China's expanding social assistance programs and "Fragmented authoritarianism"

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Abstract

There are two puzzles regarding to the urban unemployment in China. First, coverage of unemployment insurance is still very low compared to other social insurances. Second, the number of registered urban unemployed is much less than actual urban unemployed. This paper argues that the crowding-out effect between social assistance programs and unemployment insurance in China are among answers of above two puzzles.

Government expenditure for the major social assistance program "Minimum Livelihood Guarantee Scheme" ("*Dibao*") in urban China, which is managed by Ministry of Civil Affairs, increased from RMB2.2 billion in 2000 to RMB67.4 billion in 2012. Besides *Dibao*, some complementary social assistance programs such as medical assistance, education assistance and housing assistance are managed by different government departments who are in charge of health, education, housing policies, etc.

In this paper, we use two city-level datasets with data of social assistance programs over 280 cities in China between year 2003 and 2009. We find that increasing social assistance expenditure are likely to reduce the number of registered unemployed, which implies some urban residents claiming social assistance are either leaving the labor market or had evaded from contribution for the unemployment insurance. Many urban residents do not enrol with unemployment insurance because the benefits from *Dibao* and other social assistance programs are higher than the benefit from unemployment insurance.

Our paper suggests that the crowding out effect is a result of lack of coordination across different government departments. The "fragmented authoritarianism" framework has been employed to explain the ineffectiveness of economic policy making in China (Lieberthal and Oksenberg 1988). In this framework, each department is individually rational while the policy outcomes are collectively inefficient. We argue that the "fragmented authoritarianism" can be explained by the concept "political property rights" in New Institutional Economics.

Introduction

There are two puzzles regarding to the urban unemployment in China. First, coverage of unemployment insurance is still very low compared to other social programs in China. In 2012, the unemployment insurance only covered about 40% of urban labor force while enrollees of pension system amount to 60% of urban labor force. Second, the number of registered urban unemployed is much smaller than urban unemployed. For instance, it was estimated by China Academy of Social Sciences that the actual urban unemployment rate was 9.4% while the registered unemployment rate was about 4.2% in 2008[1].

This paper argues that the crowding-out effect between social assistance programs and unemployment insurance in China are among answers of these two puzzles. If there are crowing-out effects between social assistance programs and unemployment insurance, urban residents may not have enough incentive to enroll with unemployment insurance and to register as unemployed. In consequence, we can observe a relatively low coverage of unemployment insurance and a underreported number of registered unemployed.

Various social programs including unemployment insurance and social assistance programs have been initiated in urban China since later 1990's after a large scale of reform on State Owned Enterprises. By 2012, the unemployment insurance has covered 152 million enrollees. However, while it is compulsory for urban employees

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[1] http://finance.people.com.cn/GB/1045/9083217.html

to join the unemployment insurance, there are about 60% of urban employees are not enrolling with the unemployment insurance in 2012.

The most important social assistance program "Minimum Livelihood Guarantee" (*Dibao*) covered over 21 million urban residents in 2012. The outlay of the unemployment insurance and *Dibao* program in urban China increased from RMB 12 billion and 2.2 billion in 2000 to RMB 45 billion and 67 billion in 2012, with an annual growth rate 12% and 45% respectively.

Unemployed urban residents are covered by both programs. First, registered unemployed who have enrolled with unemployment insurance can claim for benefits provided by unemployment insurance. Second, flexible employed, registered unemployed and unregistered unemployed account for about 60% of beneficiaries of *Dibao* in 2012.

Crowding-out effect across social programs is well researched in developed countries. However, the crowding-out among social programs in China has not been researched for two reasons. First, China only started to expand social programs since 2000's. Second, it is believed that as a one party state, the cost to coordinate government departments, which manage different social programs, is much smaller than the case in other countries.

There are several arguments suggesting that social assistance programs may crowd out unemployment insurance. First, *Dibao* is a social assistance program which is exempt from individual contributes while enrollees of unemployment insurance have to contribute 1% of their payroll. Second, *Dibao* benefits increase with the size of household. Once a household is qualified for *Dibao*, every family member will receive *Dibao* benefit. Third, a *Dibao* beneficiary not only can claim cash transfers and also in-kind transfers such as subsidized housing, children's education tuition, etc.

In this paper, using two different sets of the city-level panel data which covering over 280 cities in China between year 2003 and 2006 and between 2007 and 2009, we test the hypothesis whether there is crowding-out effect between *Dibao* program and unemployment insurance. We find that while *Dibao* program itself does not crowd out the unemployment insurance, there are some evidences that social assistance programs, including *Dibao* and other complementary social assistance programs, may crowd out unemployment insurance program.

The "Fragmented Authoritarianism" (Lieberthal and Oksenberg 1988) has been one of the most important frameworks to explain the ineffectiveness of economic policy making in China. In the context of this paper, each department is individually rational in terms of its department interests. MCA carefully designed the benefit level of the *Dibao* programs which is compatible with the benefit level of unemployment insurance. Ministries who manage complementary social assistance programs have

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incentive to provide in-kind assistance to those household tagged with *Dibao* to reduce the administrative costs and improve credibility of those complementary social assistance programs.

However, "Fragmented Authoritarianism" does not provide an explanation that why this fragmented structure is persistent over time. Political Property rights from the literature New Institutional Economics (NIE) can provide useful framework to understand these results. Essentially, regarding to vertical coordination, upper level government can use performance evaluation system to control performance of lower level departments (Li and Zhou 2005, Shih, et, al 2012). For horizontal coordination, using *ex ante* regulations, rules and standards to limit the discretion of bureaucrats, each department has political "property rights" in certain policy issues (Moe 1990).

The rest of the paper is arranged as follows. The next section reviews the background of social assistance programs as well as unemployment insurance. The following section discusses hypotheses and methodology. After presenting results and robustness tests, we provide an explanation of the crowding-out effects from the perspective of "fragmented authoritarianism".

