

Chapter VII Welfare, Insecurity and the Failure of Public Provision in Rural China

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1. Introduction

Increasingly there is talk of simmering ‘crisis’ in rural China. Almost daily reports surface of peasant protest, resistance and unrest, at times escalating to violence. Analysts talk of a crisis in ‘governance’ as perceptions of corruption, distrust and suspicion between farmers and the state worsen, and of a ‘fiscal’ crisis as local governments are increasingly unable to meet basic wage bills let alone provide services to farmers. Dealing with these manifestations of what is referred to as the ‘three rural problems’ (*sannong wenti*) was declared to be a major priority of the current leadership when it came to power. The ‘Number 1 document’ of February 2004 was a major policy statement of the government’s intent.¹ The goal of raising farmers’ incomes is to be achieved principally by reducing the ‘burden’ of fees and taxation, increasing fiscal transfers and direct subsidies, and facilitating migration for employment. A longer term strategy involves speeding the pace of urbanisation and industrialisation, reducing the population in rural areas from the current rate of 55% to 40% by 2020.²

Policy interventions have helped in the short term to raise farmers’ incomes and reduce the burden of taxation. They appear however to have had less visible impact in terms of resolving expressions of dissatisfaction with government, or alleviating protest over livelihood insecurity. Key sources of protest, for example, over land allocation or alienation, unjust impositions, or against corruption and intimidation by officials, far from being resolved, have instead been met in some cases with a growing degree of intolerance, a tightening of restrictions on media reporting, and increasing pressure on potential ‘trouble makers’—whether farmers or those who speak out on their behalf.

Closely linked to the fiscal and local government ‘crises’ are concerns over the collapse in public goods provision in rural areas. The decline of collective provision of even minimal public goods and services, including basic infrastructure, health and education, has been widely discussed in the literature.³ The creeping commercialisation and privatisation that started during the 1980s resulted by the 1990s in basic health and education being paid for principally through user fees directly imposed on households. The decentralisation and tax reforms of the mid-90s devolved further expenditure responsibilities to local governments—and thus ultimately to farmers—

for financing basic infrastructure and its maintenance. Public investments in such goods can make an important contribution to the livelihood security and welfare of rural households, strengthen market access and promote economic and income generating opportunities. By contrast, the decline in public investments potentially undermines longer term developmental and poverty reduction capacities for households and localities, particularly through declining access to and quality of basic education and health care. It also exacerbates inequalities, between those localities that can afford to invest, and those that cannot.

In this paper, I focus on one set of issues, closely linked to those mentioned above: the insecurity of livelihoods for rural households, and the vulnerability of the rural population to livelihood shocks, exacerbated by the collapse in public goods provision. The paper examines household welfare needs and insecurity as an essential but neglected underpinning of the current rural problems. Using household data and fieldwork undertaken principally in 1997-8⁴ which explored the changing nature of rural household insecurity arising during the transition to a market economy, I describe the welfare needs of rural households, the ways in which these are being met; household expectations of assistance from the state, and state responses.

Government approaches to rural welfare over the past two decades illustrate ways in which interventions may shape, resolve or indeed exacerbate livelihood insecurity for rural households. The analysis highlights a number of 'gaps'—between the needs of rural households and the provision of goods and services; between perceptions or definitions of the problem of insecurity by government and farmers; and between the problem and solutions being provided. It illuminates one of a range of underlying factors contributing to the current 'crisis' and assesses the extent to which new interventions are capable of resolving rural welfare problems or containing social dissatisfaction.

2. Insecurity and Welfare—How Rural Households Meet Basic Needs

China's gradual process of market reform has for many been a transition to greater insecurity. Rapid growth has provided wide-ranging benefits to the majority of the population; but reforms have eroded the collective institutions of the planned economy that formerly afforded some welfare guarantees and protections against market-related risk and vulnerability. Prior institutional arrangements that ensured a more equitable distribution of resources (albeit at low levels), and mitigated risk to individuals, have been dismantled or collapsed. The worsening distribution of income, as well as access to economic and social opportunities and public goods and services is changing the configuration of welfare related need and provision.

Rural households cope with insecurity, and respond to shocks to their livelihood, through a range of mechanisms and institutions—formal and informal. Many

of these have been eroded in the process of rapid economic transformation and a changing policy environment. The capability of rural households to achieve security depends on the policies and institutions that both structure their access to resources (productive assets, natural, human and social capital), and determine the choice of strategy or response (for example, diversification or intensification of production, and migration).⁵ While research exists on many of these ‘strategies’, we have limited understanding of the real choices or tradeoffs that rural households and individuals make between alternative options, of the risks and uncertainty they face, and how they assess these.

Data from household surveys and interviews described below provide some insight into the resources and mechanisms that rural households draw on in attempting to meet their welfare ‘needs’. The data highlight the gap between needs and provision—whether by the state, or other public or collective institutions, through the market, or with informal and family ‘self’-provisioning arrangements. They also illustrate the mismatch (described in the following section) between government perceptions of the problem of rural welfare and insecurity and the experience of rural households, and consequently the limitations of policy responses.

2.1. Household Livelihoods in Four Counties

Households in the sample were randomly selected from villages in four counties, located in regions with different levels of socio-economic development—the east coast province of Shandong, a relatively fast growing region, the central province of Hubei, and Guizhou in the south west - one of China’s poorest provinces. Four counties or (county level cities) were purposively selected—Jiaozhou city in Qingdao, Shandong Province, Tianmen city and Enshi autonomous district in Hubei Province, and Zunyi county in Guizhou Province. Of these, the two counties in Hubei (the ‘middle income’ province) included Tianmen, which is above average in terms of income and other key indicators, and Enshi which is below average. These two counties fall between Jiaozhou and Zunyi in terms of socio-economic indicators. However, the poorest villages in Enshi were comparable if not poorer than those in Zunyi—a relatively wealthy area of Guizhou. Within Guizhou and Shandong we avoided the poorest / richest counties where we would expect to find (in the poorest) very little income differentiation or collective welfare provision, and (in the wealthiest) a strong capacity to self-insure or to finance welfare needs. It is important to note, therefore, that the results presented here do not describe the full range of variation to be found within China; in particular, we do not investigate either the most developed or the least developed regions. Within each county, two or three townships representing the poor, medium and better off areas were selected, and within these, villages with average levels of income were chosen from which 20–25 households were randomly sampled.

Table 1 Background data on four counties, 1997

Province	Qingdao*	Hubei	Hubei	Guizhou
<i>County or county level city</i>	<i>Jiaozhou</i>	<i>Tianmen</i>	<i>Enshi</i>	<i>Zunyi</i>
Population of county (persons)	746903	1669700	764700	1374587
Of which rural (%)	82.4	78.7	81.9	92.4
Number of townships	17	18	22	38
No. of village committees	813	786	585	679
Labour force (persons)	490000	720777	299300	692973
Of which: Primary industry (%)	30.6	40.6	78.5	86.5
Secondary industry (%)	38.8	16.8	9.9	4.5
Tertiary industry (%)	30.6	42.6	11.6	9.0
Rural output value (0,000 yuan)	775000	439221	181803	391000
Of which: Primary (%)	19.6	n/a	70.8	44
Secondary (%)	50.5		17.6	30.4
Tertiary (%)	29.9		11.6	25.6
Rural household pc income (yuan)	2657	2321	1388	1830

Source: County governments.

