the MLSS. The efforts made by the MCA was reaffirmed by the State Council, China's cabinet. In March 1997, at the annual session of the National People's Congress, then Premier Li Peng said, "Currently, more 100 cities have set up the MLSS all over the country. The MLSS is an important measure to safeguard the basic life of the residents; it is also a social security program suitable for China's situation. Such a program should be improved gradually" (Liu, 2008). More importantly, the MLSS was officially supported by the central government, as the MCA determined to launch the scheme in the whole country.

At this stage, the MLSS was a matter of local governments, and the central government didn't pay much attention to the role of the MLSS. Although the MCA was the advocate of the MLSS, the central government failed to provide financial incentive to the MLSS. Local MLSS was financed totally out of local government revenues. Being a means-tested program, the beneficiaries of the MLSS were urban households with per capita incomes falling below local poverty lines (or minimum living standard guarantee lines). The poverty line was determined mostly through the budget standards methods with adjustments to the local contexts and often availability of funds. In practice, covered items include mainly food, clothing and a few daily necessities such as fuel, electricity, and water (Leung, 2006).

The Stage of Extension (from August 1997 to 2003): Strengthening Financial Commitment of the Central Government to the MLSS

In 1997, the central government was determined to further expand the MLSS. The key reason for the extension was the soaring number of laid-off workers and unemployed workers caused by the launch of massive privatization of the inefficient SOEs. To pacify the disgruntled laid-off workers, the government decided to improve

the effectiveness of the MLSS, the last resort for the unemployed or laid-off workers, the new poor in cities.

In September 1997, the State Council issued its first document on the MLSS, “the Circular on Establishing the MLSS for Urban Residents throughout the Country” (hereafter “1997 Circular”). The 1997 Circular marks that the MLSS became the first comprehensive and systematic social assistance program introduced to the whole country since the economic reform. It also revealed the political importance of the MLSS, which was expected to ‘maintain social stability and promote the successful implementation of economic reform’. On the following day, the State Council convened a conference and required all cities and towns where the county governments are located should establish the MLSS before the end of 1999. By the end of 1998, the MLSS had been set up in 581 cities and 1121 counties, which means more than 85% cities and counties with the MLSS in China (Tang et al, 2002). By end of September 1999, 667 cities and 1638 towns where county governments are located had set up the MLSS, three months earlier than the deadline set by the State Council (Liu, 2008). From January to October 1999, the national total expenditure on MLSS reached 1.5 billion yuan, and the total number of MLSS recipients reached 2.82 million. Compared with the situation in 1992, both the expenditure and recipients of social assistance program increased more than 10 folds (Tang et al, 2002).

In September 1999, the central government promulgated the “Regulations on Guaranteeing Urban Residents’ Minimum Living Standard”, the first administrative regulation on the MLSS. According to the “1999 Regulations”, “urban residents with non-agricultural household registration status, if the average income of their family members is below the minimum living standard of local urban residents, are entitled to material assistance from the local government for their basic life.” The 1999 Regulations finally set up the legal framework for the MLSS in China, and legalizes the right of urban residents to social assistance.

Although the central government issued the “1997 Circular” and “1999 Regulations”, it did not accord top priority to the MLSS (Wang, 2008). As a result, by the end of 2000, only 4 million were covered by the MLSS, accounting for about 25 per cent of the total poverty-stricken urban population which was estimated on the basis of local assistance lines. The low coverage was mainly due to the poor financial situation of many local governments, especially the economically backward western and central provinces, where a large proportion of eligible people who were not covered by the MLSS (Tang et al., 2002).

A turning point came in the late 2001. Aware of the slow and uneven development of the MLSS and the mounting number of laid-off workers from and poor workers in the SOEs, the central government decided to speed up the institutionalization of the MLSS. With the efforts made by the central government, the number of MLSS recipients rose to 11.7 million. In 2002, the central government mobilized more than one million people, mainly from the civil affairs departments all over the country to figure out the poor people who are eligible for the MLSS. The policy objective set by the central government was to provide MLSS for all who are eligible (*yingbaojinbao*). Under the pressure from the central government, local

governments became more active to push the MLSS ahead. Meanwhile, the central government decided to assume greater financial responsibility for the MLSS so as to encourage the local government to extend the coverage of the MLSS. In 2001, the central government invested 2.3 billion yuan into the MLSS. Plus the efforts made by provincial governments and local governments, the expenditure on the MLSS reached a record high of 4.2 billion yuan (Tang et al., 2002). As a result, the beneficiaries of the MLSS increased every month. By the end of 2002, more than 20 million people had benefited from the MLSS.

