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**Layoffs and Urban Poverty in the State-owned Enterprise Communities in Shaanxi Province, China**

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### **Abstract**

This paper applies a mixed methods approach that combines qualitative and quantitative methods to examine urban poverty in China's state-owned enterprise communities where laid-off workers concentrate. A sequential explanatory model using interviews, Participatory Poverty Assessments and community household survey on textile and military industries in Shaanxi Province of northwestern China shows that low-income households suffered multidimensional disadvantages. Qualitative techniques have helped to reveal the hidden aspects of poverty while statistical tools have captured holistic information on the communities. These approaches together (Q-squared) consider both the outsiders' and insiders' views on the laid-off poor and benefit the making of effective anti-poverty policies.

**Keyword** China, state-owned enterprise, laid-off worker, multidimensional poverty

# 1. Introduction

Over the last decade, there has been an increasing interest in combining qualitative and quantitative approaches to further the understanding of poverty and its multiple dimensions because nowadays poverty is recognized as a complex phenomenon that goes far beyond conventional monetary measures (Kanbur, 2005b). In keeping with this trend and drawing on a combined application of qualitative and quantitative methods, this paper analyses the recent state of poverty among laid-off state workers in Shaanxi Province of northwestern China, and examines the strengths of mixed methods in poverty studies as suggested by Carvalho and White (1997), e.g. examining, explaining, confirming, refuting and/or enriching information from one approach with that from the other.

Internationally, quantitative studies of poverty present strengths in comparing different measurement units, identifying correlations, estimating prevalence and most importantly, influencing policy makers (Chambers, 2005). While quantitative methods still dominate poverty appraisal and policy making, qualitative methods (e.g. Participatory Poverty Assessment (PPA) and the social anthropologic approach) are becoming more popular (Narayan, Chambers et al., 2000; Narayan, Patel et al., 2000).

Recently there has been an increasing number of studies drawing on both approaches, despite that “the often invoked complementarities between the two approaches (qualitative and quantitative) have not managed to overcome or hide the tensions between them” (Kanbur, 2005a). Indeed, the distinctions between quantitative and qualitative approaches—whether they have been exaggerated or not—have not prevented many attempts to combine them in poverty studies.

Among others, Sharp (2003) uses “contextual data to inform quantitative analysis, for example in defining and scaling locally-appropriate indicators of such basic parameters as human capital and housing quality”. In South Africa, a poverty standard was set up on the basis of local perceptions of poverty (Hargreaves et al., 2007). Howe and McKay (2005) use PPA in conjunction with a household survey to provide valuable insight into chronic poverty in Rwanda. The mixed methods approach, as claimed by Adato (2007) in which conditional cash transfer programs were evaluated by combining survey and ethnographic methods, “enhances the contributions of both methods, providing a richer pool of data and greater analytic power than would have been available with either these methods alone”.

The mixed methods approach recently experiences faster development in academic research and policy making than ever before, being promoted by an increasing number of social scientists (Bergman, 2008; Creswell, 2003; Creswell & Clark, 2007; Niglas, 2004; Tashakkori & Teddlie, 1998; Tashakkori & Teddlie, 2003). Although many epistemological differences can be captured between naturalistic and positivist forms of social inquiries, the increasing quantity of research adopting mixed methods proves the vitality of this approach in contemporary social sciences.

The paper examines transitional China, where poverty is increasingly confronting cities. Laid-off workers retrenched by the shrinking urban state sector and rural-to-urban migrants looking for employment are two typical types of urban poor, all of which are associated with the current changes

in economy and society. Since the early 1990s, a nationwide labour retrenchment program has dismissed tens of millions of state-owned enterprise (SOE) workers, a significant ratio of whom worked for military, textile, mining and machinery industries, in the name of state sector restructuring. The smashing of lifelong employment and comprehensive social security enclosed in the *danwei* (socialist work unit) system threw a substantial proportion of state workers into indigence. Low income, insufficient social protection and overwhelming psychological stress are the most common socio-economic labels of this group. Some bureaucrats and academics claim that the sufferings of the disadvantaged workers are inevitable costs of market reform and suggest that such problems will be solved when the laid-off workers reach retirement age and access the pension.

Chinese Premier Wen Jiabao emphasized that he was concerned about the laid-off workers' reemployment (Zhao, 2009), but the strictly controlled media rarely reported their situations except in the case of some "glorious models" of reemployed workers and "helpers and friends" of laid-off workers, and said almost nothing of the laid-off workers' protests throughout China (Cai, 2002; Chen, 2008; Hurst, 2008). The layoffs problem has been cooling down and many domestic media and some research focus have shifted to the rural-to-urban migrants, another group of emerging urban poor. The migrant topic carries less political sensitivity than the laid-off workers - the political foundation of socialism - do in a communist regime. Overall well-being of the migrants has gradually improved in the last few years, but that of the workers has deteriorated rapidly since the 1990s. One newspaper editor in Shaanxi Province imparted that the censorship implicitly forbids negative news concerning laid-off workers as it would be harmful to the public image of the ruling party and to social stability (Interview). Nevertheless, this ongoing problem has wide implications for China's contemporary political economy and socio-economic changes and is worth further investigation after more than one decade of the national implementation of layoffs.

Currently quantitative studies form the mainstream in the research on China's urban poverty. Some research addresses the income and consumption patterns of urban poverty, stressing the importance of these factors to China's urban poverty (Li & Sato, 2006; Wan, 2008a). Comparative analysis distinguishes three types of monetary poverty, namely "income and consumption", "income not consumption" and "consumption not income", showing the importance of precautionary considerations and special financial needs among urban households in a rapidly changing society (Knight & Li, 2007). In order to meet the urgent policy needs, some applied research estimates money-metric poverty lines in terms of income, consumption, equivalent scales and subjective well-being (Gustafsson et al., 2004; Wan, 2008b). Some multidisciplinary studies have also provided insights into the problem. For example, the analytical framework of political economy has been adopted by urban geographers to explain the conflicts between state and working class and the function of deteriorating socialist welfare in the process of institutional transformation (Wang, 2005; Wu, 2004).

Since most research projects are still discipline-based and mainly or solely rely on quantitative *or* qualitative method, relatively new methods, such as the capabilities and participatory approaches, have seldom or never been used in urban poverty studies in China. In the meantime, the numerous publications have made a less-than-anticipated contribution to policy practice, indicating that progress towards understanding the dimensions of poverty among the laid-off has been uneven, and that deeper

research is needed. For instance, gender and housing issues, which have been studied extensively in sociology and urban geography, have been less addressed in economic studies (Huang & Jiang, 2009; Logan et al., 2009). Changes to the egalitarian distribution system amidst an increasing level of material comfort could explain why inequality affects the low-income group (Davis, 2000). However, there has not been enough work on how poverty is associated with the layoffs and reform and on the livelihood and life trajectories of laid-off workers.

The paper is structured as follows. The next section provides details of the methodology, including relevant literature, research context and methods of data collection. The third and fourth sections correlate the changes of workers' well-being with the changes of SOEs in an historical time frame, and analyse results from PPAs and surveys. The fifth section presents some cases where qualitative data could complement the quantitative studies by revealing the hidden aspects that are not simply addressed by survey data. The final section is a conclusion.

## **2. Methodology**

### ***2.1 Methodological consideration***

Research on China's inequality and urban poverty has been fruitfully generated thanks to the availability of high-quality data with large sample size, wide area coverage and comprehensive information (Appleton et al., 2008; Cai et al., 2008; Chen, 2006; Giles et al., 2006; Giles et al., 2005; Gustafsson et al., 2008; Ravallion & Chen, 2006). These studies provide comprehensive yet in-depth understandings of urban poverty, particularly at national and provincial levels. Due to the legacies of the pre-reform urban economy and state-led development, the urban poor are concentrated in specified types of residential areas, e.g. degraded workers' villages (once) affiliated with SOEs (Wu, 2007). These SOE communities have many characteristics that are different from other low-income communities (e.g. private housing areas and migrant villages) in poverty profiles, correlations and the like. More detailed community level studies are needed as large-scale surveys do not necessarily contribute to the understanding of urban poverty insofar as they intend to achieve representative sampling rather than to grasp the contextual meaning of poverty. The SOE community has in fact been a trigger of social instability (Chen, 2008). From a practical point of view, SOE communities are becoming more and more important because the success of anti-poverty policy is heavily dependent on the acceptance and support of the community. Therefore a people-centred, pro-poor approach to benefit policy making is suggested (Chang & Tipple, 2009). In light of this, a household survey was used to collect information regarding individuals and households in these communities,

Studies show that China's remarkable increase in per capita income has dramatically reduced the poverty rate defined by the World Bank's dollar-a-day poverty line from 64 percent at the beginning of the reform to 10 percent recently (Dollar, 2007). However, poverty reduction induced by output growth is a narrow and incomplete measure. For example, inequalities have been enlarging rapidly throughout the transition from planned to market economy (Hussain et al., 1994; Khan et al., 1999; Luo & Zhu, 2008; Wan, 2008b; Wang et al., 2002) and social exclusion has been observed (Li, 2004, 2005). The widening gulf between rich and poor deters consumption, holds down productivity growth

and slows down poverty reduction.