*Qingdao is located in Shandong Province, but is a municipality with special administrative autonomy and is equivalent to a provincial level unit for data collection.

Table 1 presents some key county level indicators. Jiaozhou is a wealthy, industrialised area, with good export opportunities where market gardening has developed in recent years. The region has strong collective institutions and relatively good welfare provision, including mechanisms for elderly care. Some urban relief programs were being expanded to cover the rural population. In Hubei province, Tianmen is a rich agricultural area but high levels of taxation and limited diversification into non-agricultural activities has hampered economic development. Tensions between farmers and officials over the high levels of agricultural taxation and fees were particularly evident. Enshi by contrast is a mountainous, poor area, with little irrigation. In some villages, tobacco is a major cash crop but the monopolistic procurement system makes it unprofitable for most farmers. One township in the survey was industrialised; the remainder depended on agriculture and livestock (mainly pigs). The townships in Zunyi county varied from one industrialised suburban 'village' to more characteristic mountain villages with poor agricultural conditions, limited infrastructure and households which were vulnerable to natural disasters (such as heavy rain causing landslides and erosion on steep hillsides) in addition to other risks.

Labour and land are the most fundamental resources in the construction of rural livelihood security. Land entitlement (through collective allocation) in theory provides a safety net which ensures a basic subsistence guarantee to farmers, thus eliminating the need for formal social security mechanisms. However, there are signifi-

cant and growing inequalities in the distribution of land. In principle allocated on a per capita basis, redistribution is increasingly less frequent particularly in land scarce areas. The government's land policy aims to increase security of tenure through longer term (30 year) contracts in order to provide incentives for investment. The implication however is that land will increasingly be unavailable to redistribute to those who require land. In recent years the alienation of land due to industrial and infrastructure development (with inadequate compensation) has become a major cause of new rural problems. In the past year estimates of landlessness have risen dramatically: although the basis for the figures is unclear, they now range from 40 to 60 million. Land disputes are cited by official reports as the major cause of complaints (through visits and petitions) to the government, and an underlying cause of much rural unrest, and are now viewed as the key rural problem.⁶

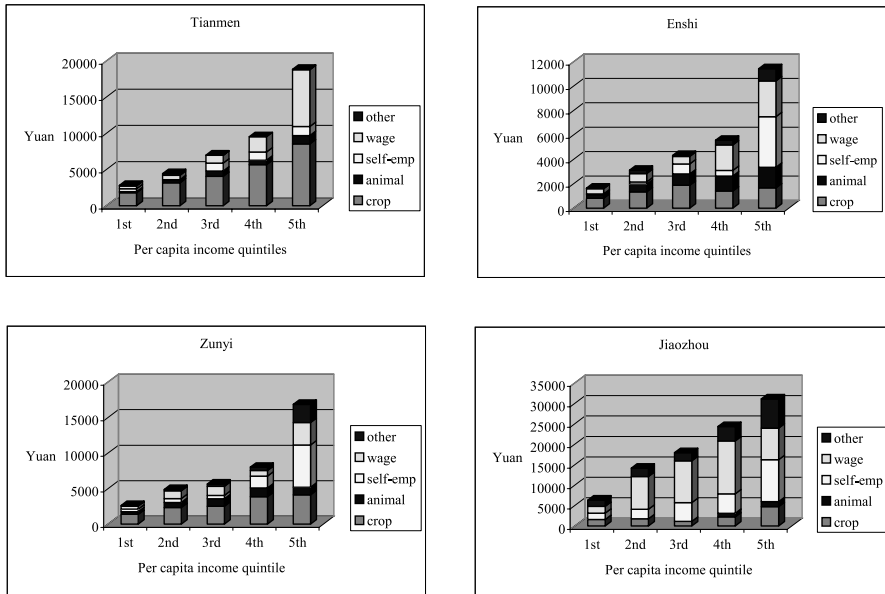
The erosion of relatively equal land distribution varies according to the land-population ratio. In land scarce villages such as those in Zunyi, there has often been no redistribution since the early 1980s, and many households already have insufficient land to meet basic subsistence. By contrast, in land rich Tianmen, households have at times been unable to relinquish land, remaining responsible for related tax obligations. Until the recent reforms of the tax system, high levels of fees and taxes levied on agriculture (often on a per *mu* basis), together with falling prices has made agriculture a relatively unattractive occupation in such areas. In the absence of alternative village and township revenues, however, the collective relied on fees and levies from land to cover administrative costs and basic service or infrastructure provision. Recent reforms have reduced fees and taxes, and increased incomes. The current plan for the elimination of the agricultural tax prioritises such key grain producing regions with a more rapid reduction of the agricultural tax, and higher subsidies. The extent to which transfers and subsidies will compensate for the loss of local revenues remains in question.

Apart from land, housing is a major asset, as well as the location of productive economic activity, and new housing represents a major investment for households.⁷ In the surveyed households, measures of housing quality were closely correlated with ownership of other assets or consumer durables: households with the poorest quality housing had few if any consumer products, and limited productive assets. This pattern was further reflected in household expenditure patterns (described below). The ability to save, invest and accumulate such assets is thus an important indicator of both past and current well-being and of household ability to cope with livelihood shocks.

Income provides some indication of household livelihood security despite its limitations as a more general measure of poverty or well-being. When correlated with other data, it helps in assessing the capacity of households to withstand regular or moderate shocks. At given income levels, however, sources of income provide a better measure of resilience to shocks, with income from relatively secure or stable

forms of employment, and diversification of income sources, indicating greater resilience. Major income sources include agricultural, household self-employment, wage, transfers or remittances and other unearned income, such as rent. Variation in sources within the sample occurs mainly between counties, although within counties disparities exist particularly between the urbanised townships close to county seats and more remote rural areas (see Figure 1). This distinction accounts in particular for the large difference between quintiles in Zunyi. In general in the poorest areas, the opportunities for diversification into employment that would provide a more secure

Figure 1 Source of household income by quintile



portfolio of income sources are most restricted.

2.2. How Households Manage Insecurity

Expenditure patterns of households, and the share of income used on different types of expenditures, provide a picture of a household’s ability to meet regular or unexpected outlays, and their adaptability or resilience in the face of shocks. Three main components of household expenditure are described: general expenditures on necessary daily consumption (food, clothing); welfare or ‘social’ expenditures (such as health care and education), and large (often unanticipated) expenditures, some of which are made in response to sudden shocks. Expenditures also reveal the capacity

of households to invest in longer term security, for example through the accumulation of assets and human capital, and insurance. Basic expenditures including food, clothing, daily use items and fuel were relatively consistent as a share of expenditure, although in absolute terms were highest in Jiaozhou. Food accounted for around 50% of household reported expenditures in all counties, and did not vary significantly by quintile; the highest level was around 60% for the lowest income quintile in Enshi and Zunyi.

