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**Social Policy Development in the Era Economic Reform**

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China's new leadership has focused on achieving balanced growth that is more equitable in distribution and that will produce a comfortable (*xiaokang*) society by the year 2020. The new leaders have eschewed an almost exclusive focus on GDP growth rates that dominated much of the 1990s and are trying to develop a more comprehensive framework for development. They hope this approach will address the concerns of those who have not benefited so well from reforms (many farmers and grain producers), new groups that straddle the now artificial urban-rural divide (migrant families), and the new urban poor who are products of reforms (pensioners and laid-off SOE workers). The rapid economic growth of the past 25 years has been accompanied by significant restructuring of social policy and the mechanisms for delivering social welfare (Saich, 2003). Institutional reforms combined with harder budget constraints have caused the dismantling of state and collective bodies that carried much of the welfare burden in rural and urban China and the government is in the process of building social safety net programs.

Standards of living have been raised for the vast majority and, for those able to afford it, there is a wider range of education and health providers to choose from. However, there remain many who cannot afford the higher costs for social services and for the absolute poor there may be no service provider available. Access to services is more dependent now on income than in the past and this has created new and exacerbated old inequalities. In particular the disparity of welfare provision between urban and rural China has increased and within urban areas there has been the abandonment of the old cradle-to-grave social compact for the privileged working-class.

This chapter reviews first the tremendous progress that has been made in social policy but highlights how progress has slowed over time. Second, we analyze the reasons for the differential trend of progress, including the structure of incentives for local governments. Third, we look at the alternate social policy providers that are emerging

and make a number of policy suggestions. Primarily we shall draw examples from the health sector but education will also be used as a point for comparison.

### *Investment and Progress in Social Policy Under Reform*

While China's achievements for social development have been impressive, especially for a low income country, progress has slowed in the 1990s and new challenges have arisen as a result of reforms. Government spending on health and education has been low in international terms, even for a middle/low income country. While investment has grown strongly in absolute terms (annual budgetary increases of 14.2 percent), this has been below the growth in total government revenue (17.5 percent) indicating that social investment has not kept pace with overall increases in government revenue (UNDP, 2004, p. 4). The structure of spending has changed with individuals and non-state agencies contributing more.

While the state's capacity to provide welfare has not kept pace with economic growth, this needs to be placed in context. In recent decades, China has ranked well in terms of the human development index (HDI) adopted by the United Nations Development Program (UNDP) as a composite measure of social development. China's HDI rose from 0.248 in 1960 to 0.566 in 1990 to 0.721 in 2001. However, in comparison to other countries, China's HDI ranking declined in the 1990s, from 87 in 1999 to 104 in 2001. The difference between China's HDI and GNP also dwindled rapidly in the 1990s with rapid economic growth and increased per capita income. In 1993, its HDI rank was 41 places above its GNP per capita rank but by 2001 China's rank was negative two (UNDP, *Human Development Report*, various years and 2003). In terms of attaining the United Nations' Millennium Development Goals, China has performed well. It is on track to achieve most of the targets by 2015 with the exception of HIV/AIDS control, promoting gender equality and providing safe drinking water for the rural population (UNDP, 2004).

It is also important to note the considerable regional variation in terms of the development level. China's overall HDI ranking is comparable to a high/middle level of human development but this covers significant regional variation. Five of the Western provinces had an HDI ranging from 0.650 to 0.5921 putting them in the middle development category and even Tibet with the lowest ranking (0.5921) is above the cut-off for low development (0.5). By contrast three of the major Municipalities (Beijing, Shanghai and Tianjin) have an HDI over 0.800 placing them in the high level of development (Hu Angang, 2004, p. 8 and UNDP, 2004, p. 3). It is interesting to note that regional disparity in the HDI index is lower than that for per capita income, also attesting to relatively good social development.

Despite this, progress has been slowing down. During the Mao years the strict household registration system separated rural from urban China and the bloated SOE staffs with relatively high welfare provision kept absolute urban poverty to negligible levels. Migration of anywhere between 80 and 120 million people has broken down this divide. Migrants are helping to fuel the urban economic boom while remitting significant amounts of income to their rural homes. China hopes to boost its urban population to 800 million by 2020. In the cities, however, harder budget constraints have caused large numbers to be laid-off in the SOE sector. Official statistics show that employment in SOEs and collectively owned enterprises fell by 31 million and 19 million respectively from 1996 to the end of 2002 (SSB, 2003, p. 126), while Hu Angang calculates that 55 million workers were laid off from 1995 to mid-2002 (quoted in Solinger, 2003, p. 67). Not surprisingly the real unemployment rate is probably three times the official rate of 4.3 percent (end 2003). This puts a greater strain on welfare budgets and creates newly disadvantaged. There were some 19.63 million urban poor at the end of 2002 (Hong, 2003), while the number of urban residents who received minimum subsistence support was 21.4 million in March 2003. While the urban poor are increasing, China's spectacular success in reducing those in absolute poverty in rural China has slowed. The

remaining 28 million (according to official statistics) will not be pulled out of poverty by relying on higher GDP growth alone.

China's official figures (using \$0.66 per day) underestimate the real level of rural poverty. The Asian Development Bank using the norm of \$1 per day in purchasing power parity and using the preferred consumption norm suggests China would have about 230 million poor residents, some 18.5 percent of the population (Asian Development Bank, 2001). If one applies a norm of \$2 per day, this would cover 53.7 percent of total population. This puts China roughly on a par with Indonesia for the \$2 per day indicator (17.2 percent and 55.4 percent, respectively) and considerably better off than India (34.7 percent and 79.9 percent respectively) (World Bank, 2003, p. 59). Such statistics reveal that despite tremendous progress, China confronts major policy challenges. First, a significant group of rural poor have not responded to policy measures, market openings, and the benefits of 'trickle down'. Second, a very large group is vulnerable to economic downturn and liable to recidivism. Third, a smaller but rising number of urban poor are the product rather than beneficiary of reform. This argues for better public policy based on a better understanding of who are poor and why.

The slowing progress is clearly seen with respect to healthcare indicators. The outbreak of SARS in 2003 (Saich, forthcoming) provided a timely warning to the Chinese leadership of what healthcare system neglect can mean in terms of the economic and social impact of communicable diseases. According to the World Health Report 2000, out of 191 countries China ranked 188 in terms of fairness in financial contributions, 144 for the overall performance of the health system, and 139 in terms of healthcare expenditure per capita in international dollars. While China ranked above most African countries, it is ranked below other large developing countries such as India, Bangladesh and Indonesia. In terms of health quality, China ranked better (61) but this may be because of the residual impact of the old collective medical system (WHO, 2001, p. 152).

Government spending on health is roughly comparable to other Asian middle income countries but lags for education and is far behind the Asian tiger economies (see **Table One**). Government spending on health as a percentage of GDP was 1.9 percent in 2000, down from 2.0 percent in 1990. This is better than most other Asian countries with the exception of the tiger economies and Malaysia (2.1). Educational outlay was 2.1 percent in the 1998-2000 period, well below that for most other countries in the region. Spending has dropped from 2.3 percent in 1990 and falls well below the government's stated intent. Throughout the 1990s, China had set a spending priority for education equivalent to 4 percent of GDP by 2000 and this again is one of its key development goals for 2010. As a result, the average time spent in school is significantly lower in China and drop-out rates before completing the required nine-year basic schooling are higher than in other comparable Asian countries. Despite the relatively comparable spending on health, China's indicators for under five infant mortality are worse. The rate for China is 39 per 1000 live births while for Malaysia it is eight, Thailand 28, and 29 for the Philippines.