From 1999 to 2004, the central government's financial expenditure on MLSS increased dramatically from 4 million to 105 million, accounting for 60.7% of the total expenditure on MLSS in 2004. With the financial support from the central government, more poor people are protected by the MLSS. The number of the MLSS recipients jumped from four million in 2000 to 11.7 million in 2001, which indicates a growth rate of 190%. In 2002, the figure rose further to 20.7 million. In 2003, the financial contribution from the central government hit 9.2 billion yuan (61 per cent of the total expenditures) (see Table 1). By the end of 2003, the total number of recipients reached 22.47 million, accounting for 4.2 per cent of the total registered urban population, as compared with only 1.4 per cent in 2000 (MCA, 2004).

Table 1: MLSS Expenditures: 1998-2006
(unit: 100 million yuan)

Year	Total expenditure on MLSS	Expenditure by the central government	Percent of central Expenditure (%)
1998	12	0	0
1999	19.7	4	5
2000	27.2	8	29.6
2001	42.7	23	53.9
2002	108.1	46	42.5
2003	150.5	92	61.1
2004	172.8	102	59
2005	191.9	112	58.4
2006	222	136	61

Sources: Xu Yuebin, Social Assistance in China: The Minimum Living Standards Guarantee Scheme,

At this stage, although the coverage of the MLSS extended rapidly, the level of the benefits increased very slowly (See Table 2). The big raise came before the 50th anniversary of the People's Republic of China in 1999. In order to celebrate this great festival, the central government decided to raise the benefit levels of laid-off allowances, unemployment insurance, and the MLSS by 30 per cent (Tang et al., 2002). In order to reduce the financial burden of the local governments due to the increase of benefit levels of social assistance, the central government promised to provide, for the first time, local governments with financial subsidies to cover 80 per

cent of the increased expenditure on the MLSS. From July to December 1999, the fiscal subsidy from the central government on the MLSS hit 400 million yuan (Tang et al., 2002). In 2003, the national average level of MLSS was 160 yuan per person per month, which accounted for only 14 per cent of the average wage and 23 per cent of the per capita disposable income of urban residents. And the average benefit actually received by a recipient per month was only 55 yuan (Tang, 2004). On the whole, the benefits provided by the MLSS were relatively poor.

Table 2: The Level of the Minimum Living Standard in 2001

Region	Level of MLSS	Region	Level of MLSS
National Average	152		
Beijing	285	Henan	136
Shanghai	280	Chongqing	134
Tianjin	241	Hubei	131
Hebei	131	Sichuan	130
Tibet	207	Hunan	130
Guangdong	182	Guangxi	129
Liaoning	172	Jilin	136
Shanxi	156	Gansu	128
Jiangsu	156	Xinjiang	127
Shandong	154	Inner Mongolia	118
Qinghai	152	Heilongjiang	117
Fujian	151	Hainan	110
Yunnan	149	Shaanxi	108
Ningxia	144	Guizhou	104
Anhui	143	Jiangxi	96

Source: Duoji, C. et al. (2002) Urban Poverty and MLSS: Main Report of China's Urban Anti-poverty Forum, Beijing: MCA.

The Stage of Consolidation (since 2003): The Development of MLSS in Rural Areas

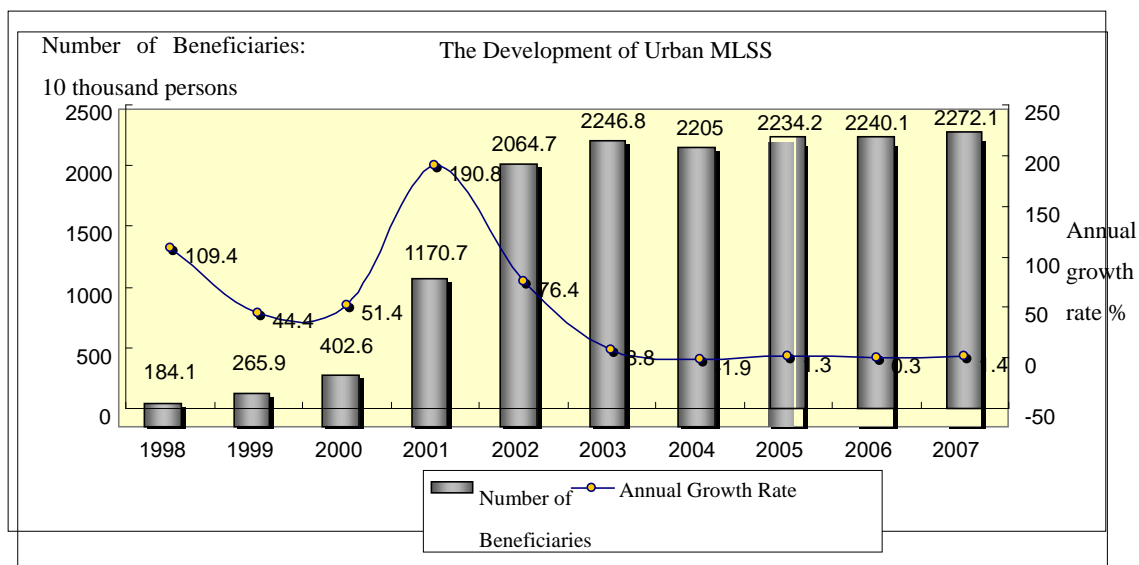
In 2003, there were 22.47 million people in China who were beneficiaries of the MLSS. Since then, the number of MLSS recipients has become stable, which marks that the MLSS entered the stage of consolidation. In view of the low level of the MLSS benefits, the central government under the Hu-Wen leadership focused its efforts on increasing the generosity of the MLSS since 2003. In 2003, the central budget for MLSS was 9.2 billion. The figure went up to 11.2 billion in 2005. In 2006, the average level of benefit received by urban MLSS recipients reached 1,000 yuan or so, two times more than the level in 2001 (Wang, 2008).

