

Minimum income programme and welfare dependency in China

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In the mid-1990s China introduced a means-test cash benefit called the Minimum Living Standard Guarantee System (*dibao*). Alongside the increases in both the number of beneficiaries and the budget, there is growing public concern that *dibao* is creating welfare dependency. Using survey data collected in three cities in China, we investigated to what extent *dibao* beneficiaries look for work. Focus group discussions were held with programme administrators and beneficiaries. While headline figures suggest that a considerable proportion of beneficiaries are of working-age and able to work, their personal and household circumstances are important factors in determining their long-term unemployment. There are also *dibao* design issues that have created financial disincentives to work. The specific origins of the policy of addressing the problem created by layoffs of inefficient state-owned enterprises are still affecting the implementation of the programme and preventing it from playing a significant role in poverty reduction.

Yuebin Xu¹, Ludovico Carraro²

¹ School of Social Development and Public Policy, Beijing Normal University, Beijing, China

² Oxford Policy Management Ltd, Oxford, UK

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Yuebin Xu, School of Social Development and Public Policy, Beijing Normal University, No.19 Xijiekouwai St., Beijing 100875, China

E-mail: xuyuebin@bnu.edu.cn; xyuebin@hotmail.com

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Introduction

Over the past two decades, social assistance has been playing an increasingly important role in China's social protection system, functioning as a 'safety net' for households living in poverty as well as a 'shock absorber', mitigating social tensions resulting from market reforms (Leung & Xu, 2009). Over the years, a variety of social assistance schemes have been developed, including the minimum living standards guarantee system (*dibao*), medical assistance (MA), educational assistance (EA), housing assistance (HA) and temporary assistance (TA). All of these programmes are government-funded and available to both urban and rural residents on a means-test basis. Among them, *dibao* provides cash assistance to poverty-stricken households with the aim of helping them to live at a subsistence level. *Dibao* also serves as the qualifying entry point for people to access other social benefits. For most of the time since its nationwide implementation in 1999, the number of urban *dibao* beneficiaries has been over 22 million, accounting for about 6% of the population with urban household registration. In recent years, a rising concern

is that some 60% of the beneficiaries are in fact able-bodied.¹ It is frequently reported that beneficiaries rarely exit the programme when becoming employed. This has led to wide public disapproval of *dibao* for 'encouraging people to be lazy' or 'creating welfare dependency' or being a 'welfare trap'.

Internationally, the concern over welfare dependency has been a recurring theme in the social welfare sphere. It originated in the poor laws that restricted public welfare to the 'deserving poor' only, and shaped social welfare policies in Western developed countries in subsequent centuries (Katz, 1989), subdued during the development period of the welfare states when welfare coverage was extended to all people unable to meet their needs through the market, and resumed in the early 1980s when most welfare states came under pressure due to rising caseloads and mounting expenditures. Since the 1990s, most welfare states have embraced the welfare-to-work

¹ Our estimation, based on data from the Ministry of Civil Affairs, 2011. For each area, we calculated the percentage of *dibao* beneficiaries who were not elderly, disabled or students and thus were able to work.

approach designed to promote welfare beneficiaries' participation in the labour force and thereby address the issue of welfare dependency which is allegedly a disincentive to employment. Social assistance programmes in many countries have undergone a re-structuring process aimed at reducing poverty through human capital-building and the re-integration of beneficiaries into the labour market. Two typical workfare programmes are the temporary assistance for needy families (TANF) in the USA and the New Deal in the UK, both launched in the late 1990s. Both programmes are primarily concerned with moving long-term unemployed beneficiaries into regular wage-earning or self-employment. A key feature of the UK New Deal programme is that individualised services are provided by social workers to assist welfare beneficiaries in finding and retaining jobs. In the USA, TANF imposed stringent eligibility requirements on social assistance applicants and beneficiaries, and increased employment services such as job training, counselling, referral, as well as placement either in the open labour market, sheltered facilities or self-employment. There is also a 5-year time limit for which one can live on public assistance. Furthermore, applicants have to first be interviewed by the employment service before their files are processed by the benefit section. Evaluation of both programmes has been generally positive; they have reduced caseloads in the USA and reduced the incidence of poverty, particularly child poverty, in the UK. This new approach to social assistance is viewed as an investment in human capital and the enhancement of individual opportunities (Taylor-Gooby, 1997), of social development (Leung, 2004; Midgley, 1999) and of positive welfare or the social investment state (Giddens, 1998).

The dependency theory argues that the receipt of social assistance and benefits can be the main reason people stay out of employment, thus impeding economic growth (Miller, 2004). Social assistance beneficiaries face disincentives to work because of the way benefits are designed and institutionalised. According to this theory, the problem does not lie in people's ability to work or the lack of opportunities to work, but rather on disincentives to work which should be reduced or removed.

