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Urban Poor in China: A Case Study of Changsha

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Abstract

Since the late 1970s, many state-owned enterprise employees have been laid off and more and more rural people have migrated to urban areas. In this massive laying-off and migration process, many laid-off workers and migrants have become urban poor. Using data collected from a survey on 1641 relatively low-income households in Changsha in January 2007, this paper compares migrant workers with their city counterpart regarding income, employment, education, and social support. Based on qualitative and regression analysis, we found that worker's age, *Hukou* status, education, enterprise ownership, and contract length are significantly affecting the annual income. There exists a big gap in the coverage of social security between urban and migrant workers. This paper provides some policy recommendations.

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1. Introduction

Before the 1990s, poverty in China had been considered as a rural issue. On one side, this is partly because the urban poor population was too small to be noticed. On the other side, poverty in rural areas was experiencing absolute poor in that period. After the reform, the rapid development of the Chinese rural economy has improved the absolute poor situation in rural areas. In consequence, rural residents' average annual income increased from 134 RMB in 1978, to 397 RMB in 1985, 602 RMB in 1989, and 3254 RMB in 2004(NBSC, China Statistical Yearbook, 2006). The Engel coefficient for rural residents lowered from 0.677 in 1978 to 0.455 in 2005. The rural poor population decreased from about 250 million in 1978 to 29 million in 2003, accounting for 30.7 percent and 3 percent of the total rural poor population, respectively (Xinhua News Agency, Oct 18, 2004).

While China has made a good progress in cutting the rural poverty population, considerable amount of urban residents who have not benefited much from the economic reform become the urban poor. Over last 10 years, the registered urban poor have grown for more than twenty folds, from 0.85 million in 1996 to 22.32 million in 2005 (Ministry of Civil Affairs of People's Republic of China, 2006). The process of urbanization also has drawn millions of labors and families from rural areas to cities, which further accelerates the growth of the poor population in Chinese cities.

Many studies have examined the urban poor problem, with most at the national level. Some have analyzed factors that cause urban poor, such as the economic transition, sector changes, labor demand and supply, urbanization, inflation (Tang, 2002; Mo, 2003; Wei, 2004; Sun and Qi, 2005; Li, 2005; Mei and Qin, 2005; Li and Li, 2006). Some have investigated how the poverty lines are determined (Tang, 1997; Hussain, 2003; Chen, 2006). Some have proposed policy recommendations to reform the social security system, enforce re-employment schemes, and improve a balance between fairness and efficiency (Mei and Qin, 2005). Little research has been done from a micro aspect, such as for a city. Because China has a large range of territory and 33 administrative provinces and multiplicities, the problem of urban poor

varies from cities to cities. A closer look at urban poor by cities will help the country to alleviate the problem more efficiently.

This paper analyzes the urban poor in China through a case of study of Changsha city. The paper is structured as the follows. Section 2 reviews the literature on the urban poor in China. Section 3 describes a survey conducted in Changsha City, provides qualitative analysis on the urban poor, and examines income determinants using the sample data from the survey. The final section concludes main findings and makes policy recommendations.

2. Urban poor in China

This section attempts to provide a general picture of the urban poor in China by answering the following questions. How many urban poor does China have? How poor are the urban poor? Who are the urban poor? What cause the urban poor?

How many urban poor does China have?

A number of papers have examined the urban poor population in China, using various criteria and from different perspective. Zhu (1998) estimated that the urban poor population is about 30 million in 1996, based on the NBSC's survey on urban residents and the organization of Chinese Labor Unit's survey on 60,000 randomly selected enterprises in China. Yang (2002) believed that Zhu's figure was underestimated because China had 16 million employees of suspended or bankrupted companies, who were not included by the government as urban poor. Hua (2004) estimated that there were 32.4 million urban poor by the end of 1997. No consensus has been reached about the number of China's urban poor.

Also, we believe that the official statistics underestimate the urban poor population, mainly due to the fact that most poor rural migrant workers are excluded from the official numbers. In 2005, more than 150 million rural residents swarmed into the cities all across China (Li, 2005), and the majority of them entered into large and developed cities in the eastern coast (Liu et al. 2003; World Bank 2006). Beijing

had around 4 millions workers from rural areas, and Shanghai had over 3 millions. Because of the China's urban household registration (*Hukou*) system, these rural workers seldom receive the equal treatment as those who were born in the city. For example, in 2004, the average income of the urban workers is 16,020 Chinese yuan. But the workers from rural areas only got 6400 yuan on average (Liu, 2004). Besides, most of rural workers are deprived of all kinds of benefits like health insurance and employment-related insurance. They are suffering from poor living conditions, long working hours and tough working environments (Lu and Song, 2006). Yet these poor migrant workers are not in the official statistics of the urban poor and are not entitled to receive social assistance from the city government. These rural migrants constitute an ever-increasing undocumented urban poor population in China.

In this paper, we consider the urban poor population as the number of recipients who receive the minimum subsistence from the Chinese government. This number will certainly understate the true population because almost all rural poor migrants are excluded from the welfare system and many urban poor are not registered. Since this paper does not focus on the exact number of urban poor, using more consistent data from official source would better describe the trend.

The Ministry of Civil Affairs (MCA) of China publishes a statistical bulletin every year to report civil affairs, including the number of minimum subsistence recipients in Chinese cities. Over last 10 years, the registered urban poor have grown for more than twenty five folds, from 0.85 million in 1996 to 22.4 million in 2006 (Ministry of Civil Affairs of People's Republic of China, 2006). In 2006, this population accounted for 4.1 percent of the total urban residents in Chinese cities.