The administration of the MLSS has also been improved. In many localities, local governments have classified the recipients of the MLSS and practiced different management for different kinds of recipients. Able-bodied young recipients are

encouraged to look for job in the labor market. At this stage, China's social assistance policy scope has extended to cover medical, employment, education and housing services. Finally, a MLSS-based social assistance system has established in urban China.

By the end of 2007, the MLSS had covered 10.6 million urban households all over the country, involving 22.72 million recipients (See Figure 1). The total fiscal expenditure on the MLSS reached 27.74 billion yuan, 23.7 per cent more than 2006. Among the recipients, 939,000 were people on the job, accounting for 4.1 per cent of the total; 3.44 million were engaged in flexible employment, accounting for 15.1 per cent of the total; 2.98 million were old age, accounting for 13.1 per cent; 6.27 million were registered unemployed, accounting for 27.6 per cent; 3.64 million were unregistered unemployed, accounting for 16 per cent; 3.22 million were enrolled students, accounting for 14.2 per cent; and other 2.23 million were young people below the age of 18, accounting for 9.8 per cent (MCA, 2008). In 2007, the national average benefit received by the urban MLSS recipients was 102.7 yuan per month per person, representing 22.8 per cent more than 2006; and the national average level of the minimum living standard of urban residents was 182.4 yuan, representing 7.5 per cent more than in 2006.

Figure 1 The Development of Urban MLSS



By the end of 2003, with the institutionalization of the MLSS in cities, registered urban poor residents have been protected by the government, though the level of protection is low. However, the bigger challenge for China's social assistance policy lies in rural poverty. Compared with urban poverty, rural poverty is more severe and more formidable. By the end of 2005, there were 23.65 million rural residents whose annual income was below 683 yuan, that is to say, they had not solved the problem of subsistence. In addition, there were 40.67 million people in rural areas whose annual income was below 944 yuan. To put together, the number of poor rural residents reached 64.32 million. If measured by the United Nations' standard of poverty, that is,

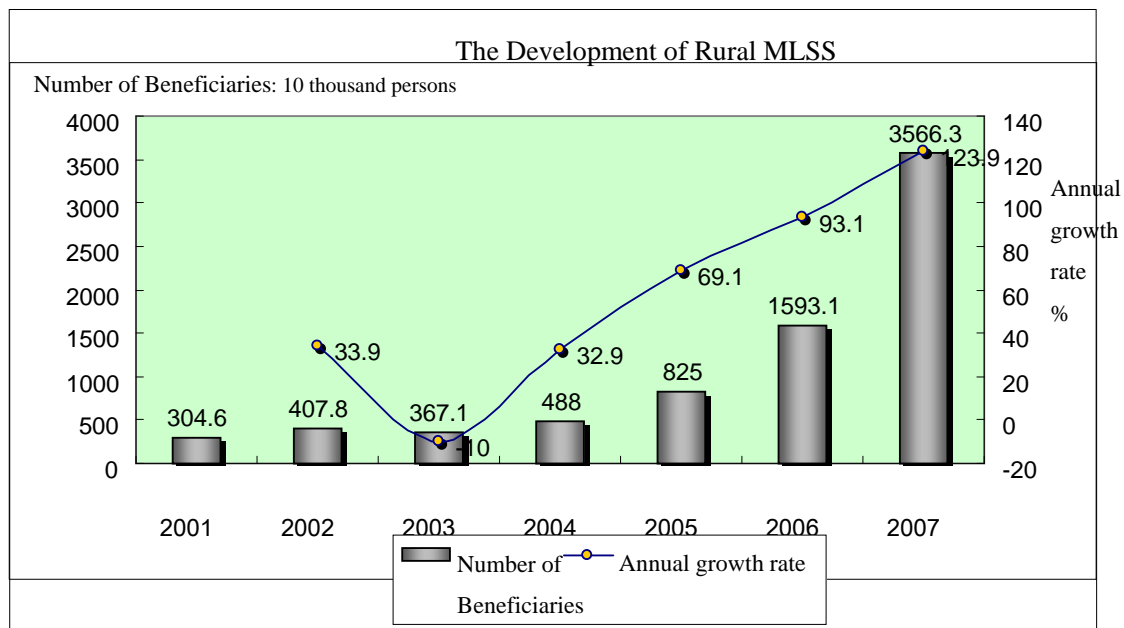
one US dollar one day, there were more than 100 million rural people in China under the poverty line (Wang, 2008). Facing this tough challenge, the Chinese government has made the establishment of MLSS in rural areas as the core task of its social assistance policy since 2003. Therefore, the extension of the MLSS to cover the rural areas is the main feature of the third stage.