Categories of expenditures relating to the welfare of household members, such as health, education and elderly support, together form a major part of household budgets. The trend of privatisation in the provision of such goods and services, through user fees and market mechanisms, places a major burden on poorer households and regions. The share spent on health and education decreased in the wealthiest county, Jiaozhou, with only elderly care expenditures increasing both in absolute and proportional terms. The share of education expenses on average ranged from over 7–9% in most of the survey counties to over 20% in Tianmen; for households with students the share was much higher—35% of income in Tianmen, 21% in Enshi, 12% in Zunyi, and 19% in Jiaozhou. Within counties, the share of income spent on education increased among the lower income groups.

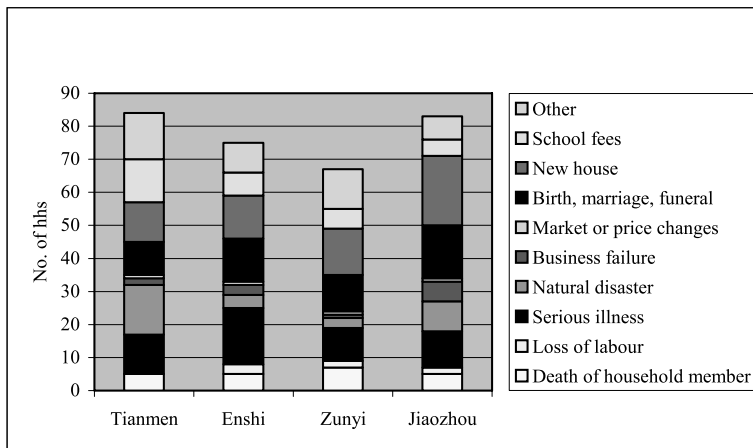
Expenditures on health care varied significantly among the four counties. The average cost of medical fees per household ranged from 376 yuan in Zunyi to 696 yuan in Jiaozhou. The share of health expenditures in total income varied from 13.8% in Enshi, 9.6% in Tianmen, 6.9% in Zunyi and 5.3% in Jiaozhou, although with large variation among households. Nine households spent over 50% of their income on health care in 1997, of which two were in Tianmen, four in Enshi, two in Zunyi and one in Jiaozhou⁸; for three of these households, health care costs exceeded 100% of annual household income. Excluding those with extra large expenses for accidents or catastrophic health expenditures, the absolute amounts spent on routine health care differed between income quintiles, and as a share of income were highest in the lower income groups. While some assistance is in theory available for poor households, few households in the survey received any fee reductions or assistance. Some villages have schemes to waive registration fees and costs for injections, often through a cooperative medical scheme, but these schemes did not cover large expenditures or hospital visits. In the survey only two households report assistance with health costs, but for small amounts—50 and 60 yuan in Tianmen and Zunyi respectively.

Elderly care has become a major policy concern in the light of China's family planning policies, declining family size and greater population mobility—factors which are assumed to undermine the capacity of the family to care for the elderly. In terms of expenditures on the elderly, regular costs are relatively small—and a declining share of income in wealthier areas. These figures probably underestimate the true cost, as everyday consumption within the household is hard to separate out, but on the other hand the elderly also make a contribution to households in terms of

productive labour, child care and housework. Major costs are associated with illness and funeral expenses, and as with other large expenditures, these can threaten a household's economic well-being. Of the elderly residents in surveyed households, only 26 have any type of medical benefit or insurance, of whom 17 are in Jiaozhou. Only 44 receive a pension, of whom 29 are in Jiaozhou. For the majority of elderly, the immediate family is therefore the primary means of support, with more formal mechanisms of provision developing in wealthier areas.

In addition to the routine or anticipated expenditures discussed above, households face much larger demands on their resources in the event of emergencies, shocks or difficulties. Some large expenditures can be anticipated, such as family events (particularly marriages) and house building or repairs, although a household's capacity to prepare adequately may be limited. Other events are uncertain—ill-health, accident, death, loss of labour, business failure or natural disaster (see Figure 2). Between 1995 and 1997, 231 households (57.61%) encountered at least one difficulty, and 10 households reported 3 such events—3 in Tianmen, 4 in Enshi, 1 in Zunyi, and 2 in Jiaozhou. One household in Enshi, for example, first faced costs associated with the death of a household member, then had to borrow money to pay

Figure 2 Type of difficulties by county



school fees, and also faced relatively large costs for house repairs. In responding to such events, households were faced with expenditures which were in some cases several times annual household income.

While the precise cost of responding to such events in monetary terms is difficult to estimate, the expenditures reported provide some indication of the capacity of households to cope. Expenditures did not vary significantly between Tianmen, Enshi, and Zunyi, but are considerably higher in Jiaozhou—reflecting higher prices,

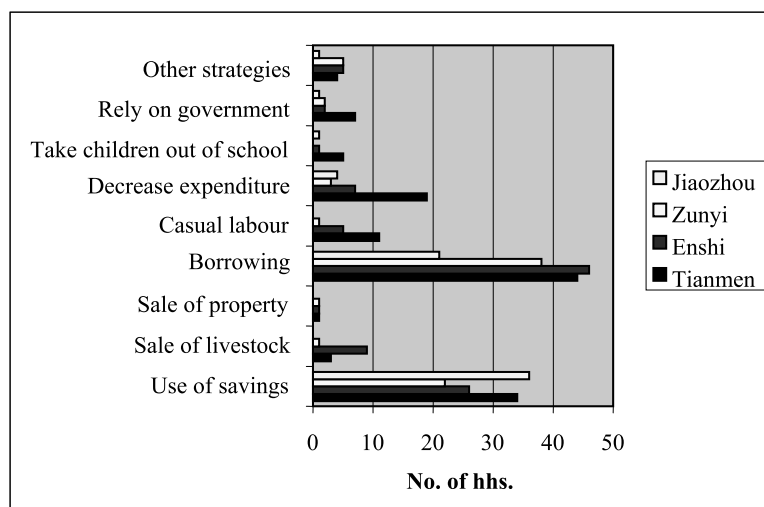
Table 2 Expenditures on events and difficulties

Yuan	Tianmen	Enshi	Zunyi	Jiaozhou
< 800	13	18	10	6
800–2000	18	25	18	11
2000–5000	20	20	13	14
5000–10,000	9	7	9	11
> 10,000	14	3	5	36
<i>Total number</i>	<i>74</i>	<i>73</i>	<i>55</i>	<i>78</i>

incomes and the ability to pay (Table 2). Almost half (46%) of households in Jiaozhou spend over 10,000 yuan per episode, whereas in Tianmen this number is 19%, in Zunyi 9% and in Enshi only 4%. Most of the large expenditures (over 5,000 yuan) were for housing and marriage, except in Tianmen where school tuition fees were a heavy burden on households.

Few rural households are able to protect themselves fully against contingencies in advance through their own savings or insurance. The range of responses or coping strategies is illustrated in Figure 3. As we would expect, households sell their productive assets or property only as a last resort. First they tend to use savings or borrow; they then decrease household expenditures and try to increase incomes through additional employment, usually as casual labour. In the case of Enshi, where pig rearing is common, sale of pigs was an important part of a response. Withdrawing children from school also occurs, with children being withdrawn from primary school

Figure 3 Household responses to difficulties



in poorer areas to reduce costs or due to inability to pay. Out of a total of 443 'events' that households encountered, in 183 cases (41.3%) households borrowed money or goods; in 145 cases (32.7%) they first used their own savings; 41 households (9.2%) reported reducing their expenditure, and 20 (4.5%) finding work as casual labour to increase their income. In only a few cases (11 times) did respondents receive help from the government.