Table 1 shows the numbers from 2000 to 2006. From 2000 to 2002, China had a rapid growth of its urban poor population, partly due to the increased awareness and expansion of the coverage of the social assistance program, within which more and more people are officially defined as urban poor. Although these are numbers of minimum subsistence recipients, it reveals the least urban poor population. We can say that by the end of 2006, China had at least 22,409,000 urban poor residents and this number does not include the rural migrants who live in the city but are not

registered urban residents.

Table 1: Number of recipients of minimum subsistence

Year	Number of recipients (thousand)
2000	4,026
2001	11,707
2002	20,536
2003	22,350
2004	22,008
2005	22,328
2006	22,409

Source: National Bureau of Statistics of China, 2007

How Poor Are the Urban Poor?

Measurements of poverty are essential in the process of defining urban poor. One way to define the urban poor is to look at the poverty lines (Hussain, 2003). Table 2 presents a broad picture of the poverty lines across cities. It shows that urban poverty lines vary with the administrative status and sizes of the city. The poverty line is higher for higher administrative status and bigger cities. If we compare the employees' average wage and urban residents' per capita annual consumption expenditure in 2000 to urban poverty lines, it is easier to have an idea of how many people are living below the poverty line and what kind of life they have. In 2000, the national average wage of staff and workers is RMB 9,371 yuan, which is about 2.5 times as the highest poverty line; and the national per capita annual consumption expenditure is 4,998, which is 1,000 higher than the highest poverty line (NBSC, China statistical yearbook, 2001). This comparison has omitted the regional differentiation, but a relative big gap between the poor and average level appears. Take Beijing for example, in 2005 , its average wage of staff and workers is 34,191 RMB yuan and the per capita consumption expenditure is 13,244.20 RMB yuan. For Shanghai, its average wage of staff and workers is 34,345 RMB yuan and the per

capita consumption expenditure is 13,773.41 RMB yuan. In both cities, the poverty line is about one fifth of the per capita annual consumption expenditure. For Hunan province with the capital city of Changsha (a city that in our following survey study), the regional average wage of staff and workers is 15,659 RMB yuan and the per capita consumption expenditure is 7,504.99 RMB yuan (NBSC, China statistical yearbook 2006). With the government subsidy out of the social assistance program and other limited sources of income, the average income of the urban poor is about 1,860 yuan per capita per year (Ministry of Civil Affairs of People's Republic of China 2006), which is about 17.7% of the average national urban per capita income (NBSC , China statistical yearbook 2006).

Table 2: City poverty lines, per year/person, September 2000

Poverty lines	Places
RMB 2,400-3,828	Beijing, Shanghai, Tianjin, 4 provincial capital cities and 5 cities with individual planning power
RMB 1,680-2,400	Chongqing, 23 provincial capital cities
RMB 1,320-1,680	Prefecture level cities
Below RMB 1,320	County level cities
With a minimum of RMB 936	

Source: Ministry of Civil Affairs of People's Republic of China, MCAC, 2001.

The other way to evaluate the poverty condition of the urban poor is to check the minimum standard of living criterion (Wei, 2004). Minimum standard of living is residents' least expenditure on daily life and has been stipulated by considering many different factors. The urban residents' minimum standard of living criterion is mainly based on the following issues: the types and quantities of products that maintaining the minimum necessity of living for residents, the expenditure on daily necessity, the comprehensive market consumption price index (CPI), residents' actual average income and expense level, the economical development and fiscal conditions of the whole nation, and other social security criteria (MCAC, 2007). Stipulated in the same way as the poverty lines, the urban minimum standard of living criterion differs across cities. Large cities have higher minimum standard of living criterion than smaller

cites because of less restrictions from local finance. In the first quarter of 2007, the minimum standard of living criterion for Beijing is 310 RMB yuan per month, and it is 197.78 RMB yuan per month for Changsha (NBSC, 2007). The key point needs to be emphasized is this minimum standard of living is only the least amount of money that help one person to survive, which is a very small amount of money that just solves the “absolute poverty” problem.

Who are the urban poor?

Urban poor population can be generally categorized into four groups (MCAC, 2007; Wei, 2004; Li, 2005). The first group includes people who are unable to work (i.e. disabled persons), no income source and no legal raiser (i.e. orphans). They are normally called “three does not have” persons in China. Although the current social security system can provide some subsidies to them, the amounts of subsidies are really limited. These people can only live on the subsidies to survive in their daily life and they are the first ones who should be considered as poor people. The second group includes the unemployed population. Unemployment is becoming more and more common in our daily life with the economical change and grows. If those unemployed workers or laid-off employees could not find jobs again, they are losing the source of living. Although government provides the minimum standard of living subsidies to these people, they still live in poverty. The third group includes retired people. In China, retired people depended on the retirement pension which provided by companies they previously worked for. If the companies are running well, their retirement pension is relatively higher and vice versa. According to current employment situation in China, there are many laid-off and unemployed workers because of companies’ reduction of staff to pursue economic profit or companies’ bankruptcy, those retired people’s retirement pension can not be guaranteed and remains at a high level. The fourth group includes people who do not participated in any social security program, low income or non income residents who have diseases and people whose residential registration belongs to another place other than local areas. The last mentioned people in this group have been defined as “floating

population”, which came with the rural to urban migration phenomenon. Because many people are coming from rural areas and being paid low salaries, and live without such protections as urban residents do, this “floating population” becomes a significant part in the urban poor. In this group, there are people who are looking for jobs. There are a certain number of people who has the ability to work but can never find a satisfying job and then stay home without doing anything. Without any steady income stream, those people have to be enrolled in the poor population.

Table 3 presents information about the numbers and ratios of four different groups of people in the urban poor. In 2005, close 40 percent of all urban poor are those who were unemployed. There are 55.70 percent of urban poor people belongs to the fourth group as mentioned above. It is easy to see that floating population in the fourth group is an important component of urban poor population.