Methodologically, absolute, relative and subjective poverty measures are among the three basic approaches to establishing a poverty standard. In China, an absolute poverty line, which denotes the amount of money needed to achieve an absolute minimum standard of living, is the most widely used (ADB, 2004; WB, 2009). In anti-poverty practices, civil affairs agents rely almost solely on money-metric absolute poverty standards, such as the Minimum Living Standard Scheme (MLSS), which provides transfers to eligible monetarily poor households, and the Basic Livelihood Relief (BLR, or *jiben shenghuo fei*) for laid-off workers. In sum, the approach based on objective indicators merely accounts for heterogeneity (e.g. between cities) in the perception of minimum living standards and deems poverty as a unidimensional phenomenon. Relative and subjective poverty lines are much less applied in China, although there are recently some pioneering attempts (Bishop et al., 2006; Chen, 2006; Gustafsson, et al., 2004; Gustafsson & Wei, 2000). These studies catch the current trend towards a multidimensional approach - especially subjective well-being (SWB) (Addison et al., 2009). In China, the number of SWB studies has increased in academia and governmental institutions (Chen & Davey, 2008). Recent studies on the correlation between inequality and happiness, as a sub-discipline of SWB, usually categorize the population into three groups, namely rural residents, rural-to-urban migrants and urban residents. Most rural residents appeared to be happy despite their poverty and disadvantaged socio-economic status because of the lack of information and wider reference groups (Knight et al., 2007). Compared with the rural and urban residents, migrants tend to be less happy, as their aspirations might have exceeded their actual achievements, and become more materialistic after they feel the deprivation relative to their new surroundings (Knight & Gunatilaka, 2008). Among urban residents, the higher the reference group's income, the lower the happiness (Smyth et al., 2009; Smyth & Qian, 2008).

Examinations of the likelihood of discontent towards distributive injustice show that people judge their situation on the basis of reference groups (Han & Whyte, 2008; Whyte, 2010). While poverty experience is individualized, very often it also has a collective dimension, especially for the laid-off workers who had lived through similar employment, education and other life events. Some shared experiences, for example psychological depression under economic stress, feeling of abandonment by the ruling party and discontent towards the society, are far beyond the capacity of income and consumption measures (Lai & Lee, 2006; Solinger, 2002; Yu, 2008). Workers believed that the state would take care of them for life until the massive layoff program smashed such imaginings. When the workers were relatively young, state sector employment, as the *de facto* official guarantee of future benefits, gave them confidence in a better future. But such benefits are now totally beyond expectation as the result of layoffs. This has also created a chronological reference point that, besides the reference of current surroundings, affects the SWB of individuals. In all, these studies make the point that external references are important in determining SWB.

To overcome the shortcoming of money-metric poverty lines and to enrich the understanding of urban poverty among laid-off workers in Chinese communities, this study constructs a subjective poverty line and adopts a SWB approach to investigate the extent to which subjective poverty is determinate and influenced by the perception of gaps. Borrowing from the literature of recent research on SWB (Kingdon & Knight, 2006) and the relationship of experienced poverty and objective income poverty

(Castilla, 2008; Rojas, 2004, 2007), we asked interviewees about their perceptions of the changes of household income, the standard of living, minimum consumption and the level of difficulty in making ends meet, as well as whether or not they considered themselves poor by using subjective poverty questions. Then the interviewees' perceived gaps were compared with a reference group to see if earlier life expectation in terms of health, income, career and family relationships are influential in their self-evaluations of poverty status.

## ***2.2 The study sites and data***

The field study was conducted in Shaanxi Province in late 2008. As one of the most industrialized regions of western China, the provincial capital of Xi'an and its nearby prefectural-level cities of Xianyang and Hanzhong were famous for state-owned textile, military, aerospace and electronic industries, representing the inner China development model tied to massive state investment (Vermeer, 1988, 2004). As in other Chinese cities, these industries had provided the majority of urban jobs but had been significantly changed by the market reform. Official statistics show that in recent years Xi'an has a population of 200,000 unemployed and retrenched workers (Yang & Huang, 2009).

Research sites were selected from SOE residential communities in Xi'an, Xianyang and Hanzhong, which are three of the most industrialized and populated cities in Shaanxi. A sequential explanatory data collection, in which quantitative data collection was followed by qualitative data collection, was applied to the same sample population (Creswell & Clark, 2007). In the quantitative phase, households were surveyed under cluster random sampling. The questionnaire mainly collected quantitative information on household demography, housing, income, consumption and other economic conditions as well as employment details of family members. In the qualitative phase we interviewed government officials, enterprise cadres, laid-off workers, retirees and relevant personnel (e.g. employers of laid-off workers). Some PPA tools, e.g. poverty mapping, event calendar, wealth ranking, causality diagram etc. as introduced in Narayanasamy (2009), were used in focus groups. The underlying principle of the qualitative phase was to understand how the workers perceived poverty and layoffs. To ensure consistency, the sample for the qualitative phase was chosen from among the survey respondents according to preset criteria and preliminary results derived from the first phase data.

In Xi'an, 510 valid questionnaires and eight PPAs were finished in four textile and three military SOEs. In Xianyang, we conducted some interviews in a famous textile mill where a number of nationally renowned female model workers had worked in the Mao era. However, in an environment of unrest, where bankruptcy and privatization were in process and the workers were on strike, it was not appropriate to conduct the questionnaire survey and PPA. In Hanzhong, visits were made to two aerospace-related enterprises built during the Third Front Construction (*sanxian jianshe*) period (mainly 1964-1970s) when the Chinese Government was preparing for potential wars with the "revisionist" Soviet Union and the "imperialistic" United States. For security purposes, the enterprises were located at the foot of the Qin Mountains, which were several hours away from the city by public transportation. Being registered as urban residents but isolated from the city, the workers lived in residential communities surrounded by farming villages. This created a rare type of urban poor in the

countryside. We interviewed 50 households and finished four PPAs in this community.

### **3. The creation of laid-off workers**

In spite of the importance of Shaanxi Province as a national industrial base, in more than a decade only a few English publications have been devoted specifically to its SOE reform and layoffs. Lee (1997) inquired into the state-enterprise relationship from the perspective of political economy. Watson (1998) canvassed the transformation of SOEs and employment in the late 1990s and presented the case of a textile mill in Xi'an.

Recently, in the new wave of SOE reform, the state-owned textile mills in Shaanxi Province were again of concern. In the summer of 2008, the No.1 Northwest Cotton Mill in Xianyang, and the Tanghua Group comprising five large state-owned textile mills in Xi'an's *fangzhicheng* (literally the City of Textiles, where the mill in Watson's research is located) claimed bankruptcy. The former was the first textile mill established by the CCP and was once the largest mill in China with nearly 6,000 staff, while the latter's bankruptcy, involving more than 580 million *yuan* and 36,000 staff, was the biggest case in the history of Shaanxi Province.

The experiences of these mills were similar (Tables 1 and 2). They were established in the 1950s, receiving concentrated state investment, and had been operating continually under the planned economy for more than three decades. In the 1980s, the mills were boosted by expanding domestic and international market demand. The workers referred to this period as the best time, during which they enjoyed the highest level of wages and welfare among the state sector in Shaanxi. In the late 1980s, the monthly wage for textile workers was between 100 and approximately 300 *yuan* depending on the years of service, while the normal wage in some other SOEs was only around 30 *yuan*. Between the late 1980s and the mid 1990s, in the context of an overheated economy, excessive management power - which used to be highly centralized - was granted to the mill cadres who attempted to enlarge the product mix and extend business to non-textile areas (e.g. logistics, real estate and tourism, to name a few) under the auspices of state-owned commercial banks and local governments who were looking for financial return and political achievement. The highly centralized authority among top-level cadres caused spending and investment that was largely unsupervised. Finally the mills were dragged into large repayments to banks and other creditors, and their cash flows were broken after the Central Government decided to burst the economic bubble and to tighten up loan approvals in the mid 1990s. The downturn of the textile market in the meantime and later the 1997 Asian Financial Crisis urged the Central Government to downsize the textile industry nationally as a component of the national SOE reform. In 1998, 5.12 million textile spindles were enforcedly destroyed and 660,000 textile workers were laid off nationally (Han & Chen, 2007).

Besides the textile industry, during the First and Second Five-Year Plans (1953-1962), the Chinese Government had allocated Shaanxi Province more than 50 military enterprises and numerous supporting institutes (e.g. technical schools, professional colleges and research laboratories), making the province a national military base. In the market economy, in which preparing for immediate war was no longer needed, the majority of military enterprises were requested to partially - if not totally -



change their product mix from military to civilian use. The transformation was awkward. On the one hand, it was difficult to transform the usage of some equipment and to retrain the workers, given the constrained budget and workers' narrow skill set. On the other hand, for these enterprises, it was the first time they had faced a competitive market. For instance, in the early 2000s, a military optoelectronic enterprise changed some of its production capacity to manufacture consumer digital cameras, but it soon failed to compete with foreign competitors. Except for some strategically funded enterprises (e.g. aerospace and aircraft manufacture) that rely exclusively on Central Government orders, many other former military enterprises, in the words of a manager, "did not know where to sell the civilian use products that have no comparative advantages in terms of either price or technology" (Interview). Soon many of them suffered more severe losses, indicating the transformation was disappointingly ineffective. Facing difficulties, some enterprises sold their lands to real estate companies or rented out their facilities and buildings to other businesses. By the end of 2005, 24 centrally managed military enterprises had been bankrupted, more than 120,000 staff had been laid off (SBS, 2006), and the number continues to increase.