This study set out to examine whether this is the case, with specific reference to the Chinese context. Data used for the study were gathered in a project funded by the Asian Development Bank and implemented in collaboration with the Chinese Ministry of Civil Affairs. The title of the project was 'Building equitable opportunities into social assistance'. The two authors of the present article worked as project consultants.

The article is organised as follows. The next section provides additional background on social assistance in China and its minimum income scheme. The third section gives some brief information about the primary data we collected to conduct the analysis and our methodology. The fourth section presents the main findings, both in terms of assessing the evidence of dependency, but also in analysing work experience and people's work engagements and what are the possible financial and non-financial constraints for entering work. A final section provides a discussion of the findings and draws policy implications.

The minimum living standard guarantee system in China

China's minimum living standard guarantee system (*dibao*) was introduced in the 1990s in response to urban poverty caused by large numbers of workers being laid off from state-owned enterprises. A means-tested social assistance scheme, *dibao*, provides cash assistance to poverty-stricken households with incomes falling below a locally determined poverty or social assistance line. It was first initiated in Shanghai in 1993, followed in 1996 by voluntary trials in a number of wealthier cities, adopted nationwide in 1999 following the passing of the *Regulations on Guarantee of a Minimum Living Standard for Urban Residents* by the State Council, and extended to the countryside in 2007. Other social assistance schemes, including MA, EA, HA and TA, were introduced during the 2000s to tackle the multi-dimensional nature of poverty. These supplementary programmes were first made available mainly to *dibao* beneficiaries and later extended to marginally poor households with incomes a certain percentage above the threshold for *dibao*.

To be eligible for *dibao*, a household has to demonstrate that its income is below the locally determined assistance line, which is usually set at city or county level based on the budget standard methods, also taking into consideration the local financial capacity. *Dibao* is intended to cover such items as food, clothing and a few items of daily necessity, such as fuel, electricity and water, as specified in the State Council's 1999 *Regulations*. An eligible household receives cash assistance up to the threshold. In most cities, the determination of the assistance line also takes into account other social protection benefits, such as the minimum wage, pensions and unemployment benefits. In the earlier years, there were only two requirements: that the per capita income of the household was below the assistance line and that the household had obtained the local household registration (*hukou*). The means-test covers all sources of income. From 2012 onwards, household assets are

also taken into account – bank savings, securities and other financial assets, vehicles and housing. The local governments were given discretion in setting their own conditions. Various approaches to asset-testing were developed across the country. In Beijing, for instance, the per capita financial assets of an eligible household are not to exceed 24 times the *dibao* standard. Thus, the limit of per capita financial assets in 2013 was CNY 580 × 24 (months) = CNY 13,920. Owners of a car or a property with a construction area over 50 square metres or per capita floor areas over 10 square metres are disqualified (Beijing Civil Affairs Bureau, 2012). In Shanghai, the criterion for financial assets is based on household size: CNY 30,000 for a family of three or above and CNY 20,000 for a family of two or below. In terms of property assets, the local average per capita housing area is used as the limit for eligibility (Shanghai Civil Affairs Bureau, 2012). The threshold is required to be adjusted from time to time based on changes in consumer prices and local economic development. Targeting methods are nationally unified. A household first submits its application to the neighbourhood office which, through a series of verification procedures regarding the household's income and assets, makes a preliminary decision with regard to the household's eligibility, and submits it to the district civil affairs for final approval.

The financing of *dibao* is made jointly by the central and local governments, but central transfers have played a major role in driving its expansion. In the early years, funding for *dibao* was primarily the responsibility of the local government. Funds from the central government were to be available only to those localities experiencing financial difficulties. This has led to generally limited coverage and low benefits in most localities. Starting from 1999, the central government began to subsidise cities in the middle and western regions to help them establish the schemes. Since then, the programme has expanded rapidly in terms of both expenditure and coverage. The total expenditure for urban *dibao* increased from CNY 2.72 billion in 2000 to CNY 75.67 billion in 2013. By 2013, the *dibao* programme accounted for about 11% of government expenditure for social security and employment (Ministry of Finance, 2013)². During the same period, the amount of transfers by the central government to urban *dibao* also increased, from 30 to 72%. Meanwhile, the recipient population climbed from 4 million in 2000 to 11.71 million in 2001, reaching a high of 23.5 million in 2009, and then dropping to 20.64 million in 2013, accounting for about 6% of the urban residents with local household registration (Ministry of Civil

Affairs, various years). Benefit rates have also increased steadily. Between 2006 and 2013, the national average assistance line increased from CNY 170 to CNY 373, which in September 2013 ranged from less than CNY 300 to over CNY 600 across different cities (Ministry of Civil Affairs, various years).