Table 3: Numbers and ratios for different groups of urban poor people in 2005

Groups	Three does not have	Unemployed	Retired	Other
Number (thousand)	957	8332	602	12436
Ratio ¹	4.29%	39.56%	2.70%	55.70%

Source: Annual statistical report, MCAC, 2005.

It is worth noticing that the composition of the urban poor has changed during the last 10 years. In 1995, the elderly, children, and disabled accounted for 82.27 percent of the total urban poor while the unemployment was not an issue. However, in 2005, the share of the unemployed and the laid-off workers has risen to 39.56 percent (the unemployed and the laid-off workers are not the same in official Chinese statistics) (Ministry of Civil Affairs of People’s Republic of China 2006). That means the increasing unemployment has become a main source of the urban poor. According to the official statistics, the registered unemployment rate was only 2.9 percent in 1995 and the proportion of the labor force in the labor market was as high as 83

¹ According to Ministry of Civil Affairs of China’s annual statistical report, there are 22,328,000 urban residents received minimum subsistence, the ratio is calculated by the following equation: ratio=number/ 22,328.

percent. But by 2004, the registered unemployment rate rose to 4.5 percent and the proportion of the labor force in the labor market declined to 71.6 percent (Cai 2006). The actual unemployment rate could be much higher than that (Song 2003; Xue and Wei 2003), because these data exclude the rural migrant workers.

Causes of urban poor

What cause the increasing urban poor population? Many previous studies have discussed causes of urban poor in China, from various perspectives (Mo, 2003; Li, 2004; Wei, 2004). The first reason is the economic reform from planned-economy to market economy (Song, 2001). The reform started in the late 1970s has led the Chinese economy into the international stage and brought the Chinese GDP in the fourth place of the world by 2005 (NBSC, China statistical yearbook 2006). The economic growth, however, does not benefit every one. In fact, China sees a vast number of laid-off workers from public-owned enterprises. Before the reform, China attempted to maximize urban employment and offered its workers irrevocable job contracts (“iron-rice bowl” in Chinese terms). After the reform, this full and permanent employment policy stepped out of the stage and many workers are laid off to improve labor efficiency in production. The registered unemployed workers increased from 5.75 million in 1999 to 8.39 million in 2005, with registered unemployment rate of 3.1 and 4.1 percent, respectively (NBSC, China Statistical Yearbook, 2006). These laid-off and unemployed employees constitute a great number of the urban poor population.

The second reason is related to the structural changes of the Chinese economy, in terms of sectorial shift and ownership changes. According to the National Bureau of Statistics of China (NBSC, China Statistical Yearbook 2006) data, in 1978, there were 70.5%, 17.4% and 12.1% employees working in the first, second and third industry, respectively. In 2005, these ratios changed to 44.8%, 23.8%, and 31.4%. In 1978, 99.8 percent of urban employment belonged to the public sector which includes state-owned and collectively-owned enterprises. This share decreased to 26.7% in 2005. These structural shifts imply frictional unemployment in urban China because

workers need time to transfer from one sector to another (many workers lose their jobs in one sector but find new jobs in other). Some old industrial bases and resource exhausted cities had experienced huge unemployment during the past two decades. Take Jilin Province for example, there is 0.47 million workers that have had to entangle in the state-owned companies reform and then lost their jobs (Ding, 2006).

The third important factor that causes the increasing number of urban poor is the prominent rural-to-urban migration. Migrant farmers are usually defined as “floating population” in China, who live in cities without permanent urban residence registration. From 1996 to 2005, the estimated “floating population” increased from 6.6 million to 11.3 million (NBSC, China Statistical Yearbook 1997-2006); and according to unofficial estimation, the “floating population” in 2006 is about 18 million (Li, 2005). There are two general reasons which contribute to the rural to urban migration. One is the difficulty of living in rural areas because of farm land scarcity and too much taxes and fees imposed on peasants that push rural residents out of their hometowns (Zhang and Song, 2004). The other is the attractions from cities in terms of high income and living quality or other factors that pull rural residents out from relative simple life to prosperous life. Equipped with lower education level and no permanent residence registration; this “floating population” could only find jobs require physical energy with less payment. Therefore, many of them become urban poor.

The fourth cause of urban poor is the incomplete social security system in China. Although the social welfare guarantee system has greatly improved in the last two decades, the government subsidy still can not fill the gap between the subsidies needed population and the subsidy receivers. In 2003, the number of registered urban unemployment persons for the total 31 provinces and municipalities is 6.84 million; by 2005, this number increased to 7.197 million (NBSC, China Statistical Yearbook 2006), the growth rate of registered urban unemployment persons for these two years is 5.44 percent.. According to the statistical annual report released by Ministry of Civil Affairs of People’s Republic of China in 2004, after the minimal living standard guarantee system started from 1999, more than 22 million urban residents received

government subsidy each year since 2003. All these facts show that the social security system is not advanced enough to protect the urban residents' life. As stated by Ding (2006), China's economic reform was widely processed under almost no social welfare guarantees and this closely connected the unemployment and poverty.

In addition to the above causes, some other factors also contribute to the increasing urban poor population in China, including inflation, limited coverage of medical insurance, lack of job training, and inefficiency of the labor market. In fact, to mitigate the urban poor problem, China may have to pay more attention to these factors than the first three causes discussed above. Here we would argue that laying off redundant workers, structural shifts, and rural-urban migration are inevitable in the process of economic reform and development.