Before bankruptcy, governments had been trying to rescue these SOEs guided by the principle of "grasping the big and letting go the small" (*zhuada fangxiao*), i.e. selling small and unprofitable enterprises and keeping big, profitable and strategically important enterprises. Considering the shortage of job opportunities outside the state sector and the importance of the textile industry in the local economy, Shaanxi took a slightly different approach from the national strategy of *yadian, jianyuan, tiaozheng, zengxiao* (destroying redundant spindles, reducing staff, adjusting the mill and improving efficiency). Reconstruction of the Xi'an and Xianyang mills was undertaken in the hope that they could thrive again in the market economy.

In Xianyang, the No. 1 Mill had long been in default to creditors. It was transformed, between 1998 and 2001, from a solely state-owned mill into a limited liability company in order to avoid these unpaid debts by changing the nature of ownership. One cadre admitted that this approach was "unethical but effective in dodging the numerous creditors"; otherwise "the bankruptcy would have happened a decade ago" (Interview).

In *fangzhicheng*, four mills were incorporated by a state-owned investment corporation in the name of the Tanghua group in 1999 but this later proved to be another unsuccessful move. One dyeing and printing mill, once the largest of its type in Asia, attempted to reopen twice, in 1999 and 2001 respectively, but both efforts failed, wasting more than 12 million *yuan*. It subsequently disposed of all its machines and equipment and rented out its workshops to art galleries. The other three mills operated to a partial degree but continued to make losses after the reconstruction. Although in the early 2000s, Shaanxi's textile industry as a whole turned losses into profits, the technical and financial inequalities between the textile enterprises in Shaanxi and those in the coastal provinces widened (Wang, 2007). Like the military enterprises, they lacked competitive advantage in price, quality and variety of product mix. While the coastal state mills had been privatized or joint-ventured and their social welfare responsibilities were largely peeled off, the mills in Shaanxi still bore the main responsibility for looking after their workers. In 2007, 40 percent of Shaanxi's textile mills remained in deficit (SBS, 2008). The bankruptcy of some of these large mills was unavoidable by 2008.

**Table 1: Timeline: the No.1 Northwest Cotton Mill, Xianyang**

Period	Milestone
1951	Construction of the mill commenced. The mill recruited urban and rural residents and workers who migrated from the coastal region to “support the west”
1952	The mill commenced operation
1952-1970s	The mill, like some other state-owned mills in Xianyang, was functioning well and continued to operate during the Cultural Revolution. A number of model workers were promoted and propagandized nationally by the CCP
1980s	This was the mill’s best period comparative to others SOEs
1989-1996	Investment in a chemical fibre mill failed, generating a liability of 60 million <i>yuan</i>
1996	In the context of national downturn of the textile industry, the mill experienced its first ever deficit, of 38 million <i>yuan</i> , or four times of its net assets
1998	The first reform: a limited liability company replaced pure state-ownership to shake off the debts of 20 million <i>yuan</i> . The workers contributed 20 million <i>yuan</i> to buy shares in the new company
1999	The second reform: Further selling of some state-owned shares to the staff share holding committee
2001	The third reform: Sale of remaining state-owned assets to a privately-owned limited liability corporation
2008	Finally bankrupted with a debt-asset ratio of 346.54%

Sources: focus groups and interviews

**Table 2: Timeline: Cotton mills in *fangzhicheng*, Xi'an**

Time	Milestone
1950s	Construction and operation of <i>fangzhicheng</i> commenced as a national textile base with five mills (the Nos. 3, 4, 5 and 6 Northwest Cotton Mills and the No. 1 Northwest Dyeing and Printing Mill).
1950s-1980s	Generally a good period, even during the Cultural Revolution.
1988-1995	The No. 5 Northwest Cotton Mill was transformed to the Five Ring Co., Ltd. By borrowing from banks, it invested in high-tech, logistic, financial, real estate and tourism industries and built factories in the United States, Australia and Singapore. Loans for more than 100 projects generated annual interest of nearly 50 million <i>yuan</i> .
1996	The top manager of No. 5 Mill was dismissed and accused of mismanagement.
1999	Four mills except the No. 5 Mill were incorporated under the Tanghua Group.
2008	The Tanghua Group announced bankruptcy and some small-scale strikes and petitions happened.

Sources: focus groups and interviews

While there was not much hope towards the mills, compensation and post-bankruptcy arrangements were the workers' first concerns. In *fangzhicheng*, two issues emerged. First, how could the nonviable Tanghua Group repay the 40 million *yuan* borrowed from their workers when it was in financial difficulties? Second, what should be the levels of compensation for workers with different types of labour relationship? As a normal practice, workers who entered the mills before 1987 were classified as formal workers (*zhengshi gong*), otherwise they were contract workers (*hetong gong*). Besides, the mills employed approximately 3,000 seasonal workers from surrounding rural villages. As a non-recognized category of state workers, the seasonal workers heard through the grapevine that they would have no compensation at all. The workers requested the cadres to address these issues but the cadres refused. The non-disclosure set off widespread discontent, resulting in strikes and protests. The government and the mills reacted quickly to restore stability by publicizing the bankruptcy arrangement within a few days. First, all money borrowed from the workers would be repaid by government. Second, the seasonal workers would be offered the same level of compensation as the contract workers. While many other SOE reforms and layoffs were conflict ridden (Lee, 2000), *fangzhicheng* was mostly peaceful. These two policies successfully smoothed the implementation of layoffs.

Workers were offered three options. First, workers who cease the labour relationship are compensated by a one-off buy-out (*maiduan*) sum depending on the length of service and the type of labour relationship (from 1200 to 2500 *yuan* per working year). Second, workers who retain the relationship but have not reached retirement age are offered 280 *yuan* per month plus superannuation contribution until the age of 55, after which they will retire on a pension from the superannuation fund. In the meantime, they may be asked to work in the post-reform mills. Third, workers with chronic diseases and approved medical records can apply for sick retirement (*bingtui*).

Compared with some other cases, for instance the No.1 Chongqing Cotton Mill in south-western China where laid-off workers were offered a buy-out sum of only 200 to 300 *yuan* for each working year (CLB, 2008b), the governments were relatively generous in the cases of both No.1 Mill and the Tanghua Group. However, in light of history in Shaanxi and other provinces, this generosity was not offered spontaneously. The reform of textile enterprises has long been sensitive and continues to attract unrest nationally (CLB, 2005, 2007a, 2008a, 2009). In the autumn of 2004, textile workers in the Tianwang Cotton Mill in Xianyang (originally the No.7 Northwest Cotton Mill) held a seven-week strike and blocked the railway and street - possibly the longest and one of the most influential strikes in the history of socialist China (CLB, 2004, 2007b). Zhengzhou in Henan Province, another national textile base established in the 1950s and bankrupted in early 2008, is a more recent case. Textile workers there held several strikes for arrears of superannuation contributions. Unrest and mass incidents, which might threaten government officials' political careers, are something they are most unwilling to confront.

Among interviewed workers, it was found that a higher proportion (68 percent) of younger workers (under 45) tended to choose the buy-out, while the older ones (within approximately five years to retirement age) were more likely to elect to keep the labour relationship. No official statistics are available, but it is estimated that in one of the mills, more than half the workers took the first option. A 43 year-old worker who chose a lump-sum compensation of approximately 62,000 *yuan* felt regret

that she no longer had any relationship with the mill where she had worked for a quarter century. At the same time, she felt relieved because her family, with a monthly income of 740 *yuan*, needed to pay the tuition fee for their child in university and the money was of great help. Those who retained the relationship did so mainly because it was more feasible to reach the retirement age (hence the pension). However, they also worried that the post-bankruptcy mills would request them go back to jobs for which they might not be competent due to age or ill health.

## 4. Defining and characterizing poverty in the study area

### 4.1 *The official definition of poverty*

In 2008, the MLSS poverty threshold in Xi'an was 230 *yuan* per month per capita. Using this MLSS line, the poverty rate in Xi'an was 2.7 percent (MCA, 2009) and that in the sample was approximately 15 percent. Compared with other industrialized cities where MLSS poverty rate in low-income communities was, for example, as high as 20 percent in Nanjing, Jiangsu Province (He et al., 2008), 35 to 47 percent in Shenyang, Liaoning Province, and in Chongqing Municipality (Cheng, 2010), the MLSS poverty rate was relatively moderate in this sample. The BLR that the workers received from their affiliated SOEs helped to reduce the MLSS poverty rate. For example, in *fangzhicheng*, off-post workers had been receiving a monthly BLR of 230 *yuan* from the Tanghua Group between 1999 and 2008. But the income level in these communities was significantly below the city's average monthly income per capita (1267 *yuan*), as only 12 percent of the households reached this level, and only 45 percent of them earned 50 percent of the median income. From a subjective perspective, it was found that that approximately 60 percent of households considered themselves poor.

