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**Stream 8.1: Minimum Incomes in the Enlarged Europe**

**Title of paper:**

Limited by design? An early comparison of China and new member's social assistance policy response to the economic crisis 2007 - 2010

**Abstract:**

The economic crisis which initially engulfed the financial sector before bringing recession was global in origin and impact. The impact the current crisis has had on those subsisting on basic income schemes has similarly been global in nature. Whilst the impact on those urban poor in states with developed social assistance schemes has been significant these systems have mechanisms of adjustment and delivery which have been in operation for many years. In developing countries, like the People's Republic of China, and those states with newly developed social assistance schemes, such as the new member states which have gone through the post-communist transition, such mechanisms of ensuring subsistence have been put to their first real test by the economic crisis.

This paper will outline and discuss an early comparison of China's social assistance scheme for urban residents (the urban resident Minimum Livelihood Guarantee system) with similar policies produced by new members of the EU, focusing initially on Poland and Romania. Having established a comparison of the different systems the response in social assistance policy to the economic crisis will be the departure point for discussion. The similarities or differences in response and outcomes will be examined and explained arguing that the design of policy, policy feedback and institutional arrangements, and how the crisis affected the state in question are the determining factor.

## **Introduction**

For scholars of social assistance policy the 1990s and 2000s have offered, and still offer, a number of new cases for study. These states have been developing new systems as their economies and political institutions go through their post-communist transitions. A further point of interest is added because of the global reach of the current ongoing economic crisis. The upheaval brought about by the crisis in the financial system and subsequent recession has brought the first simultaneous challenge to these transition economies and their newly developed social assistance systems. This paper offers an early drawing together of ideas regarding the social assistance systems of the People's Republic of China (PRC), namely the Minimum Livelihood Guarantee system (*zuidi shenghuo baozhang zhidu*, MLG or *dibao* hereafter) and two of the new member states of the EU, Poland and Romania.

There is a strong body of research on the social assistance systems of both the PRC and new member states but comparisons between the two have not yet been attempted. Studies of the Chinese system have tended to be descriptive focusing on the MLG, what it does and how effective it has been (Leung, 2006, Leung and Wong, 1999, Wong and Flynn, 2001, Wong, 1998, Wong, 2001, Saunders and Shang, 2001). In addition research looking at the reform of the social security system (Liu and Wu, 2006, Qian and Wong, 2000, Wong and Ngok, 2006), the alleviation of poverty (Hussain, 2003) and the structure of unemployment has addressed the MLG and social assistance to varying degrees. There is a developing body of work which addresses the MLG from a more political or policy standpoint addressing issues such as feedback, institutions and exploring the ideas behind the implementation of the measures (Hammond, 2010, Hammond, Forthcoming, Saich, 2008, Solinger, 2001, Solinger, 2005). Studies of the new member states also exist and also include the regular output of the EU (Ringold and Kasek, 2007). However, comparisons between the Chinese MLG and the post-communist systems of the new member states in Europe do not exist at present. There are some internal reports for the Chinese government which have made comparisons with European social security and assistance systems as part of the policy process.

It is this gap in the existing English language literature that this paper is an early effort to address. Although the two sets of states might appear profoundly different in their culture, history and current place in the global economy there is a basis for comparison. Both China and a number of the new member states have gone through sometimes painful transitions in the 1990s. The move away from a planned economy, the introduction of uncertainty which comes with a reliance on markets for growth and the subsequent challenge of dealing with urban poverty and designing new systems of provisions means that these states offer a good basis for comparison. This paper will use the ongoing economic crisis as frame within which to compare by first developing an explanation for the Chinese response and then compare this with Poland and Romania. To this end the paper will be structured as follows. First I will define what is meant by the economic crisis for the sake of clarification but also because I will argue that for those who receive or rely on social assistance the current crisis began earlier than for the rest of the population. Having defined the period for the study I will then briefly set out the background and operation of the Chinese MLG program. I will then discuss and explain the changes and developments made to the MLG during the period 2007 – 2010. The paper will then move to compare these explanations with the developments in social assistance measures in Poland and

Romania. The paper will then conclude suggesting strengths and weaknesses in the approach and future avenues of research.