Before 2007, the development of MLSS in rural areas was very slow. Only voluntary MLSS programs were implemented in rural areas in the economically prosperous regions, such as Guangdong and Zhejiang, due to the poor financial situation of rural grass-rooted governments. In 2003, there were 2,037 counties of 15 provinces set up MLSS, which provided financial assistance for 4.04 million recipients, accounting for only 0.4% of the total population. With the successful progress of the tax-for-fee reform in rural areas, in early 2004, the central government required the local governments with available financial resources to set up the MLSS for their rural residents. By the end of 2005, 14 provinces had set up the MLSS in the rural areas. The figure rose to 22 by the end of 2006, and 15 million rural residents benefited from the MLSS.

In 2007, 10 years after the similar system was set up in urban areas, the central government decided to extend the MLSS to all rural areas. In early 2007, in the so-called “No.1 policy document” jointly issued by the Central Committee of the CCP and the State Council, the central authorities required that the MLSS should be established in rural areas all over the country within 2007, and all eligible rural population should be covered by the MLSS. The key targets of the rural MLSS are the long-term poor rural residents, such as the disabled, old people, people with disease, and people who lost their working ability. For China’s social assistance policy for the poorest rural residents, the No.1 policy document in 2007 is of historic importance. It is the first time in China for the public finance to sponsor the social assistance program for the most vulnerable rural residents. Since then, the financial responsibility to take care of the poorest farmers in China is shifted from the mutual help fund within the rural collectives to the public finance (Wang, 2008).

By the end of 2007, the MLSS was formally established in all 31 provinces, autonomous regions and municipalities in China. There were 35.66 million rural residents (16.09 million households) covered by the MLSS, and the total expenditure on the rural MLSS reached 1.09 billion yuan. The average level of assistance was 70 yuan per person per month, the average real benefit received by the recipients was 38.8 yuan per person per month (MCA, 2008). By the end of June 2008, the total rural MLSS recipients reached 37.5 million, accounting for 4.3 per cent of the total rural population (China Social News, August 19, 2008). Of course, the current level of benefits received by the rural MLSS recipients is still very low. It is believed that with more financial resources invested in the rural MLSS by the government, the level of benefit of the rural MLSS will be increased gradually.

Figure 2: The Development of Rural MLSS in China



Local MLSS in Action: The Case of Guangdong

Guangdong is the richest province in China in terms of its local revenue and total sum of GDP. Nevertheless, like other regions in China, Guangdong has been suffering from many social problems, such as regional disparity, urban-rural divide, and a huge number of poor people in both cities and villages. How to resolve these social problems and increase people's livelihood is still a tough challenge facing Guangdong province. Under the decentralized welfare regime in China, Guangdong has to explore its own way to alleviate all kinds of social evils.

Guangdong is among the first batch of provinces which established MLSS for to cover both urban and rural areas at same time. In 1997, when the central government decided to make the MLSS universal for urban residents nationwide, Guangdong provincial government was determined to establish a unified MLSS to cover both urban and rural residents. In 1999, when the central government decided to raise the benefit level of urban MLSS by 30 per cent before the 50 anniversary of the People's Republic of China, Guangdong provincial authorities followed the decree seriously, and both cities and village were covered. As a result, the provincial average level of benefit for urban residents rose to 215 yuan per person per month from 166 yuan, while the benefit level for rural residents rose to 145 yuan from 112 yuan. In July 1999, the provincial authorities promulgated the Implementation Methods of the MLSS for Both Urban and Rural Residents in Guangdong Province, which provides a legal frame for the rural MLSSGS in Guangdong.