Since its introduction, the implementation of the MLSS has been decentralized to the local department of civil affairs and neighbourhood committees, in the expectation that they could address local needs efficaciously (Ravallion, 2009). In the sample, nearly 30 percent of the households whose reported income was under the MLSS line did not receive transfers because their officially estimated income was above the line. The notable differences between the eligibility and actual coverage rates of the MLSS, and the subjective poverty rate imply that the official anti-poverty policy did not sufficiently address the problem and identify the "genuinely eligible households", due to mis-targeting or mis-measurement (Ravallion, 2008). One reason for such flaws, as Solinger (2008) suggested, is that MLSS is designed as a minimum livelihood guarantee to ensure minimal commotion among urban residents rather than as a responsible social security program. Poverty, in the implementation of the MLSS, is a strictly controlled benefit entitlement. The complicated application process made some current and former MLSS recipients dissatisfied, especially with its "surveillance by the masses" (*qunzhong jiandu*) approach to verify applications and its continual supervision of the MLSS recipients in an unkind manner:

*To decide whether we were eligible, the neighbourhood committee officials visited our flat to check everything thoroughly, including our income, savings, consumer durables and housing condition. All these details were displayed on the community's notice board. Everyone read what*

*household appliances I had, how much we earned and how poor we were. That's a shame and we felt really uncomfortable, but we had to accept it.*

To a number of poor households we interviewed, poverty was essentially disgraceful. A sense of inferiority was also a common reason for them to refuse participation in the research. There is a popular viewpoint that poverty is largely attributable to one's ignorance and indolence. While it is generally assumed that any household which is deemed eligible for the MLSS accepts the transfer (Ravallion, 2008), occasionally some recipients quit MLSS for "self-esteem" reasons:

*One day I met a neighbourhood committee officer on my way home from buying some vegetables and meat. He inspected my shopping bag and then criticized me: "You are receiving MLSS, why are you buying so much food?" ...I quit the MLSS after that.*

The MLSS performs relatively well in avoiding leakage to ineligible households (Chen et al., 2006), which is also the case in these communities. But the role of front-line executives of the MLSS in this regard is largely unheeded. The neighbourhood committee officials were discouraged by the scheme as it occupied considerable working time to verify household's eligibility, to prepare paperwork and to update the recipient's situation regularly. Potential MLSS recipients face an incentive to deliberately underreport their income (Ge & Tuan, 2004) and officials may be penalized if they do not successfully identify fraudulent applications. The latter are most likely to be submitted by households with income at the fringe of the MLSS line. As it is difficult to verify such cases, officials tend to tighten the approval rate to avoid such risks. Also, they have no motivation to increase the MLSS standard, as a higher line attracts more applications, making their work even more onerous. As in other cities (Hussain, 2002), the officials in Xi'an sometimes measure income as if the household was receiving all its entitled benefits (e.g. the one-child family allowance to be discussed later), no matter whether the family was actually receiving them.

In order to compare it with the MLSS line, we calculated a subjective poverty line based on two subjective poverty questions. The first is the Minimum Income Question (MIQ) (Goedhart et al., 1977; Kapteyn et al., 1988) with the same wording in Chinese as in Gustafsson et al. (2004): *According to your actual situation, how much are your minimum household living expenses for a month?* The second is the so-called Deleek Question (DQ) as explained in Flik and Praag (1991): *Can you make ends meet with the actual income of your household with great difficulty, difficulty, some difficulty, rather easily, easily or very easily?*

The respondents marked one category for the DQ which fit their household income best. Then a subsample of 200 households comprising those answering "with some difficulty" was constructed. Between the minimum income from the MIQ question and the actual household income, which ever was lower was defined as the respondents' lower income. The lower income was used to calculate the average poverty threshold and the standard deviation. Those values which differed by more than two standard deviations from the average lower income were eliminated in order to reduce the impact of outliers. The subjective poverty line using this approach was approximately 380 *yuan* per month per capita, suggesting that the MLSS can cover only 60 percent of the subjective monetary needs of the households.

## 4.2 Qualitative assessments of poverty by the communities

An alternative indicator of poverty is the communities' own assessments of economic welfare and identification of poverty attributes. State workers have become poor gradually over time, they suggested, due to the SOEs' financial difficulties, retrenchment program, rising living costs, and age, health, occupational skill and social discrimination. We examined these in the framework of PPA in which the critical point was to comprehend how poor laid-off workers actually specify poverty. Table 3 shows how the households who believed themselves poor and found it hard to make ends meet defined poverty. Monetary poverty was the dominant characteristic in such definitions but some other dimensions were revealed. Thus, while lack of income and savings topped every group's indicators of poverty, 21 percent of households agreed that having a household member with chronic illness created a higher risk of poverty, due to the high health care cost in the current system where they were largely unprotected. Overall synthesis of PPA findings implies a certain resignation among communities that there was not much they could do to reduce their own poverty.

**Table 3: Indicators of poverty**

Indicators of poverty	Percentage of households
Not enough income/savings	70
Scarcity of food expenditure	30
Scarcity of necessities	22
Member with chronic illness	21
Large household size/high dependence ratio	17
Poor housing	15
Materially/monetarily rely on parents/relatives	13
Poor psychological status	12
Lack of skills	10
Other indicators	8

Source: focus groups and interviews

Each PPA group was asked to scale poverty according to their self-defined characteristics. For example, one un-gendered PPA group of laid-off workers categorized households into six groups, from the extremely poor to the super rich, according to their mutually agreed well-being standards (Table 4). While men and women generally offered similar categories, gendered PPA groups had different interpretations due to different focuses on household well-being associated with their roles in families. For example, one female group established a connection between the children's academic performance at school, family relationships and the level of overall well-being, while a male group particularly stressed the importance of financial capacity in fulfilling household needs and their responsibility as household heads. Thus the well-being categorization of households has strong contextual meanings and local implications. For example, some small areas were identified by the participants as "the corners of the poorest". Methodologically, this was particularly useful to crosscheck with the survey sampling to see whether these locations had been covered. Laid-off workers had clear perceptions of relative poverty and deprivation, especially when they compared themselves with better-off people outside the communities and with workers in monopoly SOEs.

**Table 4: Categories and characteristics of household well-being**

Categories	Characteristics
Extremely poor	Living in the shabbiest housing in the north corner of the community, short of food and clothing, have member with chronic and costly illness or disability and with limited or no working ability, receiving MLSS
Very poor	Similar to the extremely poor but the overall situation is slightly better, receiving MLSS
Normal poor	Household members are laid-off, unemployed or work in low-paid and tiring jobs, afraid of being sick, strictly control household expenditure, save money whenever they can for precautionary reasons
Marginal (somewhere between poor and non-poor)	Very similar to the normal poor, but have a steady job or small business although the income is not high
Better-off ( <i>xiaokang</i> )	Much better than marginal and have sufficient financial capacity to ensure quality of life
Rich	Several former colleagues were in this group but most of them had moved out of the communities
Super rich	Those millionaires and billionaires reported in the media

Source: focus groups and interviews

Some other understandings of poverty arising from PPAs went well beyond traditional dimensions of poverty and were defined in a socio-psychological way. For example, in a PPA in Hanzhong, a laid-off worker said:

*We were very poor in the Mao era by today's definition. But I think poverty is not only whether we have enough food to eat and enough clothes to wear, but it is also when workers and cadres no longer cooperate with one another, when our workers are told that it is our own fault to be laid-off and when we lose the advantages we had against other enterprises.*

The communities expressed clear ideas of what layoff and poverty meant to them, and these understandings had an important dimension of persistence. Poverty experience was described primarily as a perpetual need for income and daily necessities. Layoff was a feeling of powerlessness and being abandoned, while the difficulty of overcoming poverty and getting new employment was particularly stressed. In PPA, participants were asked to nominate the factors that contributed to their poverty (Table 5). The Chinese term *pinkun* corresponding to poverty in English was initially used. Like the term “poverty” in English, *pinkun* also has various meanings and implications. However, as arising from the test survey, *pinkun* generally meant only monetary poverty in some participants' minds. Hence *qiong* (poor), *jiannan* (in hardship) and *kunnan* (in difficult circumstances) which denote wider implications of both monetary and non-monetary poverty were suggested by them to refer to poverty.

Emerging from group discussions, the lack of sufficient income, expenditure and savings are among the most frequently mentioned factors. In identifying why layoff caused poverty, the timing of the

implementation of the layoff program was often blamed. Almost simultaneously with the layoffs, the social security, housing and health care reforms commenced. Not only was income reduced by 50 to 80 percent, people also had to pay for superannuation and medical care contributions on their own and to use savings to purchase the once-free housing.