Consequences of rising urban poor population

Government should pay more attention to the negative influences that urban poor problem brought about. One of the most explicit problems is that urban poor reduces the capability of national economy runs in a steady and healthy way. The expansion of urban poor will enlarge the income gap and then trigger a series of social problems that affect the stability of society. This situation might be an obstacle in the middle of constituting a harmonious well-being society in China.

Another problem is that urban poor creates labor force waste and loss of economy wealth (i.e., GDP). Because the most of the urban poor population is composed of "laid-off" or "unemployed" workers who are able to work but do not have opportunities to work, this unused labor force is a huge waste for the whole nation or even the world's labor resources. Further more, if the urban poor population keeps growing, the government needs to provide more social welfare to assist those people, and subsidies will be a burden for the nations finance and reduce the nation's wealth.

3. Urban poor in Changsha

To make better suggestions to alleviate the urban poor problem , we analyze the urban poor in Changsha City through a survey. This section describes the survey, discusses the sample data collected, and presents empirical findings on income determinants.

The survey

As the capital city of Hunan Province, Changsha has a population of 6.21 million (it is the number of people in administrative areas of Changsha, including Changsha city residents and also rural residents in the 4 county level cities) and its GDP is 151.99 billion in 2005, which ranked as 12th among 27 capital cities (excluding Beijing, Shanghai, Tianjin, Chongqing, Hong Kong and Macao from 33 provinces and multiplicities) of China (NBSC, Changsha, 2006). According to the Changsha Statistical yearbook 2006, there are 35.03%, 29.10% and 35.87% of the labor force working in the first, second and third industry, respectively; 2.18 million people live in urban areas and have city *Hukou*; the other part of population is constituted by “floating population”, which is 0.477 million (NBSC, Changsha Branch, 2007). Although Changsha’ economy has running well in recent years (the GDP growth rate in 2005 is 14.9%), it still has 53,600 registered urban unemployment persons, which might be included in the urban poor population. Compare with those national data, Changsha can serve as a representative city to study urban poor in China.

To investigate the urban poor in Changsha, we conducted a survey in January 2007. This survey was conducted through 10 communities in 5 different districts of Changsha.² 2,500 questionnaires were distributed. Because the survey used the methods of handing out and receiving questionnaires by group of people and in person, the rate of return is 65.6%, which is a satisfied number.

The questionnaire of the survey contains three parts. The first part is about basic

² In China, the division of administrative area is as follows: State Council, Province, City, District, and Community.

information, such as gender, age, marital status, place of location and degree acquired. The second part is about employment information, such as whether the person has a job or not, what kind of job the person has, annual income, whether the person has a healthy insurance or not, and whether the person has unemployment insurance or not. The last part is about living information, such as how many family members are you living with, monthly expenses, housing information and the most urgent problem that needs government's help. Since we already talked to the people who are in charge of the communities (those managers knew who are the poor people are) before we handed out the questionnaires, it is easier to get the effective responses from poor people who are living in the city. In other words, we have targeted the respondents of the survey with the help of local district officials, which insures that the respondents of the survey are relatively poor residents in the city. Although the community managers and us went into people's home or asked people to go to the communities' offices and even had people who were selling food on the street to fill the questionnaires, some of them are not able to answer the questions very well because the lack of basic cognitive knowledge.³ That is why the result contains a total number of effective questionnaires of 1,641 out of 2,500 questionnaires.

Since the average annual income for staff and workers of Changsha in 2006 is 24,615 RMB yuan (NBSC, Hunan Branch, 2007), we designed the questionnaires to be fill by people with annual income range in the following: fewer than 3,000, 3,000 to 5,000, 5,000 to 10,000, 10,000 to 20,000, 20,000 to 50,000 and over 50,000 RMB yuan. The survey results showed that 86.36% of people in the survey have annual income less than 20,000 RMB yuan. This indicates that the survey indeed included relatively poor people living in Changsha. In addition, as housing is major issue in people's daily life. In 2004, there are 80 percent of people who are living in Changsha have their self-owned houses to live (<http://www.haofz.com/wz/1.aspx?id=6372>, Nov 26, 2005), but only 46 percent of sample population has their self-owned houses to live in 2007. This is another indication to show the sample population is relatively

³ Cognitive knowledge: here means some of them are half illiterates, some of them are not very familiar with the governmental policies about working or living, so they can not answer the questions correctly and appropriately.

poor people living in the city. However, our survey might exclude some very poor residents in the city because of cognitive knowledge deficiency and other factors, so this might result in an overestimation for the annual income level and underestimation of poor conditions for urban poor people.

Income Determinants

Poverty is normally measured with reference to either by income or expenditure required by meeting basic needs (Hussain, 2003). Since we got exact information about personal income in the survey, this paper uses income to measure the urban poor in Changsha. Specifically, we want to investigate factors that affect people's income.

After conducting an extensive literature on income determination (e.g., Li, 1997, Lu and Song, 2006), we choose the following variables in our income analysis. First, we consider about gender. In China, gender always plays an important role in employment issues. Because of physical energy difference, a male employee is preferred to a female employee by employers and tends to get higher payment than a female does, especially for some pure physical labor required jobs. In our sample, we have 868 males and 773 females. The ratio of men to women is 1.12:1, which indicate a relatively balanced employment in gender.

The second factor is age. Many relatively higher payment job positions always require employees to have previous working experience, which are closely related to employees' age. Specifically, the maturity of a person and the ability to deal with difficulties are also positively correlated to this person's age. The average age in our sample is 38.83 years old, which might imply this group of people, might have at least ordinary salaries as their counter parts in the same level companies. Because the sample variance is relatively large for this age variable, we use log of age instead of age to reduce the variability of this variable.