Social assistance in China is widely regarded as having played a vital role in facilitating economic reforms and maintaining social stability by offering protection to the unemployed and to laid-off employees (Leung, 2006). However, along with programme expansion, the operation of *dibao* has been plagued by two major issues.

First, as it is a means-tested programme, assessment of income has been a persistent problem in the administration of the programme. In the past, local governments relied mainly on two methods to target poor households: means-testing and community monitoring. Community monitoring involves publishing the names of the beneficiaries in the neighbourhood, and neighbours are encouraged to report suspected frauds to the neighbourhood office. Verification of household income, however, has proved to be an extremely difficult task for programme administrators. Household income is easily subject to fraud, and hidden income from informal employment is widespread (Leung, 2006; Leung & Xu, 2009; Wong, Chen, & Zeng, 2014). In many places, non-income proxy means-criteria, such as possessing expensive home facilities or leading a luxurious life style, are often used to determine eligibility. So far, fraud and abuse of social security benefits have not been treated as a criminal offence. Since 2012, to better determine eligibility a growing number of localities have set up Centres for Cross-checking Economic Conditions of Low-income Households, through which the income and assets of applicants and beneficiaries are cross-checked among government departments and organisations. Moreover, in recent years an increasing number of cities have established a special agency that is responsible for verifying the income and assets of households applying for or receiving social assistance. The operation of these agencies, through cooperation with cross-regional government authorities – such as those in charge of housing and transportation – and with banks, is widely reported to have improved the situation.

Second, along with rapid programme expansion in both expenditure and coverage, the government and the general public are increasingly concerned with the fact that a large proportion of *dibao* beneficiaries are able-bodied. Since 2004, many provinces and cities have experimented with various combined measures of workfare, involving the use of 'sticks and carrots' to encourage able-bodied beneficiaries to take up paid jobs. A review of national and local

² Including rural *dibao* expenditure, which was CNY 86.1 billion in 2013.

policy documents reveals such measures as compulsory community work, job training, referral and placement services, allowing beneficiaries to retain part of their income from employment without deductions, gradual reduction of benefits after employment, subsidies for enrolment in social insurance schemes, tax incentives for employers, bonuses for finding jobs, and the provision of loans for those engaging in self-employment or other forms of entrepreneurship. These services are usually provided by the Department of Human Resources and Social Security. At the same time, however, in most places more stringent measures are attached to the conditions of benefit receipt for those able to work. For instance, they are to lose their assistance if they refuse two or three times to take up jobs offered by employment agencies³.

Despite these efforts to monitor eligibility and promote employment among beneficiaries, recipient households generally have remained reluctant to leave the *dibao* programme. Most academics and policy makers in China attribute this phenomenon to the tied supplementary benefits. If a recipient loses the *dibao* benefit, he or she would automatically lose all supplementary benefits, such as the MFA, HA, EA and HA. This has created disincentives for *dibao* beneficiaries to exit *dibao*. Others hold that some design features and the way *dibao* is administrated also contribute to the problem. The unconditional nature of *dibao* receipt with no limit on either the claimant's employability or length of time of benefit receipt has encouraged beneficiaries to remain in the scheme of their own will. The difficulty of checking the income of a claimant or recipient household from informal employment has also created loopholes for fraud and the misuse of benefits, making it possible for people to engage in paid employment without losing their *dibao* benefits (Leung & Xu, 2009; Wong et al., 2014). A good indication is that in February 2014, the State Council issued a new document, titled 'Temporary Regulations on Social Assistance', which included employment assistance for *dibao* beneficiaries as part of the social assistance system.

Methodology

To better understand the issue of dependency, we used two main types of data: household surveys of *dibao* beneficiaries, and focus group discussions with beneficiaries, programme administrators and policy makers.

³ Based on the authors' report to the Ministry of Civil Affairs entitled *Building Equitable Opportunities into Social Assistance*, regarding a technical assistance programme funded by the Asia Development Bank in 2012–2013.

The household surveys were designed primarily to measure the actual employment rate, examine the barriers to employment, understand employment attitudes and quantify the possible size of necessary incentives. The focus group discussions were intended to complement the findings of the household surveys and, from the perspectives of officials, administrators and beneficiaries, respectively, examine issues concerning employment and possible needed policies.

The investigation was conducted primarily in urban settings, i.e., in three cities: Jinan, Changsha and Baotou, which are cities in the provinces of Shandong, Hunan and Inner Mongolia, respectively. Data collection was done in the summer of 2012 between June and August. The selection of the provinces was based on geographical variation (east, middle, and western regions) and levels of economic development. However, the selection of households was based solely on purposive sampling, and thus the sample cannot be claimed to be statistically representative of China or urban China, but simply provides insight into the types of issues facing such households and their decisions about employment. While the household surveys were conducted exclusively in these three cities, the focus group discussions were also held in suburban districts chosen on suggestions from provincial civil affairs.