Nonetheless, the PPAs reflect a greater diversity of livelihoods in different households, especially for those who were laid off but were not yet entitled to an age pension. On the one hand, posts available to laid-off workers were limited and were mainly manual labour jobs, e.g. cleaners and kitchen hands. On the other hand, they had to compete with rural migrants, who were usually younger and healthier. According to some small business owners around the communities, laid-off workers were not competitive in job-hunting. As most of them were in the age range of 35-50, they were “less energetic than young migrant workers” who “ask for less but do more” (Interviews). The laid-off workers felt discrimination in the labour market which tended to exclude them from reemployment. Around 65 percent of the currently unemployed people were willing to work but less than 20 percent of them had any confidence that they could find a job. This partially reflects the condition of the job market. An owner of printing store said a laid-off worker asked for monthly salary of 650 *yuan* for operating the photocopier but a technical school graduate asked for 500 *yuan* only and was able to manage both photocopying and typing (Interview).

**Table 5: Most frequently cited factors contributing to poverty**

Categories	Factors contribute to poverty
Monetary	Insufficient household income due to layoff, poor economic condition of <i>danwei</i> , retirement
	Insufficient household savings due to low income, high expenses relative to income
	Insufficient household expenditure due to insufficient income, educational, medical housing costs (e.g. rent, maintenance and varied housing bills)
Employment	Being unemployed after layoff and forced retirement
	Low salary from new post
	Younger household member cannot find job after graduation from school or college
	Unable or unwilling to work due to physical or psychological reasons
Education and skills	Poor educational background
	Poor technical and professional skills (e.g. no skill or professional certificate)
	Have the skills but suffer discrimination in labour market
Social network	No/few friends outside the community (e.g. lack of <i>guanxi</i> and support)
	Loss of face
	Do not visit friends and relatives outside the community
Housing	Damaged and not maintained
	Housing cost is high
	Living space is not enough to comfortably accommodate the household
	Lack of indoor facilities (central heating, gas etc.)

Source: focus groups and interviews



As a Chinese variant of social capital, *guanxi* played an important role in determining success and securing jobs in both the administered economy (Bian, 1994) and the emerging labour market with its informational and institutional imperfections (Huang, 2008; Yueh, 2006). Reflecting this, some participants recognized the lack of *guanxi* as one of the major causes of poverty, which they defined as absence of good relationships with cadres or “powerful people”. Such relationships had influenced the sequence of layoffs within SOEs. As revealed by a former SOE cadre in Hanzhong, in 1995 some lower-tier workers were laid off first to fulfil the government’s downsizing quota although the SOE was asked to “lay off both workers *and* cadres to avoid unrest”. In contrast, most of the principal cadres and higher-tier workers had kept their jobs until 2002. This seven-year difference meant that people laid off in 2002 received approximately 20,000 *yuan* more than those laid off in 1995, a large amount by local standards. Regarding the post-layoff arrangement, one laid-off worker recalled:

*The government gave some reemployment posts [to my danwei]. I applied for one, as I was qualified...In the end the jobs were given to people who had close relations with cadres...They explained to me that it was because I submitted my application late. But how could I apply earlier when they kept the information secret until the last minute? In short, I did not have good guanxi with cadres.*

In these communities, around 65 percent of the laid-off workers who had found jobs had done so through the medium of relatives and friends, and only 10 percent through employment agencies. Social networks also influenced self-employment activities (Yueh, 2009). Some laid-off workers intended to start small businesses, e.g. a snack bar or corner shop; however, it was “complicated” to get a licence as several approvals from different governmental departments were required. Simply put, “without *guanxi*, it is hard” to find reemployment (Interview). *Guanxi* accumulated in one’s earlier career is useful to minimize the impacts of layoff, and, though not very common, could enable some families to live better after the layoffs. A former front-line marketing officer in Xianyang, for example, had not only avoided poverty but also moved to a wealthy community, because he had established a strong personal *guanxi* with suppliers and wholesalers who continued doing business with him after his reemployment in a private trade company. By contrast, his superior officer, who had not come into contact with business partners and had not directly managed the marketing network, had fallen into hardship. We found several similar cases among these SOEs.

Poverty in these communities is a relative concept that changes over time. In the Mao era, as most participants agreed, “everyone was poor but happy”. Income was low but the SOE provided comprehensive social welfare. After the collapse of the *danwei*-based welfare provision, the laid-off workers have become “poor and unhappy”. They recalled the old time nostalgically, as an era of “no corruption and [when] the operation of the *danwei* was much more transparent”, and when “the working class had the highest social standing”. More importantly, they felt organizational belongingness as “owners of the enterprise”, a concept that had been strongly advocated by the CCP. The subsequent SOE reform deprived them of the internal democracy that had enabled them to voice their opinions at the all-staff conference and in the trade union. In response, red or black slogans such as “Cadres, do you forget whom the owner of enterprise is?” and “Workers are the collective owner of SOE” had been written on walls or on white banners in some SOE communities. However, this did

not necessarily mean that these once state workers consistently or completely rejected the SOE reform. Rather, it was a means to rationalize and legitimize their resistance, thereby protecting themselves from potential political risks.

The nostalgia among workers was obvious. Some workers clearly categorized the Mao era and the early post-reform era led by Deng Xiaoping as the best time; however the so-called Third Generation of CCP Leadership was deemed the worst. Claiming that the SOE reform and retrenchment are in the best interests of nation, the CCP has tried to justify itself as a long-term planner rather than a political party of ingratitude. The workers' strategy was to repeatedly bring up the promises once made by the government on guaranteed employment and socio-economic benefits. Protests and petitions are frequently held in front of the government buildings of different levels and different departments, with varied requests such as for back pay, the pension, retrenchment compensation and other benefits. In 2008, a small group of laid-off workers established the Shaanxi Study Group on Mao Zedong Thought and subsequently a SOE workers' organization to fight for their rights. In 2009, nearly 200 laid-off workers from this group submitted an open letter to the Shaanxi Province Federation of Trade Unions, asking for continued benefits and investigation into possible fraud during the restructuring and bankruptcy processes of their SOEs. A few days after the submission of this open letter, the organization was declared illegal by the government, although generally the authorities have tolerated such activities if there was no radical behaviour or violence (STGMT, 2009a, 2009b). As stated by one government official dealing with workers' requests, these activities barely had any influence because "if they could get them [the claimed benefits], they would have them already. [Protests and petitions] normally do not work" (Interview).

Some laid-off workers blamed the cadres for their hardship. Many workers alleged that the managers had problems of corruption, malfeasance, mismanagement, dereliction of duty, and illegally or cheaply selling of state- or collective-owned assets to private enterprises. Corruption was the focus but only a few workers could present any (not very convincing) proof. As high-tier cadres formed a small clique, outsiders like ordinary workers could only observe their activities distantly. But workers insisted that their complaints and suspicions were well grounded. One stated:

*Some cadres have personal drivers and cars...They spend enterprise funds to eat outside...Some of them have two or three apartments...They travelled abroad several times last year, saying that they were negotiating contracts with machinery manufacturers...But we don't see any new equipment...When we ask for unpaid wages, pensions and reimbursement of medical costs, the answers are always "Danwei is in difficulty", "No money", "Be patient" and "We will research it" ...But where are the funds for their dissipation from?*

Challenging and impeaching the cadres is one the most radical ways for workers to fight for rights and benefits. Since the mid 1990s, in a COE with around 100 staff, opposition to the director assigned by its managing SOE has lasted for more than fifteen years. Since the management refused to contribute to workers' superannuation, unemployment and medical insurance, some retirees had no pension and no workers had medical insurance. Most workers were laid off without compensation in the late 1990s. In the mid 2000s, the workers legally dismissed the director through the all-staff conference, but he has refused to hand over the management. Since then the workers have spent six years appealing to

the higher authority in Beijing for “justice” (see Sun (2008) for an extraordinary account of her own and her fellow workers’ fight for their legal entitlements, endangering their lives during the reform of their COE in Xi’an).

In the context of post-paternalism, the *danwei* system and its superior administration, have been urging the workers to “look for [help from] the market rather than the mayor (*bu zhao shizhang zhao shichang*)”. To encourage the recruitment of laid-off workers, governments reduce or exempt their employers from tax. However some employers pay the laid-off workers a few hundred *yuan* and list them on the payroll to take advantage of the policy without actually requiring them to work.

A number of institutions suggested by the residents themselves were analysed in PPAs. Table 6 is an example showing the perspectives of residents on institutions which have been involved in poverty alleviation and related matters. Laid-off workers were deeply disappointed by the fact that the influence of *danwei*-related institutions was decreasing. But some of them continued to hope that *danwei* and the state would compensate their sacrifices and efforts in the earlier years.