Social assistance programs and unemployment insurance in China

One of the most outstanding achievements of modern China is lifting millions out of poverty via various institutional reforms and poverty alleviation policies after the

1980s. It was estimated that between 1981 and 2004, the number of absolute poor in China had been drastically reduced from 652 million to 135 million.

However, the urban poverty has gradually become an important issue in China. It is observed that the poverty rate is increasing in urban China since 1980's (Riskin and Gao 2010). There are two major reasons for the increasing urban poverty. First, since late 1980's, following the restructure of many State Owned Enterprises, many workers have been laid off and they fall in poverty, given that many of them are not equipped with sufficient skill level to work in the private sector. Indeed, it is observed that unemployed is more likely to fall into poverty (Riskin and Gao 2010). Second, urban social welfare system has been dissolved following the SOE reform. Benefits from in-kinds transfers (*via* work unit) have reduced from 21% of total household income in 1998 to 0.7% in 2002 in urban China (Gao 2010). It implies that many urban households have to pay a larger amount from out-of-pocket for the education, housing as well as healthcare. Many urban households may have difficulties to meet their basic needs after hitting by negative external shocks such as incidence of serious diseases. It was estimated that the number of urban poor in 2003 can be as high as 72 million (World Bank 2009).

After later 1990's, two clusters of social programs, which are relevant for poverty alleviation, have been initiated. First group refers to social insurances programs include Unemployment Insurance, Pension as well as Basic Health Insurance Scheme.

Beneficiaries of these programs mainly are from formal sector. Employees in urban areas register with these programs and contribute to these programs regularly. Second group refers to social assistance programs, which target for vulnerable groups including retired, ex-serviceman, disabled and people in informal sector, etc. Table 1 compares these programs.

The most important social assistance program is *Dibao*. In 1999, a national means-tested program "Minimum Livelihood Guarantee Scheme "or *Dibao* to provide a safety net for urban poor was initiated. This program is managed by the Ministry of Civil Affairs (MCA). The *Dibao* is a means-tested social assistance program limited to households with local urban household registration status. The *Dibao* line is set based on local minimum livelihood costs for "the basic needs of food, clothing, and housing, and expenditures on children's compulsory education" (Government of PRC, 2004). In 2012, the number of people covered by "Di Bao" program in China is about 22 million (Figure 1).

--- Figure 1 approximately here ---

This program is an individual based program and only urban residents with household registration status are eligible for this program. The *Dibao* line is in principle lower than unemployment insurance, minimal wage as well as the minimal level of pension.

There are other in-kind social assistance programs targeting for the poor such as medical assistance, education assistance, housing assistance, etc. for example, medical assistance programs will pay health insurance premium as well as deductible for beneficiaries.

Unemployment insurance is another important component of social safety net in urban China. There were 152 million enrollees to unemployment insurance and over two million people had benefited from this scheme in 2012. Unemployment insurance was initiated in the 1980's to complement the state-owned enterprise (SOE) reform to provide basic benefits for laid-off workers in SOEs. After 1999, all unban workers including SOE workers, employees in public service units and workers in private enterprises have been covered by unemployment insurance whose funds are usually managed by county or city level governments.

Benefits of unemployment insurance can account up to about 20% of average wage and the duration of benefit can be as long as 104 weeks. Unlike many developed countries, the benefit level of unemployment insurance is not earnings-related in China.

One important fact which should be highlighted here is that unemployed urban residents are eligible to be covered by both social assistance programs and *Dibao* programs. First, registered unemployed who have enrolled with unemployment insurance can claim for benefits provided by unemployment insurance. Second, majority of *Dibao* beneficiaries is unemployed. For example, flexible employed, registered unemployed and unregistered unemployed accounts for about 60% of beneficiaries of *Dibao* in 2012 (Figure 3).

--- Figure 3 approximately here ---

There are two puzzles regarding to the urban unemployment. First, coverage of unemployment insurance is still very low compared to other social programs in China. While it is compulsory for urban employees to join social insurances including the unemployment insurance as well as basic pension system, there are many employees who do not registered with the unemployment insurance. About 60% of urban employees are not enrolling with the unemployment insurance in 2012. It implies that many employees, more likely working for the informal sector, is not willing to register with the employment insurance for some reasons. However, the number and share of urban employees registered with basic pension scheme have increased much faster since 2000's. In 2012, the unemployment insurance only covered about 40% of urban labor force while enrollees of pension system amount to 60% of urban labor force (i.e. Figure 4).

--- Figure 4 approximately here ---

Second, the number of registered urban unemployed is much smaller than urban unemployed. It was estimated by China Academy of Social Sciences that the actual urban unemployment rate was 9.4% while the registered unemployment rate was about 4.2% in 2008[2]. In a recent survey conducted by Southwestern University of Finance and Economics in China, the urban unemployment rate in 2012 was about 8% while the registered unemployment rate was about 4.1%.[3]

Is social assistance crowding-out employment insurance?

One possible explanation for these two puzzles is that expanding social assistance programs are crowding out unemployment insurance. Enrollees of unemployment insurance may have incentives to stop contributing to unemployment insurance when benefit of *Dibao* is increasing. First, beneficiaries of *Dibao* are exempt from contribution while enrollees of unemployment insurance have to contribute 1% of their payroll. Second, *Dibao* benefits increase with the size of households. Once a household is qualified for *Dibao*, every family member will receive *Dibao* benefit. It implies that household benefit from *Dibao* can be much larger than the individual *Dibao*, depending on the size of the household. Third, a *Dibao* beneficiary not only can claim cash transfers and also in-kind transfers such as subsidized housing, children's education tuition, etc. In this case, anticipating the combined benefits from

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[2] http://finance.people.com.cn/GB/1045/9083217.html

[3] http://blogs.wsj.com/chinarealtime/2012/12/10/perception-vs-reality-charting-chinas-family-value/

Dibao and other complementary social assistance program are higher than the benefit level of unemployment insurance, one may have incentive to stop contribute to unemployment insurance.