### **Defining the Crisis**

The current economic crisis has been global in reach and resulted in social and political difficulties for various governments. Although the crisis is frequently discussed in terms of the North American sub prime mortgage crisis and similar collapse in European housing markets, the subsequent credit crunch in the banking sector, spectacular collapses of numerous banks notably Lehman Brothers and the following sovereign debt crisis which is threatening Europe this does not give the whole picture regarding the crisis. These events developed over 2008 reaching a tense climax during the summer and autumn when the banking sector, depending on the reading of the situation, teetered on the brink of collapse. However, the crisis did not start in 2008 but reached its first climax grabbing the media spotlight due to apocalyptic visions of a collapse in the banking sector. The origins of the crisis were arguably in the two years previously and it is this period that would have had a significant impact on the operation of social assistance systems.

A focus on price inflation, particularly in the cost of foodstuffs, instead of subsequent job losses and economic contraction might appear questionable. Because of the nature of social assistance systems it is a reasonable connection to make. Why? And why is it important? Based on the design of most social assistance systems they provide a subsistence or basic standard of living for their beneficiaries. In the Chinese case the vast majority of MLG recipients are unemployed or under employed and they received a benefit which was calculated on a foundation of the cost of basic items. High inflation or variations in the availability of basic goods has a disproportionate affect on those receiving social assistance provisions much as it would those defined as being in poverty.

There is a final reason for taking this view of the crisis to assess the impact it has on social assistance policy and seek a comparative explanation. This is that the state response which will be examined was at this point unaffected by the collapse in public spending power. This has been a much greater concern in Europe than it has been in China where, for various reasons not least a decade long trade surplus, the government has the ability to sink large sums of money into the economy.

### **The Chinese Case**

#### *What is the MLG?*

The MLG is a means tested income top up scheme which was introduced across China in the 1990s. It was first targeted at urban areas only and although a rural version has recently been implemented when discussing the MLG in this paper I am referring to the urban version only. This is in part necessary because of the different developmental paths of the two programs and also because of the different actors and institutions involved in the development and administration of urban and rural social assistance. Provisions are based on the MLG line (*dibao xian*) which is calculated by the local government. Urban residents must apply as a household to their sub-district (*shequ*) by filling in a form and submitting it to the office. Through a combination of the submitted application form, an official investigation and invited comments from their neighbours it is decided whether the household falls below the MLG line. If the

household successfully demonstrates it has a low enough income they will become eligible for the MLG. The household then receives a monetary benefit which tops up their household income to the MLG line. For example if the local MLG line is set at 150 yuan and a household of 4 applies then they must demonstrate their income falls below 600 yuan. In this example their income is 500 yuan and they demonstrate this successfully. The benefit they receive is therefore a monthly payment of 100 yuan a month. If the household's circumstances change then they must inform their sub-district and their position will be reassessed, resulting in either a new payment or payments being stopped. The MLG is set up with the intention of providing a subsistence income to the poorest urban residents. It is therefore set intentionally low providing only a third of the minimum wage and two thirds of unemployment payments. In order to adjust to local circumstances adequately the initial MLG line and any subsequent developments are decided by the local government. This means that the MLG level varies greatly across China and, in theory, reflects the variety of development in the country.

The MLG was first implemented on June 1<sup>st</sup> 1993 as a local innovation in the city of Shanghai. The Shanghai Model as it became known was a local effort at dealing with the changing relationship workers had with the state in China as the reform process, opening up and marketization picked up post-Tiananmen. At the time the MLG did not get any support from the central government and remained a local innovation through 1993 and early 1994. In 1994 the Ministry of Civil Affairs (MCA), who have responsibility for social assistance, held their 10<sup>th</sup> conference in Beijing and here the MLG got some attention by central government officials. Notably the Minister for Civil Affairs Duoji Cairang and Premier Li Peng both endorsed the MLG and suggested that other cities should adopt the policy. Between 1994 and 1997 there followed a period of slow and haphazard implementation across China with predominantly rich cities in the east adopting the policy. At the same time the MCA continued to encourage other poorer cities to introduce the MLG. As I have discussed elsewhere by 1997 this led to the situation where the MLG had been adopted in a large number of cities but had also been adapted a great deal to suit local circumstances (Hammond, Forthcoming).