**Table 6: Institutional analysis on poverty alleviation**

Institutions	Selected comments
Neighbourhood committee: a grass-roots local-governance organization that links the bureaucracy and the community	<ol style="list-style-type: none"> <li>1. Most resident have no contact with the officials there</li> <li>2. Used to be a place for occasional community gatherings and was the organizer of informal social events, but now more likely to be a completely governmental and bureaucratic agent</li> <li>3. MLSS recipients: Initial contact point for personal or family difficulties but not much extra help could be attained from it in reality</li> </ol>
(Original) <i>Danwei</i>	<ol style="list-style-type: none"> <li>1. Usually have little contact Some had no contact with it for many years</li> <li>2. Hope the <i>danwei</i> could at least think of them</li> </ol>
Reemployment service centre and skills training centre	<ol style="list-style-type: none"> <li>1. Offered some advice and training</li> <li>2. Could not provide enough good employment opportunities</li> <li>3. Poor service and impatience with workers’ queries</li> </ol>
The Trade Union	<ol style="list-style-type: none"> <li>1. Helped a lot of workers experiencing difficulties in the early years and served as the link between workers and cadres (e.g. gave out presents and allowances on holidays) although it could not really represent the workers (comment by a retired Trade Union Chair)</li> <li>2. Now totally the puppet of the enterprise management and government</li> </ol>

Source: focus groups and interviews

Previous research shows that the state’s monopoly over the provision of re-employment services had crowded out independent providers (Smyth et al., 2001). While this situation still exists, local governments have recently outsourced occupational skill training to private providers. Overall, however, the effect was unclear as observed in the fieldwork. In *fangzhicheng*, a private training school provided free courses in computing, accounting and handicrafts. Its principal claimed that the

output was significant in terms of “getting reemployed” as the school also acted as an employment agency (Interview). The claim was dubious, as the school’s staff instead referred to “humble posts”, e.g. cleaner, supermarket cashier, kitchen hand and restaurant waiter, as being most commonly provided and also the least welcome since they were “tiring, dirty and not worth it” (Interview). At the same time, the school principal was severely critical of laid-off workers:

*Retrenchment of SOE workers is inevitable in the market economy. In this position, I have met and taught a large number of laid-off workers. If a laid-off worker is in good health and not a basket case, he or she should not be in poverty. A lot of jobs are available in the communities and in the city centre. How could so many migrant-workers survive in the cities? Laid-off workers who are holding urban hukou (household registration), enjoying social security, and living in apartments should think about why they do not live much better than the labour-migrants? Obviously, a job, no matter what kind of job, could get them out of poverty or at least improve their living conditions. But frankly they are just indolent about everything.*

## **5. Quantitative analysis of survey data**

The above two sections have analysed how the textile and military SOEs in Shaanxi Province have fallen into a decline, and have used PPA and interviews to gather the residents’ perceptions of layoffs and poverty, and other relevant aspects. These findings point to the applicability of qualitative methods for understanding local poverty dynamics and for the objective to reach the laid-off workers in a contextual research design. PPA and interviews enabled the expression of complex poverty issues and raised sensitive issues. In the PPA, participants had opportunities to generate debates and discussions about their communities. Typical or extreme cases arising in the PPA were followed up by interviews.

While the PPA provides more contextualized or individualized experiences and explanations of poverty and layoffs, quantitative methods have the advantage of gaining comprehensive information, including more variants in the analysis and standardizing the study for the purpose of future comparative study. Given the relatively large numbers involved in household survey, the information revealed in statistical description and analysis is more representative and is better able to systematically account for relations and interaction between certain variables than the PPA. The usefulness of PPA practices is in debates. There is no doubt that PPA contributes to relative assessments of poverty within a given SOE community, but it is difficult to compare different PPA results across communities because of the meanings attached to them is sometimes different. Quantitative methods, in this regard, are a good complement.

Table 7 presents some descriptive statistics of the sample households in Xi’an. Compared with the official statistics of Xi’an, the households were slightly smaller in size but significantly disadvantaged. The average household size was 2.88 and the most typical household size was three people (43.9 percent), close to the city-wide household size (2.91). Compared with the official figure of 1.39 members employed in each household, households in these communities averaged less than one employed member (0.79). Unemployment was a major problem, as identified in the PPA, and is also

demonstrated in the quantitative data: nearly half of the households had no employed person, while another 31.7 percent of households had only one member in employment. The employed-to-household size ratio (25.7%) was much lower than at the city level (47.8%).

More than 60 percent of the sample households had at least one laid-off worker. It should be noted that during the survey, retrenchment in some SOEs was still in progress and some workers had not decided which compensation option to take. While their laid-off or unemployed status was not yet finally confirmed, the number of households with laid-off workers would have increased during 2009. The number of retired household members was also higher than in the city-wide statistics at 0.86, meaning that a higher proportion of household members in these communities was out of the labour market. The majority of laid-off heads comprised ordinary workers (82.1 percent), while cadres and technicians were a small proportion. Although the average number of years of service was long (28.8 years), the cadres were mostly in the lowest bureaucratic ranking (73%), 55 percent of non-cadre heads had no skill ranking and only a few had obtained registration as a technician. Most heads had worked previously in SOEs, COEs and other state sector jobs, although the non-state sector provided the largest proportion of employment in Xi'an. In other words, compared to the population of the city as a whole, the sample population had been more severely affected by the recent industrial restructuring.

**Table 7: Household characteristics**

	Sample	Xi'an*
Household size (mean)	2.88	2.91
1 person	10.0%	
2 people	9.8%	
3 people	43.9%	
4 people	13.6%	
5 people and more	8.7%	
Employed people (mean)	0.79	1.39
None	46.0%	
1 person	31.7%	
2 people	19.9%	
3 people and more	2.4%	
Employed-to-household size ratio	25.7%	47.8%
Household members with income	1.60	2.07
Member with income except head and spouse		
Yes	27.5%	
1 person	64.0%	
2 people	29.0%	
3 people and more	7.0%	
No	72.5%	
Laid-off workers (mean)	0.54	
None	39.3%	
1 person	48.9%	
2 people	10.9%	
3 people and more	0.9%	
Retired (mean persons)	0.86	0.60
None	59.5%	
1 person	38.7%	
2 people and more	1.8%	
Preschool (mean persons)	0.10	
In education (mean persons)	0.43	
Chronic illness (mean persons)	0.21	
Occupation of head		
Farmer (seasonal worker)	3.8%	
Ordinary worker	82.1%	
Cadre	5.9%	
Technician	4.8%	
Others	3.4%	
Employment sector of head		
SOE	87.0%	
COE	5.9%	
Other state sector	2.8%	
Others	4.3%	

Source: Author's calculation; Note: \* Official statistics from Shaanxi Statistical Yearbook, 2008.

While the households in Xi'an had an average of 2.07 members with income, the figure for the sample households was only 1.6. Household heads and their spouses were the main source of income for 82.5 percent of households, and only 27.5 percent received income from a member other than the head or spouse. City-wide, the average monthly salary for an employed person was 1,775 *yuan*, but in the sample average monthly income of household heads was just 720 *yuan* – a nearly 60 percent difference. Income per capita for Xi'an households was 897 *yuan*, but only 570 *yuan* - about 40 percent less - in the sample.

In terms of consumption, the households' average monthly food expenditure per capita was 223 *yuan*, only slightly below the city average of 255 *yuan*, implying a higher proportion of income was spent on food than for normal households in Xi'an. The households also spent much less on other items. They were asked to rank their largest expenditures. Food, electricity, water and gas, education, and medical expenses were among the largest expenses while expenditure on entertainment, clothes and shoes, housing, and transportation were smaller. For example, the households spent only 246 *yuan* per capita per year on clothes and shoes, which was only 27 percent of the city figure. Lower income and consumption among households was accompanied by the lack of other family assets, and many households did not own any valuables. About 53 percent of households had no savings, while among those who did, the most common amount was under 5,000 *yuan*. This was significantly lower than the savings per capita of urban residents in Xi'an, which averaged 11,412 *yuan* (Table 8). Of the sample households, nearly half saw improvement in nominal income over the previous three years. However, 66.7 percent of them had experienced a deterioration in real income, due to the rapid inflation between 2006 and mid-2008. At the same time, approximately 70 percent of households saw no change or deterioration in their standard of living (Table 9).

**Table 8: Savings among households (yuan)**

	Percentage
Have savings	47
Under 5,000	21
5,000-10,000	11
10,000-20,000	7
20,000-30,000	3
30,000-40,000	2
40,000-50,000	2
Over 50,000	1

Source: Author's calculation

**Table 9: Change of household income and standard of living in the last three years (percentage)**

	Household income (nominal)	Household income (real)	Standard of living
Significantly improved	6.4	4.0	3.3
Slightly improved	42.9	7.3	26.1
Almost no change	36.7	22.0	39.4
Slightly deteriorated	7.7	40.7	19.0
Significantly deteriorated	6.2	26.0	12.2

Source: Author's calculation

Average age of the sample housing stock, which mainly dated from the pre-reform era, was 31 years. The housing space per capita (19.4 m<sup>2</sup>) was below the city level (23.6 m<sup>2</sup>) and the number of rooms per capita was 0.62. Unlike similar communities in some other cities, where construction of the vast majority of housing was strictly controlled by the *danwei*, (Wu et al., 2010), 22.3 percent of the housing in our sample communities had been built by households themselves in a loosened housing management system in the pre-reform era. *Danwei* housing was, however, still the main source (75 percent). The so-called *zìjiàn cūn* (self-built villages) or *pénghu qū* (shanty towns) were crudely built, short of basic infrastructure, and their deterioration was even more serious than that of the SOE-built housing. Only 13 percent of households fully owned their house, while, 64 percent partially owned it and 19 percent had no ownership. Those who had purchased their house from the *danwei* had spent approximately 24,000 *yuan*, a heavily discounted price compared with the city's average purchasing price of 48,147 *yuan*.