Figure 3 Total Number of Recipients of MLSS in Guangdong: 2000-2007

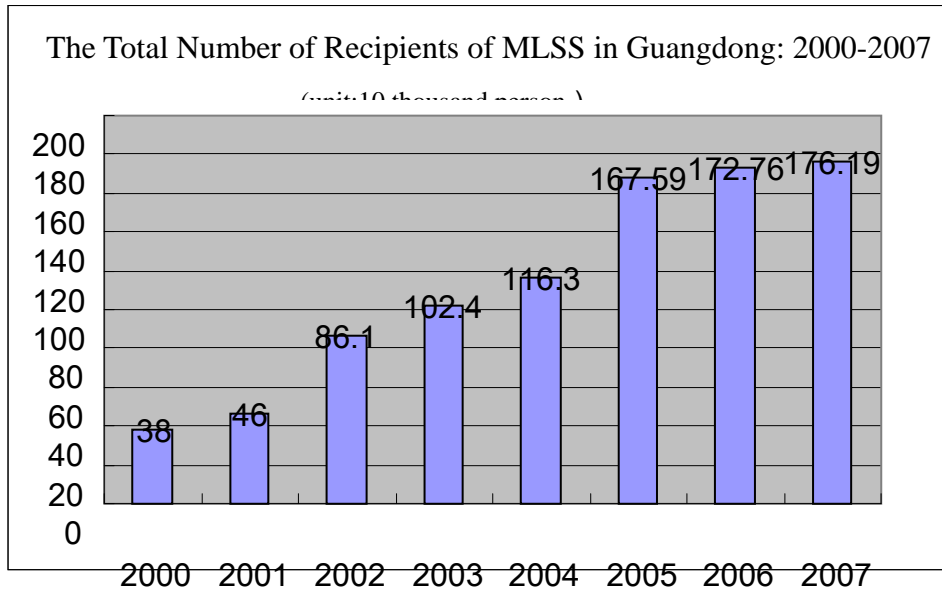
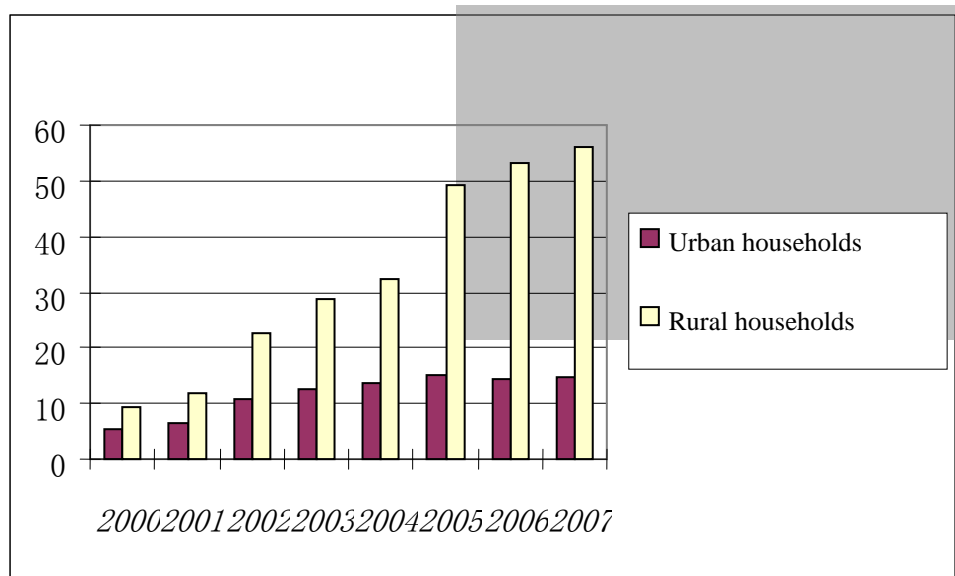


Figure 4 Distribution of Households Covered by MLSS in Guangdong: 2000-07 (unit: 10 thousand households)