This situation began to change in 1997 when the MLG was endorsed by the State Council and in September the decision to implement the program nationally was announced (State-Council, 1997). Between 1997 and 1999 the MCA worked to carry out national implementation, with some local resistance in evidence, and at the same time pushed for the policy being established on a more legal foundation. In 1999 the MLG Regulations were announced by the State Council and this represented both a consolidation in the status of the program and a commitment to pushing through national implementation (Fan, 2000). By the end of 1999 the MCA was able to announce that national implementation had successfully been achieved (State-Council, 1999). The problem of uneven administration and funding of the program in some areas was not resolved by achieving national implementation. Following 1999 the MCA continued to struggle with the exclusion of those eligible for the MLG and other problems and it was only the intervention of Premier Zhu Rongji, setting his own agenda tied to policy failures elsewhere, and a massive injection of central subsidies to resolve these problems. By 2003 the MLG had grown from covering some 10,000 people in 1993 to approximately 22 million ([www.dibao.org](http://www.dibao.org) Last accessed: 09/08/10).

The leadership of China transferred to Hu Jintao and Wen Jiabao in 2003 and this saw a subsequent shift in focus from urban to rural areas. The MLG saw its role develop during the years up until 2007 with the program becoming an umbrella or gateway for a number of additional benefits. These included a new medical relief system, assistance with rent, legal aid and additional benefits for those with school age children. In addition cities developed their own local innovations on the basic policy such as Dalian's Community Public Service Agencies (Hammond, 2010). A social assistance law also started to get drafted and then proceed through the legislative process during this time although it has still not been approved by the National People's Congress. A final point to note during this period is that the numbers receiving the MLG remained stable at around 22 million people nationally.

#### *The MLG and the crisis 2007-2010*

This section of the paper is based on early analysis of data and documents collected on the period. Before beginning this discussion there are two problems that need to be highlighted. First, statistical data for this period is incomplete from the most accessible sources with the first nine months of 2009 missing. This is something I will address in an upcoming field trip. Second, publicly available documents around 2009 and 2010 do not currently address one of the increases I will note below. This is interesting but could be put down to the policy working as intended with local government responding to local price increases accordingly which, as we shall see, they did not do in 2007 and 2008.

With these two points in mind the available data shows two things. First, as figure 1 shows the actual number receiving the MLG has increased by 1 million during this period. This would in any other country this would be significant but in China the urban population was last recorded as 606 million in 2008 ([www.stats.gov.cn](http://www.stats.gov.cn) Last accessed: 09/08/10). Another point to consider is that there have been significant increases in MLG recipients in the past, between 1999 and 2002 the number jumped from 4 million to 22 million (Hammond, Forthcoming). The second point, as shown in figure 2, is that both the average MLG line and the average grant paid out has jumped over the period with three clear increases in the MLG occurring. These would be in mid 2007, 2008 and in September 2009. The only concern here is that the 2009 figures are incomplete and so there might not have been as pronounced a jump as implied. In addition the available figures are erratic in recording both the MLG line and average MLG grant. For anyone familiar with researching the PRC this will sound very familiar. With these concerns in mind it appears that during this period the social assistance response to the crisis, or during the crisis, focused on increasing payments with a relatively small increase in the number of recipients.