Household surveys

In each city, the sample targeted specifically *dibao* households with at least one member who was able to work, and aimed to cover about 10% of the beneficiary households but no more than 1,000 households in each city. Simple random methods were used to select the households. First, a list of urban recipient households was obtained from the local civil affairs bureau and from these were retained in the sampling framework only those households with at least one member aged 20–55 who was able to work. Second, random sampling was used to select the actual sample.

A list of the sampled households was distributed to each community committee or street office, which then informed the household heads of the time for the survey to ensure their availability. If a sampled household was unavailable or unsuitable for interviewing, it was substituted by a neighbouring *dibao* household. Through these procedures, 2,811 households containing 8,191 beneficiaries were obtained that rendered valid responses.

The questionnaires collected some basic information about the households and household members (household roster) and about the receipt of *dibao*. A module captured both simple versions of the income and consumption aggregates, and information about

housing and assets. Moreover, based on the roster, one employed member of the household was interviewed if available, and one unemployed person, the aim being to capture their experiences of work, their search for work, expectations about work and unemployment.

Focus groups

Five focus group discussions were held in each province with participants from: (i) policy makers from civil affairs, poverty alleviation offices, human resource and social security, all of which are major government stakeholders in labour market policy and employment services; (ii) urban programme administrators and frontline workers; (iii) suburban programme administrators and frontline workers; (iv) urban beneficiaries; and (v) suburban beneficiaries.

The focus group with the policy makers aimed at investigating the current policies in supporting the employment of beneficiaries and gathering opinions about possible future policy improvements. The discussions with the administrators also had the objective of clarifying the policies and the role of the employment services, and how to link poverty alleviation policies and social assistance with the increase in the incomes of beneficiaries. The discussions with the beneficiaries concerned employment barriers, attitudes towards work and the use of employment office services.

Main findings

The fundamental criticism that *dibao* is causing welfare dependency is based essentially on two claims, namely that most *dibao* beneficiaries are of working-age and are able to work, and that beneficiaries continue to receive social assistance for many years. The point of departure in the study was therefore to determine to what extent the data show if these claims are true.

Assessing evidence of dependency

A figure often quoted at national level is that 60% of *dibao* beneficiaries are of working-age and able to work. This percentage was measured indirectly based on aggregated statistics. Beneficiaries were divided into five mutually exclusive groups: employed, unemployed (registered and non-registered with the employment service), elderly, students, others. Administrative tables also provided information on the overall number of beneficiaries who had disabilities, but these could belong to any of the above categories.

Based on administrative data from the three cities, two methods were used for estimating the number of

beneficiaries who were able to work: (i) the percentages of *dibao* beneficiaries in each city who were not elderly, disabled or students and were thus able to work; (ii) the sum of the employed and the unemployed who were registered with the employment services divided by the number of *dibao* beneficiaries. While the first approach provides an upper estimate of the percentage of beneficiaries who are able to work, the second can be considered a lower estimate of the number of people able to work. The results are shown in Table 1. Overall, mid-point estimates were not dissimilar to the national figure of 60% of *dibao* beneficiaries considered to be of working-age and able to work.

The sample of beneficiaries focused on households with members of working-age and therefore included only households that had at least one member aged between 20 and 55 years who was either employed or unemployed.

It is important to know the actual characteristics of this specific sample in relation to their possibility to obtain employment. Behind the headline figure of a seemingly high percentage of people of working-age and able to work, we need to better understand the background situation of households receiving *dibao*.

Table 2 shows key percentages among the sample of some 8,200 beneficiaries. We can see how the sample contained relatively few children or elderly people, but also that people of working-age tended to be concentrated primarily in the age group just below retirement age. The latter is considered 55 for women and 60 for men. The percentage of people of working-age was, nevertheless, about 80%.

However, a large majority of people in the age bracket 16–24 were students; overall, about 1 person in 5 among people of working-age was a student. A fairly large percentage of the beneficiaries (11%) also declared themselves to have a disability, and even more (37%) that they suffered from a chronic illness. Therefore, when asked about being able to work, the percentage of persons of working-age who were not studying and were able to work was further reduced. Finally, a good 20% of the persons who were able to work were actually caregivers, either of a child below the age of 16 or a disabled or elderly family member.

Table 1. *Dibao* beneficiaries and their ability to work, 2011.

City	Recipients		Estimates of people able to work (%)
	Households	People	
Jinan	21004	41399	45.8–67.9
Changsha	39773	76989	50.9–71.6
Baotou	29165	60599	44.5–62.1

Source: Administrative data, Ministry of Civil Affairs.

Table 2. Characteristics of *dibao* beneficiaries in our sample.