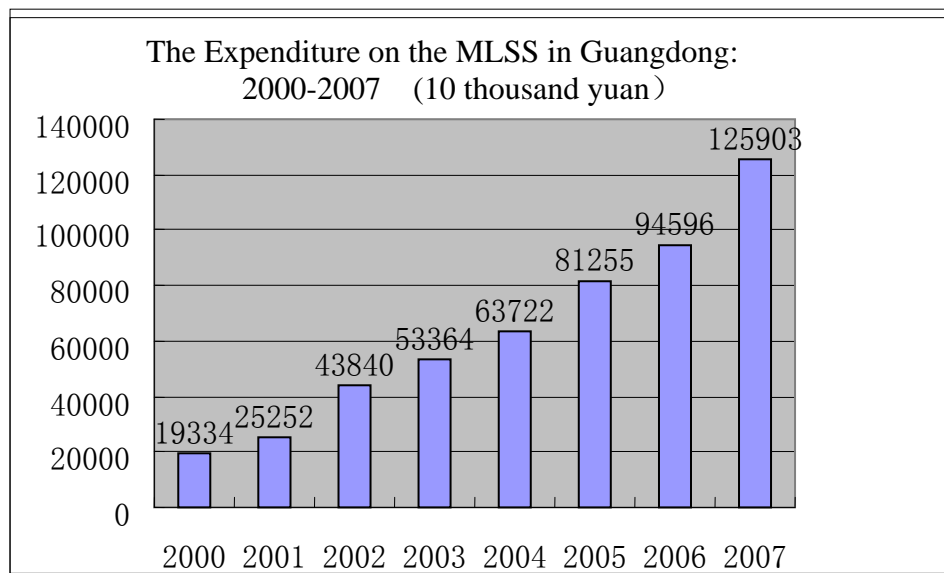


With the development of the MLSS, more and more poor people have been covered by the safety net in Guangdong (See Figure 3 and 4). By the end of 2007, a total of 710,000 households were beneficiaries of the MLSS, involving 1.76 million persons. Among them, 147,000 were urban households, involving 370,000 persons, 563,000 were rural households, involving 1.40 million persons. In other words, the recipients of the MLSS account for 2.24% of the total population with local household registration status in Guangdong. The recipients include workers, retirees, unemployed workers, landless farmers, dependents of prisons, people with AIDS, involuntary migrants, and so on.

Being the richest province in China, Guangdong is not eligible for transfer payment from the central government for its MLSS. That is to say, Guangdong should

finance its MLSS by itself. Since 2003, the provincial government has paid much more attention to improve its MLSS, and more financial resources have been allocated to social assistance policy sector (See Figure 5). In 2002, the expenditure on MLSS was 0.44 billion yuan in the province. This figure rose to 1.26 billion yuan in 2007. In 2006, in order to guarantee the money of the MLSS, Guangdong provincial government decided to waive the financial responsibility of the town and village, and make the governments at the level of province, city and county to fund the MLSS. Meanwhile, an earmarked account for MLSS was set up, in which the financial resources from city and county governments for MLSS should be deposited. The provincial government assumes the responsibility to provide financial aid to cities and counties which suffer from financial difficulties. In 2005, the provincial government vowed to include the 132 million poorest rural residents in the MLSS. From 1997 to 2007, the whole province spent 5.6 billion yuan on the MLSS.

Figure 5: Government Expenditure on the MLSS in Guangdong: 2000-07



By the end of 2007, the provincial standard of minimum living allowance ranges from 130 yuan to 361 yuan per month per person for urban residents, and range from 100 yuan to 320 yuan per month per person for rural residents. The average standard of the minimum living for urban residents is 226 yuan per person, while 168 yuan for rural residents. Correspondently, the level of real benefits received by the MLSS recipients has increased too. In 2007, the average subsidy for urban recipients was 122 yuan per month per person, while for rural recipients was 48 yuan. Since January and February 2008, the level of rural MLSS and that of urban MLSS was increased by 15 yuan per person per month respectively (IT Information Times, February 27, 2008). In 2008, Guangdong province plans to raise the provincial level of minimum living allowance, and makes the MLSS cover all rural households whose annual income is below 1,500 yuan.

Though Guangdong is the most prosperous province and takes a lead in

developing a MLSS integrating both urban and rural areas, its unified MLSS has suffered from low coverage and low benefit level, insufficient financial resources and regional disparity.

First, Guangdong's MLSS coverage is relatively low compared with the national average. Currently, registered urban population in Guangdong is about 44 million. Among them, 0.38 million are beneficiaries of the MLSS, accounting for 0.9 per cent of the total urban population (the national figure is 5.4 per cent). Among its 50 million of registered rural population, only 1.42 million are covered by the MLSS, accounting for 2.8 per cent of the total rural people (the national figure is 4.3 per cent).

Second, the benefit level of Guangdong's MLSS is lower compared with other economically prosperous regions. By the end of 2007, the average levels of urban MLSS and rural MLSS in Guangdong were 218 and 168 yuan per month per person respectively. Though these two figures were above the national averages (national average level of urban MLSS was 182 yuan while average level of rural MLSSGS was 86), they were lower than those in municipalities such as Beijing, Tianjin and Shanghai. Moreover, in terms of the real benefits received by its MLSS beneficiaries, Guangdong lags behind other economically prosperous coastal regions (See Table 3). Because the standards and subsidies of the MLSS in the Pearl River Delta region are relatively higher, they contribute greatly to the provincial average level, but hiding the fact that the levels of MLSS in cities and counties in the non-Pearl River Delta region are very low. In fact, the standards of MLSS in the western, eastern and northern regions in Guangdong are too low to safeguard the minimum living standards of the residents. Data from the MCA shows, in 2007, among the 8 cities which record the lowest level of MLSS benefits all over the country, three are in Guangdong; among the 20 counties with the lowest level of MLSS benefits, eight are in Guangdong.

Table 3 A Comparison of the Average Standards and Real Benefits of the MLSS between Guangdong and Some Coastal Regions (2007)

Provinces	Urban(yuan/per month/per person)		Rural (yuan/per month/per person)	
	Standard	Real benefit	Standard	Real benefit
National average	182	102	86	37
Beijing	330	267	168	87
Tianjin	330	223	167	78
Shanghai	350	205	213	67
Zhejiang	262	184	160	89
Jiangsu	245	118	120	48
Shandong	217	105	78	46
Fujian	199	84	111	49
Guangdong	218	114	168	45

Source: Guangdong Provincial Department of Civil Affairs (2008).