Literature Review

There are many studies on social assistance programs in China. Ravallion and Chen (2007) and Riskin and Gao (2010) discuss the characteristics of urban poor in China by using household survey data. The performance of *Dibao* program is evaluated in Gustafsson and Deng (2012). Gao (2010) addresses the impact of social assistance programs in both urban and rural China. Solinger and Hu (2012) analyze variance of compositions of different groups of beneficiaries (e.g. disabled, unemployed) under *Dibao* across cities with various fiscal capacities. Qian (2014) and Zheng (2010) review the development and financing mechanism of unemployment insurance.

Lieberthal and Oksenberg (1988) and Mertha (2009) among many other papers use the "fragmented authoritarianism" to understand the policy ineffectiveness in China. Moe (1990) applies the concept "political property rights" in understanding the inefficiency within bureaucracy in general.

Hypotheses

While we do not have the data for the number of enrollees of unemployment insurance in each city, we use the number of registered unemployed as a proxy for the

number of enrollees of unemployment insurance in the informal sector. While the number of enrollees has increased in the formal sector, workers in the informal sector may choose to enroll with unemployment insurance or not. Since only people who have registered as unemployed can claim the unemployment insurance, we can infer the number of unregistered unemployed in the following year is positively correlated with the number of enrollees of unemployment insurance in the current year.

We have following two hypotheses regarding to whether the regional equity has been addressed in the urban social assistance programs:

Hypothesis 1: increasing government expenditure on "Di Bao" is associated with a smaller number of registered unemployed in a city.

Hypothesis 2: increasing government expenditure on social assistance programs in general is associated with a smaller number of registered unemployed in a city.

Data

This paper uses city level data to test the hypothesis that expanding social assistance programs have crowding-out effect over unemployment insurance. We have two data sources. The first data set is collected from China City Statistical Yearbook (NBS: various years). This dataset includes observations of 282 cities (prefecture level) covering 26 out of 27 provinces between 2003 and 2006 (i.e. Tibet is not included).

These four years (i.e. from 2003 to 2006) are only years for which the data for spending on social assistance is available.

The second dataset is data reported by MCA about *Dibao* data at the prefecture level between 2007 and 2009, which was collected from the website of MCA.

Both of our datasets include data for 282 prefecture cities out of 332 prefecture cities in total in China. City statistical yearbook only reports data in 282 cities. The administration level for prefecture cities in the hierarchical structure of government is shown in the Figure 5.

--- Figure 5 approximately here ---

A prefecture city usually has both urban (i.e. city district) and rural areas (i.e. county). Since we are interested in urban social assistance programs, most variables in our dataset are defined in the scale of city district of these prefecture cities only.

Methodology

Research on crowding-out effect uses individual level data. We do not have the luxury to access such data in China. However, we use city level data to treat a city rather than individuals as the basic research unit. City level data may reveal people's response to social programs since city level government is the level of government managing the

social programs and policies regarding to the benefit and eligibility for social programs varies with city.

However, omitted variable bias is a concern for this kind of research. We have apply (city) fixed effect model to address this issue. Simultaneity is another concern. We use predetermined values for control and independent variables to address this issue.

Nevertheless, we acknowledge that city level data cannot tell us what individual characteristics are more likely to lead to opt out from unemployment insurance. Also, some concerns about the measurement of unemployment. For a long time, China only reports the registered unemployed and actual unemployed number is absent. However, for this paper, registered unemployed number is a sufficient indicator for the crowding-effect for the unemployment insurance. Only registered unemployed can be eligible to claim unemployment insurance.

It may be argued that the number of unemployed may be reduced via other avenues such as exogenous shocks of government policies or new policy initiatives which have impact on unban unemployment. In this case, we use local education expenditure as a regressor in the placebo test. If the number of unemployed is not correlated with education expenditure, it confirms the existence of crowding-out effect.

Basic Model

We estimate the following model:

$$Unemployed_{i,t} = \beta Poverty\_assistance_{i,t-1} + \delta X_{i,t} + \mu_i + \omega_t + e_{i,t} \quad (1)$$

where $Unemployed$ is the number of registered unemployed per 1000 people in city i during year t. β and δ are parameters for the corresponding variable(s) in the model. $X_{i,t}$ corresponds to covariates including average income, fiscal expenditure per capita, size of service economy, local Gross product as well as unemployed in the previous year. μ_i denotes province-specific effects, whereas ω_t corresponds to year dummy variables, with $e_{i,t}$ defined as the error term. We use standard panel data analysis to estimate above model (1).

If there is a crowing out effect between social assistance programs and unemployment insurance, urban residents may have not enough incentive to enroll with unemployment insurance. In consequence, urban unemployed have not enough incentive to register as unemployed.

Variables

The dependent variable is *Unemployment:* unemployment refers to the number of registered unemployed in the city district of a city (In 1,000 people). Many of the people claiming *Dibao* are registered unemployed. Figure 2 shows the number of unemployed who are under *Dibao* program, which amounts to about 20% of beneficiaries who are under social assistance programs. Control and independent

variables are listed as following:

(1) *Poverty_assistance* denotes the city level spending on social assistance programs (in Million RMB). The amount of poverty assistance expenditure includes all expenditure including *Dibao* and other complementary social assistances (Figure 6).

--- Figure 6 approximately here ---

(2) *Dibao_expenditure* denotes the city level spending on *Dibao* programs (in Million RMB).

(3) Variable "*population*" denotes the number of residents in the city district of a city (Million population).

(4) *Fiscal expenditure* of a prefecture city (in Billion RMB). Fiscal expenditure measures the scale of local fiscal policies and in this case are supposed to be negatively correlated with the number of registered unemployed .

(5) *Average income*: this variable refers to the average annual wage level in the city district of a city. The average wage is calculated on the basis of wage expenditure in state owned, privately owned as well as foreign owned enterprises. This variable measures local conditions of economic development.

(6) *Gross product:* this variable denotes the gross regional product in a prefecture city (Billion RMB). This variable also measures local conditions of economic development but also measures the size of economy.