Based on interviews already conducted and the available documentary evidence it is possible to argue that these increases can be put down to two different factors. The 2007 to 2008 increase was due to increases in food prices. This was a global issue at the time with rice, other foodstuffs and fuel prices particularly affected. In China there was an added problem with the mismanagement of pig stocks leading to a leap in the price of pork. The MLG is supposed to be adjusted locally in these circumstances but the available documents and an interview with a Chinese policy maker indicated that local government was not responding. The central government pressed twice in June 2007 for local government to respond to increasing costs by adjusting the MLG line ([www.mca.gov.cn](http://www.mca.gov.cn) Last accessed: 09/08/10). When this did not elicit a response the

central government announce in September that the MLG would be subject to a national increase of 15 yuan a month. This was in line with the average increase in the price of a half kilo of pork which is the amount allocated per person in a typical MLG line calculation. On the first of January 2008 the central government again announced that there would be a further increase in the MLG and as before it was a 15 yuan increase nationally. This was justified by increases in prices and the lack of response by local government. The later increases in recipients, the MLG line and grant are harder to detail because of a lack of documents which address them and the concerns raised above regarding the gap in statistics.

The increases in the MLG during 2007 and 2008 can be explained as a combination of the unintended consequences of policy design and previous policy decisions, what is frequently referred to as feedback (Beland and Yu, 2004, Pierson, 1994, Pierson, 2000, Pierson, 2004, Skocpol, 1992), and the institutional arrangements of the Chinese state. The main issue in the seemingly drawn out response to price inflation and the disproportionate affect this would have on the urban poor was that local government, or the majority of local government, chose not to respond. The design of the MLG leaves local government with responsibility for managing the level MLG line and payments. In addition the relationships between central and local government is complicated with local bureau responsible to multiple local and national bodies which are higher in the institutional hierarchy. One Chinese policy maker put the drawn out process between prices inflation picking up and the central government intervening being due to local government choosing not to respond to increasing prices (Interview Beijing 01/07). The reason for this was in part because local government could choose not to respond. The design of the MLG allowed for this and was reinforced by the complicated relationship between local and central government agencies. A further explanation put forward in the same interview for the drawn out process here was feedback from a previous decision to use central funds to boost the MLG in 2002 and 2003. The implication here was that local government did not wish to spend their own money and were waiting to see if the central government would intervene in the summer. Because of increasingly vocal unhappiness at the increasing cost of food, and especially pork, the government did act and then followed through in 2008 with a further increase vindicating the localities intransigence on the issue.

### **Expectations for Transition Comparisons**

The response to the crisis in the MLG program gives four areas within which comparison with other transitions states could be made: design, feedback, institutional arrangements, and how the crisis itself affected the state in question. The design of a basic income or social assistance program is important because it determines the mechanisms of response. As we saw with the Chinese case the local level decision making built into the MLG meant that local government effectively determined what the response was. In addition the shopping basket calculation method of the MLG meant it was susceptible to variations in food price inflation but without any automatic or index linked mechanism built in the design effectively introduced uncertainty into any response, if it occurred. In other states we might expect the design of social assistance measures to have an impact on crisis response. Although in China it has been a negative impact for the most part this need not necessarily be the case.

The second area to consider is feedback from previous policy decisions. The term feedback refers to the concept popular in political science where policy decisions create expectations, capacity or vested interests which then go on to affect a policy when later decisions are made. As noted in the Chinese case the previous intervention of central government between 1999 and 2002 was identified as a reason for the lack of response to food price inflation in 2007. This was because the previous interventions had created an expectation or understanding in local government that the central authorities were willing and capable to inject funds into the MLG if needs be. The result was a drawn out response to the building crisis in the cost of food for MLG recipients.

Building on point two is the significant role that the institutional arrangements of the state can have and this is the third point. This may be the most difficult point to draw comparison on because the differences in institutional structure that exist between states. In the Chinese case the fragmented structure that exists between central and local government agencies combined with lower level agencies being responsible to multiple higher authorities in the state can lead to tensions and contradictions in policy goals (Lampton, 1987b, Lampton, 1987a, Lampton, 1992, Lieberthal and Oksenberg, 1988, Lieberthal, 1992, Lieberthal, 1995). The other point to consider is China's authoritarian nature. Although this does not mean China is immune to pressure from the population, in fact the language of "mass incidents" and "ensuring social stability" dominates state documents, it might be assumed that new member states being democratic might have a different impact on how policy is made in all spheres, including social assistance.