	City			Total
	Jinan	Changsha	Baotou	
Age group				
<16	10.6	11.5	8.7	10.3
16–24	21.1	17.3	25.2	21.1
25–34	3.8	6.8	3.2	4.6
35–44	21.8	19.6	23.3	21.5
45–54	34.6	33.1	32.7	33.4
>=55	8.3	11.7	7.0	9.0
Working age (16 to pension age)	80.9	78.7	83.8	81.1
Student, among working age	20.3	12.4	24.1	19.0
People with disabilities	15.5	9.9	8.9	11.4
People with chronic illnesses	41.3	35.7	35.0	37.3
Ability to work among working age and not student				
Able to work	59.5	76.2	75.1	70.5
Unable to work, but autonomous in daily living	34.2	20.7	21.7	25.4
Unable to work and dependent on daily living	6.3	3.1	3.2	4.1
Caregivers among able to work	20.2	21.0	18.0	19.7

Source: Household survey of *dibao* beneficiaries, authors' analysis, *N* = 8,188.

The results are summarised in Figure 1, where we can see how the original percentage of people of working-age is reduced after various factors are taken into account – in particular the percentage of those who are studying – and then considering only those who declared themselves able to work, and finally excluding those who faced serious barriers to work.

This situation was confirmed by findings from the focus group discussions with beneficiaries: Most participants reported that they had a heavy burden taking care of family dependents which prevented them from looking for a job or earning a higher income. Indeed, participants in the focus groups reported having family members in need of care in daily life, such as the chronically ill, the elderly, young children and the disabled. Some participants were themselves chronically ill or disabled. Many of them had health problems such as heart disease, high blood pressure, diabetes or psychiatric problems. These conditions limited the kinds of jobs for which they could apply.

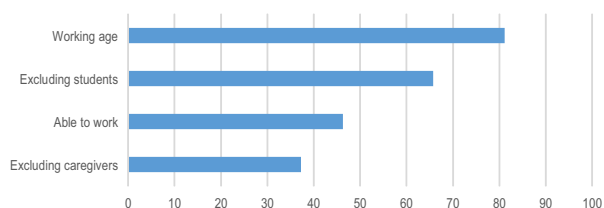


Figure 1. Adjustments to the estimate of people in working age. Source: Household survey of *dibao* beneficiaries, authors' analysis.

Table 3. Years in receipt of *dibao* among current beneficiaries, 2012.

	City			Total
	Jinan	Changsha	Baotou	
Average years	5.7	5.9	4.6	5.4
Less than 1 year	4.7	8.3	7.5	6.9
1–3 years	24.9	19.5	28.5	24.1
4–5 years	25.9	27.5	36.0	29.7
6–10 years	35.9	32.8	23.8	30.9
11 years or more	8.8	11.9	4.1	8.4
Total	100.0	100.0	100.0	100.0

Source: Household survey of *dibao* beneficiaries, authors' analysis, *N* = 2,785.

Therefore, the first conclusion is that even in what should have been a core group of people able to work, the actual percentage of people able to work appeared to be significantly less than 60%, with many facing clear barriers to work and were not in the prime working-age.

Concerning the duration of social assistance, a frequent approach to analysis is to take into account the current beneficiaries of *dibao* and note when they began to receive the assistance. Table 3 reports on such an analysis, obtained from the survey of beneficiaries and using a question posed at household level. We can see that the average number of years of receiving *dibao* was quite high, some 5.4 years (*dibao* was introduced in these three cities in 1999).

However, in many ways statistics of this kind are biased⁴. First, they are based on an incomplete length of time of social assistance receipt, and are therefore likely to be an underestimation of the actual duration of social assistance among current beneficiaries. Second, the statistics do not take into account the dynamics of the households who enter and exit within a short period. Everything else held constant, computing the above statistics in a period of economic recession would presumably result in overestimating the dynamics of social assistance, and in a period of strong economic growth would presumably overestimate the duration of social assistance receipt.

A more accurate analysis would be to consider a specific defined period of entrance in the past and observe what has happened to that cohort. Another more viable approach would be to consider the completed spell of assistance of all those who are in receipt at a certain point in time. Both approaches would capture different aspects of social welfare dynamics. One is the fact that samples of current beneficiaries tend to represent and capture people

⁴ See Bane and Ellwood (1994) for a discussion on the dynamics of assistance with respect to the Aid to Families with Dependent Children in the USA.

who remain in receipt of social assistance for a relatively long time and who receive most of the resources spent for social assistance. The other is that there are other people who enter social assistance and stay for a short period.

Nevertheless, figures reported in Table 3 suggest that for the persons in our sample social assistance receipt tended to be a relatively long experience. Current beneficiaries include many households who entered before 2005 when the restructuring of state-owned enterprises resulted in the lay-off of many employees, which is the reason *dibao* was initiated. Indeed, when asked about the main reason for entering *dibao*, the loss of one's job appears to be the most important cause (56% of all responses); for those who entered the *dibao* system more recently, high medical expenses is a prominent reason (21% of cases). Other reasons include the cost of the children's education, the disability of a family member or other shocks to the family's well-being.