Two other features of China's social policy spending should be mentioned. First, spending programs have a strong urban bias and second personal spending on education and health has been rising sharply. China's total health expenditure in 2001 had risen to 5.4 percent of GDP but the growth was largely attributable to the strong increase in personal spending. Between 1991 and 2000 accumulated government spending on the health budget for rural areas was only 15.9 percent of total government spending (69 billion *yuan*) and while health spending increased by 50.7 billion *yuan* over this period, the increase for rural areas was only 6.3 billion, a 12.7 percent increase. Rural government spending fell to 6.59 percent from 12.54 percent of total spending (Han, 2004, p. 18). In 1998 per capita health expenditure for rural China was 193.91 *yuan* (up from 38.81 in 1990) while that for urban China was 595.27 *yuan*. Rural spending for health care was two-thirds of the national average while that for urban China was almost

twice the national average (Economics Research Department, 2000, p. 25). The effectiveness is reduced as financing is focused on the county and township levels whereas 60 percent of outpatient services are provided by village clinics or the private sector. Only 25 percent of these services are provided by the township hospitals and only 14 percent at the county and the township level (World Bank, 2002, p. 125).

Government budgetary expenditure stood at 15.5 percent in 2001 down from 25 percent in 1990 (SSB, 2003 and Gu, 2004, pp. 1-2). However, the formal budgetary allocation alone underestimates government spending as a percentage of total healthcare expenditure. Chinese statistics include the category 'social spending' that contains a large component of State-owned Enterprise (SOE) contributions to health insurance and related health spending. This amounts to a further 20-25 percent depending on how one calculates it. Thus, the World Bank calculates government expenditure on health at 36.6 percent (1997-2000) of total health expenditure. This is much higher than India (17.8 percent) but is generally lower in international terms. The Malaysian government allocates 58.8 percent and the Philippines 45.7 percent, while the average for lower middle income countries is 49.4 percent (World Bank, 2003, pp. 92-94).

Through the 1990s spending by companies dropped from 37.9 percent to 24 percent, while personal spending increased from 37.9 percent to 60.5 percent of the total healthcare expenditures (Gu, 2004, p. 2). In the rural areas we see a particularly dramatic shift to farmers assuming greater responsibility. In 1991, farmers' input to healthcare spending was 80.73 percent but this rose to 90.15 percent in 2000 (Han, 2004, p. 18). Annual medical expenses per capita rose from between two to three percent of total income in 1990 to eight to eleven percent of income in poor areas in 1998 and this is continuing to rise (Liu, Zhen, and Wu, 2000).

We see similar trends with respect to education spending. As discussed below, the primary responsibility for funding most social welfare falls to the local government. The system has shifted from a centralized one with a narrow revenue base to a decentralized

system with a diversified revenue base (Tsang, 2002, p. 15). Central government accounts for only 11.9 percent of education spending while total government expenditure accounted for 65.9 percent of all expenditures (State Statistical Bureau, 2003). Government spending on regular primary and secondary schools as a percentage of total spending has dropped from 78.8 percent in the mid-1980s to 72.8 percent in 2001, having dropped as low as 60.9 percent in the early 1990s. Various funding programs for underdeveloped areas and to improve access to basic education caused spending to rise in the late-1990s. Family spending on education has also been increasing rapidly in recent years as not only more private schools are opening but also more government-run schools are charging various fees and levies to cover basic costs. For basic education, the government now contributes 80.3 percent nationwide and 83.2 percent for rural primary education. Tuition fees account for 8.4 percent and 9.5 percent respectively (see **Table Two**). There is significant regional variation in spending with Shanghai, the highest spender for primary school education, devoting ten times as much as the lowest spender, compared to only five times as much in the mid-1990s (Hannum and Park, 2002, p. 9).

Over the reform period, health and education costs have been rising. The unit cost of an outpatient visit at a county hospital in 1998 was roughly four times higher than the cost in 1993. At the township level the cost was more than twice as high (Ministry of Public Health data). Yet we see government support for hospitals declining as a percentage of revenue as health institutions are required to cover more of their own basic expenses. In 2002, government funding covered only 10.2 percent of the costs of government-run hospitals, down from 15 percent in 2001, while 44.17 percent came from user fees and 43.04 percent came from drug sales.

The consequences of these trends are becoming increasingly visible. When combined with the increasing income and regional inequality we see a very varied picture of access to and quality of social service provision. Thus, in relatively wealthy Zhejiang province infant mortality per 1000 live births was around 20 whereas in poor Guizhou it

was 60. This mirrors the findings in a study of health conditions in 30 poor counties that found an infant mortality rate of 52.3 per 1000 live births compared to a national average for rural areas of 21.5. The rate of maternal death during childbirth was 216.8 per 100 000 as compared to a rural average of 114.9 (Meng and Hu, 2000, p. 67). Both the Infant Mortality Rate and Maternal Mortality are closely correlated with the use of prenatal care and attended safe deliver, two preventive services that have been adversely affected by the privatization of healthcare in rural China (Saich and Kaufman, forthcoming).

With the disbandment of the rural collective institutions and with SOEs under increasing financial pressure, it is not surprising medical insurance coverage has declined. Coverage through the rural collective medical system dropped from almost 80 percent in 1979 to only 2 percent in 1987 before improving to 6.57 percent in 1997 (*Zhongguo nongcun*, 2000, p. 21). A national survey conducted in fall 2003 (Horizon, 2003) found that nationwide 75.4 percent of individuals did not have any medical insurance, 88.3 percent in rural areas and a lower 45.7 percent in major cities (see **Table Three**). Equally alarming is the fact that 72.8 percent had no insurance for catastrophic illness and was not intending to purchase any. As a result, we see more people not seeking medical help when they need it. According to the survey, those in major cities dedicated 10.3 percent of household income to healthcare costs and 9.6 percent for those in rural China. This might not sound much but many families are going without the medical help they need. In our 2003 survey, 25.1 percent of respondents stated that cost prevented them from visiting a doctor with 15.3 percent unable to stay in hospital when needed, 25.1 percent and 17.2 percent respectively for farmers. Other surveys have revealed an even more problematic situation. The Ministry of Public Health has calculated that 37 percent of farmers who should have seen a doctor did not do so while 65 percent of patients who should have been hospitalized were not treated because of inability to pay (see UNDP and ILO, 2002, pp. 21-22). Education costs also press

household budgets, accounting for 24.6 percent of annual household income per child in major cities and 17.4 percent for farmers (see **Table Four**).