Breaking down coping strategies by income quintile illustrates the different options pursued by households at different levels of income. In the lowest quintile borrowing predominated as the key response (65–100% of households). Use of savings was reported by only 5–23% of households in this income group, but increased to between 50 and 75% of households in the middle income group. Taking children out of school was reported only by the lowest income group, except in Tianmen where cases also occurred in the top two income quintiles. Sales of property other than livestock tend to occur only in the lowest two quintiles.

Borrowing emerges as a particularly important mechanism for smoothing income and consumption, and for engaging in and maintaining social networks or 'social capital' that can be drawn on in times of difficulty. The percentage of households that borrow varied significantly, with only 21% of households in Jiaozhou reporting borrowing, compared with over 50% elsewhere. While the majority of households borrowed three or fewer times, households in the poorer counties were more likely to borrow smaller amounts more frequently, suggesting a greater dependence on borrowing for meeting livelihood needs (Table 3). Borrowing declined among higher income groups, and in wealthy areas such as Nanbai and parts of Jiaozhou—although loans when taken in these areas were much larger. Borrowing was mainly from relatives (particularly immediate family) and friends. In 273 reported occurrences, help was received from close relatives (defined as siblings, spouse's siblings, parents, spouse's parents, and own children) in 178 cases (65.2%); friends in 42% of cases, from other relatives (18%), from the collective or local gov-

Table 3 Average amount (yuan) borrowed by source

	Tianmen		Enshi		Zunyi		Jiaozhou	
	No. of hhs	Average amount	No. of hhs	Average amount	No. of hhs	Average amount	No. of hhs	Average amount
Bank	10	910	16	938	6	6983	3	36833
Credit association	0	0	0	0	0	0	1	55000
Other organization	0	0	0	0	1	4000	0	0
Close relative	47	2012	46	1298	43	1467	20	9925
Other relative	9	972	15	1189	13	1261	0	0
Friend	5	3060	13	1074	8	8746	3	5100
Village	5	1570	8	561	10	459	4	1162
Other	3	2233	3	146	6	1567	3	34833

ernment (14%), and 14% from other sources (including banks and credit associations).

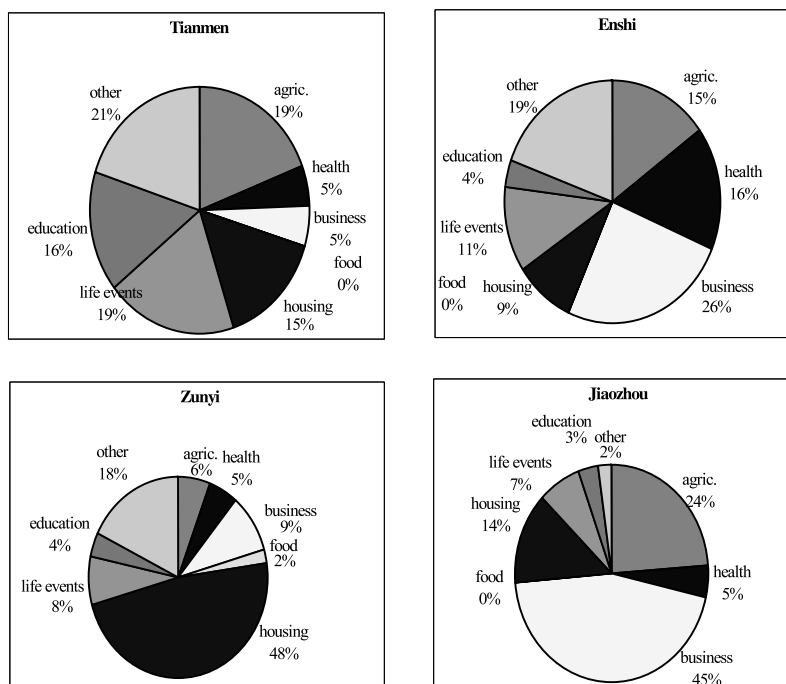
Reasons for borrowing varied across regions, reflecting the wider economic environment as well as the vulnerability of households and their capacity to cope (see Table 4 and Figure 4). Borrowing on education was highest in Tianmen (16%),

Table 4 Average amount borrowed by reason

	Tianmen		Enshi		Zunyi		Jiaozhou	
	Obs	Mean	Obs	Mean	Obs	Mean	Obs	Mean
Agriculture	20	1412	29	509	19	453	2	43900
Health	7	1107	15	1071	7	1090	7	8500
Enterprise	2	4000	6	4133	4	3400	6	27633
Food	0	0	0	0	7	490	1	500
Housing	6	3791	7	1228	13	5303	6	8341
Family events*	10	2810	10	1120	6	1941	4	6500
Education	15	1546	9	404	8	700	4	3200
Other	14	2125	15	1261	13	1973	3	2667

*This refers to 'hongbaixishi' — expenditures for events such as births, marriages and funerals.

Figure 4 Reasons for household borrowing



the region with highest tuition costs, whereas in Enshi this share of borrowing went to health care. Business loans predominated in Jiaozhou (45%), while in Tianmen and Enshi a significant share went to agricultural production (19% and 15% respectively). Housing and family events were also major reasons for borrowing in most counties.

Although savings data rarely provide a complete picture of household savings particularly in wealthy areas, the data collected are consistent with the picture that emerges from the analysis of borrowing. In poorer townships such as Qilipin (Enshi) and Mati (Zunyi) reported savings were close to zero; by contrast households in Nanbai and Jiaodong reported savings averaging 5000 to 7000 yuan while households elsewhere in Jiaozhou reported savings of around 20,000 yuan. In addition, whereas low income households in Guizhou faced food insecurity at times during the year, households in Jiaozhou reported stocks of grain sufficient for up to three years. A general pattern thus emerges of asset and wealth accumulation that provides significant security against livelihood shocks among the more economically developed regions and wealthier households; and pervasive insecurity with little if any buffer against shocks among the poorest households.

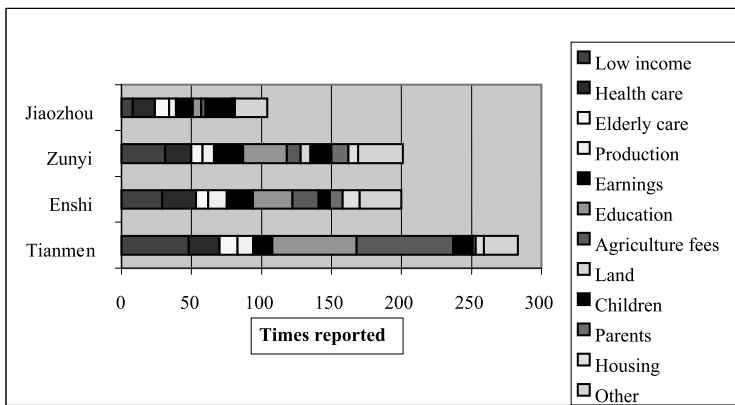
Social networks are made and maintained through smaller and more regular interactions, and are essential for households at times of larger emergencies. Such interactions can include loans, transfers or gifts in cash and kind, labour exchange or other forms of assistance, and provision of information. In the case of Tianmen, most transfers (whether in or out) were monetary, and went primarily to relatives followed by friends, for specific events such as births, weddings and funerals, or for establishing and maintaining personal relationships. In the majority of cases, households reported that those who gave or received were better off or as well off as themselves. Of 50 transfers out, only 9 were to households reported as being less well off, while only 1 of 11 transfers in was reported as coming from such a household. This pattern suggests that networks are maintained principally among households of similar economic status—thereby excluding the poorest and often most vulnerable.