The third factor is *Hukou*. If we look at recruitment posts, there are many relative high payment positions, such as accountants and capital managers, are only accepting employees from local areas with city registered *Hukou*. This is a requirement for

people who are looking a steady and good paid job in a city. We have categorized surveyed people into two groups: urban population who has city *Hukou* (registered as permanent residents in Changsha) and floating population who does not have *Hukou* in Changsha. There are 1305 people grouped into urban population and 336 people grouped into floating population in our survey.

The fourth factor is the education level. Education level is a main indicator for employers to look at when they are hiring employees. Which level of education is obtained by the candidate is always considered to measure the person's ability to perform the duty of the position. This is one reason why more and more people are pursuing higher education in order to be more competitive in the job market. In our survey, 18 people had been educated under primary school level, 95 people with a primary school certificate, 407 people with junior high school certificates, 562 people with high school certificates, 312 people graduated from professional training school (this kind of schooling certificate is in the same level as senior high schooling certificate) and 247 people owned a college bachelor degree. In the regression, different levels of degrees are coded numerically, say, under primary school =1, primary school=2, junior high school=3, senior high school=4, professional training school=5 and college =6.

The fifth factor is working time of the employee. In China, many companies have such policy stipulates that employees can get bonus payments if they are working for the company more than a certain years, like 5 years or above. This kind of policy will encourage employees to work in an active and loyal way. The average working duration for those people who participated in our survey is 13.35 years. As the as age, we use log of working time duration in order to reduce variability.

The sixth factor is training before working. Training before working could help employees to increase the proficiency in jobs and as a result, more skilled workers intend to get more payment. There are 33.8 percent people has training before working experiences in the survey.

The seventh factor is job types of ownership for companies. Some jobs like the state-owned companies offered less payment but a secured working contract for

employees, some companies featured as joint-venture or foreign capital sponsored will offer higher payments but less secured job positions. According to data generated from our survey, there are 56.67 percent of people working in state-owned companies, the other portion of people are working in collect-owned, private, foreign, or joint-venture companies.

The last factor we would like to count in is the contract type. The length of contract is an indicator of welfare provided by companies. Temporary contract does not provide such health insurance or other protection for employees, which will decrease the payment for employees in terms of other expenses. About half of the population in our survey have employment contract longer than 3 years; others are having contracts with less than 3 years length, including employees working without contracts. Because the contract length is so different between permanent contract and temporary contract, we use log of contract length to reduce variability even though it has been coded by numeral levels in the survey.

The annual income, the dependant variable in our regression model, is the sum of 12 months income and bonus. It is an ordinal variable, with 1 for less than 30,000 yuan, 2 for 3,000~5,000 yuan, 3 for 5,000~10,000 yuan, 4 for 10,000~20,000 yuan, 5 for 20,000~50,000 yuan, and 6 for over 50,000 yuan. To reduce the variation both in dependent and independent variables, we use natural log for annual income, age and working time duration.

Table 4 presents the regression results, for the full sample, urban residents, and floating population, respectively. In the third model, we adjusted the *Hukou* variable by creating the dummy variable for people who has a local rural *Hukou* =1 and otherwise=0. By doing this, we might able to analyze the income difference between local rural-urban migrants and rural-urban migrants from outside areas with the floating population group.⁴ Model 1 shows that age, education level, working time duration, training before or after work, types of ownership (collective-owned, foreign, joint-venture) and contract length are significantly affect the annual income of urban poor people living in Changsha. Specifically, the coefficient for age is negative. This

⁴ In our sample, *Hukou* is mostly correlated with contract length, work-time duration, and education.

means younger people are likely to get higher income than older employees. This is probably because our survey respondents are mostly involved in physical jobs and younger employees are generally better than older employees in physical abilities and thus receive higher pay. The coefficient for *Hukou* is positive, suggesting that floating workers are paid less and employees' payment is indeed affected by *Hukou* status. The education variable affects income level in a positive way, i.e., education helps workers receive higher pay. The coefficient of working time duration is positive and significant, reflecting a working-time wage as a complimentary part of income. Job-training prior employment helps workers get higher pay, implying government can assist urban poor by providing job-training to them. The result on the contract length variable indicates that employees with longer contract length have higher payment.

Table 4: Regression results for Ln (annual income) models⁵

Independent variables	Model 1: Urban and Floating	Model 2: Urban Population	Model 3: Floating Population
Constant	1.247 ***(0.148)	1.239 ***(0.173)	1.188 ***(0.278)
Gender	0.018 (0.016)	0.012 (0.018)	0.031 (0.038)
Ln Age	-0.110 ***(0.041)	-0.097 *(0.049)	-0.103 (0.081)
Hukou	0.069 ***(0.025)		-0.046 ** (0.038)
Education	0.056 ***(0.007)	0.058 ***(0.008)	0.039 *(0.020)
Ln Duration	0.058 ***(0.012)	0.043 ***(0.014)	0.081 ***(0.021)
Training	0.063 ***(0.017)	0.060 ***(0.019)	0.047 (0.041)
Collective-owned	-0.120 ***(0.026)	-0.210 ***(0.027)	-0.119 (0.081)
Private	0.019 (0.025)	-0.019 (0.031)	0.083 *(0.044)
Foreign	0.231 ***(0.068)	0.237 ***(0.070)	-0.259 (0.317)
Joint Venture	0.117 ***(0.043)	0.091 *(0.051)	0.170 *(0.082)
Ln Contract	-0.030 *(0.015)	-0.032 *(0.017)	-0.021 (0.040)
R-sq(adj)	14.7%	13.0%	8.7%
Sample	1641	1305	336

It is interesting to notice that types of enterprise ownership affect the income. The coefficient for collect-owned companies is negative and significant. This means

⁵ Standard values are presented in the parentheses in table 1, asterisks refer to significance levels.