Such statistics indicate the need for a more concerted policy effort in the next phase of development if China wants to maintain its former impressive achievements in social policy. The trends have pushed the new leadership to focus on a more balanced and equitable growth strategy. New Premier Wen Jiabao has proposed a number of measures to improve the lot of migrant workers, to raise farmers' incomes, and to redress the most blatant inequalities in the system. Importantly, the government has established a set of sixteen indicators by which it will measure its progress toward the target of building a comfortable society (*xiaokang shehui*) by 2020 (see **Table Five**). These indicators are broader than the usual economic indicators that China uses to measure its progress. Thus, for example, education expenditure as a percentage of GDP is expected to rise from 2.3 percent of GDP in 2002 to 4.5 percent by 2020; life expectancy rise from 71.8 years to 74; and the number of doctors per 1000 population to rise from 1.6 to 2.5. Whether these targets can be attained is open to debate but such indicators are important in alerting officials to the fact that their future work performance may not be judged only on GDP growth, the ability to maintain social order and keep population growth under control alone.

### **Factors Promoting Change in Social Welfare Delivery**

The reforms and the promotion of market usage in social welfare delivery have changed significantly where people seek service and the kind of service that they can expect. This has brought in new actors and has spurred discussion about the changing relationship between the state, market and civil society. State capacity to deliver social welfare has declined and among the many factors contributing to this, changes in the financial system have been the most important. Three major factors have affected the state's financial capacity to provide adequate welfare support. First, the diversification of the economy

and the abandonment of collective structures in the countryside have diminished state capacity to raise adequate revenue. Second, *de facto* financial decentralization has redistributed incentives among the different levels of the government bureaucracy and reduced their respective capacities. Third, tightening financial constraints have caused SOEs to shift their former welfare roles to under-funded local governments.

Before the economic reforms began, it was relatively easy for the central state to extract revenue from the communes in the countryside and the SOEs in the cities to provide rudimentary welfare coverage. Most agricultural and industrial production was sold at state-fixed prices, while the banking sector simply acted as the cashier for the state's development priorities. Many collective organizations in the countryside and SOEs in the urban areas provided basic education and medical facilities that were considered impressive given China's level of economic development. Twenty years later, the situation has changed dramatically with major consequences for the role of the state and its fiscal capacity. With state banks required to think more commercially, they have focused more on investment in excludable goods such as enterprise construction or plant-upgrading. From the bank's perspective, where is the value, with the exception of certain public works projects, of lending to the development of public goods?

In so far as most bank lending still goes to SOEs, there is an indirect impact on the provision of social welfare since SOEs traditionally have been major urban providers of education, health and housing. However, the assets of these SOEs are inherently excludable. In fact, the system has worked even more strongly against the use of government funds to provide public goods. The lack of an effective tax system, even after the 1993-94 reforms, has left the central state with too little revenue to cover essential public goods or to deal successfully with redistributive issues. The government, lacking sufficient tax revenue, has relied on extracting resources from its citizens through mobilization of their bank deposits. These bank deposits when invested are used to create excludable goods. The financial reforms have meant that the government has in effect

taken public funds (household deposits) and converted them into private goods (assets in enterprises). This has become increasingly the case as many SOEs have begun to drop social welfare obligations either by privatizing them or transferring responsibility for their provision to local governments.

The problem is compounded by the state's difficulty in raising revenue from the rapidly growing non-state sector of the economy (now 75 percent of industrial output) and its continued reliance on large SOEs for its revenue base. This continued reliance on SOEs at all levels of government encourages investment in enterprise development and perpetuates the bias against investment in social development.

The decline in central state revenue has been a major cause of the drop in the provision of public goods and services in poor areas but even more important has been the shifting balance between central and local budgetary streams and the incentive system for local officials. Central state revenues as a percentage of GDP dropped from 36 percent in 1978 to a low of 10.7 percent before reviving to 18 percent in 2002. This has severely restricted the central state's redistributive capacity and has meant that local governments have been largely left to their own devices to raise the necessary funds for development priorities. The relative decline in the central state's fiscal capacity to guide development has created pressures at all levels and in all Chinese government agencies to meet recurrent costs from locally generated revenues. This means that local resources and power structures increasingly determine political outcomes. Within the same province and even in adjacent counties one can see radically different socio-political outcomes deriving from the reforms.

The increase in locally controlled revenues from a variety of sources has more or less matched the decline in central revenue (see Saich, 2002, pp. 78-81). To try to restore Central capacity a new tax system was introduced in 1994 to raise both the overall percentage of budgetary revenue and to increase the Center's share to around 60 percent of collected revenues. This would allow 10 percent to be used to meet redistributive and

related goals. Reforms have gone part way to meeting these objectives. Total budgetary revenue has revived to 18 percent of GDP in 2002 with the Center taking 55 percent, up from 22 percent in 1993 (State Statistical Bureau, 2003). However, the tax reform had unexpected consequences. For example, the value added tax is split 75-25 between the Center and the localities. Prior to the reform Guizhou province had derived fully 45 percent of its revenue from liquor and tobacco. Much of this revenue now accrues to the Center.

Yet it is local government that has the main responsibility for spending on social welfare. One inheritance of the Soviet fiscal system has been that the local government has always provided the bulk of the basic public goods, with very few exceptions. In addition, the Cultural Revolution reinforced the notion that each local authority should minimize 'dependence' on support from higher levels (Wong, 1997, p. 11). This has contributed to the large variation of service provision across different administrative jurisdictions in China. The local level of government retains the major responsibility for financing infrastructure and providing social welfare.

Apart from nationally designated poor counties that receive transfers from the Center or the province, localities are by and large on their own to raise funds. This concern with revenue generation is exacerbated by the fact that despite fiscal decentralization the central government has retained control over the policy agenda. While the accounts of localities avoiding or deflecting central policy are many, the Center still sets many tasks that must be carried out and imposes burdens to be met. Funding for health and education are overwhelmingly a responsibility of lower level governments. An Asian Development Bank survey of five counties in Guizhou and Shandong revealed that between 40 and 45 per cent of the total outlays went to social services, by far the largest category (Wong, 1997, pp. 170-73). Cities at the prefecture and county levels cover all expenditures on unemployment insurance, social security and welfare, whereas in most

other countries the central government will cover social security and welfare with education and health shared between the localities and the center.

The expenditure responsibilities for townships are similar, although they often have a weaker financial base and they carry the heaviest load for social spending. The county and the township together account for 70 percent of budgetary expenditures for education and 55 to 60 percent for health (World Bank, 2002, pp. 34, 94 and 111). In Xiangyang county, Hebei, budgetary contributions to education finance amount to 40.6 percent of the total expenditure. Of the government contribution, the township provides 84.6 percent and the county 15.2 percent, the remainder comes from the province (Han, 2003, p. 12). In fact, before 1984 the equivalent of the township did not raise revenue independently. Villages, which do not form a formal level of government, have significant expenditure responsibilities even though they have no independent fiscal powers. They have inherited many of the obligations of the old collective economy such as salary, care for the aged and even support for health and education (Wong, 1997, p. 174). This drives village leadership and the township to seek various off-budget revenues from user fees and other unsanctioned levies to support these activities.

For example, in three counties surveyed by the Development Research Center of the State Council (Han, 2003), expenditures exceeded revenue and this was increasing the need to raise even more off-budget revenue. Nationwide, extra-budgetary funds may total 20 percent of GDP while in the three counties surveyed they ranged from 30 percent of total income (Xiangyang, Hebei) to 69 percent (Taihe, Jiangxi).