The data illustrate how, in dealing with difficulties, households rely principally on their own resources and networks, with little access to formal social welfare provision. Formal and semi-formal sources of support in theory include social assistance and relief, and reduction of school fees or medical expenses in the case of hardship. Other assistance may come through poverty reduction and mutual assistance organisations. Support from such sources, however, was rare. In practice, social assistance in rural areas is *ad hoc*, irregular and dependent on the decisions of local cadres and the availability of resources. Often it involves small transfers in cash or kind at Chinese New Year to households in extreme poverty, and is thus of little assistance in the event of significant livelihood shocks. Only in wealthier areas do local governments have the resources to provide more regular support. In the survey, 77 households (19%) had received some formal support in the preceding two years—35 in Jiaozhou, 29 in Tianmen, but only 9 in Enshi and 4 in Zunyi. The amounts received

were small: only 9 households received over 100 yuan in 1996, and 14 households in 1997. Of households receiving more than 1000 yuan, all were in Jiaozhou, except for one in Tianmen. In Jiaozhou, two households received more than 4800 yuan in both 1996 and 1997.

Key concerns reported by households are consistent with the picture already developed from household expenditures and difficulties: low levels of income, school fees, agricultural fees and taxes or levies, the future of their children and medical costs (see Figure 5). These concerns reflect specific characteristics of households, for example demographic composition, as well as the wider environment, for example particularly high levels of tuition and collective fees and levies in Tianmen, where the major concerns were school fees (for 60% of households) and agricultural fees (69% of households). In Zunyi, the principal concern was lack of land. In Jiaozhou, by contrast, only 1 household reported being concerned about low income and many households reported having no concerns. Out of 100 households, only 54 households responded to having any worries compared with Tianmen (98), Enshi (87), and Zunyi (88). Responses to a question about the general concerns of villagers were relatively

Figure 5 Household concerns



uniform within villages, reflecting the general nature of the concerns. Elderly care emerged more prominently in Jiaozhou, whereas education was more important in other areas.

Respondents were also asked whom they thought should be primarily responsible for meeting needs or addressing these concerns. In the majority of cases, they viewed the family as having principal responsibility for meeting needs, but that the government (township and above) should step in when households are unable to meet their needs or cope with difficulties. In the absence of access to formal social secu-

rity, and with limited expectations of the state as a provider, households describe the responsibility of the collective and state as limited to providing assistance to destitute households and those with no alternative sources of support, or to households affected by natural disasters or other shocks. Perhaps more importantly, they saw the role of government as being to provide a supportive environment within which they can generate incomes, accumulate and invest, in order to create greater security for themselves. They identify relevant policy areas to include agricultural procurement and pricing policies; reduction in the burden of taxes, fees and levies; containing the costs of health and education; and not adding additional compulsory contributions such as pension or insurance plans. These fees and impositions were repeatedly regarded as undermining the household's ability to meet its own needs.

3. Policies and Interventions: Securing Livelihoods or Increasing Insecurity?

3.1. Gaps in Provision and Finance

The responsibility for welfare provision, as with other public goods and services, has been fundamentally affected by the decentralisation of expenditure responsibilities to the local level. The village committee and township government are primarily responsible for welfare provision and financing. The capacity to develop local welfare services thus depends on both the ability to raise and control resources, and the willingness to finance such provision. During the 1990s, a growing literature on rural China described the 'local state' variously as developmental, corporatist and entrepreneurial. With the rapid growth of TVEs and wealth generation by entrepreneurial local governments, China appeared to some to have found a new 'local developmental state' model. Within these local states, welfare provision was often collectively provided through redistributive mechanisms, employment creation and the expansion of economic opportunity facilitated by public investments. Early work on TVEs, for example, noted the dilemma faced by local officials wanting to be both successful businessmen as well as good government officials responsible for village welfare (Byrd and Lin 1990). As TVEs faltered, growth in agricultural incomes stagnated, and more unfunded mandates were passed to the local level, only the wealthier townships and villages (largely in the coastal provinces) could continue to be 'developmental' in this way. Many more became principally extractive agencies concerned with raising revenues to meet basic government expenses. Even the principal agency responsible for rural relief and social assistance—the Ministry of Civil Affairs (MOCA)—pursued policies for social welfare that increased its extractive or revenue raising capacity.

The role of the state in direct provision or financing declined steadily from 1978. Following decollectivisation, the central government defined its responsibilities

towards the rural population as limited to minimal forms of relief and assistance to the very poor and destitute, to specific vulnerable or deserving groups, and to those affected by natural disasters. The main policies for social assistance were defined by the central government, but provision was increasingly devolved to 'society'—including local communities, mass organisations, work units, families and individuals—particularly during the 1990s through welfare 'socialisation' (*shehuihua*) (Caireng 1995: 229; L. Wong 1998). The assumption was that the main sources of livelihood protection should be self-provided (Leung and Nann 1995; Wong 1994).

Rural relief and social assistance are the domain of the Civil Affairs' system. Related programmes, such as health, education and employment involve relevant systems under the Ministries of Health, Education and Labour, with budget allocations from the central government. At the township level, social welfare activities are co-ordinated by the local committee on social security and civil affairs led by the director of the township government (Leung and Nann 1995: 103,112). Responsibilities of these committees include provision of 'five guarantees' (*wubao*), old people's homes, *ad hoc* assistance to poor households, and in some cases administration of insurance, pension or co-operative medical schemes. The local civil affairs bureau is also responsible for providing 'social preference' benefits (i.e. benefits to veterans, disabled soldiers, revolutionary martyrs and their families) which account for a large proportion of local civil affairs' budgets particularly in poor or 'old revolutionary base' areas which traditionally supply much of the manpower for China's army.

Overall MOCA's budget remained around 1.5 per cent of state expenditure up to the mid-90s, declining marginally from 1.65 per cent per year under the 6th Five year plan (1981–85) to 1.5 per cent under the 8th Five-year plan (1991–95) (L. Wong 1998: 149). The 1980s saw a decline in overall funding for rural relief by 50 per cent in real terms with expenditures in poor areas experiencing the greatest decline. When compared with the growth in labour insurance and welfare funds for the urban population the imbalance is starker: in 1995 state spending on civil affairs was only 4.4 per cent of such expenditure (C. Wong 1998: 151). Lower levels of government (the township) which bear the main burden for financing provision, were remitting more to higher levels than they retained while also facing increases in wage bills and the costs of administration and service provision (Wong 1997: 58). Thus even where local governments were attempting to be entrepreneurial in raising additional resources, pressures on local budgets were increasing and the share of resources available for welfare declined.