Finally, there is how the crisis itself affected the state in question. As I have tried to argue the crisis in China can be viewed slightly differently because it was inflationary pressures which have been the main concern rather than the collapse in the western banking sector. When the subsequent recession dampened international demand for Chinese goods it was rural migrants who were affected and the urban MLG would not have been used as a measure to help the suddenly unemployed. In addition the Chinese government has managed to avoid the debt crisis engulfing Europe and North America. In contrast in the new member states social assistance systems may be subject to more influence from turnovers in political power or spending pressures during the crisis.

### **Comparing with Poland and Romania**

This paper uses Poland and Romania as first cases for comparison. At present this is limited to data available from the MISSOC database although this is something I hope to address in the near future. From a basic reading of the two programs compared here, Poland's *Pomoc Społeczna* (considering both the periodic and permanent allowances) and Romania's *Ajutor Social*, there is a great degree of similarity in terms of the basic design. Both policies use a designated line for income to fall beneath as an eligibility criterion. The local aspect of the programs is also in evidence with both assessing at a local level. This also extends to administration and funding although Romania moved away from this in 2002 due to a collapse in payments (Ringold and Kasek, 2007). Where the two programs differ is in their design, and this can be viewed as significant when we consider the points raised below, and the formalised routine basis for adjustments. Both Poland and Romania's social assistance is index linked with an annual adjustment.

For the period in question the data raises an interesting point. Poland has not adjusted at all during the crisis period with the periodic and permanent allowances remaining set the same throughout. In contrast, see figure 3, Romania has adjusted periodically but with no sporadic increases outside of the annual adjustment which is part of the design of the policy. What might explain this divergence in social assistance provisions? Based on the explanation of the Chinese case we have four areas to consider: design, feedback, institutional arrangements, and how the crisis itself affected the state in question.

The explanation which follows will in part be speculative because of the stage the project is at but there are some observations which might be born out by further investigation. In Poland's case the question is why no adjustment taken place, almost regardless of the crisis because there is inflation in the economy which should have fed through to some increase over three years in question. In terms of design the Polish program should be adjusted annually subject to changes in the CPI and this decision is made at the central level. Any argument based on a design issue would be speculative at this time as would institutional arrangements and this is something to be looked at in future. Feedback might provide a better avenue at present based on the decision in 2007 to move the funding basis to local government (Ringold and Kasek, 2007). This introduces an interesting conflict which may be playing out in a stagnant social assistance level. Leaving the social assistance level alone would reduce the possibility of a conflict between central government increasing social assistance which local government is unwilling to pay for. Finally, there is the crisis itself. Poland has so far been one of the nations to escape recession during the crisis and this might explain the relatively relaxed response in social assistance. Simplistic as it might seem the lack of a response implies the lack of one being necessary.

In the case of Romania the *ajutor social* appears to working very much as intended. The design of the program requires an annual increase in line with inflation and this appears to be the case with regular increases occurring. There is no divergence from this in the period in question. Nor is there any adjustment in the eligibility requirements or assessment of applicants. Because there has been no apparent aberration in the operation and adjustment of social assistance feedback and institutional arrangements do not appear to be an issue either. The decision to recentralise funding of the *ajutor social* is a fascinating point to consider given the direction the Chinese MLG appears to be moving in. Finally, Romania officially entered recession in the first half of 2009. Given that the early stage of the crisis was arguable ridden out by the *ajutor social* for the period in question it may well be that we have to wait longer than China or Poland to see the consequences of the crisis play out.

## **Conclusion**

This paper sought to offer an early comparison between the Chinese social assistance system, the Polish and Romanian counterparts and their response to the ongoing financial crisis. The background reasons for change or continuity in social assistance programs appear to be different. China responded early on to problems with food prices which coupled with political concerns regarding social stability and the lack of a response from local government. Romania appears to have followed standard procedures with the *ajutor social* with no variations in available data or changes in

who can apply. In contrast Poland appears to have done nothing during the period in question apart from the significant decision to move financing of the *pomoc społeczna* to local government. Is there any means to compare across what appears to be a varied set of responses?