Third, there is a big gap among the cities within the province. First, there is a big gap between the cities in the Pearl River Delta and in the non-Pearl River Delta. Second, the divide between urban areas and rural areas is large. Third, the difference between cities is remarkable. In terms of urban standard of the MLSS, the highest standard is 400 yuan per month per person, set by Dongguan city, while the lowest one is 130 yuan per month per person, set by a county-level city in Shaoguang. In terms of rural standard of MLSS, the highest is 415 yuan per month per person, while the lowest is 100 yuan per month per person (see Table 4).

Table 4: The Standards of the LSS in Guangdong (2007, by City)

(unit: yuan per month per person)

City	Urban MLSS	Rural MLSS	City	Urban MLSS	Rural MLSS
Dongguan	400	400	Shenzhen	361	415
Guangzhou	355	201	Zhongshan	320	280
Foshan	304	304	Zhuhai	288	273
Jiangmen	281	170	Huizhou	240	159
Zhaoqing	213	155	Meizhou	211	123
Shantou	208	183	Qingyuan	199	107
Yangjiang	199	106	Jieyang	192	134
Chaozhou	191	144	Yunfou	190	104
Maoming	186	100	Shaoguang	184	119
Heyuan	183	131	Zhanjiang	180	100
Shanwei	168	133			

Source: Guangdong Provincial Department of Civil Affairs (2008)

Social Assistance and Social Development: A Preliminary Assessment

As discussed above, seeing the MLSS an effective policy of anti-poverty, governments at all levels in China have accorded top priority to the development and institutionalization of the MLSS in China since the late 1990s (Leung, 2006). Although the social assistance provided by the MLSS has not been appropriate to the needs of the poor people, and has catered primarily for urban populations, such a policy indicates a statist approach to social development in China (Midgley, 1995). Unlike the traditional social relief program, the MLSS is based on social right of citizen and government responsibility. While the MLSS focused only on the subsistence of the neediest sections of society, it legitimated the involvement of the state in social welfare. It also demonstrates that the Chinese government has the will to guarantee the constitutional right of the Chinese people to state assistance to maintain their basic standard of living.

In modern society, the right to social assistance is a basic right of citizen. The establishment of the MLSS in China is an important social institution to ensure the social right of Chinese people. Though the development of the MLSS is uneven nationwide, it is reasonable to say a modern social assistance system has established

in China. From 1997 to the present, the MLSS has contributed greatly to the social stability in China as it has provided essential assistance in cash for the socially disadvantaged groups, especially those who were released from the SOEs. There is no doubt that such a state intervention has contributed significantly to the social improvements in current China. It is believed that a solid MLSS will play an important role in promoting economic growth and maintaining social stability in China. However, China's social assistance policy based on the MLSS is still at its early stage. Its role in promoting social development in China is hampered by the curtailed social expenditure. In the following, we will identify some salient weaknesses existed in the current MLSS.

First, localization of financial responsibility

The current MLSS has been, though with the financial support from the central government, constrained by the localization of financial responsibility. Basically, it is the fiscal responsibility of the governments at the district and county level to finance the MLSS within the current social assistance policy frame (China Development Foundation, 2007, p. 167). The localization of social assistance constitutes a barrier to widen the scope of protection and to enhance the level of benefits. The reason is very simple. Because less developed regions with limited financial resources usually have a relatively huge number of poor people to take care. Under the constraints of financial capacity, local government officials have little motivation to promote social assistance in their regions. This was revealed from the fact that the MLSS progressed very slowly before 1999 when the central government promised more financial support for poor regions to implement the scheme. Though the central government has allocated more financial resources to the MLSS since 1999, its share in the total government expenditure is still low (See Table 5).

Even in rich province like Guangdong, local governments are inclined to curtail the expenditure on the MLSS. Although local revenues increased rapidly, the share of the expenditure on the MLSS increased very slowly (See Table 6). Financial constraint is still a barrier to extend the scope of social assistance policy in Guangdong. As the officials from Guangdong provincial department of civil affairs observed, the most difficult thing in implementing the MLSS is that the financial resources for the MLSS are not guaranteed in the economically underdeveloped regions. As a result, many eligible poor people, especially in rural areas are not included in the MLSS (Interview, October 7, 2008).