*** Significant at a 1 percent level of significance (99% confidence)

** Significant at a 5 percent level of significance (95% confidence)

* Significant at a 10 percent level of significance (90% confidence)

No asterisk Significant at an over 10 percent level of significance (below 90% confidence)

people who are working in collect-owned companies have less income than people working in state-owned companies do; people working in a foreign or joint venture company have higher payment than people who are working in state-owned companies do because of the coefficients for these two variables are positive and significant. These results imply the characteristics of companies with different types of ownerships in China. State-owned or collective-owned companies always provide more secured jobs but less income due to the features of these companies: there are normally big and old companies belongs to the industrial sector and play a role of fundamental infrastructure in the developing process instead of profit seeking. Foreign or joint venture companies have sufficient funds and reputation. They are more focusing on profit and provide relative higher income for their employees. That is why people would like to have higher income will look for jobs in foreign or joint venture companies; and those are enjoying the secured working positions will look jobs in state-owned or collective-owned companies.

The regression on the urban worker sub-sample does not show qualitative differences from those for the full-sample. Model 3, however, produces some unexpected results. For example, job-training and age are no longer significant factors for migrant's income. This could be due to less access to job-training for rural migrants and less age variation among migrant workers (28.83 years old on average, 10 years younger than the full-sample average). Nevertheless, model 3 shows that migrant workers receive higher pay if they are better educated, have worked longer, and employees of joint-venture companies. Additionally, in this model, we have adjusted the *Hukou* variable by creating the dummy variable for people who has a local rural *Hukou* =1 and otherwise=0. The result on the *Hukou* variable tells that rural migrants from outside of Changsha earn more than local rural workers.

We also used a logit model to determine income factors by dividing workers into two groups, with the first group for those who had annual income less than 10,000 yuan. Table 5 presents the results. According to the signs of coefficients of variables, male and younger workers are more likely to get higher pay than female and older workers; workers with city *Hukou* are paid better than people who do not have city

Hukou; education and working experience help people get more; comparing with SOE employees, workers get less pay if they are employees of collective-owned companies but higher pay if they work for foreign or joint venture companies; employees with longer job contracts are also paid better. A noticeable difference between linear regression model and binary logit model is about gender and job training. The variable of gender becomes significant in the logit model while it is not in the linear model. The variable of job training becomes insignificant in the logit mode while it was significant in the linear model. But for most other explanatory variables, consistent results are obtained.

Table 5: Regression results for binary logit model

Independent variables	Model 1: Urban and Floating	Model 2: Urban Population	Model 3: Floating Population
Constant	-0.585 (0.994)	1.064(1.192)	-3.603 (2.240)
Gender	0.267** (0.111)	0.161 (0.121)	0.483 (0.299)
Ln Age	-0.644 ** (0.299)	-0.842**(0.342)	-0.028 (0.686)
Hukou	0.330 ** (0.030)		-0.221 (0.038)
Education	0.423 *** (0.053)	0.413 *** (0.058)	0.449 *** (0.020)
Ln Duration	0.435 *** (0.087)	0.279 *** (0.101)	0.918 *** (0.205)
Training	0.181 (0.118)	0.080(0.130)	0.294 (0.312)
Collective-owned	-1.441 *** (0.201)	-1.489 *** (0.209)	-1.317 *(0.765)
Private	-0.104 (0.174)	-0.480** (0.207)	0.871 ** (0.349)
Foreign	3.005 *** (1.046)	20.73 (5182.71)	1.174 (1.505)
Joint Venture	0.585 ** (0.294)	0.331 (0.346)	1.199 ** (0.592)
Ln Contract	-0.304 *** (0.105)	-0.341*** (0.115)	-0.3465 (0.293)
Log-likelihood	-952.990	-774.632	-156.735
Sample	1641	1305	336

Other Indicators of Living Standard

In the survey we have also collected information about the health insurance, retirement pension, unemployment insurance, living expenses and housing of urban poor residents. Understanding how those poor urban residents are living will help them to live a better life and also assist the government to accomplish the goal of constituting a harmonious and well-being society.

Table 6 summarizes respondents' answers to a hypothetical question in the

survey, what will you live on if unemployed? As a whole group, we can see that most of the people will live on two sources if they do not have a job, 24.92% on unemployment insurance and 22% on family fund, respectively. Others will also depend on the subsidy from government's minimum subsistence, laid-off subsidies and their personal savings. The sources of living without a job, however, are very differences between city people and the floating population, especially the subsidy related sources such as minimum subsistence, laid-off subsidies and unemployment insurance. In China, the urban population benefits from three lines of defense against poverty, namely, the minimum subsistence, laid-off subsidies and unemployment insurance (Hussain, 2003). 28.2% urban residents depend on unemployment insurance to live if they do not have jobs, but only 12.2% floating population depend on this source to live. Floating population is mainly depending on family support (38.1%) and personal savings (23.21%) to live. If we group the minimum subsistence, laid-off subsidies and unemployment insurance into "three lines" and group family support, personal savings and borrow money from relatives into "private savings," 59.31% urban population will live on three lines if they are unemployed, but only 26.74% floating population depends on three lines to live; 38.39% of urban population depends on private savings and while 69.64% of floating population depends on private savings. The different responses on sources of living without jobs between urban and floating population appear evident.