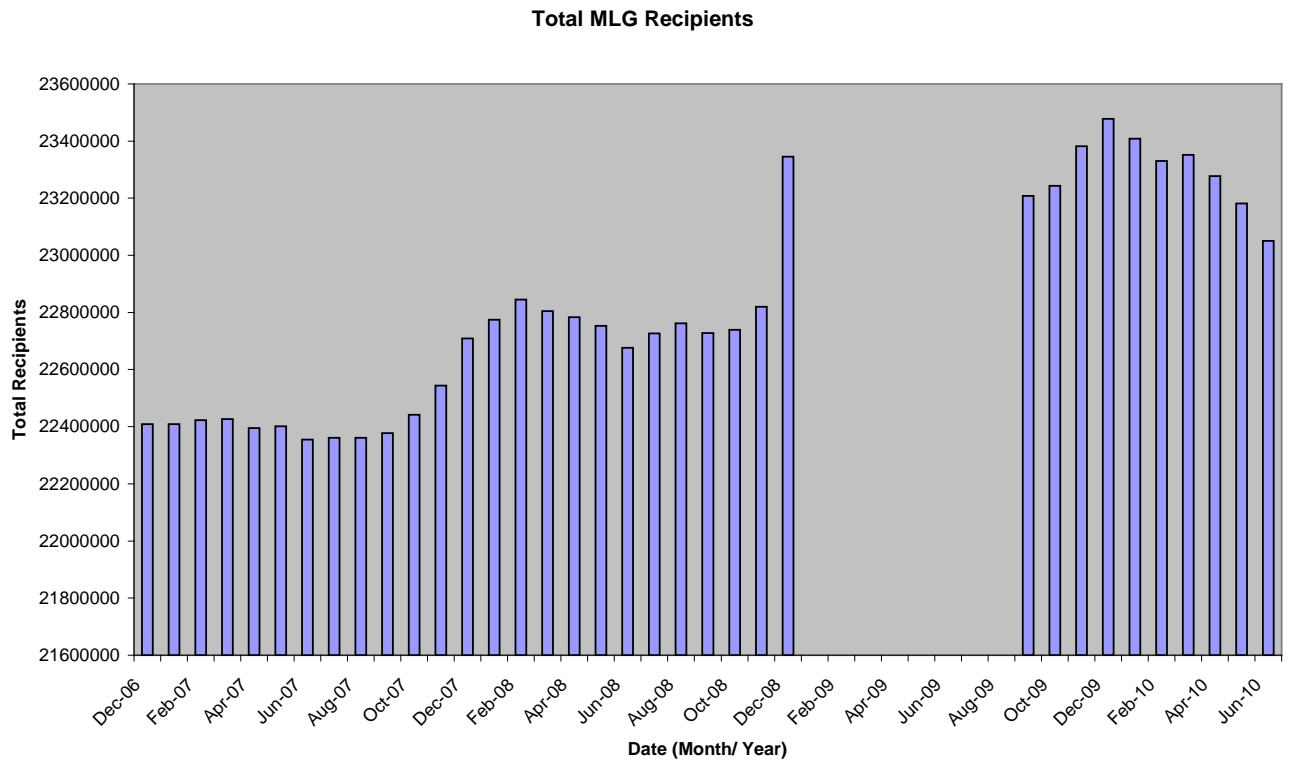
Based on the Chinese case I set out four points which can be used to explain responses in social assistance programs. These are policy design, feedback, institutional arrangements, and how the crisis itself affected the state in question. The design of social assistance can explain the developments in China and Romania. In China the MLG faced difficulties because of its design focusing on local decisions making. In contrast Romania appears to have worked as intended with the policy design explaining the regular small increases in provision during the period. Poland does not follow its policy design at all but this leads us to a second point. Feedback is an important factor in China and arguably Poland with previous decisions on the funding of policy helping to explain later outcomes. Third, there are institutional arrangements to consider. In China the complex relationship between central and local government was an additional factor in the problems faced by the MLG. Local priorities often conflict with central government and led to a lack in MLG adjustments. This is a point which cannot really be discussed with any certainty at this stage with regard to Poland and Romania. Although speculative Poland might be facing such an issue now with the responsibility for financing social assistance delegated to local government. Romania appears to have already gone through this process recentralising in 2002. Finally, the crisis itself is significant with China facing concerns over food prices in urban areas early on but a rural crisis when manufacturing jobs began to diminish. Similarly Poland has not faced recession but neither has it faced major inflationary pressures until 2010. Romania in contrast has been in recession but this was not until 2009, some two years after China's crisis, and it may be that changes in social assistance will feed through in the coming years if public spending comes under increased pressure.