(7) *Service share:* the share of local service sector in gross regional product. The

share of service sector is not directly linked to the social assistance expenditure. However, service sector is believed to be very labor intensive and the larger the service sector is, the more people are hired. Consequently, the number of registered unemployed is supposed to be negatively correlated with the size of service sector.

(8) *Workers in private and informal sector:* This variable refers to the number of people working in private and informal sector in the city district of a city. This variable is relevant since we expect a larger private and informal sector may imply more people who are not willing to register as urban unemployed. Private and informal sector are relevant for urban unemployment in China. For example, 8% of poor's incomes are earned from private and informal sector and only 2.7% of incomes of other groups are earned from private and informal sector (Riskin and Gao 2010).

(9) *City* dummy, *year* dummy as well as dummy variables for western and central regions. Western and central regions are defined following the definition in the China Statistical Yearbook[4].

Descriptive statistics

We exclude some invalid observations[5] from our sample and the descriptive statistics

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[4] The western region includes Sichuan, Chongqing, Guizhou, Yunnan, Shaanxi, Gansu, Tibet, Qinghai, Ningxia, Xinjiang, Guangxi and Inner Mongolia. Central region includes Shanxi, Jilin, Anhui, Jiangxi, Henan, Hubei, Heilongjiang and Hunan. Eastern region includes Beijing, Hebei, Liaoning, Jiangsu, Shandong, Zhejiang, Shanghai, Tianjin, Fujian, Hainan and Guangdong.

[5] These observations include missing values as well as some observations with unreasonable value.

are shown in table 2.

The expenditure for social assistance has increased by over double digit annual growth from less than RMB 20 billion to over RMB 30 billion between 2003 and 2006 in the 282 cities in our dataset (i.e. Figure 5). However, regional variances of the government expenditure on social assistances as well as other covariates are huge. The highest level of government expenditure is as high as RMB 1 billion while the lowest is only RMB 4 million. In the richest city, the annual average income is RMB 37 thousands while in the annual average income is RMB 5 thousands the poorest city. The fiscal revenue of richest city reached RMB 50 billion and fiscal revenue in the poorest city had only RMB 0.1 billion. Figure 1 shows that the expenditure for social assistance programs in these 282 prefecture cities has increased from less than RMB 20 billion to more than RMB 30 billion in four years.

Results

The estimation result for equation (1) is shown in Table 3:

Column (1) and (2) report results of random effect model and city fixed effect model

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For example, we waive an observation reporting over RMB 10,000 monthly income in a western city.

respectively. In Column (3) and (4), all variables are measured in per capita basis. The result of Hausman test suggests that fixed effect models in (2) and (4) are consistent. In model (2) and (4), the expenditure on social assistance in general is negatively and statistically significant. From column (2), one more million RMB spent on social assistance are associated with 20 less registered unemployed. The magnitude of the impact of the social assistance over unemployment is similar in column (4) when variables are weighted by the number of population. This implies the existence of crowding out effect that increasing expenditures of social assistance are likely to decreased registered unemployed.

However, random effect model in column (1) show that the effect of time invariant variables: central region dummy is statistically significant. Fiscal expenditure is not statistically significant in all models in Table 3. Average income and gross regional product are not statistically significant in all models. Population is statistically significant in model (1) and previous year's unemployment is important in all models.

Where is the crowding out effect coming from? The crowding out effect can be a result of expanding of *Dibao* or the expanding of *Dibao* and other complementary social assistance programs. To verify whether it is the *Dibao* that crowded out the unemployment insurance, we replace the expenditure on social assistance with the expenditure on *Dibao* as a regressor. Since data for *Dibao* expenditure covers only between 2007 and 2009, we have 561 observations in total.

--- Table 4 approximately here ---

The result is shown in table 4. Column (1) and (2) in table 4 report results of random effect model and city fixed effect model respectively. In Column (3) and (4), all variables are measured in per capita basis. The result of Hausman test suggests that fixed effect models in (2) and (4) are consistent. The expenditure on *Dibao* is not statistically significant in all models, which implies that the expansion of *Dibao* is not correlated with registered unemployed.

In short, H1 is not supported while H2 is supported from our data analysis.

Robustness check

The decreased registered unemployed may be caused by reasons other than crowding out effect. It may be a result of increasing government social expenditure such as education or health, which may have impact on people's welfare and participation of labor market.

To exclude the possibility that the changes of the number of registered unemployed are caused by exogenous shocks or other reasons, we conduct another placebo test by replacing the social assistance expenditure with education expenditure. Education expenditure is supposed to not directly correlate with registered employed after

controlling local fiscal expenditure.

--- Table 5 approximately here ---

Column (1) and (2) in table 5 report results of random effect model and city fixed effect model respectively. In Column (3) and (4), all variables are measured in per capita basis. The result of Hausman test suggests that fixed effect models in (2) and (4) are consistent.

Education expenditure is not statistically significant in column (2) and (4). It confirms the robustness of our earlier results that the expenditure on social assistance is crowding out the unemployment insurance.

Discussion

From "Fragmented Authoritarianism", the ineffectiveness of policy making and implementation are results of the decentralized and fragmented distributed authorities. From this literature, the crowding out between social assistance and unemployment insurance is a result of fragmented structure of government departments. Each department may have different objectives. MCA sets the benefit level of *Dibao* and its target is to make the benefit level compatible with the benefit of unemployment insurance. For other government departments managing different social assistance programs, providing benefits to household tagging with *Dibao* will reduce their administrative cost and improve their programs' credibility of their own program.

However, the "Fragmented Authoritarianism" framework cannot explain the persistence of fragmentation of organizations. If a government department realizes the existence of crowding-out effect, it may have incentive to look for institutional solution such as forming a coordinating body to manage these programs.