However, Table 3 is unable to tell us how many of those who entered in the initial cohorts are still in receipt. The conclusion remains that such statistics are inadequate for assessing assistance dynamics and that the focus falls inevitably on the percentage of beneficiaries who tend to stay longer in receipt of the benefit. However, to some extent it is within this group that it is important to assess the reasons for remaining in receipt of the benefit to determine whether dependence is an issue. Therefore, we now examine the long-term beneficiaries' work experience and employment.

Employment among *dibao* beneficiaries

Among people of working-age who were not students and were assessed as being able to work, about 60% did declare that they are employed. This is also true for the subset of respondents for which additional questions were asked about their employment (usually the head of the household who was the main respondent; please note that in some households none of the members met the condition of being able to work). As shown in Table 4, the majority were

Table 4. Employment status among main respondents in working age, able to work and not enrolled in school.

Employment status	City			Total
	Jinan	Changsha	Baotou	
Unemployed	36.4	54.7	29.3	40.6
Formally employed	11.0	7.7	3.5	7.3
Informally employed	52.7	37.6	67.2	52.1
Total	100	100	100	100

Source: Household survey of *dibao* beneficiaries, author's analysis, $N = 2,550$.

working in the informal market. The formal sector refers to people receiving contributions from the employer towards a pension and medical insurance, and excludes self-employment. Most of the beneficiaries in the study reported their job situation to be temporary and that the monthly salary was very low, 550 yuan for those informally employed and 800 for the formally employed. The formally employed had substantially higher levels of education.

Among the unemployed, we found a substantially higher percentage of women, of people with chronic illnesses, and of people who self-rated their health status as either poor or very poor. Almost half of the unemployed had lost their job between 1995 and 2004, which was the crucial period when state-owned enterprises underwent restructuring. Company bankruptcy was reported to be the main reason for unemployment, accounting for over a third of the unemployed, followed by voluntary quitting which accounted for a fifth.

Only 35% of the unemployed were registered with the employment office, and a small percentage (12%) reported having received some re-employment training, which half of them considered to be of little help in finding a job. In the focus group discussions, it was also pointed out that there was a lack of coordination between civil affairs (*dibao* administration) and the labour department, and that training provided by the employment offices often failed to target the needs of *dibao* beneficiaries and was therefore largely ineffective.

Finally, it is striking to find that two-thirds of the unemployed reported that during the last period of unemployment they never set out to look for a job. Some 30% did try but failed to find a job, and that just under 5% did find a job but did not take it. Bad health and age were the main reasons given for their failure to find work (70%), followed by low qualification level and skills (19%). The main reasons given for not looking for work at all were health problems (54%) and family situation (the need to take care of dependents, 33%). Many focus group participants also admitted that they had difficulty finding a suitable job because their education and skills did not meet the requirement of the work.

When looking for a job, nearly half of the unemployed respondents (45.7%) reported that the wage level was what concerned them most, followed by the need to obtain a place of work near home in order to take care of family dependents (22.8%), that they would have social insurance coverage (13.8%), that the job would be stable (10.1%) (see Table 5). Focus group discussions confirmed that *dibao* beneficiaries would consider taking a job only if it paid well and the cost of home care was low. They were also unwilling to accept a job with long working

Table 5. Factors considered when looking for a job.

	Most valued when looking for a job		
	First	Second	Third
Wage income	45.7	19.0	16.4
Social insurance coverage	13.8	33.9	14.3
Stability	10.1	21.1	23.7
Work environment	1.7	8.2	8.1
Work is challenging/interesting	1.0	1.9	2.9
Near home, convenient to care of family	22.8	13.4	30.0
Related to skills/qualification	1.4	1.1	2.0
Having a good prospect	0.3	0.7	1.9
Other	3.3	0.6	0.7
Total	100.0	100.0	100.0

Source: Household survey of *dibao* beneficiaries, authors' analysis, $N = 1,003$.

hours or a long commute because this would make it difficult for them to take care of family members. Moreover, the focus group discussions revealed a specific mindset among the beneficiaries in relation to jobs: they tended to regard formal, stable and well-paying jobs as the real 'jobs', and were unwilling to take risks, even when there were local employment opportunities; the *dibao* beneficiaries did not regard flexible employment as 'employment'.