The disincentive to invest in social development is exacerbated by the functioning of the political contract system and the performance contracts (*gangwei mubiao zeren shu*) that local governments and officials have to sign (Saich, 2002, pp. 92-96). The hard targets set in these agreements, with the exception of family planning and maintaining social stability, are primarily economic and favor concentration on short-term revenue maximization rather than long-term comprehensive development.

Combined with the rising income inequality, the unequal distribution of resources across local authorities and the incentives for spending priorities account for the huge variation in the provision of public goods and services. Access to health and education services was still widely available in the 1980s but became more dependent on household incomes in the 1990s (World Bank, 1997, p. 23). For example, in 1998 22.2 per cent of those in high-income areas were covered by cooperative medical facilities but only one to three percent in poorer areas was covered (Zhu, 2000, pp. 41-43). As the World Bank concluded in its 1996 report, 'the downturn in China's health performance relative to its income level coincided with agricultural reform that reduced the ability of the village to tax the peasants' (World Bank, 1996, p. 127).

### **Policy Solutions and Alternatives for Providing Social Welfare**

It will be impossible and fiscally irresponsible for China to extend the kind of integrated social welfare that used to exist for the urban elite to the new urban population let alone to those in the countryside. As Wong and Heady (1997, p. 324) have pointed out the 'concept of a self-reliant rural public sector is no longer workable'. This provides a dilemma that will require new policy approaches to resolve. Progressive urbanization will help by moving citizens off the land and into better paying jobs through which certain basic welfare guarantees can be developed. For those who will remain outside of these developing sectors, either in rural China or the new urban poor, China will have to implement effectively various programs of minimum support to ensure that they do not fall below an acceptable minimum level of poverty. Insurance against catastrophic illness would be an important case in point.

Policy change falls into three categories. First, certain fiscal and administrative reforms would be beneficial. Second, the state needs to understand better citizen demands for social welfare rather than relying exclusively on its the current supply side approach.

Third, this will mean fundamentally rethinking the relationship between government, the market and civil society in providing social welfare.

With respect to fiscal policy several adjustments should be made. One of the central government's most significant policy challenges is how to reconfigure an industrial policy and associated fiscal policy that is premised on support and bail-out of the state-owned sector. Concentrating precious credit on SOEs has led to relative neglect of the more productive private sector and insufficient investment in the social sector. While there are strong political and ideological reasons for this bias, the SOE sector is a net destroyer of assets while the rapidly growing and more productive non-state sector is penalized and starved of the necessary capital for development.

Policy to date has reflected the political bias of the most powerful, vociferous and visible groups. This has meant that policy has focused on the needs of state officials, has been receptive to the policy prescription of its (urban) professional classes, and has sought to soften the blows of the market transition for the urban proletariat. By contrast, it has left the rural poor, the migrants and the non-state sector employees to their own collective or individual devices and they have remained politically marginalized. If the CCP wishes to maintain social stability over the long-term this may not be the best road to follow and the dangers in such a course have been recognized by the new leadership.

The dismantling of irrational urban subsidies has provided a good starting-point but still too many subsidies are misdirected. A key component of the Maoist development strategy was to provide an intricate complex of subsidies to urban workers to offset their low wages. Subsidies covered clothing, food, education, housing, medical care etc. but they have become too expensive to maintain. In 1988 urban residents received approximately 39 per cent of their per capita disposable income from subsidies net of taxes. By contrast those in rural China paid 2 per cent of their per capita income in net taxes (Khan et al., 1992). Urban subsidies have dropped drastically in recent years and stood at around 22 per cent in 1995 (UNDP, 1998, p. 54) but price subsidies that

benefited urban residents still amounted to 104.2 billion *yuan* in 2000 up from 36.5 billion in 1995 (State Statistical Bureau, 2001, p. 283).

Further rationalization of these urban subsidies, including housing, would mark a more realistic starting-point than trying to extend them to new social categories. The attempts to commercialize housing are important, as this is clearly a case where a private good has been provided by the state or its surrogates at non-economic prices. Savings from reducing further this kind of government support and from propping up the state-owned sector could then be used to fund those areas that have clearer public goods' attributes.

One clear case for government engagement is rural healthcare in poor regions. While privatization of medical insurance might be feasible for the wealthier and most may well find means to deal with curative procedures, rural healthcare provision, especially preventive care, appears to be a clear case where the 'public goods' argument applies. This will become all the more important should HIV/AIDS spread more broadly in the Chinese countryside. There has been a marked growth in private medical provision and a shift away from preventive medical care to fee-for-service with local governments in poor areas less able to provide adequate support. This increases the financial burden on the rural household that in the absence of sufficient state financing must provide the necessary social support.

The basic problem of healthcare delivery derives from changes of the ownership structure of village networks and the nature of the incentive system that has arisen from these changes (UNDP, 1998, pp. 36 and 38). In 1981, healthcare facilities were informed that user charges would have to be used to cover recurrent costs, with the exception of staff costs. By the mid-1980s preventive medical care facilities were also charging users on a fee-for-service basis (Hu and Jiang, 1998, p. 192). This caused the drop in participation in the cooperative medical schemes and the shifting of health cost burdens to the household. We can see this in the statistics for health spending in the rural areas. In

1991, actual expenditures were 258 million *yuan* of which 229 million was fiscal expenditures. By the year 2000, actual expenditures were 1715 million *yuan* but fiscal expenditure had actually dropped to 184 million (Gu, 2004, p. 7).

The central government needs to tighten the regulatory framework to ensure that guidelines on health are followed and that in poor areas better provision needs to be provided at central government expense. The Central government would be well served to be the provider and supporter of public health, ensuring more equitable access, rather than focusing its efforts on subsidizing the salaries of those in the health system (on these issues see Saich and Kaufman, forthcoming). In fact, one recent Chinese study suggests that for wealthier rural areas with increasingly commoditized economies, social medical insurance will become the norm. For the poor areas, it will be necessary for the central government to increase its transfer payments to provide medical support for those unable to afford it. For the middle areas it is suggested that the cooperative medical schemes be revived with seed funds from government and with the government providing a financial subsidy for basic public health services (Li Weiping, 2002, *passim*).

A better focus for central government subsidies should be combined with restructuring local government finance (for thoughtful analysis see Wong, Heady, and Woo, 1995; and Wong, 1997). As in many other countries we have seen the *de facto* transfer of new responsibilities to lower level authorities without the complimentary transfer of the necessary financial resources to carry out these functions. In China this has been exacerbated by the declining capacity to tax the rural sector. As Wong and Heady suggest (1997, p. 325), rural finance should be unified at one level, preferably the county as in most of China the township is too small to be redistributive. This would make planning more effective and would allow for the central authorities to provide a sufficient revenue base to carry out those functions that it deems essential. In the mid-1990s, more than half of the 2000 counties in China could not meet their expenditure requirements from the revenues they derived (West and Wong, in Wong, 1997, p. 285). The three

counties surveyed by the Development Research Center of the State Council had debts in the year 2000 ranging from 47.64 million to 79.4 million *yuan* (Han, 2003). The situation is even worse at the township level. One survey of 81 counties nationwide revealed that the average debt of each township was 10.9 million *yuan* within a lower budget figure bringing them to the brink of bankruptcy (Liu Xitang, 2000, p. 74).