Defining welfare provision more broadly to include a range of local public goods and social services which contribute to the welfare of households, the two decades saw a general decline in provision and funding. By the mid 90s the central state had essentially devolved responsibilities for all funding of welfare, social and public investments to the township and village level. The breakdown between central

and collective revenues and expenditures illustrates how actual provision depends crucially on locally available resources.⁹ The result was the proliferation of multiple channels of funding as the local state sought ways to meet its obligations. During the 1990s, these predominantly involved fees and levies on farmers and businesses, entrepreneurial activities by the state, and initiatives by state agencies such as welfare lotteries and welfare 'enterprises', or the introduction of other revenue raising programs (such as insurance schemes).

The purpose of village raised funds (*tiliu*) were for collective investments, welfare (*gongyijin*) and cadre compensation; and the township funds (*tongchou*) for schools, family planning, support for veterans and militia, and road construction and maintenance. Labour contribution (or cash in lieu) contributed to local and state construction projects (for roads, schools, afforestation or water conservation, for example); while other fees (including *sanluan*) covered a range of additional expenses including newspapers, permits and insurance schemes.¹⁰ Most relief and social preference expenditures were financed from welfare funds (*gongyijin*). Welfare homes (for the elderly and orphans) are funded partly from Civil Affairs' budgets, township extra-budgetary funds (including remittances and public welfare funds of township enterprises), and in richer villages from the collective funds derived from village enterprises, run by village committees. Many institutions responsible for the care of the elderly or disabled have started 'welfare enterprises' or operate other income generating activities which enjoy tax reductions or are provided with various forms of support from the township such as allocation of land or subsidised essential services.¹¹ As Bernstein and Lü point out, while many off-budget fees and charges were imposed by the township, additional ones came from the centre as each ministry attempted to raise funds often for worthwhile projects such as educational development, rural health care, sanitation, etc. (p. 55). Thus in the name of promoting rural welfare and development, farmers' ability to meet basic livelihood needs through their own efforts were increasingly being undermined as ultimately the individual or household became responsible for self-provision, either directly through user fees (for health and education), or indirectly through other fees, taxes and welfare funds.

From the perspective of local officials, collecting such funds was also viewed as a major burden. Among the research sites, village and township officials were principally concerned with covering wages and the financing of basic services. Even the wealthier areas were barely covering the payroll through their budgets, with little remaining for development or welfare activities, while poorer townships struggled to cover the basic salaries of cadres. Cadres were owed wages often for several months.¹² In some townships, this problem was partially attributed to the fact that expenditures had been fixed for a number of years, while the township was continually allocated new personnel by the county government and had to absorb new college graduates or retired army personnel. The unifying concern of most local gov-

ernment officials, particularly in poor areas, was the need for more transfers from higher levels to cover these costs.

Village cadres emphasised the difficulties of meeting the needs of particular population groups who should be eligible for assistance, and of raising funds locally to finance these provisions. The head of one village in Tianmen was not untypical in his description of the difficulties he faced:

As the head of the village, I feel that it is not hard to do the administration, but that it is very hard to collect money every year. The average income here is about 2000 yuan. Villagers have to pay various collective fees and levies—we have no other choice. In recent years, farmers' incomes have actually declined but the levies have increased, from 60,000 yuan in 1994 to 170,000 in 1997. At present, many farmers migrate to seek employment. Originally, the collection was based on the amount of land each household cultivated, but now the migrants are also asked to contribute; otherwise, those farmers who actually cultivate the land will have to pay too much. (*HTC-02*).

The director of a township poverty alleviation office described the civil affairs' bureau as essentially a revenue raising agency:

The civil affairs' sector used to be the government sector to help farmers, but now it seems that it only collects money from farmers—e.g. for pension insurance, social pooling, preference funds, etc. The most unfortunate thing for farmers is that these collections do not benefit them, for example, the township is required to subscribe to various kinds of newspapers and magazines at national, provincial and county levels, and the only way to cover the cost is to collect money from farmers. (*HTZ-02*)

The decentralisation of expenditure responsibilities can thus be described as a process by which even the welfare or spending ministry responsible for basic relief and social assistance to the most vulnerable was forced to become an extractive, resource mobilising agency. One major initiative of MOCA during the 1990s—the rural pension scheme—can in part be interpreted in this light.

3.2. Social Insurance and Pensions—Creating Distrust

Social insurance is increasingly seen as an alternative source of funding for relief and assistance, as well as a mechanism for expanding social security provision. Social insurance programs provide an interesting illustration of government interventions that—despite good intentions—in many cases fail (at least in the short term) to meet the needs of farmers, and may divert resources away from a household's own coping strategies. Various insurance schemes have been implemented at different times, including crop insurance, housing and various forms of personal insurance as well as insurance for government and TVE employees which may be organised by public or commercial agencies. For rural social insurance, the main schemes have been rural

health and pensions. Contributions to government-run insurance or pension schemes must in theory be voluntary; in some cases they may be paid from collective funds raised from other sources, including enterprises.¹³ In many cases, however, payments were collected as part of regular compulsory levies, thus becoming an additional burden.

An experimental insurance scheme for rural elderly support was introduced by the Ministry of Civil Affairs in the 1980s and expanded during the 1990s.¹⁴ By 1997 most counties had introduced the program, with 82.8 million members nationwide and 14 billion *yuan* in accumulated funds. In theory the scheme was voluntary, with contributions from individuals subsidised in some cases by collective funds paid into a personal account. The payment method was relatively flexible in terms of the amount and frequency of contributions. Within the households surveyed, this was the main type of insurance identified, although other programs included health prepayment or co-operative medical schemes, and experiments with disaster insurance. The number of households or individuals with insurance varied significantly among the survey sites - in part related to the scale of collective provision of insurance. In Jiaozhou, 136 people in 60 households were insured, either with a pension (*yanglao baoxian*), medical insurance (*yiliao baoxian*), or life/personal insurance (*rensheng baoxian*). In Tianmen, 92 people in 42 households reported insurance, while in Enshi and Zunyi the numbers were significantly lower, with 16 people in 13 households and 19 persons in 13 households respectively. Many households participated in insurance (primarily for pensions) via compulsory collective fees and were unaware of their contributions or benefits. Many cases of life or other insurance for school children were paid as part of various education fees, involuntarily and sometimes without the parent's knowledge. In most areas surveyed, insurance was poorly understood, with information coming principally from township and village cadres, neighbours and friends.

The discussion of one village head illustrates the range of schemes as well as how they effectively became additional levies on households:

Our village introduced insurance for draft animals; a total of 4400 *yuan*; it was voluntary. Housing insurance cost 10 *yuan* per person, but farmers were not willing to pay. In 1996 we introduced old age insurance (*yanglao baoxian*), every household paid 120 *yuan* per person per year; in 1997 the village paid the full amount...