Table 6: Sources for living without jobs

Sources for life without jobs	Total	Urban	Floating
Minimum subsistence	13.41%	15.02%	7.1%
Laid-off subsidies	14.32%	16.09%	7.44%
Unemployment insurance	24.92%	28.20%	12.20%
Family support	22.00%	17.85%	38.10%
Personal savings	18.34%	17.09%	23.21%
Land money from relatives	4.45%	3.45%	8.33%
Bank loans	1.34%	1.07%	2.38%

No responses	1.22%	1.23%	1.19%
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Table 7 compares health insurance, retirement pension, and unemployment insurance for our respondents with and without city *Hukou*. For people with city *Hukou*, 73.26%, 67.66%, and 57.85% have health insurance, retirement pension, and unemployment insurance, respectively. For floating population, these numbers become 31.25%, 25.89%, and 26.49%. Apparently, *Hukou* is a key factor that prevents rural migrants from obtaining adequate social protection. This puts migrant workers into a more vulnerable situation when they lose jobs. To better protect the floating population, fewer restrictions should be enforced on social security system. In other words, benefits should not depend on *Hukou*.

Table 7: Social insurances received by respondents

Insurances	Total	Urban	Floating
Health insurance	64.66%	73.26%	31.25%
Retirement pension	59.11%	67.66%	25.89%
Unemployment insurance	51.43%	57.85%	26.49%

Table 8: Sample population's working companies categorized by types of ownerships

	Total	Urban	Floating
State-owned	58.74%	58.93%	49.11%
Collective-owned	11.27%	12.72%	5.65%
Private	13.65%	10.65%	25.30%
Foreign	1.46%	1.69%	0.60%
Joint venture	3.60%	3.22%	5.06%
Other	10.73%	9.96%	13.69%
No responses	2.38%	2.84%	0.60%

Table 8 tells where our survey respondents work, in terms of enterprise ownerships. Compare with the urban workers, there are a larger percentage of floating

population working in private and joint venture companies, but smaller percentage of floating population working in state-owned, collective-owned foreign companies. In urban China, state-owned or collective-owned companies usually provide more job security but less income to employees than private, foreign or joint venture companies. Since we are investigating urban poor, which means the surveyed people already are low income persons, the bigger percentage of floating population working in the private and joint venture companies will worsen their livings due to less secured jobs.

The ability to access decent and affordable housing is a basic measurement of well-being for people living in a city. There are four major sources of housing options for people in China: buying their own houses or apartments, renting a place to live, and living in the welfare houses or apartments provided by employers or government, and other situations such as living with relatives or friends. Examining the housing conditions for urban poor population will help us to find ways of making urban poor residents live more comfortable and improve their poverty conditions. Table 9 shows that about 50% of urban workers live in their own apartments, but this number decreases to 32% for the floating population. As we mentioned before, there are 80% of people living in Changsha have their self-owned houses, the 50% and 32% of urban and floating population have self-owned houses is much more lower than the city level. There are 22% and 11% of urban and floating population living in welfare houses, respectively. A noticeable difference between the percentages of urban and floating population in renting is worthy to consider. There are 36.61% of floating population renting a home and only 15.56% of urban population doing this. There is also a relative big portion (19.64%) of floating population living in other sources of housing, such as work sheds in construction sites. It is safe to conclude that floating population is living in a more inferior housing condition than their city counterpart. Further more, the chances for the urban and floating population to buy their own houses are slim. In 2006, the average price of housing in Changsha city is about 3,000 per square meters (<http://www.hnup.com/article/article1.asp?id=12354&classid=249>). For those relatively poor residents, we suppose they want to buy smaller houses such as 70 square meters, which will cost about 210,000 RMB yuan. But the annual income

for over 86% of this group of people is under 20,000 RMB yuan. It is so difficult for these poor people to have their own houses, especially for the floating population.

Table 9: Housing information

Housing	Total	Urban	Floating
Self-owned	46.07%	49.66%	32.14%
Rent	19.87%	15.56%	36.61%
Welfare	20.41%	22.84%	11.01%
Other	13.47%	11.88%	19.64%

In the survey, we asked the question: “what is your first choice if the government can solve the following problems for you?” Table 10 presents the summary. It shows that most urban poor people want the government to help them in housing and job, the two basic human rights. For the urban poor with city *Hukou*, about 38% consider housing as their first problem that they want the government to help. We collected some questionnaires in person and went to these poor people’s home; quite a number of poor people are living a room like a studio about 30 square meters with 3 or 2 family members. About 28% consider children education and 22 % consider job as their first problem to ask for government help. For the urban poor without city *Hukou*, job (35.4%) is the first thing that they want the government to help. Housing (34.8%) is of equal importance. About one quarter (14.6% plus 11.9%) of rural migrants want the government to first help their own and children education. It is interesting to notice than only 3.27% of floating population wants to solve the problem of *Hukou* first. We believe it is partly because respondents for this question can only choose one problem to be solved and partly because job and housing are always the first two conditions for any rural migrants to stay in city, *Hukou* is secondary.

Table 10: First problem that the urban poor want the government to help

Problems	Total	Urban	Floating
Housing	36.99%	37.55%	34.82%
Children	24.92%	28.28%	11.90%
Education	11.88%	11.19%	14.58%
Job	24.80%	22.07%	35.42%
Hukou	0.91%	0.31%	3.27%
Other	0.24%	0.31%	0%
No responses	0.24%	0.31%	0%

Some of our survey questions are for rural migrants only. For example, we asked how long they plan to stay in the city and we found that 59.3% want to stay permanently or as long as possible, 25.6% don't know their plan, and only 14% plan to stay in the city temporarily. This finding suggests that most rural migrants want to live in the city for a long time, even if it is not permanent.

Table 11 shows reasons why farmers migrate into city. In our survey, we asked participants to check all important reasons that caused them to migrate. Hence, the sum of all percentages is not 100%. There are 47.7% and 50% of rural *Hukou* residents chose higher income and more opportunities in cities as their reasons to migrate. Higher living quality, children's education and personal education also count relative high ratios for 37%, 36% and 23%, respectively. No doubt, it is the cities' halos that pull rural residents out of their hometowns. From Table 12, we do not find strong evidence that rural-urban migration is caused by lack of land or too many taxes and fees.