A system that integrated better the capacity to raise and distribute finances would be beneficial. This would provide the central state with enhanced capacity to ensure that local authorities have sufficient funds to carry out those tasks that are mandated for them by higher levels. A particular problem arises at the village level that has to carry out many residual and mandated obligations but cannot formally raise revenues. Villages need to be provided with adequate budgets to prevent further increase in charging illegal fees and fines on farmers. It would also help if extra budgetary and off-budget revenues could be incorporated in a unified transparent budget with a realignment of expenditure and revenue assignments for the various levels of government. One option would be to allow local governments to retain a higher percentage of specific taxes collected to cover education, health and public infrastructure.

The overstaffing of local governments resulting in higher administrative expenses further undermines state capacity to provide adequate welfare. Not only do many localities have difficulty in paying staff costs but also meeting the wage bills for teachers and medical workers. Wages, entertainment allowances and transportation for local officials comprise the overwhelming majority of expenditures for local authorities. Indeed, a number of reformers have suggested that local unrest could be best tackled by drastically cutting the number of local officials who rely on illegal fees and levies to cover their salaries and benefits. One national survey conducted in the late-1990s showed that in a medium-sized county with a population of around half a million and with 5000 administrative staff, 60 percent have their salaries covered by financial revenues. Thirty percent had to raise their salaries themselves and 10 percent found their salary by fining

farmers directly. The situation is even worse at the township level (40 000 population with 100 staff). Here, 35 percent collect their salary directly from farmers (Guo, 1998, pp. 34-35). Central government estimates that around 60 per cent of county level staff are effectively redundant (*South China Morning Post*, 23 August 1999, internet edition, [www.scmp.com](http://www.scmp.com)). If this figure is correct, redundancy at the township level must be even higher. The Farmers' Daily (*Nongmin ribao*, 9 September 1999) reported that in early 1999, Fuyang Municipality discharged all those in the county, township and village governments that were not on the regular, approved payroll. This totalled 21 829 of whom 1151 were working at the county level, 15 903 at the township level and 4745 at the village levels. In effect, their salaries were covered by levies on the farmers.

The rapid expansion of township government has been a major cause of this problem. In the early 1980s, a township of 20 to 25 000 people was served on average by less than 10 party officials and no more than 20 state officials. Now the numbers have risen to 200 to 300 with some townships having over 500 staff (Wu, 2000, p. 22 and Liu, 2000, p. 74). The number of departments and offices has risen from around 40 to 80. The average number of offices in the township government rose from eight to 15 (*South China Morning Post*, 1 November 2001, internet edition, [www.scmp.com](http://www.scmp.com)). The agencies that are expanding most rapidly are those that can bring in extra-budgetary funds such as health facilities that can charge fees, family planning agencies and public security organs that can levy fines and fees. These problems have led some reform-minded officials to raise the suggestion of abolishing the township as a level of government, while others have proposed raising the level of direct elections from the village to the township (interviews with government officials and scholars, Beijing, May-June 2002).

Not surprisingly, such a situation makes it even more difficult to fund the salaries of those working in the medical and education institutions. In Guizhou, township budgets are too small often to cover teachers' salaries and this generally takes up the largest component of recurrent costs of rural basic education. The same problems operate with

respect to medical care. Especially with respect to Maternal and Child Health (MCH) government resources are too limited at the township and village level, where need is immense, and too great at the county level, where there is less need. Subsidies are being used to finance county-level MCH salaries, which are disproportionately high. The subsidies for township and village-level MCH workers are very low, creating incentives for providers to concentrate on curative care rather than on preventive care and education. In 2002, government support to hospitals accounted for only 10.2 percent of total revenues down from 15 percent in 2000 (Gu, 2004, p. 6), a marked contrast to other low to middle income countries where government funds make up as much as 80 per cent of support.

It is clear that much could be saved if restructuring local authorities was combined with new thinking about what kind of government structure would best serve the new economy and which tasks it should continue to oversee and which could be delegated to the private sector or other organizations. Budget savings will only be useful if they are directed toward productive investment and support of necessary social welfare. This would be helped by changing the incentive system to place a higher priority to social development when appraising local government performance. Local performance contracts make it clear that economic development is one of a complex set of tasks but neglect social development. Assessment of performance varies somewhat from place to place but Zhao Shukai has outlined a fairly standard contract for village officials. Evaluation is based on a 1000 point scale for which the vast majority of points (400-500) are allocated for success in collecting revenues, while a further 200 points are for maintaining social stability and 100 points for meeting family planning targets. This means that very little attention (200 points) is paid to social policy targets or public infrastructure projects (Zhao, 2004, p. 220). There are multiple principle-agent relationships that operate between the levels of local government and they need to be understood better in order to improve analysis of the local state, its functioning and the

incentive structure for local officials. Incorporating progress in achieving the *xiaokang* goals will help in this respect.

The fiscal and administrative changes noted above would enable both central and local governments to play a more effective role in providing social welfare. Concentrating finances at the county level would permit more effective funding decisions on social welfare provision and provide a more effective geographic unit for redistribution. Reduction in staffing levels, especially at the township level (even including its possible abolition as a formal level of government) would lift the financial burden on the local state and community. However, better incentives have to be provided to encourage local officials to pay more attention to social development. These reforms should be supported by a better understanding of what kind of services citizens expect from the government and how they prioritize them. Government cannot provide complete welfare services and should be supplemented by an enhanced role for alternative providers.

China, like most countries operates a supply driven approach to the provision of social welfare, the Central government sets certain social policy goals such as providing nine-years of compulsory education, reviving some kind of collective health system for the countryside, or providing some minimum funding guarantees to families in distress. These are laudable goals but they are essentially unfunded mandates and the burden falls on local governments to implement them. As we have seen local governments have neither the finances nor the incentive to implement such policy directives effectively. As the Chinese saying goes ‘the Central hosts the banquet, the Local foots the bill’ (Cheng, 1995, p. 72).

It might be beneficial to consider the demand side of the equation, that is what do citizens think of the provision of specific public goods by local governments and how do they prioritize different needs. To answer this question we conducted a nationwide survey together with Horizon Group to understand which areas of government service citizens

approved of and which frustrated them. Importantly, we tried to devise a simple matrix that correlated the level of importance citizens attached to certain services with the level of satisfaction with local government service provision (see **Table Six**).

The five areas of local government work that received the highest ratings were: traffic management, religious belief, road and bridge construction, water and electricity supply and the one child policy (see **Table Seven**). However, it is worth pointing out that even these services did not reach the rating of ‘somewhat satisfied’. Three of these services relate to the provision of physical infrastructure while little relates to pressing social policy concerns. By contrast, the five areas of government work that caused the greatest dissatisfaction were: dealing with corruption, job creation, unemployment insurance, tax management, and hardship family relief (see **Table Eight**). These relate much more directly to household economic and social concerns. What is interesting is that when we apply the matrix to correlate the level of importance people attach to a particular service with satisfaction with government work we get a list that is much more closely related to the social and economic problems faced by households. The areas that are identified where government work is poor and that urgently need improvement are: job creation, unemployment insurance, hardship family relief, medical insurance and public sanitation (see **Table Nine**). We also find that the ‘one child policy’ that enjoyed the highest level of satisfaction has the lowest level of importance attached to it.