Villagers are not willing to join the old age insurance and welfare-oriented insurance because there is no immediate benefit. If there were no such insurance, life would be much easier. Last year, the insurance contributions for the village were: 26,000 *yuan* for old age insurance; 17,000 *yuan* for personal insurance; 14,000 *yuan* for property insurance. These are all apportioned by the township; there's no way we can't pay! (HTC-04)

In this case, receipts for insurance payments were provided by the township to

the village committee; no receipts or insurance certificates were issued to individual villagers. In a number of villages it was clear that these practices were generating a distrust of insurance schemes generally, as well as resentment against the government for additional compulsory levies. Even the village leaders expressed the opinion that the money could be better used locally on relief or other projects of direct current benefit to villagers. In Xiongtai village a similar 'insurance burden' was described:

We started social insurance in 1996. We calculated contributions on the basis that all labour should take part in old age insurance, with two labourers per household, each person pays 24 yuan¹⁵ per year, so each household pays 48 yuan. We pay out of village accumulated funds, and the village manages the fund. People over 60 don't pay... the total amount paid each year is 9,400 yuan. This is paid through the village fees (*tiliu*) apportioned from the higher levels (*tanpai xiaqu*), it is not voluntary, some farmers don't even know they are paying. In addition, every year we have a responsibility to pay 9,600 yuan in life insurance, and 10,000 yuan in property insurance. These are all calculated at higher levels according to 10 yuan per mu of cultivated land. (HTC-02)

Insurance claims, however, were rarely seen to be worthwhile: in one case the village had made life insurance contributions for several years. During this time, 34 people had sought compensation from the company, but received amounts on average of only 150 yuan, having made significantly greater outlays on transport and other costs to pursue the claim. Similarly with property insurance which the village had been paying for two years: in one claim the household received only 500 yuan compensation when the damages were estimated at over 1500 yuan. As a result, villagers were increasingly unwilling to pay for insurance.

The distrust extended to the government, as one interviewee commented with respect to old age insurance payments: 'We suspect the money was diverted and used for other purposes by the township, and has not been handed over to the civil affairs bureau, so no certificates have been issued.' Local government officials, on the other hand, explained why the payments were compulsory and certificates not distributed:

The township requires that each household is given an insurance certificate which records the amount of contribution paid. But in our village we haven't given these to the villagers, all of them are kept by the village. Why? Because we have no way of explaining to the villagers, if they pay for how many years, in the future how much pension they will receive—nothing can be explained clearly. In addition to old age insurance, the township requires that we participate in property and life and accident insurance; each household pays 63.4 yuan. In this village we include every type of insurance as payment for services (*youchang fuwu*); and collect it with other apportioned fees and levies (*santi wutong*). These *youchang fuwu* fees, according to the government regulations, must be voluntary, but in reality they have not been distributed according to any principles of voluntary payment. For example, with insurance, if we make

it voluntary, most rural people will not be willing to participate. Rural people do not understand insurance very well; they do not believe that participating in insurance schemes will bring them future benefit. So in order to fulfil our responsibilities we have mandatory apportionment (*yingxing tanpai*). The population pays money but they have not seen their certificates or receipts, all these are kept by the village. (HEC-03)

At the local level, pension schemes were rarely seen as the solution to problems of insecurity for the rural elderly, and more frequently were viewed as counterproductive in imposing a further burden on farmers through involuntary contributions. The unintended consequence was the growing distrust both of governments that collect the fees, and of insurance programmes more generally.

3.3. Gaps in Perceptions and Policies

Another gap exists between the perceptions of welfare and security of government officials at different levels, and those of rural households. Rural welfare provision is generally viewed as a set of residual interventions to assist specific targeted population groups, and as a charitable activity rather than an entitlement. The notion of a social security 'system' for rural areas, or of broad based institutional or comprehensive provision, has until very recently not been a subject for policy discussion, and considered beyond the capacity of the Chinese state to provide at its current level of economic development.

By extension, the rural population themselves were described as lacking basic notions or awareness (*yishi*) of, and therefore the demand for, social security. According to an official from MOCA:

In rural China the level of economic development is low; farmers lack a basic awareness of social security, they only wish to maintain basic survival conditions. They have little or no requirement for security...

At present, the system, which can only prevent those people freezing or starving to death, is still imperfect. It's like the alms the Queen gave at the beginning of the English Industrial Revolution: we can only provide basic living relief or assistance, at present it cannot be regarded as a perfect system of security. The standard of social security is constrained by the standard of economic development. It is impossible to develop a high standard social security system when level of economic development is low... people in those less developed areas and backward remote provinces hold different views towards social security in comparison with people in developed areas. (ZY-01)

An official in the Hubei Provincial Planning department (HS-04) likewise suggested that: 'Farmers do not yet talk about security; they have not yet an established awareness of security; this awareness depends on economic development.' From the household surveys, clearly rural households do have an awareness of security, but

perhaps one that is at odds with the definition of ‘social security’ used by higher levels of government. Their concerns are not about unemployment benefits and pensions (often the focus of urban-focused government agencies); rather they are about more immediate income and consumption needs, about access to health and education at affordable cost, and about the provision of basic infrastructure. They also relate to the broader policy environment within which they can manage risks.

Within the government, there are also differing views about what should be included within the scope of social security provision. To some extent these vary according to level of government and ministry or sector, and between those responsible for provision and those responsible for financing. They also vary with the actual realities of particular areas. Levels of social security, welfare and insurance provisions vary dramatically across our research sites, and even more so between the wealthiest eastern regions and the poverty stricken interior and western provinces. In some very rich villages (e.g. in Zhejiang) the collective may provide free housing, free medical-care, and free education from kindergarten to middle school (thus exceeding the provision of many urban areas).¹⁶ A second group includes the more developed (largely coastal) areas, such as Dalian, Yantai, Qingdao, Xiamen, Shantou. Here social security provision is in some circumstances close to urban levels. Finally, in the interior and western areas, the requirements are defined as relief and poverty alleviation. However, from the perspective of some of those interviewed particularly at the central government level, the social security and welfare programmes most urgently needed in these poor areas are support for the elderly (old age pensions) and medical-care insurance (ZY-11). While health care is clearly an issue at all levels and across all regions, the focus on pensions contrasts to some extent with the views from the sub-county levels, and in particular with the priorities of rural households in all but the most developed areas.

Until the new leadership shifted attention to social development and rural issues, and to setting goals for achieving a ‘*xiaokang*’ society, rural welfare and security was not an issue for most central government policy makers. Within MOCA, the ministry with principal responsibility for rural welfare provision, there has been an on-going effort to define what a social welfare ‘system’ for rural areas might include, and how it would be financed. This has been largely defined and experimented with in more developed areas (such as Shandong), and at different stages has focused on issues such as minimum livelihood guarantees and pensions.¹⁷ Their objective was a system with the comprehensive scope to protect people against the worst shocks and forms of deprivation. As a relatively weak agency in terms of control over resources, its choices for developing systematic provision, in the absence of secure government budget allocations, necessarily focused on programmes which could generate resources such as pensions. More recently however the agency has focused on new initiatives, notably an expansion of the minimum living standard program (*dibao*) from urban areas to small towns and increasingly rural areas, funded through central

government budget allocations; and a rural medical assistance scheme to complement the new Cooperative Medical Scheme (CMS, run by the Ministry of Health) for those unable to contribute or to cover additional health care costs not covered by CMS. Despite these and other new initiatives, and an increased allocation of funding and fiscal transfers, including for basic education costs, the dominant attitude of government officials towards rural welfare and security has not dramatically shifted. The dominant assumption remains that any system must be based largely on local resources and financing capacity, with provision subject to local variation according to levels of economic development. Despite increasing transfers and subsidies—often in response to particular needs or ‘crises’ as they emerge—limited support exists for an approach to social protection that would provide budgetary transfers to secure a universal minimum standard across different regions.¹⁸