**Table 10: Housing characteristics**

<b>Average housing age</b> (years)	31
<b>Housing space per capita</b> (m <sup>2</sup> )	19.4
<b>Rooms per capita</b>	0.62
<b>Construction type of housing</b> (percentage)	
Self-built/one-storey housing	22.3
<i>Danwei</i> dormitory (shared toilets, kitchen etc.)	9.1
<i>Danwei</i> built and allocated housing	65.9
Others	2.7
<b>Ownership of housing</b> (percentage)	
Fully owned	13.4
Partially owned	64.0
Not owned	19.0
Others	3.6

Source: Author's calculation

**Table 11: Degree of satisfaction** (percentage)

	Strongly satisfied	Satisfied	Neutral	Unsatisfied	Strongly unsatisfied	No idea
House space	3.5	19.1	23.2	36.2	17.8	0.2
House structure	2.0	19.5	27.2	37.5	13.8	0
Indoor facilities	0.9	23.1	34.3	9.9	0.2	0
House location	6.8	45.8	32.7	11.8	2.9	0
Neighbourhood relations	19.8	59.3	16.0	2.9	1.3	0.6
Community safety	1.8	24.3	35.1	26.1	12.3	0.4
Community services	0.7	23.5	41.4	19.7	7.5	7.2
Transportation	9.4	64.9	17.8	5.9	1.1	0.9
Primary school	2.2	34.2	24.1	12.1	5.9	21.5
Secondary school	1.8	30.7	23.0	13.4	5.9	25.2
Food market	2.6	56.8	19.5	17.3	3.3	0.4
Shops	2.9	58.8	23.0	12.7	1.3	1.3
Medical service	2.6	46.4	26.6	16.3	7.3	0.9

Source: Author's calculation

The questionnaire collected data on the degree of satisfaction at household level on a number of items (Table 11). For instance, many households were not satisfied with their house space and structure, but were more satisfied with its indoor facilities and location. Transportation, food market, shops and medical services all achieved high degrees of satisfaction. Neighbourhood relations were particularly good in these communities where the residents worked (or had worked) together in the same SOEs and knew each other well.

The above data concerned subjective observations of income and consumption status, but based on the monetary dimension of poverty. In the following we exclude the direct monetary measures of

well-being by introducing a subjective assessment of poverty, constructed according to answers (1 for “Yes” and 0 for “No”) to the question:

*Taking into account your material conditions, do you consider yourself in poverty?*

Interviewees were then asked about their perception of the gap between (1) themselves and others around them (self versus others), (2) their current achievements and earlier hopes for their present stage of life (past versus current), and (3) what they hoped to achieve in their lifetime (current versus future). Answers were based on a scale from 1 to 7 (Tables 12 and 13). Opinions were sought on health, income, career and family relationships for each perception gap. These aspects have previously been shown to be important in the study of subjective well-being (SWB) in China and other countries as well (Brockmann et al., 2008; Camfield et al., 2009; Nielsen et al., 2010; Schimmel, 2009; Winkelmann, 2008). The inclusion of these aspects was also suggested by the local residents in the test survey who considered them crucial in the context of reduced income, rising health costs, ruined career progression and loss of job, and worsening family relationships (a core value of Chinese culture) for many laid-off workers’ households.

**Table 12: Types of perception gap**

Perception gaps	Questions and aspects
Self vs. others (Gap 1)	Compared with people around you, how do you evaluate your current health, income, career and family relationships?
Past vs. current (Gap 2)	Compared with your earlier expectations and aspirations, how do you evaluate your current health, income, career and family relationships?
Current vs. future (Gap 3)	Compared with your lifetime expectations and aspirations, how do you evaluate your current health, income, career and family relationship?

**Table 13: Scales of perception gap**

Very far below	Considerably below	Slightly below	Basically the same	Slightly above	Considerably above	Very far above
1	2	3	4	5	6	7

In analysing our results, poverty is expressed as a function of these perception gaps, a vector of demographic and personal variables, a vector of controlling variables and a vector of variables for controlling the respondents’ state of mind bias. A probit model is run, as the dependent variable is dichotomous, and the model in general is:

$$Poverty_i^t = \alpha + \beta_1 Gap_i^g + \beta_2 Per_{.i} + \beta_3 Con_{.i} + \beta_4 SM_i + \varepsilon_i \quad (1)$$

Here  $Poverty_i^t$  equals 1 if individual  $i$  is in poverty and 0 otherwise, where  $t$  stands for the type of poverty, i.e. subjective poverty, MLSS poverty and relative poverty.  $Gap_i^g$  is a vector for perceived

gap variables, where  $g$  stands for the type of gap.  $Per_i$  are demographic variables and  $Con_i$  controls for individual variables (occupation, age, education, income, assets).  $SM_i$  is a vector consisting of variables controlling for the state of mind to prevent variations in measures of SWB (Layard, 2005).

Since some people who are income poor do not subjectively consider themselves poor, the model also regresses conditionally on MLSS poverty (i.e. 230 *yuan* per month per capita) and relative poverty (i.e. 50 percent of median monthly income, approximately 530 *yuan*) to examine whether there are differences in the significance of gaps in testing the probability of self-perceived poverty when someone is income poor in the following functions:

Both objectively and subjectively poor

$$Obj. \& Sub. Poverty_i = \alpha + \beta_1 Gap_i^g + \beta_2 Per_i + \beta_3 Con_i + \beta_4 SM_i + \varepsilon_i \quad (1)$$

Not objectively but subjectively poor

$$Sub. Poverty Only_i = \alpha + \beta_1 Gap_i^g + \beta_2 Per_i + \beta_3 Con_i + \beta_4 SM_i + \varepsilon_i \quad (2)$$

Using probit regression, equation (1) is estimated for each poverty indicator (subjective, MLSS and relative) as a function of the different gaps described in Table 12. Two conditional probit regressions for 2.1 and 2.2 are also estimated on MLSS and relative poverty.

**Table 14: Probit regression results for gaps (marginal effects)**

Variables	Model 1 (Unconditional)			Model 2 (Subjective poverty conditional regressions)			
	Subjective	MLSS	Relative	MLSS		Relative	
				Not poor	Poor	Not poor	Poor
Gap 1: self vs. others							
Health	-0.023*	-0.123	-0.045	0.012	-0.123**	0.021	-0.173**
	(0.003)	(0.022)	(0.110)	(0.003)	(0.114)	(0.003)	(0.114)
Income	-0.056*	-0.023**	-0.045	-0.056**	-0.023	-0.106**	-0.023
	(0.003)	(0.023)	(0.032)	(0.071)	(0.152)	(0.021)	(0.132)
Career	-0.120*	0.017	-0.035	-0.120	-0.017*	-0.134	-0.015*
	(0.058)	(0.034)	(0.008)	(0.058)	(0.034)	(0.058)	(0.034)
Family rel.	-0.219*	-0.045	-0.008	-0.079	-0.765**	-0.029	-0.665**
	(0.034)	(0.023)	(0.003)	(0.289)	(0.023)	(0.156)	(0.134)
R-Squared	0.117	0.127	0.182	0.122	0.212	0.111	0.121
Gap 2: past vs. current							
Health	0.012*	0.894	0.457	0.056	0.266**	0.445	0.235**
	(0.455)	(0.323)	(0.232)	(0.445)	(0.568)	(0.262)	(0.222)
Income	-0.124*	-0.158	-0.089	-0.568*	-0.154	-0.227*	-0.458
	(0.012)	(0.458)	(0.556)	(0.265)	(0.154)	(0.221)	(0.155)
Career	-0.148*	-0.457	-0.000	0.789	-0.466*	0.007	-0.225
	(0.112)	(0.304)	(0.018)	(0.438)	(0.443)	(0.310)	(0.123)
Family rel.	-0.220*	-0.156	-0.258	-0.086	-0.269**	-0.020	-0.665**
	(0.213)	(0.343)	(0.744)	(0.344)	(0.441)	(0.423)	(0.352)
R-Squared	0.182	0.173	0.201	0.198	0.122	0.129	0.217
Gap 3: current vs. future							
Health	0.310**	0.131	0.124	0.245*	0.529*	0.213*	0.623**
	(0.078)	(0.072)	(0.120)	(0.008)	(0.417)	(0.323)	(0.304)
Income	-0.456*	-0.652	-0.478	-0.771	-0.998**	-0.506	-0.723**
	(0.012)	(0.013)	(0.045)	(0.018)	(0.055)	(0.121)	(0.130)
Career	0.312	0.229	0.285	0.535	0.454	0.234	0.568
	(0.029)	(0.033)	(0.033)	(0.032)	(0.031)	(0.056)	(0.044)
Family rel.	-0.129*	-0.045	-0.048	-0.089*	-0.228*	-0.217*	-0.341*
	(0.024)	(0.052)	(0.053)	(0.019)	(0.023)	(0.056)	(0.040)
R-Squared	0.223	0.290	0.167	0.231	0.234	0.233	0.211

Source: Author's calculation; Notes: 1. Results for controlling variables are omitted here; 2. \*denotes statistical significance at the 95% and \*\* at the 90% levels; 3. Figures in parenthesis are standard errors.