Table 11: Major reason for rural residents to migrate from rural to urban areas

Reasons	Percentage
Higher income in cities	47.67%
More opportunities	50%
Higher living quality	37.21%
Following others	11.63%
For children's education	36.05%
For personal education	23.26%
Lack of land	9.3%
Too many taxes and fees in rural areas	10.47%

Many rural migrants have families or relatives living in their hometowns and depending on the money they send back home to maintain life. This “double residence” characteristic of rural *Hukou* residents makes their poor life even more complicated. How much money these migrants send back home directly affect the lives of their relatives and themselves. If they are not doing well in cities and living in the situation of poverty, this will lead to problems of both urban and rural poverty in China. According to the data in our survey, the average amount of money these rural residents sent home every month is about 518 yuan, which is 63.8% of their income. How can migrant workers send most of their income back to their rural families? We think it is because many migrant workers are working at construction sites or restaurants and other companies which provide food and place to live for employees (according to the data, 40% of people in this group are working at such companies). These companies provide their migrant workers with shabby shelters (i.e. one 30 square meters shelter for 15 persons to live) or small rooms (i.e. or one 20 square meters room for 6 persons to live) because they want employees' working time to be

flexible and pay lower wages. Our survey further indicates that male rural workers are more likely to send money back home than female workers. The amount of money sent to rural homes is positively correlated to migrant's annual income, marital status, whether have children; it is negatively correlated to the time that migrant workers have lived in cities and or left hometown. Clearly, connection with rural homes is an important factor for migrant workers to send money back.

4. Conclusions and policy recommendations

This paper has examined the overall picture of the urban poor in China. We found that the urban poor population has steadily increased since the beginning of this century, with the number of minimum subsistence recipients rising from 4 million in 2000 to 22.4 million in 2006. The composition of the urban poor has changed from mainly the elderly, children, and disabled to the laid-offs and new migrated rural workers. We argued that the increasing urban poor population is largely caused by the general economic reform which promotes production efficiency and introduces competition, the structural changes of the economy which leads to frictional unemployment especially in old industrial bases, a massive rural-urban migration which bring millions of rural workers into Chinese cities, and the inadequate social security system which excludes all most all rural migrants. It is inevitable to lay off redundant workers, experience structural shifts, and have massive rural-urban migration in the process of economic reform and development. It also will take China a long time to improve its social security system. Therefore, urban poor is a persistent problem and deserves more attention.

Based on a recent survey conducted in January 2007, which includes 1305 city workers and 336 migrant workers, the paper has investigated income determinants and other aspects of living standard for relatively poor residents in Changsha. Our empirical results show that annual income is statistically affected by worker's age, *Hukou* status, education, working time duration, job training, enterprise ownerships, and contract length. Facing unemployment, city workers would live mostly on social

security including unemployment insurance (28%), minimum subsistence (15%), laid-off subsidies (16%), while migrant workers had to rely on private support including family support (38%) and personal savings (23%). Migrant workers, who are already making significant lower income and facing more uncertainties, have to send significant portion of wages back to their rural homes. Our rural worker sub-sample shows that migrant workers send about 64% of earnings to their rural homes.

We would suggest the following policy recommendations. The first is to eliminate the *Hukou* system. As a long existed administrative instrument, *Hukou* has helped China to develop its urban economy, promote exports, and build public infrastructure. However, it becomes a fatal distress for floating population when they are looking for jobs in cities. Our survey shows that finding jobs is the first thing that rural migrants want the government to help them. Removing the *Hukou* system may make the competition between urban and rural workers more fierce in the short run. It also could improve the efficiency and fairness of the labor market.

Second, education and job-training help the urban poor. Our survey show that 39% of city workers and 26% of migrant workers consider education is the first thing they want the government to help them. Our regression analysis proves that job-training significantly improve worker's income. Facing a large number of laid-off workers and massive rural-urban migration, we would suggest that the Chinese government make great efforts to re-train laid-off workers and give equal education opportunities to children of migrant families.

The third is to improve social insurance for poor people, including health insurance, old-age insurance, and unemployment insurance. Our sample data indicate that many workers do not have social security, especially migrant workers. In our sample, 27%, 32% and 42% of urban workers do not have health insurance, retirement pension and unemployment insurance, respectively. For floating population, these numbers increase to 69%, 74% and 74%, respectively. More than two-thirds of all migrant workers don't have any social protection. Thus, it is important for China to expand its social security coverage.

The fourth is to improve housing condition for the urban poor. In our sample, less than half of urban workers and less than one-third of migrant workers own homes. For urban workers, housing is the first thing that they need government help. For migrant workers, housing is the second most important thing, right after jobs, that they need government help. No question, improving housing condition will help to mitigate the urban poor problem. Currently, China has various policies to help lower-income families to buy homes, such as the “comfort housing” and “economy housing” projects. However, China faces many challenges to implement its policies. Still, the urban poor would not be able to purchase homes from “comfort housing” and “economy housing” projects. To help the urban poor, public housing or housing allowances may become necessary.

The urban poor problem, like many other urban problems such as transportation, needs efforts from both the government and the general public. No one policy could fully remedy the urban poor problem. Indeed, most individual policies cannot even make a dent in such problem. That means various remedies must be combined to effect a cure. Those who are striving to do so are like the woodsman who must cut down a huge tree with only one small axe. He cannot fell the tree or even make much of a cut in it with one swing of the axe. But he can eventually cut it down, with one hundred or more small cuts. A multifaceted approach offers the only hope of reducing urban poor significantly.

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