To the extent that greater attention is being paid to rural welfare and social security, the motivation lies not in an agenda around social welfare, redistribution and equity, but in rural instability and the fear of unrest in rural areas. In the annual *Blue Book of China’s Society*, indicators are categorised under various headings: those related to social security coverage come under the heading of ‘social stability’. One prominent issue noted earlier is the rise in landlessness, identified as the primary grievance motivating letters and visits (Fan, 2004). Whereas land was previously defined as the rural safety net, its alienation through infrastructure development, urbanisation and resettlement has highlighted the urgent need for alternative sources of provision at least for certain categories of rural resident.¹⁹

4. Conclusions

Rural welfare, and the gap between need and provision, provides a lens for examining a broader set of issues about rural insecurity. At a fundamental level, the instability and unrest of which the government is afraid and to which it primarily responds, is rooted in the insecurity individuals and households face in creating sustainable and progressively improving livelihoods, free from intimidation, unjust impositions, or the threat of loss of land and livelihood. Rural protest, whatever its immediate trigger, is often fundamentally about such material and welfare related issues; and about the lack of recourse or assistance from higher levels of government when farmers’ rights or control over resources are violated.

Rural households have little access or entitlement to formal provision or assistance from the state. They meet their needs—whether regular and anticipated, or unexpected—principally through their own means, resources and social networks. Social assistance mechanisms which go beyond minimal relief are rare except in wealthier areas. A significant share of regular household budgets is devoted to basic welfare and consumption expenditures. At the same time, households also bear the

burden of financing whatever limited public goods provision exists through the variety of mechanisms used by local government to raise funds. When such resources are not forthcoming, services are not provided. Rural households have limited expectations of the state as a welfare provider. They do however expect that the government should provide a more supportive policy environment in which they can exercise choices over the appropriate allocation of their own resources; and at a minimum that policies should not further undermine their ability to secure their own livelihoods, particularly through excessive taxation which brings no direct benefits.

The gap between household needs and public provision is rooted both in divergent understandings of welfare needs, and in the wider policy and fiscal environment. Policy interventions—often intended to have positive welfare effects—may through implementation, institutional incentives, or lack of funding, have perverse effects on well-being. From one perspective, the commitment of the new government to improving rural incomes and well-being, and to achieving more equitable, sustainable and ‘people-centred’ development, is laudable. The introduction of a number of policies and programs—including the extension of *dibao*, and the creation of a rural medical relief program alongside a revived Cooperative Medical Scheme—demonstrates a greater prioritisation of rural welfare. On the other hand, there has been an escalation of problems emanating from China’s countryside, and it seems, limited capacity at different levels of government to respond with constructive measures. Current initiatives to address some of the underlying institutional, fiscal and governance issues have in the short run helped to raise farm incomes, but have so far exacerbated the long term trend towards a decline in public investments. This has led to further positive responses: to increase government transfers (particularly for basic education) and to expand and deepen tax reform in the rural sector. Each set of responses is a reaction to a problem exacerbated by the previous intervention.

Why is the government unable to resolve effectively this rural ‘crisis’? Clearly there are multiple and complex causes of which the angle of rural welfare is only one. From this narrow perspective, however, we see that the inability of the state to meet even basic ‘responsibilities’ to farmers—many of which are paid for through taxes—is a major contributor to the wider problems of unrest. The difficulty of resolving the rural welfare problem, though, is not simply one of making choices between alternative policy options. The nature and feasibility of options are determined by a wider constellation of interests, political relationships and power dynamics. The rural welfare ‘sector’, to the extent that it exists, is weak. First, welfare agencies are conventionally relatively powerless government spending agencies, with little ability to raise and control resources; they deal with residual social problems rather than with core economic development issues, and they represent the interests of the most vulnerable and marginalised groups in society. Second, the rural sector is also relatively voiceless in competing for resources against the more privileged and powerful urban sector.

Only by creating voice, through the threat of unrest, have rural problems been given sufficient prominence to warrant serious policy attention. At the same time, this expression creates responses aimed principally at containing unrest, and only secondarily at addressing the underlying issues of rural livelihoods and insecurity. The implications of reducing the gap identified above are significant: China's rural social, economic and governance problems are widely recognised to be simmering close to a crisis point. Rural fiscal reforms are designed in part to address these problems. There is a mutual interdependence, however, among different areas of reform—in particular, between fiscal and welfare policy. The impact of current local tax reforms highlights the need for a greater commitment to redistributive welfare from the centre, which implies significant challenges to the allocation of power and resources. Conversely, creating effective mechanisms for implementing redistributive welfare or social investment policies also requires more effective, responsive and accountable institutions of government.

Notes

- 1 The No. 1 Document for 2005 also focused on rural issues, particularly agriculture and grain production, and the reduction and phasing out of the agricultural tax.
- 2 In absolute terms, given continued population growth, this will not significantly reduce the absolute size of the rural population.
- 3 For early work on this issue see, for example, West (1997); C. Wong (1997); L. Wong (1994, 1998). A recent State Council Development Research Center report makes a strong argument concerning the failure of provision in the health sector.
- 4 The household survey on security and welfare needs and provision was undertaken in 1997–98. While the situation in villages across China has evolved since that time, more recent data do not suggest fundamental change, except that in general there has been a steady decline in provision (discussed further in the paper), for reasons largely associated with policy changes, both in the welfare sector but more particularly through fiscal, tax and institutional reforms. At the same time there has been an increase in government transfers, including for poverty and education, alongside the development of new mechanisms for funding and provision.
- 5 This draws on the literature on the 'livelihoods approach' to sustainable development—see for example, Scoones (1998) for the basic framework; and Cook (2001) for an application to rural livelihood security in the Chinese context.
- 6 See for example Fan (2004:317).
- 7 See Cook (2001) pp. 59–62 for details of the housing and asset accumulation of households in the survey.
- 8 The household in Jiaozhou spent 25,000 yuan on health care costs resulting from an accident. This household is omitted from calculations of the average figures for the county.
- 9 See Cook (2003).
- 10 See Bernstein and Lü (2003:50).
- 11 Interviews, Enshi, 1998.

- 12 This problem of covering the salary and administrative costs of township government became increasingly prominent from the late 1990s. Efforts at government restructuring which began at the centre in 1998 in theory extended to the township level, though with limited effect, and it remains a critical issue for rural sector reform.
- 13 Interviews, Hubei, 1998.
- 14 The restructuring of welfare and insurance agencies in 1998 led to the transfer of the scheme to MOLSS, and its effective termination.
- 15 24 yuan was the minimum amount for participation in the MOCA rural pension programme.
- 16 These villages have been described as 'supervillages' (*chaojicun*) and in 1998 it was estimated there were approximately 2000.
- 17 Following the government restructuring of 1998, pensions became the preserve of the new Ministry of Labor and Social Security.
- 18 Such an approach is being developed in urban areas, with a Minimum Living Standard program that is now being expanded to some (mainly better off) rural areas.
- 19 Different regions are experimenting with a variety of schemes to provide social security through the land compensation payments.

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