A crucial element that emerged from both the focus group discussions and the analysis of the household survey data is the role played by supplementary assistance, i.e., education assistance (EA), medical financial assistance (MFA) and HA (housing subsidies or cheap rental housing). Although these are not necessarily discontinued if one's income is above the *dibao* line, they are easily obtained when one is in receipt of *dibao*, but require further scrutiny and can be removed if the household is no longer receiving *dibao*. The percentage of *dibao* beneficiaries receiving this extra support in the year preceding the interview is reported in Table 6, where we can see that a good half of *dibao* beneficiaries were receiving at least one form of supplementary assistance. For some of the benefits, in particular MFA, the percentage of actual beneficiaries might underestimate its actual importance as a form of health insurance.

Table 6. *Dibao* beneficiaries and supplementary assistance.

	City			Total
	Jinan	Changsha	Baotou	
Received EA	40.4	7.2	56.6	33.7
Received MFA	7.1	15.9	2.7	8.9
Received HA	12.9	20.9	29.6	21.1
Received EA or MFA or HA	50.7	37.2	69.4	51.9

Source: Household survey of *dibao* beneficiaries, authors' analysis, $N = 2,767$.

There are primarily two conclusions of this analysis: (i) the vast majority of *dibao* beneficiaries are engaged in some form of work, but this is of an informal nature and provides very meagre earnings; (ii) at the same time, *dibao* beneficiaries appear to experience large employment barriers related to health problems and family needs.

The possible role of financial incentives

It is important to note that under the *dibao* design, entitlement is a function of household income. Eligible households might have distorted financial incentives to earn an income through employment because whatever is earned and remains under the *dibao* line is effectively lost in terms of a reduction of *dibao* entitlement, which is equivalent to being subject to a 100% tax on earned income. Only when employment income takes the household above the *dibao* line does the household regard its income situation as improved. In this scenario, in order to create incentives to take up work, a possible solution is to introduce an 'income disregard', so that in the calculation of the entitlement to *dibao*, part of the employment income is excluded from the calculation. Further, if people did take up jobs, their effective income could rise above the *dibao* line, but they would still receive assistance.

To assess financial incentives to work, it is possible to compute what the literature calls 'replacement rates', i.e., the percentage of income that is not employment income over income that includes employment income. In theory, replacement rates for *dibao* beneficiaries who take up and declare employment should be 100%. These rates can be calculated as a simulation exercise in our sample of households to see what are the average rates faced by households, assuming that people can take up a job, and to formulate various hypotheses on wage levels. However, if we consider the level of benefits usually associated with *dibao* (EA, MFA and HA), we see that replacement rates might even be above 100%.

To calculate replacement rates, we considered only those cases where at least one person in the household was engaged in work activities. In general, since all households in our sample were receiving *dibao*, replacement rates were close to 100, but there were examples where this was not the case. In 22% of the cases where households had employment income, this appears to have been under-reported so that the family could continue to receive *dibao*, since their replacement rate, without or with supplementary benefits, would have been around 67 or 76% (see Table 7), respectively. It is important to note that 70% of such cases occurred in Changsha, while 21% of the remaining cases occurred in Jinan and 9% in Baotou.

Table 7. Replacement rates for households with work income, 2012.

Work income (yuan per month)	Overall			Rate < 100		
	Only Dibao	Dibao + EA, MFA, HA	No. of obs.	Only Dibao	Dibao + EA, MFA, HA	No. of obs.
<500	99.6	109.3	494	81.7	96.4	10
500–1000	96.9	107.1	904	73.5	87.1	105
>=1000	77.8	86.8	494	63.8	72.0	303
Total	92.6	102.4	1,892	66.7	76.4	418

Source: Household survey of *dibao* beneficiaries, authors' analysis.

We then took a further step and attempted to simulate what would be the replacement rates of households with people who were unemployed but potentially able to work (of working-age and able to work) if they were to take up employment and receive a salary of either 500 yuan per month or 1,000 yuan per month. This exercise showed that replacement rates would have remained at a very high level for a salary of 500 yuan, but also for a salary of 1,000 yuan if one person per household entered employment (see Table 8). Replacement rates would be even higher if we considered only households where no member was already employed. Indeed, the median expected income reported by unemployed persons as the required income to take up a job is 1,500 yuan per month, and at this salary level replacement rates would reach about 50–60%.

These results suggest some important implications:

1. A substantial number of households are under-reporting their work income, by which is meant temporary work of an informal nature and with no social security.
2. Many *dibao* beneficiaries are currently engaged in work activities, but the form of the activity is limited and there do not seem to be any financial incentives to progress; indeed, even the work that is performed is not easily explained from a purely financial point

Table 8. Simulated replacement rates for unemployed people able to work, 2012.