NIE offers an explanation that new intuitional arrangement may emerge to reduce the transaction costs. For vertical control in Chinese bureaucracy system, a performance evaluation system is applied to coordinate government departments. Appointment, promotion and demotion of lower level bureaucrats are decided by whether they have fulfilled the upper level government's requirements for various policy targets. It is also observed in the literature that under the performance evaluation system, local officials in China are likely to be promoted on the basis of growth rate of Gross Domestic Product and fiscal revenue (Landry 2008, Li and Zhou 2005, Shih, et al. 2012). Local government has strong incentive to allocate fiscal resources for investing on local infrastructure to promote economic growth and broaden tax bases.

However, to achieve horizontal coordination, similar as a transaction in an economic market, each ministry has to use "political property rights", which are defined as the rights to exercise public authority. To protect the property rights, bureaucrats may use *ex ante* regulations, rules and standards to limit the discretion of bureaucrats and establish the political property rights (Moe 1990). For example, in the guideline for

social assistance released by Chinese government in May 2014[6], the role and responsibility of different government department are stated explicitly in this guideline for the forthcoming expansion of social assistance programs.

Such an *ex ante* announced regulations reduce the political uncertainty. However, there are inefficiencies since ex ante regulation may not be able to foresee changes of environments afterwards.

Concluding remarks

We have shown that there may be crowding-out effect between social assistance programs and unemployment insurance. However, it is urban residents who voluntarily leave the unemployment insurance if there is any crowding out effect. In this case, the welfare implication may not be negative. In other words, given that people choose to leave unemployment insurance, it may be welfare enhancing.

Policy implication according to this paper is essentially to find a better way to coordinate among government departments to take advantage of increasing social expenditure. One straightforward suggestion then is to have a share database across different government governments. Other suggestion which is more relevant to the literature of NIE is to redefine the "political property rights" by integrating all social assistance functions within a single organization.

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[6] http://www.gov.cn/zwgk/2014-02/27/content_2622770.htm

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Table 1: Two types of Social Programs in Urban China

	Social Assistance programs	Social insurance programs
Target groups	Poor, Disabled, Ex-serviceman, People suffered from natural disaster	Unemployed, Patients, Retired
Ministry	Ministry of Civil Affairs	Ministry of Human Resources and Social Security
Management entity	Local government	Local government
Individual Contribution	No	Yes
Source of Funding	Government Budget	Social insurance funds
Year of expansion	Since 1990's	Since 1990's

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Expenditure on social assitance (Million RMB)	1118	81.56	106.34	4.29	978.20
Fiscal expenditure (Billion RMB)	1118	2.7	4.65	0.14	57.1
Average income (Thousands RMB)	1117	15.97	5.02	4.93	37.81
Gross Regional product (Billion RMB)	1116	29.85	51.37	0.98	581.36
Population (Million)	1118	1.11	0.99	0.14	8.01
Unemployment (Thousands)	1118	12.74	16.62	0.22	157.23
Share of service sector (%)	1115	40.84	10.32	9.87	80.89
Workers in Private/informal Sector (thousands)	1109	125.11	208.61	1.10	2673.98
Domestically owned enterprises (units)	1115	265.68	480.56	3	4491
Education expenditure (RMB billion)	1108	0.35	0.54	0.001	5.76
Dibao **expenditure** (RMB million)	832	105.44	76.50	3.57	481.64

Table 3:

	(1) Unemployment (RE)	(2) Unemployment (FE)	(3) Unemployment Per 1000 people (RE)	(4) Unemployment Per 1000 people (FE)
fiscal expenditure	-0.0177 (0.171)	-0.552 (0.378)	-0.116 (0.267)	-0.352 (0.645)
Social assistance expenditure (lagged)	0.0217*** (0.00506)	-0.0204** (0.00927)	0.0236*** (0.00600)	-0.0184* (0.0101)
population	2.000*** (0.389)	1.240 (1.166)		
Average income	0.0586 (0.0569)	-0.0601 (0.127)	-0.0365 (0.0656)	-0.0472 (0.149)
unemployment (lagged)	0.650*** (0.0196)	0.151*** (0.0334)	0.523*** (0.0221)	0.134*** (0.0327)
Private workers	0.00254 (0.00202)	0.00635 (0.00424)	0.00267 (0.00356)	-0.00246 (0.00665)
Service share	-0.0321 (0.0347)	0.0209 (0.0889)	0.0288 (0.0568)	0.0548 (0.162)
Gross product	0.00523 (0.0196)	0.0278 (0.0532)	0.0174 (0.0252)	0.0529 (0.0868)
2006	-2.541*** (0.659)	-0.193 (0.987)	-2.364*** (0.751)	-1.270 (1.286)
2005	-1.335** (0.596)	-0.261 (0.707)	-1.327* (0.679)	-1.022 (0.899)
2004	-2.093*** (0.572)	-1.292** (0.572)	-2.262*** (0.651)	-1.803*** (0.686)
western	0.232 (0.547)		-0.142 (0.625)	
central	1.138** (0.530)		0.972 (0.602)	
constant	0.279 (1.070)	11.91*** (2.365)	4.630*** (1.178)	12.01*** (2.504)
N	1114	1114	1114	1114
R^2	0.806	0.514	0.428	0.185

Standard errors in parentheses, * p<.1, ** p<0.05, *** p<0.01 For Colume (3) and (4), all regressors are weighted with population

Table 4

	(1) Unemployment (RE)	(2) Unemployment (FE)	(3) Unemployment Per 1000 people (RE)	(4) Unemployment Per 1000 people (FE)
Dibao expenditure (lagged)	0.00456 (0.00565)	-0.0144 (0.0133)	0.00188 (0.00185)	0.00158 (0.00762)
Fiscal expenditure	0.260** (0.126)	-0.402 (0.314)	0.0204 (0.112)	-0.0876 (0.281)
population	1.169 (0.756)	0.242 (0.746)		
Average income	0.0811* (0.0426)	0.131** (0.0625)	0.0217 (0.0331)	0.0747 (0.0584)
Unemployment (lagged)	0.890*** (0.0324)	-0.162* (0.0856)	0.842*** (0.0261)	-0.123 (0.0870)
Private workers	0.00699*** (0.00182)	-0.00133 (0.00304)	0.00493** (0.00202)	0.000290 (0.00385)
population	0.324 (0.831)	6.668 (6.109)		
Service gdp	-0.198*** (0.0318)	0.0976 (0.126)	-0.0367 (0.0297)	0.0565 (0.133)
Gross product	0.0350** (0.0165)	0.0652 (0.0772)	0.00741 (0.0138)	0.0249 (0.0706)
2008	-0.511 (0.361)	-0.184 (0.505)	-0.235 (0.301)	-0.373 (0.404)
western	0.772 (0.682)		0.399 (0.459)	
central	0.864 (0.698)		0.730 (0.454)	
constant	-3.002** (1.202)	1.528 (7.357)	0.281 (0.849)	8.733*** (1.830)
N	561	561	561	561
adj. R^2	0.896	0.354	0.733	0.07