Table 5. The Expenditure in MLSS in China: 2001 to 2005

Year	The expenditure on MLSS (unit: billion yuan)	The expenditure on MLSS to the total government expenditure
2001	8.03	0.28%
2002	10.87	0.45%
2003	15.05	0.57%
2004	17.28	0.61%

2005	19.19	0.57%
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Table 6 The Share of MLSS Expenditure to the Total Budgetary Expenditure in Guangdong: 2000-2007

Year	Total expenditure on MLSS (million yuan)	Total Budgetary Expenditure (billion yuan)	The Share of MLSS Expenditure to the Total Budgetary Expenditure (%)
2000	193	106.99	0.18
2001	253	132.13	0.19
2002	438	152.11	0.29
2003	534	169.56	0.31
2004	637	185.30	0.34
2005	813	228.91	0.36
2006	946	255.33	0.37
2007	125.9	315.96	0.40

Source: Guangdong Statistics Yearbook, 2003-2008.

Second, low level of benefits

The MLSS provides cash benefits to poor households with per capita incomes below the locally determined minimum living standards (local poverty lines). A household that is eligible for allowance can receive the difference between the total eligible benefits and the total incomes of the household. Therefore, the amount of allowances that a family receives depends on the poverty line and the resources taken into account when measuring household income. However, local governments have been given the discretion to decide the level of minimum living standards and the methods of calculation. As a result, local governments have different understandings of what constitutes the “minimum living standard”, and inclined to set up a low poverty line. Some reasons resulted in this inclination. First, the central government has not set up a national poverty line. In the 1999 Regulations, the central government only stipulates that benefits should be able to provide for recipients what is necessary for them to maintain a minimum standard of living appropriate for the local situation, and lists such items as food, clothing, housing, gas and children’s educational needs for consideration. However, it fails to provide guidelines on how this “minimum standard of living” should be calculated. Second, the localization of financial responsibility of the MLSS encourages local governments to set up the poverty lines based on their financial affordability. As many local governments suffer from financial constraints, they are inclined to curtail the expenditure on the MLSS. Third, the central government concerns more about the extension of the MLSS in terms of coverage of poor households than the level of benefits of the MLSS. As a result, local governments tend to extend the coverage of the MLSS at the cost of the increase of the benefit level.

Third, weakness of the policy design

Although the MLSS is an institutionalized social assistance program introduced to combat poverty, especially urban poverty in China, it has a built-in weakness in its policy design as it only aims to meet basic living needs for the impoverished residents. The stated objective of the MLSS is to fill the gap between measured household per capita income and the minimum living standard, it is difficult for the MLSS itself to lift the poor out of poverty and achieve the objective of promoting equality of income distribution and social inclusion. For many impoverished people, on top of income support, they also need some essential social services, such as health care, education, and housing. In fact, the provision of these social services can not only combat poverty, but also promote social inclusion and social development. However, the MLSS has not taken these social services into consideration when calculating the basic living standard. Though some local governments have provided special social assistance programs, such as medical aid, education assistance, and housing allowance assistance to the MLSS recipients, these special aids are not incorporated into the MLSS.

Fourth, the migrant populations are not covered.

The MLSS is a household registration status-based social assistance program, and financed and administrated by local government. Although 5.4 per cent of the total registered urban population and 4.3 per cent of the total registered rural population have been covered by the MLSS nationwide, a huge number of floating populations has not covered. Currently, there are more than 200 million migrant people in China. They have left their home towns and villages, and work and live in cities. Due to the lack of local household registration status, they are not entitled to the MLSS funded by the hosting governments.

Conclusion

As discussed above, the Chinese government has accorded top priority to establishing a social assistance system based on the MLSS since the late 1990s. It is not only a demonstration of the Chinese government's will to guarantee the constitutional right of the Chinese people to state assistance to maintain their basic standard of living, but also a strong evident of the involvement of the state in social welfare. The development of the MLSS has showed that its effectiveness on poverty eradication is relatively remarkable. The income level of the most families which are beneficiaries of the MLSS is above the minimum living standard. The MLSS has become the main way to tackle urban poverty (China Development Foundation, 2007, p. 151). The MLSS-based social assistance system has become a very important supplement to China's embryonic employment-based social insurance system, and help to maintain maintains social stability. There is no doubt that state intervention as such has contributed significantly to the social improvements in China.

Nevertheless, as examined above, the MLSS-based social assistance system is still rudimental and residual. The dominance of local governments in financing and administrating the MLSS has led to not only the localization of the MLSS, but also a

low level of benefits for the recipients, which has not always been appropriate to the needs of the poor people. The design of the MLSS has a strong urban orientation, and has catered primarily for urban populations. The household registration status-based policy also neglects the needs of poor floating people as their social rights have not been recognized by hosting governments.

To give the MLSS a full role to play in social development in China, the financial role of the central government should be strengthened, and a social assistance policy frame based on citizenship should be developed. Of course, social assistance policy is only the last resort for poor people. For the sake of wellbeing of Chinese people, other effective options to provide social protection and enhance public wellbeing, such as universal health care and old age pensions, and free education should be developed in China.

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