No. of unemployed	Salary = 500			Salary = 1000		
	Only Dibao	Dibao + EA, MFA, HA	No. of obs.	Only Dibao	Dibao + EA, MFA, HA	No. of obs.
One	89.4	99.2	868	75.5	83.5	868
Two	87.5	94.4	149	53.3	57.4	149
Three	71.7	81.9	13	39.2	44.6	13
Total	88.9	98.3	1,030	71.8	79.3	1,030

Source: Household survey of *dibao* beneficiaries, authors' analysis.

of view, but is probably the result of 'assumed income' or some enforcement measure to maintain receipt of *dibao* (forms of public work programmes)

The informal nature of the work was also confirmed by beneficiaries in the focus group interviews, where people declared finding jobs through friends or relatives, but not reporting it to the residential committee. This is because, on the one hand, they did not regard such jobs as work, and on the other hand, such jobs were usually available on a temporary basis only.

Although the above calculations should not overlook the barriers to work for many *dibao* beneficiaries, as demonstrated in the previous section, it is likely that introducing some form of income disregard would encourage some of groups of beneficiaries to make the transition to work.

Conclusion and policy implications

The above findings show that *dibao* beneficiaries have multiple barriers to exiting benefits through employment. They are generally disadvantaged in the labour market in terms of human capital. Nearly half of the study sample were approaching retirement age and were chronically ill. A family caregiving burden was also a constraining factor for many of them, particularly women, to find a job or earn a higher income. Many participants reported that they had a heavy burden in taking care of dependents in the family including the chronically ill, the elderly, young children and the disabled. These conditions had limited the kinds of jobs to which they could apply.

The analysis also shows that the issue of welfare dependency has been overstated. Some of the long-term beneficiaries are linked to a specific period of economic reform in China when there were massive lay-offs from state-owned enterprises, and *dibao* was set up mainly to protect their needs. Those who have entered *dibao* more recently report high medical expenses, the cost of children's education or disability of family members and other shocks to the family's well-being. Most *dibao* beneficiaries are engaged in informal jobs which provide very low wages, and many of them have employment barriers related to health problems and family needs.

It is obvious that social assistance policies have not provided sufficient support and incentives for *dibao* households to make a voluntary move from welfare to work. Several factors account for this situation. First, lack of coordination between *dibao* cash assistance and employment services have led to difficulties to provide a benefit regime that could properly balance adequacy and incentives for work. The civil

affairs department is responsible for administering *dibao*, but it has neither the mandate nor the capacity to provide services for beneficiaries beyond paying cash benefits. The human resources and social security department addresses unemployment, but its target group includes all unemployed people. In practice, neither of the two departments has the incentives for promoting the employment of *dibao* beneficiaries, which results in a de facto absence of, or ineffectiveness in, employment services for beneficiaries. Second, the financing methods of *dibao* have also contributed to the lack of proper employment services for beneficiaries. Currently, central transfers are input-based. Localities with more beneficiaries receive more funding from the central government. This has created disincentives for local governments to take more active measures to reduce caseloads, such as through the provision of employment support services. Finally, the absence of universally accessible basic social services that could benefit a wider segment of the population, including households with incomes higher than the eligibility level for *dibao*, has tended to make benefit receipt a win–lose game. This has led to the widely held opinion that the tied benefits are a disincentive for beneficiaries to work and exit *dibao*.

To address some of the existing issues of dependency, there is a need for multiple approaches. First, employment services specific to *dibao* beneficiaries should be strengthened. Regulatory changes should be made to include employment promotion and services as an integral part of social assistance efforts for those *dibao* beneficiaries who are able to work. To implement this measure, adequate administrative resources should be arranged, including personnel and funds for delivering the services. Within the civil affairs department, a service delivery mechanism could be set up to enable it to purchase services from NGOs or other government departments or agencies in order to provide employment services for *dibao* beneficiaries. More importantly, the central government should adopt a performance-based funding mechanism based on the achievement of desired results. Beneficiaries finding and maintaining remunerable jobs in the labour market through the employment service should become an indicator for evaluating the performance of local social assistance programmes. This would provide strong incentives for them to make an effort to improve both the design and operation of *dibao* in order to achieve results. Some measurable standards, such as beneficiaries graduating to employment, could be used as the basis for allocating funds. This would encourage the provision of services for applicants and beneficiaries, which is important for achieving the poverty-alleviation purpose of *dibao*.

Second, social assistance policies should also adopt financial incentives through income-disregard

measures. This would create positive incentives for *dibao* beneficiaries to move into jobs and exit benefits. To achieve this goal, it is crucial to implement policies with positive incentives whereby *dibao* households or beneficiaries would not reduce their well-being if they made a move from *dibao* to employment. In other words, beneficiaries' living standard would be better if they had an income from employment than if they continued to live on welfare benefits. Currently, many localities have adopted benefit reduction policies over three to six months, but this is not enough. Follow-up services should be provided for people after they exit benefits and until they can be established in the labour market. Finally, the supplementary benefits of MFA, EA and HA should be extended to low-income households with children, elderly people and people with disabilities or a chronic illness, making it less necessary for them to apply for *dibao*.

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