Standard errors in parentheses. * p<.1, ** p<0.05, *** p<0.01, For Colume (3) and (4), all regressors are weighted with population

Table 5

	(1) Unemployment (RE)	(2) Unemployment (FE)	(3) Unemployment Per 1000 people (RE)	(4) Unemployment Per 1000 people (FE)
Fiscal expenditure	0.273 (0.170)	-0.814** (0.360)	0.751** (0.292)	-0.430 (0.651)
Education expenditure (lagged)	-2.391* (1.292)	-0.561 (1.572)	-7.968*** (2.410)	-0.536 (3.751)
population	2.790*** (0.369)	1.460 (1.166)		
Average income	0.0801 (0.0570)	-0.0953 (0.126)	-0.0200 (0.0656)	-0.0626 (0.150)
unemployment (lagged)	0.683*** (0.0179)	0.158*** (0.0334)	0.535*** (0.0216)	0.135*** (0.0327)
Private workers	0.00289 (0.00206)	0.00773* (0.00421)	0.00460 (0.00357)	-0.00263 (0.00667)
Service gdp	0.00422 (0.0340)	0.0208 (0.0893)	0.0178 (0.0569)	0.0557 (0.162)
gross product	-0.00593 (0.0198)	0.0246 (0.0540)	0.00993 (0.0250)	0.0523 (0.0871)
2006	-2.031*** (0.657)	-0.301 (0.989)	-1.793** (0.747)	-1.603 (1.297)
2005	-1.011* (0.598)	-0.298 (0.709)	-1.013 (0.677)	-1.204 (0.905)
2004	-2.131*** (0.576)	-1.238** (0.573)	-2.199*** (0.652)	-1.830*** (0.690)
western	-0.0814 (0.557)		-0.837 (0.634)	
central	0.960* (0.541)		0.516 (0.617)	
constant	-0.0531 (1.075)	11.53*** (2.366)	6.092*** (1.209)	11.50*** (2.533)
N	1114	1114	1114	1114
adj. R^2	0.817	0.626	0.426	0.323

Standard errors in parentheses. * p<.1, ** p<0.05, *** p<0.01, For Colume (3) and (4), all regressors are weighted with population

Figure 1: Number of people under "*Dibao*" and the number of registered unemployed who are also under "*Dibao*" (In Million).
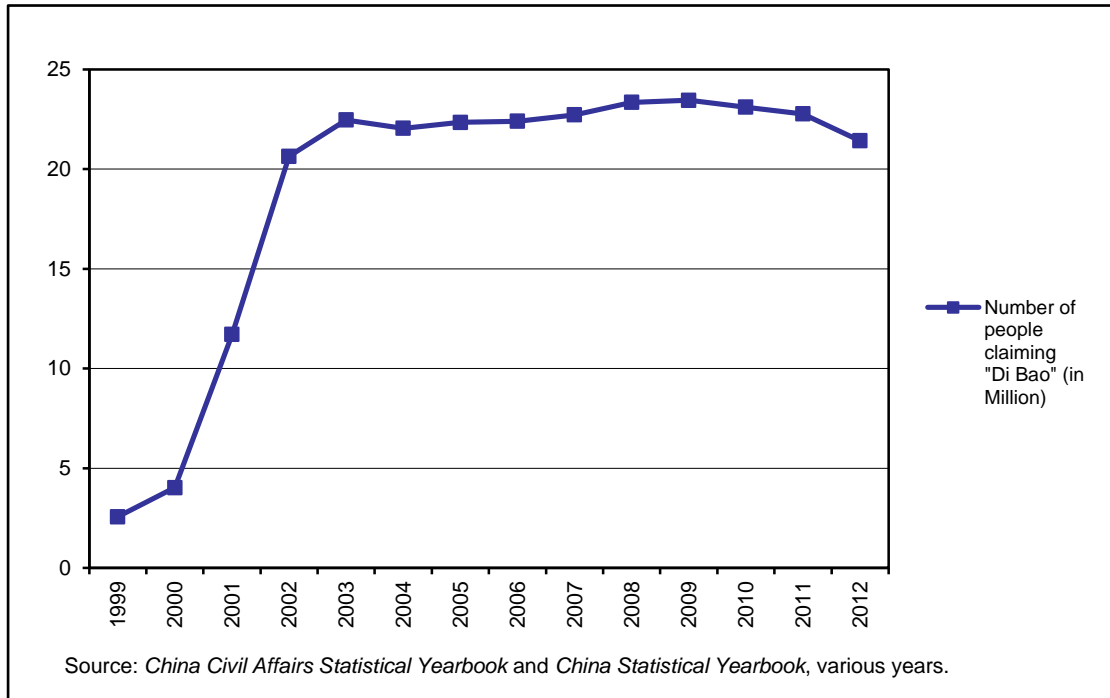

Source: *China Civil Affairs Statistical Yearbook* and *China Statistical Yearbook*, various years.