This paper represents an early effort to compare the crisis response of China and two new member states. At present it is limited in a number of ways. First, whilst basing a comparison on MISSOC data alone allows some conclusions to be drawn they are in many respects limited. This includes some statistics not being used but also the lack of qualitative data which I have had the opportunity to gather in the PRC. Second, the number of cases itself is limited and should be expanded to include all new member states. A case could be made for including all EU member states. Finally, one point emerged whilst writing this paper. There is an apparent similarity in the design and experiences that the PRC and new member states have gone through and therefore a deeper comparison, across the full developmental histories of these social assistance programs, would be interesting rather than focusing exclusively on the current global financial crisis.

## Figures

**Figure 1**

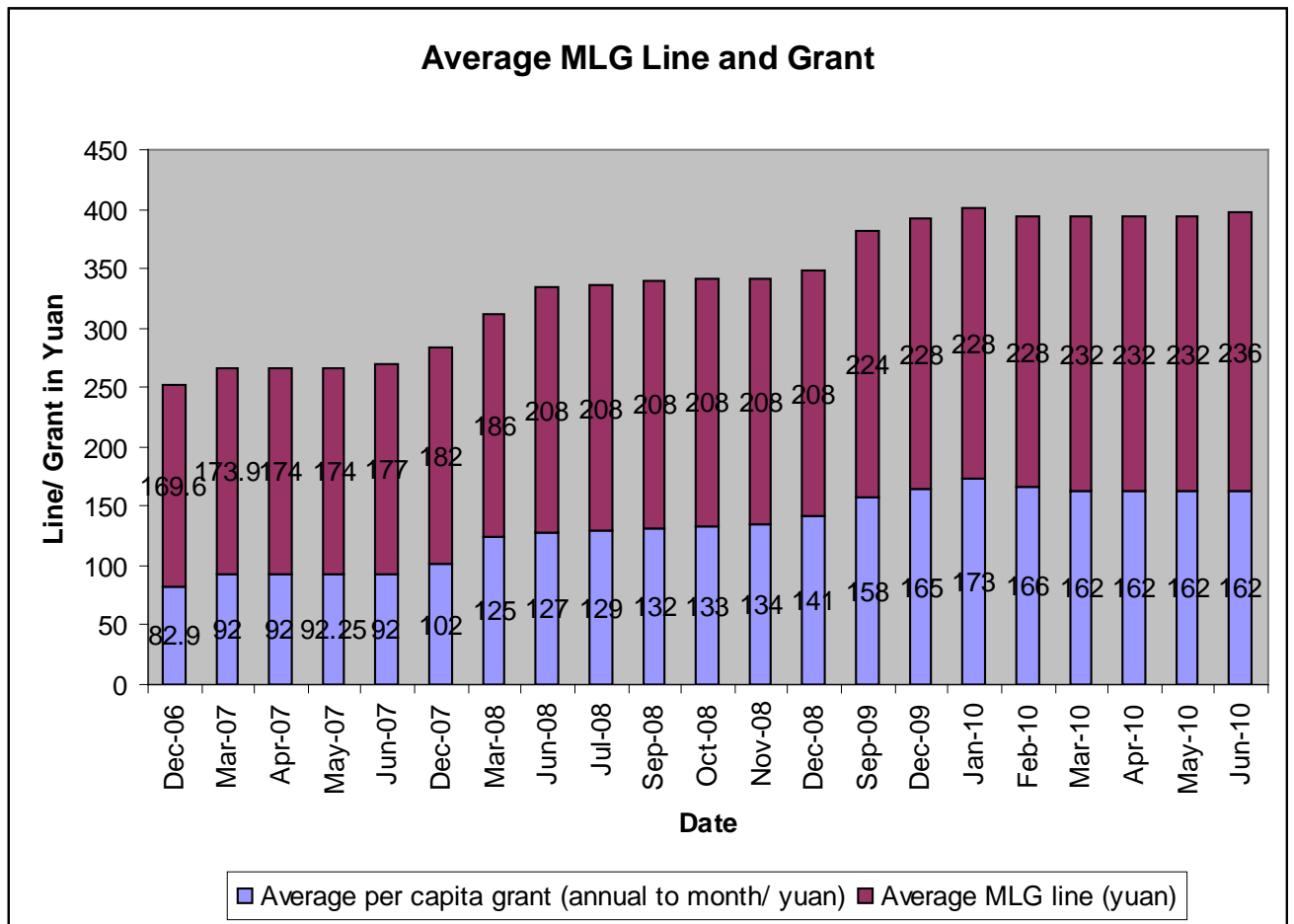
Source: [www.dibao.org](http://www.dibao.org) Last accessed: 09/08/10