This would suggest that the areas of work citizens really wish government to concentrate on are job creation and providing basic guarantees to protect against the shocks of the transition to a market economy. Labor and medical insurance were high priorities for all residents. To satisfy these needs, government will have to encourage the further development of alternate service providers and form new partnerships.

To complement the financial and administrative reforms, better use needs to be made of market institutions and those of civil society (this section draws on Saich, forthcoming a). To facilitate these decisions there is need for a discussion about what

kinds of public goods government should supply and those current services that should be treated as a private good that need not be funded out of public revenues.

One good example of the latter is urban housing that has been treated as a public good by the CCP and has been offered at highly subsidized rates by SOEs and other state agencies. As in other socialist systems a number of problems such as the impact of subsidies on the national budget, the economic burden on enterprises, and the constraints on labor mobility (see Renaud, 1991, p. 29). The failure to charge full cost for urban housing may have been defensible in the past but it is less so now. The government started a major program to sell off housing, often at significant discounts but also with significant restrictions. However, this cannot be a substitute for raising rents to an economic level. Charging market rates would allow local authorities to continue with a program of house building for the rising urban population. Failure to do so will pose major problems for housing finance (see Heady in Wong, 1997, p. 139).

We are also witnessing the same reduction of state provision and the rise of individual responsibility to purchase services in the marketplace in the healthcare sector. Especially following the collapse of government support there has been a growth in private medical provision. With the collapse of government support there has been a growth in private medical provision. Of the 698 966 village health clinics in 2001, 36.5 percent were privately owned with a further 13 percent owned by the doctors. Some 41 percent were owned by the village community and six percent had been set up by the township (Zhang, 2002, p. 307). There is much to be gained from an increased use of privatization of services but the change to date has been by default rather than by design. The change has also produced unexpected outcomes with a precipitous decline in access to rural health care provision and a clear shift from preventive to curative care. In part this shift to more expensive curative care is understandable as, with the exception of HIV/AIDS, communicable diseases have declined significantly and earlier immunization

programs have been successful. The sector needs better regulation combined with adequate government financing for curative care and for poor areas.

Marketization is impacting on the provision of medical insurance. While coverage is very low, there is an increasing reliance on commercial insurance schemes for those individuals who have coverage. Our 2003 national survey revealed that only 24.6 percent had medical insurance coverage with coverage for major medical expenses at only 8.9 percent. For urban inhabitants the rates were 54.3 percent and 19.1 percent respectively, for rural dwellers the rates were 11.7 percent and 4.9 percent (**Table Ten**). In major cities, as one might expect, the workplace was still the major provider accounting for 32.1 percent with only 14 percent purchasing insurance themselves (Horizon, 2003). Aspirations show the possibility for a greater role for the market but also reflect realities. While 31 percent of those surveyed would choose a commercial insurance scheme, the rate was lowest in the major cities with only 18.4 percent preferring this form. Forty-five percent preferred the workplace to provide medical insurance, whereas in the villages this rate was only 11.7 percent with 36.6 percent preferring a commercial company. Over 50 percent (51.1 percent) opted for local government coverage, 36.4 percent in major Municipalities. For those with insurance, trust was the most important factor (59.8 percent) followed by service (26.2 percent) and cost (22.9 percent).

With declining financial capacity and further reductions in the government workforce, the non-governmental sector will have to take on many functions that will be shed or that are not covered at all. Indeed government policy intends that organizations that are being separated from the state should become financially independent within three years. One of the features of the reforms has been the expansion of non-government organizations, or social organizations as they are referred to in China, and civilian not-for-profit institutions (see Saich, 2000). By the end of 2002, there were some 133 357 social organizations, defined as community entities composed of a certain social group with common intention, desires and interests (Ministry of Civil Affairs, 2003, p. 132).

Examples include professional associations, academic societies, research associations and foundations (Deng, 2002, p. 26) This is an 18 per cent drop from the 1996 high of 184 821 social organizations, of which 1845 were national-level organizations (1712 in 1998) (Ministry of Civil Affairs, 2003, p. 159). This drop was caused by an extensive review of registered organizations in the late-1990s that caused many to lose their official registration. In addition, there are 700 000 civilian not-for-profit institutions, which are set up by enterprises, social groups or individuals to provide not-for-profit social services (Deng, 2002, p. 26). This category includes private schools, hospitals, community service centers, vocational training centers, research institutes and recreational facilities (Meng, 2002, p. 10).

Senior CCP leaders remain ambivalent about the development of the sector. While keen to mobilize the resources that NGOs can raise there is concern to keep strong control over the sector. Rather CCP leaders prefer that the sector be developed within a highly restrictive legislative and organizational framework that ensures party and state control. This is driven in part by the party's Leninist organizational predisposition that creates suspicion of those organizations that are outside of its direct organizational control. In addition, it stems from the awareness that the next phase of reforms will shrink the role of the state in people's lives even further. As a result, the sector is still dominated by those organizations in which the government plays a strong role often having set the organization up as a way to mobilize funds more effectively. Yet recognition that the state cannot meet many obligations it claims for itself have allowed a significant expansion for community-based organizations to provide a wide range of social services.

Funding problems have also led to greater state reliance on alternative funding sources. Welfare lotteries, for example, are a key financial resource for the Ministry of Civil Affairs at both the national and local levels. However, these can increase local inequalities. A 'civil affairs economy' has emerged based on generating revenue from

lotteries, donations, street markets and businesses but wealthier urban districts are able to generate more income than a neighboring poor district (on Tianjin see Duckett, 2002). As of 2002 there were 1268 foundations in China (Ministry of Civil Affairs, 2003, p. 160) although as one senior Chinese official pointed out: US foundations are there to distribute funds but most Chinese ones exist to find money. Such non-government funds are of increasing importance and an expanding number of NGO-run projects have emerged. A meeting convened by the China Foundation for Aiding Poor Areas (CFAPA) in October 2001 calculated that incomplete statistics suggested that resources mobilized by the sector amounted to between 18 and 28 per cent of the total funds for poverty alleviation in the second half of the 1990s (information from participants). Since its establishment in 1989, the CFAPA has raised more than \$60.4 million in cash and kind to help the rural poor in central and western China (*China Daily*, 4 August, 2001).

Similar organizations with close party and state ties have also been important in fund-raising for welfare projects. Perhaps the best known was the Youth Development Foundation set up by the Communist Youth League, which launched Project Hope to build primary schools and provide scholarships for poor children. Over a ten-year period, Project Hope raised around \$215 million from domestic and overseas donations, providing assistance to over two million children and building and renovating 7,549 elementary schools (Xu, 2000, p. 8). Project Hope provided aid to all the officially designated poor counties in China and 74.7 per cent of the total counties. In 1996, the Project Hope fund for primary school construction accounted for 8.8 per cent of the county-level budget for capital construction for education (National Research Centre, 1998, pp. 3 and 5).