FIGURE 2   ANNUAL BENEFITS ANNUALLY FOR UNEMPLOYMENT INSURANCE AND *Dibao*

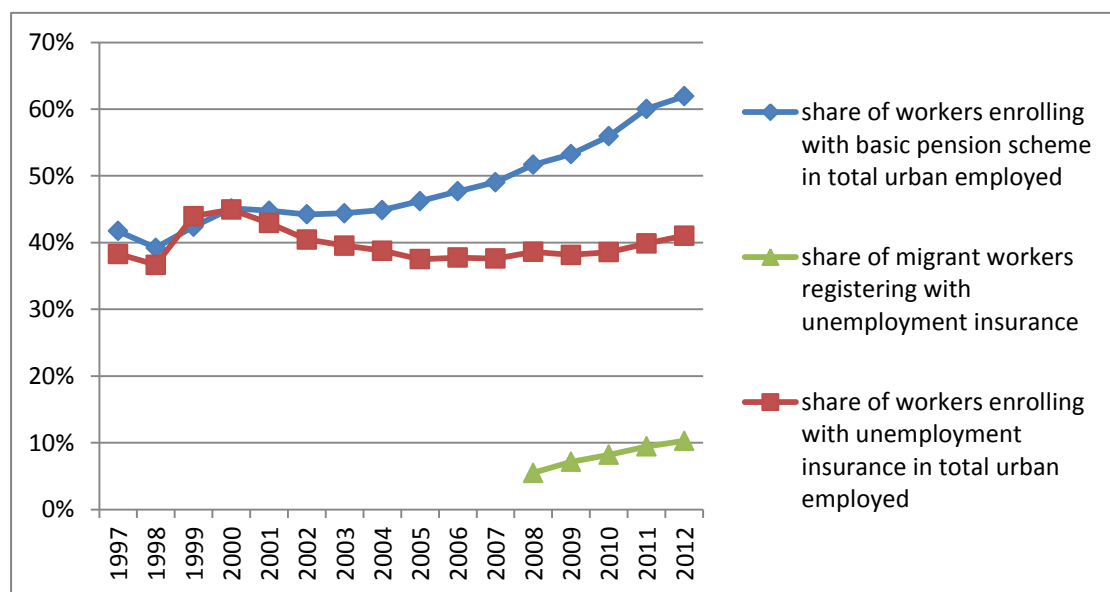

Source: *China Human Resources and Social Security Yearbook* and *China Civil Affairs Statistical Yearbook*, various years.
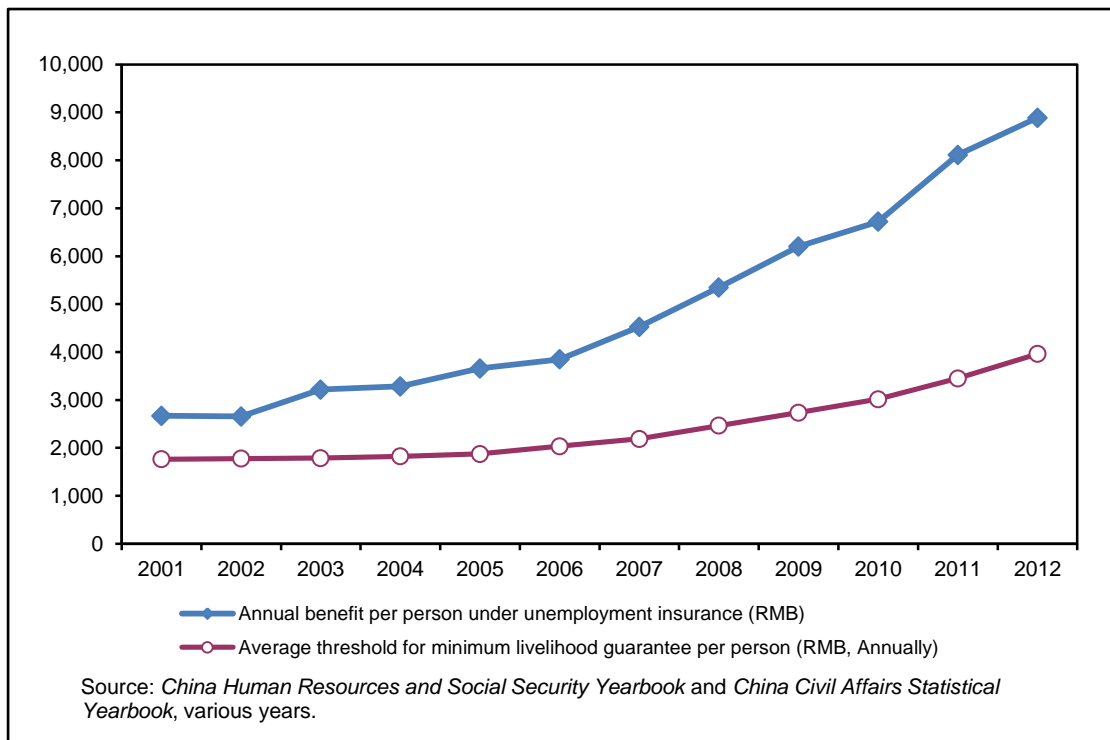
**FIGURE 4   COMPOSITION OF BENEFICIARIES UNDER "*DIBAO*"
IN URBAN AREAS**
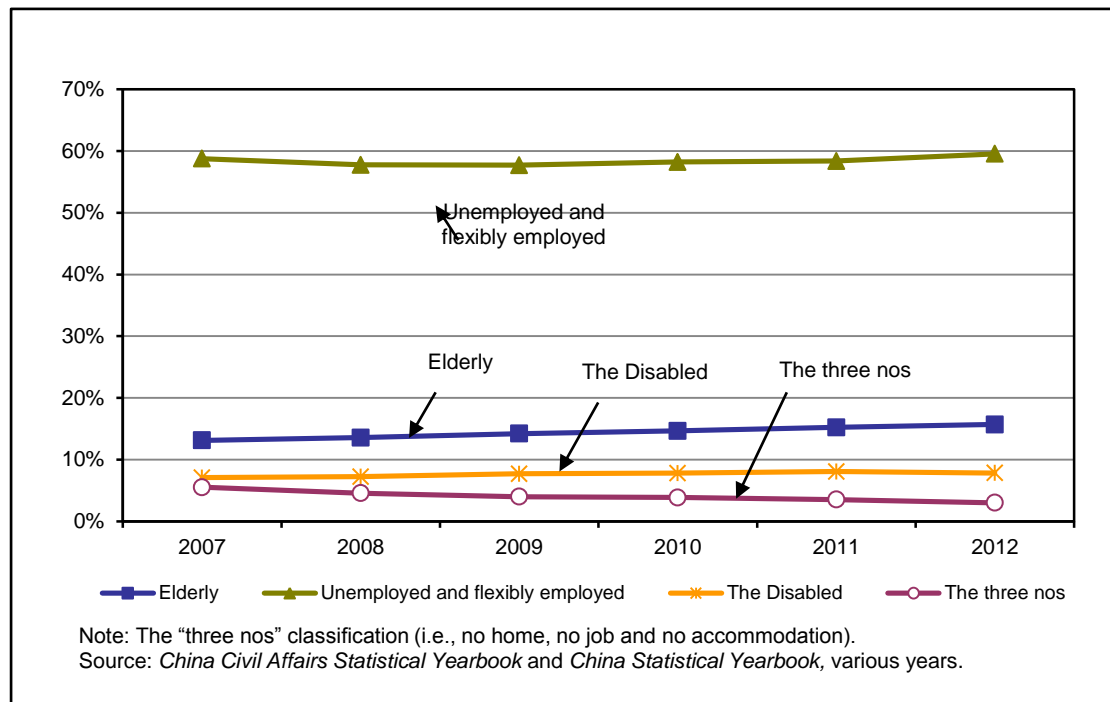
Note: The "three nos" classification (i.e., no home, no job and no accommodation).
Source: *China Civil Affairs Statistical Yearbook* and *China Statistical Yearbook,* various years.
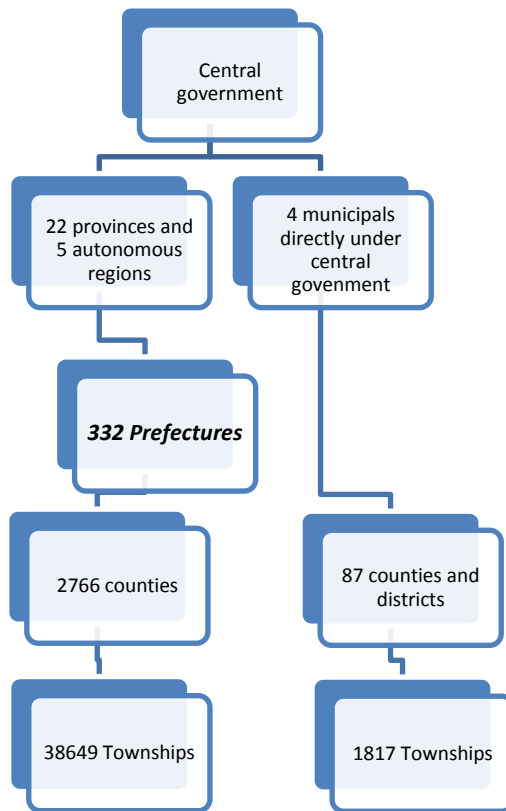
Source: China Civil Affairs Statistical Yearbook & China Statistical Yearbook, various years