Note data missing from public sources for first nine months of 2009.

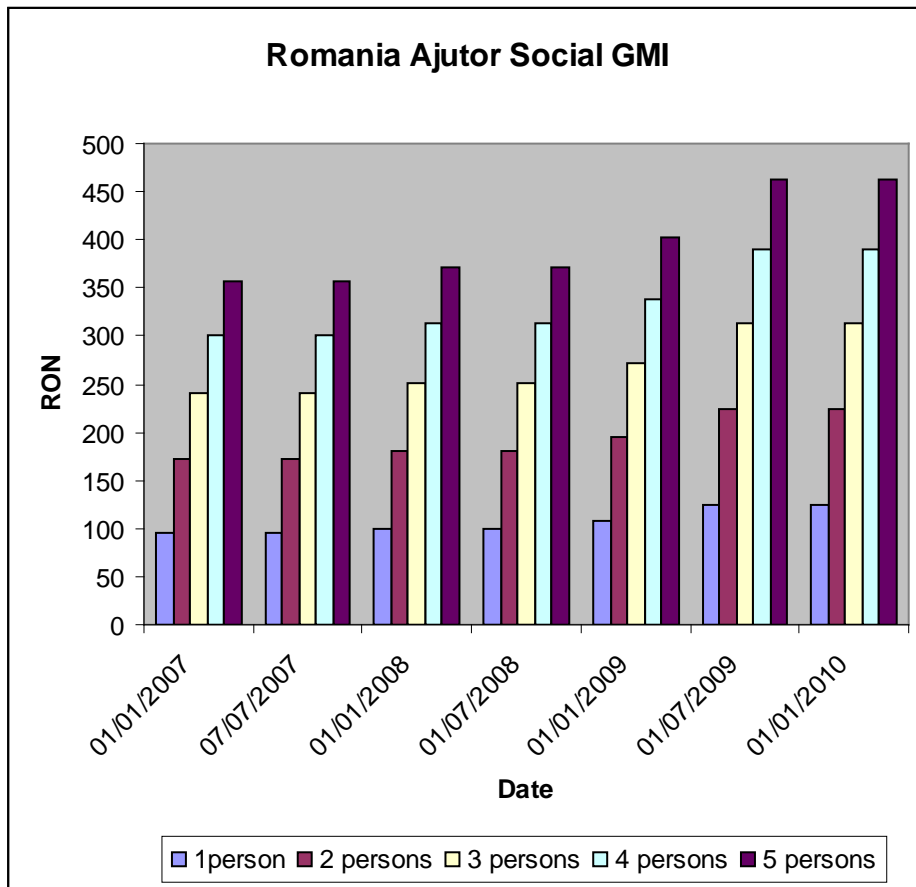
**Figure 2**

Source: [www.dibao.org](http://www.dibao.org) Last accessed: 09/08/10



**Figure 3**

Source: <http://ec.europa.eu/social> (MISSOC) Last accessed: 10/08/10



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