Growing official tolerance has allowed more organizations to develop. In a major departure from past practice, the current 10-year plan for poverty alleviation explicitly states the need to bring NGOs on board to help implement government development projects in poor areas (State Council, October 2001). The NGO meeting sponsored by the

CFAPA called for the government to set up systems for bidding and tendering to ensure fair competition and to break-up government monopoly over the implementation of such projects. In March 2004, Premier Wen Jiabao vowed to turn over responsibility for more activities the government should not be engaged in to enterprises, NGOs and intermediary organizations (*China Daily*, March 13-14, 2002).

For alternate service providers to play a sufficiently effective role there must be a number of substantial changes made in government attitude and practice. The current ambivalence about the non-governmental sector and the need to seek approval through registration with a sponsoring agency favors the larger organizations, many of which have been set up by government itself. Further, the confusing Public Welfare Donations Law that took effect in September 1999 also favors those organizations that are close to government. The Law does acknowledge tax relief for corporate and individual donors but is not specific about the levels and conditions. This means that the environment will remain uncertain for giving and that for the most part the outcome will be a result of negotiations between the donor, the recipient and the local tax authorities. This too will favor those large organizations with senior ex-officials in leadership positions over grass-roots organizations. Presumably this is intentional as the central government has been continually concerned that any tax relief for donations to NGOs could result either in money laundering or a reduction in the funds available for its own coffers. The 2004 'Regulations for the Registration and Management of Foundations' (effective June 1) were intended in part to create a framework to prevent the use of foundations for tax evasion. Also, given the difficult financial circumstances of many local authorities, many are likely to resist tax reductions unless it is for an organization with powerful local connections.

The preference for the larger quasi-official organizations is reflected in the regulations on social organizations that stipulate that 'similar' organizations are not allowed to co-exist at the various administrative levels. This requirement has been used to

deny registration for some groups. It ensures that the 'mass organizations' such as the All China Women's Federation and the All China Federation of Trade Unions enjoy monopoly representation and cannot be challenged by independent groups seeking to represent the interests of women and workers (Saich, 2000, p. 131). As a result, the emergence of smaller, local organizations that could play a valuable role in identifying and responding to social needs within the locality is restricted.

This thrust is reflected in the 2004 regulations for domestic and international foundations but they clearly show that the government recognizes the need to mobilize resources from society to fund public services and welfare. However, the bias is clearly for large foundations, many of which will be government organized. This is seen by the need for operational NGOs ('public fundraising foundations') to have an initial endowment of 4 million *yuan* to register locally and 8 million *yuan* nationally.

Yet even without official encouragement, community-based organizations are developing and it is clear that alternatives are emerging to take over functions that were previously considered the preserve of government. Research by Tsai (2001 and 2002) concludes that in some areas social capital substitutes for governmental performance and officials allow social institutions to take over the provision of public goods. She cites the example of the village temple council in Haican peninsula (Fujian Province) that has taken over all road building. In her survey of 316 villages in Shanxi, Hebei and Jiangxi and Fujian she discovers that lineage or religious organizations in 54 had organized public projects. In the Catholic Duan village in North China, the church organized the villagers to construct a road rather than the local authorities. It was said that even if the village authorities had the money no one would listen to them but, by contrast, none would refuse the church (Wu, 1997). As a result of this and other examples the researcher, Wu, has concluded that local religious elites have become a strong group. In his view, the penetration of state power in these communities depends not only on village officials but also on the co-operation of the local elite. In fact, he concludes 'the

reputation of village officials is markedly lower than that of the local religious elite' (Wu, 1997, pp. 56 and 62). These kinds of activities are very important as there are very few institutionalized channels for gaining support from higher level governments to provide public goods in the village (Tsai, 2002, p. 25).

These alternatives for mobilizing community resources are especially important as the incentives to encourage village officials, village elections notwithstanding, to provide public goods are weak. Certainly there is no direct incentive for township officials to invest in village infrastructure. Thus, while they might finance a road to link the village to the township, they are unlikely to invest in improving communications within the village. The use of township funds will go to meeting the obligations laid down by the county level government (Cai, 2000, pp. 801-02).

Economic reform over the last 25 years has led to fundamental challenges for the provision of social welfare. Neither the central nor the local state has the financial capacity to provide the same levels of welfare as in the past. This suggests that better provision can be achieved by rethinking the role of the state and its relationship to the market and institutions of civil society. Crucially, social development needs to be integrated better with economic development plans rather than being considered something that can be dealt with once society has become wealthy.

### TABLES

Country	Under five infant mortality/1000, 2000	Government Education spending as %age of GDP, 1998-2000	Government Health Spending as %age of GDP, 2000
China	39	2.1	1.9
Malaysia	8	6.2	2.1
Philippines	29	4.2	1.5
Singapore	4	3.7	1.3
South Korea	5	3.8	2.6
Thailand	28	5.4	2.1

**Table One: Social Indicators for Selected Countries**

Source: UNDP (2003), pp. 208, 255-56, and 267-68.

**Table Two: Funding Sources for Primary Education in China**

	Government Appropriation	Social Organization and Citizens	Donations and fund-raising	Tuition and fees	Other
Primary School (%)	80.3	2.0	2.8	8.4	6.5
Rural Primary (%)	83.2		2.8	9.5	4.5

Source: State Statistical Bureau (2003).

**TABLE THREE: Percentage of residents with some medical insurance**

Comparison by type of location

	City		Town		Village	
	Number	%	Number	%	Number	%
Has some medical insurance	507	54.3	176	33.2	292	11.7
Does not have any medical insurance	427	45.7	354	66.8	2210	88.3
<b>Total</b>	<b>934</b>	<b>100.0</b>	<b>530</b>	<b>100.0</b>	<b>2502</b>	<b>100.0</b>

Source: Horizon Survey (2003), p. 91

**Table Four: Annual household education expenditure per child**

	City	Township	Village	Total respondents
Average annual household expenditure per child (RMB)	4992.6	2299.0	1412.4	2415.4
Expenditure as a percentage of household income	24.6	15.8	17.4	19.1

Source: Horizon Survey (2003), p. 8

**Table Five: Xiaokang Indicators and Targets for Selected Years**

Indicator	2002	2010	2020
GDP: trillion <i>yuan</i> -Low	1.024	1.764	3.311
High	--	1.838	3.616
Population in billions	1.285	1.38	1.48
GDP per capita(Rmb)	8000	12800-13320	22370-24430
In US dollars (1:8.28)	962	1546-1610	2790-2950
Percentage of urban population	39.1	48.0	60.0
Percentage of workforce in third sector	27.7	38.0	51.0
Education spending as percentage of GDP	2.3	4.0	4.5
University students as percentage of age group	7.8	12.0	20.0
Average life expectancy	71.8	73	74
Doctors per 1000 population	1.6	2.0	2.5
Urban disposal income (Rmb)	7703	12300	22000
Rural net income (Rmb)	2476	3830	6860
Urban per capita living space (square meters)	20.8	24.5	30
People's average electricity consumption (KWh)	140	330	712
Engels Coefficient (percentage)	43	33	30
Urban-rural income gap	3.1:1	3.2:1	3.2:1
Poverty-wealth gap (Gini coefficient)	0.458	0.45	0.40