Figure 3: Share of enrollees of unemployment insurance and basic pension scheme in urban labor forces

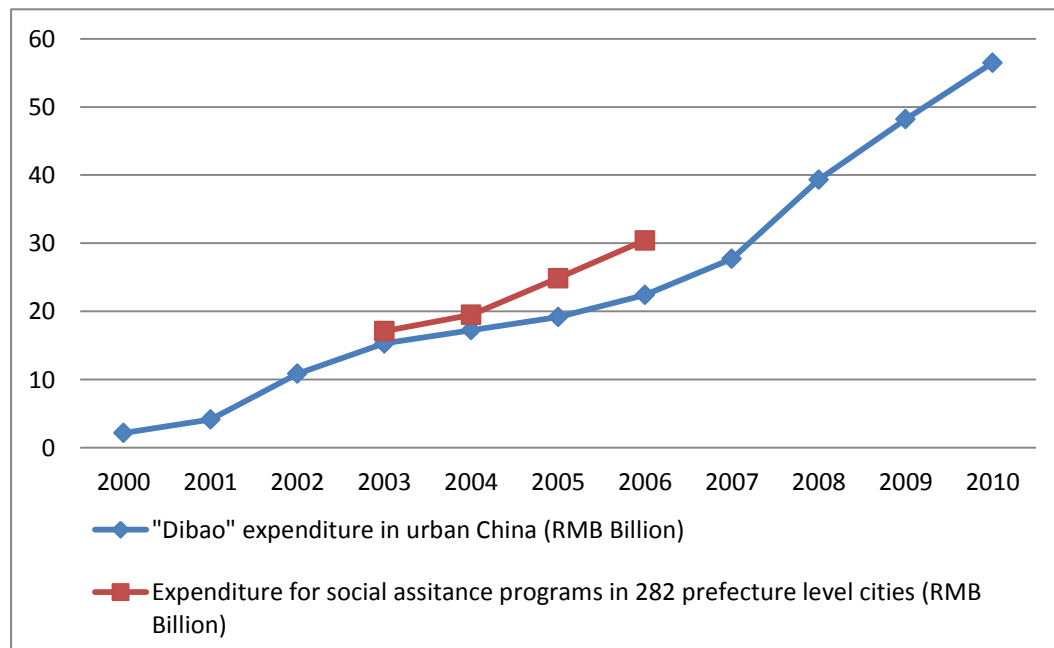Source: China Civil Affairs Statistical Yearbook, China Labor and Social Security Statistical Yearbook & China Statistical Yearbook, various years

Figure 5:   Administrative hierarch of Chinese Subnational Government:

Source: China Statistical Yearbook 2012.

Figure 6: *"Dibao"* and social assistance expenditure in urban China (Billion RMB)

Source: China Civil Affairs Statistical Yearbook, various years