**Table Six: Government service satisfaction/importance matrix template**

<p>Area D</p> <p>High level of importance, low level of satisfaction</p> <p>(Work is of poor quality and urgently needs improvement)</p>	<p>Area A</p> <p>High level of importance, high level of satisfaction</p> <p>(Work is of good quality and should remain a policy priority)</p>
<p>Area C</p> <p>Low level of importance, low level of satisfaction</p> <p>(Work is of poor quality but does not require immediate attention)</p>	<p>Area B</p> <p>Low level of importance, high level of satisfaction</p> <p>(Work is of good quality but is of limited importance)</p>

**Table Seven: Government service categories receiving the five highest satisfaction ratings for quality of service and management**

Comparison by type of location

City		Town		Village		Total respondents	
Government service	Satisfaction index	Government service	Satisfaction index	Government service	Satisfaction index	Government service	Satisfaction index
One Child Policy	3.07	One Child Policy	2.99	One Child Policy	2.95	One Child Policy	2.98
Water/ electricity supply	2.98	Water/ electricity supply	2.94	Public order and safety	2.72	Water/ electricity supply	2.81
Religious belief	2.96	Road and bridge construction	2.9	Water/ electricity supply	2.71	Road and bridge construction	2.77
Road and bridge construction	2.96	Traffic management	2.85	Traffic management	2.67	Religious belief	2.73
Attracting business and investment	2.87	Management of primary/ middle school education	2.81	Road and bridge construction	2.66	Traffic management	2.72

Note: The index uses the following scale: an answer of “very satisfied” received a rating of 4, “somewhat satisfied” a rating of 3, “not very satisfied” a rating of 2, and “very unsatisfied” a rating of 1.

Source: Horizon Survey (2003), p. 45

**Table Seven: Government service categories receiving the five lowest satisfaction ratings for quality of service and management**

Comparison by type of location

City		Town		Village		Total respondents	
Government service	Satisfaction index	Government service	Satisfaction index	Government service	Satisfaction index	Government service	Satisfaction index
Punishing corruption	1.96	Punishing corruption	2.09	Punishing corruption	1.98	Punishing corruption	1.99
Job creation	2.15	Job creation	2.28	Unemployment insurance	2.25	Job creation	2.25
Unemployment insurance	2.27	Unemployment insurance	2.32	Job creation	2.29	Unemployment insurance	2.27
Hardship family relief	2.39	Tax management	2.45	Tax management	2.3	Tax management	2.36
Medical insurance	2.43	Hardship family relief	2.47	Hardship family relief	2.35	Hardship family relief	2.38

Note: The index uses the following scale: an answer of “very satisfied” received a rating of 4, “somewhat satisfied” a rating of 3, “not very satisfied” a rating of 2, and “very unsatisfied” a rating of 1.

Source: Horizon Survey, 2003, p. 46

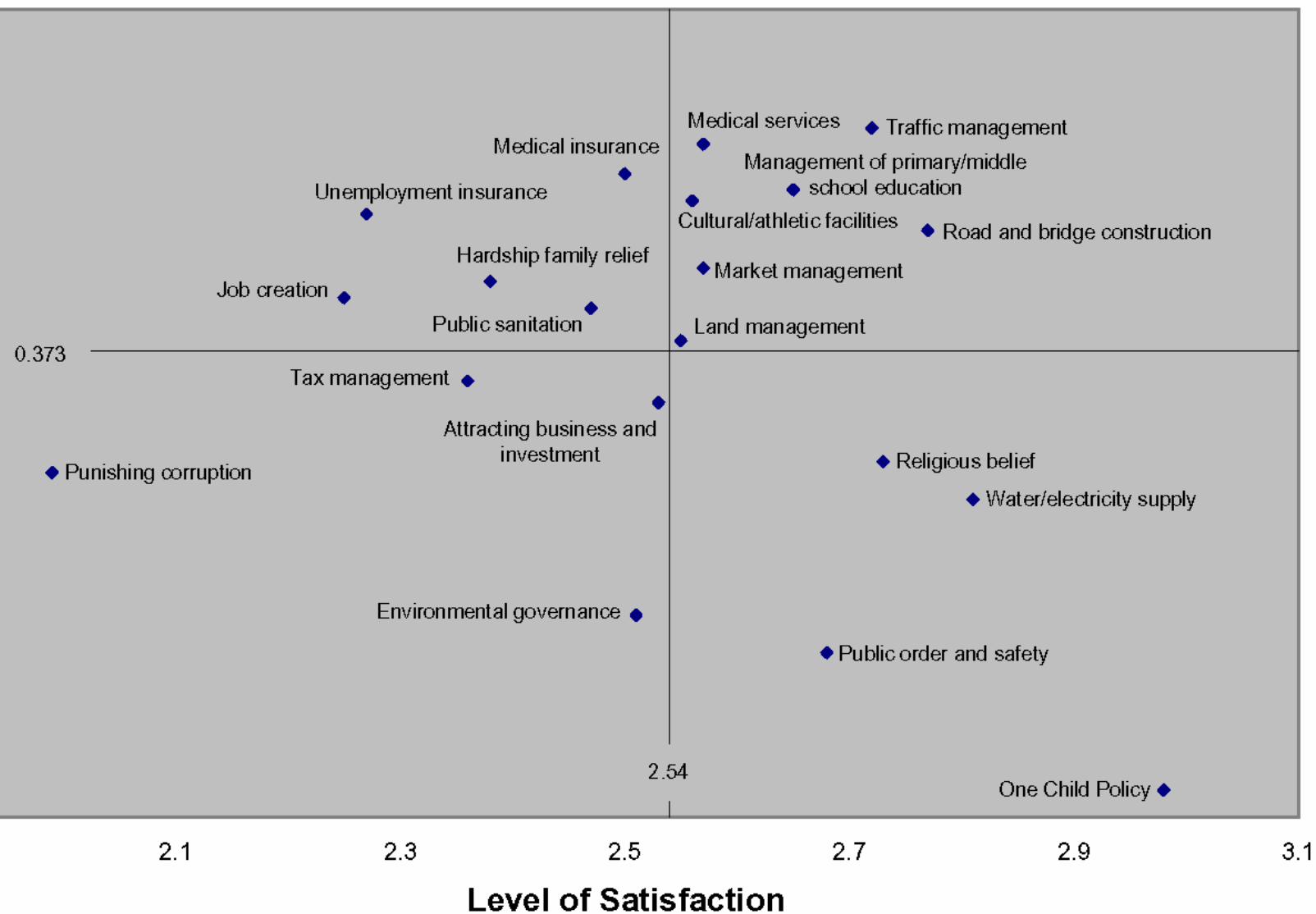


Table Nine: Government service satisfaction/importance matrix (all respondents)

**TABLE TEN: Percentage of residents with some medical insurance**

Comparison by type of location

	City		Town		Village	
	Number	%	Number	%	Number	%
Has some medical insurance	507	54.3	176	33.2	292	11.7
Does not have any medical insurance	427	45.7	354	66.8	2210	88.3
<b>Total</b>	<b>934</b>	<b>100.0</b>	<b>530</b>	<b>100.0</b>	<b>2502</b>	<b>100.0</b>

Source: Horizon Survey, 2003, p. 91

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