Table 14 presents results from the three specifications. From the results for Gap 1, the health gap significantly explains changes in the probability of being poor in Model 1 and it is also significant in Model 2 for MLSS and relative poverty, implying that good health is important to avoid monetary poverty and that with better health, the probability of self-perceived poverty decreases. In Model 1, the income gap is significant in explaining both subjective poverty (at the 5 percent level) and MLSS

(at the 10 percent level), but not relative poverty, indicating that the subjective standard has better performance in capturing poverty. The perception gaps in career and family relations are significant in the subjective poverty unconditional regression (Model 1) and for the MLSS and relative poverty in Model 2. These results show that a person who has better family relations relative to others is less likely to be subjectively poor and people experiencing monetary poverty will not consider themselves poor if they have a smaller job gap.

From results for Gap 2, health and family relationship gaps are significant in Model 1 and significant in Model 2 among MLSS and the relatively poor, implying that worse health and family relations increase the probability of self-perceived poverty. Income gap is significant in Model 1, implying that smaller the gap between a person's current income and the aspired income, the less opportunity the person will be in self-perceived poverty. In Model 2, among the income non-poor, income gaps are significant and provide the same implications. Regarding career gap, the marginal effect is significant among the unconditional subjective poor and the income poor in conditional MLSS poverty. This means that improvement in a person's career relative to what the person aspired to achieve decreases the probability of falling into subjective poverty.

From results for Gap 3, health and family relationship gaps are significant in Model 1 and Model 2 among both poor and non-poor. Improving these factors helps decrease the possibility of being subjectively poor. In regard to income, if a person has already achieved a level greater than that the person considers to be sufficient for a life-time, the probability of being subjectively poor decreases. Marginal effects of career gap are not significant in either model, possibly due to the laid-off workers not having a clear expectation of the future after the layoff had demolished their career prospects.

Generally speaking, subjective indicators are more effective in capturing the importance of gaps than monetary poverty standards as the gaps were more significant in a person's subjective poverty assessment while they were not relevant to the objective poverty specifications. For instance, health gaps are significant in explaining subjective poverty while objective indicators cannot significantly capture it. In reality, a healthier person would have a better chance of being employed, a higher income and less expenditure on health issues.

## 6. Some hidden aspects of poverty

Survey methods that aim at standardization can obtain a common set of information and avoid possible bias arising from face-to-face interviews. But in many contexts, surveys are “less suited to gathering information that is highly nuanced or covers intangibles” (Appleton & Booth, 2005). The particular strength of qualitative methods in poverty studies is that they enrich information obtained by quantitative methods and obtain detailed information that surveys are normally unable to do. The following are some examples.

### *Time-limited tap water supply*

Surprising results were not expected on whether or not the households have access to tap water in the survey area. The data show that all households had access to tap water. But it was subsequently found, in qualitative phase, that in *fangzhicheng*, water was supplied only three times a day in the morning, noon and night, lasting between one and four hours each time. The lack of persistent water supply interrupted residents’ daily activities and adversely affected public sanitation as some of the households shared a lavatory. The explanations from residents and officials on this issue were very different. One resident said:

*This community is eligible to be connected directly to the city’s water supply network, but it is not. The danwei built a hydraulic pressure system between the residential area and the city network; and it charges us the cost of water re-pressurizing. However, an air lock fills the water pipe during idle hours between service times. When we turn on the tap, the air comes out first, and then it runs the meter for several minutes, which means we have to pay for the air! Here the air is the same price as water!*

Officials strongly denied this criticism and imputed this problem to the surface water shortage in the district and the area’s higher elevation than its surroundings. The majority of water was supplied by wells dug and managed by the *danwei*. Hence water (re)pressurizing was necessary to boost the groundwater to the residential areas. The 1.5 times over-exploitation of *fangzhicheng*’s groundwater has caused environment degeneration, including groundwater-level drawdown and the abandonment of more than 40 wells. In some communities, the water table has been falling at the speed of 2.5 metres per year. Hopefully this problem can be solved in 2012 when a nearby dam is completed. Until then, the only way is to deepen the wells. Nonetheless, this issue has been widely used by the residents as evidence of *hencha de shequ* (a very bad community). There was no communication between residents and officials on disputable issues like this. Actually, as a typical *danwei*-run society, not only water supply but also roads, heating and power supply in *fangzhicheng* were mainly built and maintained by the *danwei* themselves. Isolation from the city’s public services has created an area that has benefited less from rapid urban development. In the words of a local resident, “now *fangzhicheng* almost looks like it was 20 years ago” and the *danwei* was not able to maintain the facilities due to financial difficulties.

### *House ownership*

A significant proportion (approximately 70 percent) of the households purchased their houses between the late 1990s and early 2000s as a result of the privatization of housing. They allegedly fully owned

the house. However, only 13 percent of them have received the ownership certificate, the only legal authentication for them to sell or mortgage their house, or secure a loan from the bank to support a small business and so on. But there was little dissatisfaction among households who largely accepted the fact. Two typical answers were:

*We have tried [to obtain the ownership certificate] but the relevant government departments asked us to wait....Then we have waited for 8 years....But that's fine, no one will take my house away, I think.*

*The danwei asked me to talk to the government and the government said the danwei should help us because our houses used to be danwei-owned properties. I was exhausted after trying several times ,so I gave up and just left the problem there...Many people have the same problem, not only in our danwei. It makes no difference to our family anyway.*

### **Central heating fee**

The commencement of fieldwork was just at the time when the neighbourhood committees began to collect a heating fee from households. Because a public heating system was used, there was no individual meter for each house. Hence the heating fee was shared by households depending on the space of each house. The households strongly challenged the rules:

*Until last year, the amount of heating fee was charged depending on the number of heating radiators in each house. However, this year we were charged according to the size of house and shared area. There is only one radiator in my house and we do not feel warm but we have to pay double price and even for the shared space and stairway where there are no radiators.*

A protest was proposed in one of the communities and some residents claimed that they would refuse to pay the fee. Actually, the central heating fee was a hot topic throughout the cities in early winter, as we observed from local websites, television programs, and newspapers. The laid-off workers were more concerned about the pricing policy while the residents in wealthier communities cared more about the heating temperature, in other words, the quality of central heating.

### **Living support**

Besides MLSS and BLR, a number of *gongyixing gangwei* (waged jobs for people who serve the community) were provided as a supplementary measure to support the laid-off workers, the disabled and so forth in these communities. The roles normally comprised patrolling, cleaning, or assisting with office work in the neighbourhood committee.<sup>1</sup> In return, a monthly salary of around 760 *yuan* was paid. A resident brought an accusation against the selection process of *gongyixing gangwei* and the duties he had had to fulfil:

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<sup>1</sup> The qualifications for this post vary between cities. In Xi'an, to qualify for a *gongyixing gangwei* one must be: (1) a "zero-employment" family; (2) female over 40 or male over 50, with a Certificate of Reemployment; (3) unemployed person receiving Minimum Living Standard support; (4) Both husband and wife are laid-off or unemployed; (5) Single-parent with minor; (6) Disabled person with working ability; (7) Spouse of an active member of the army, retired army or family member of a revolutionary martyr and (8) Other laid-off and unemployed person in special hardship.

*Look at the people the neighbourhood committee has employed in gongyixing gangwei. The majority are their relatives or friends or those who have a good guanxi with the high-level cadres....I got the job last winter as a disabled laid-off worker; but I resigned after several months....I was asked to sweep the snow in winter but I found it really undoable, because my back and legs were too painful.*

### **Microcredit**

Governments have been encouraging the laid-off workers to actively participate in private business which they deem to be the most effective absorbent of laid-off workers. The stimuluses have included an initial three year tax holiday for any laid-off worker who starts an eligible small business, microcredit,<sup>2</sup> and tax reduction for businesses that employ laid-off workers, as mentioned earlier. Clearly these policies were designed to stir up reemployment. However, to be eligible for the first two preferential policies, a laid-off worker must have obtained a Priority Certificate for Reemployment, and at the same time must give up MLSS benefits. Therefore, some laid-off workers who were receiving the MLSS hesitated to apply for the Certificate.<sup>3</sup> Local authorities reported some success stories at the time of the fieldwork, though compared with the massive number of laid-off workers, these cases were very few. One laid-off worker had already owned a coach running between two cities in Shaanxi, *before* he obtained microcredit. The purpose of applying for the loan was to improve his turnover. Starting a private business, even the smallest of its type, was not a task one resident of a five-person family with three laid-off workers could undertake confidently:

*I had thought about it - open a corner store or kiosk selling local snacks - but I worried about what I would have to face. If we failed, it would definitely throw us into a worse situation.*

Another laid-off worker was concerned about the security of business activity from her own experience:

*I sold liangpi [a traditional cheaply priced fast food] in the community during the summer, but the experience was terrible as several extortionists who were also drug addicts took my hard-earned money.*

To most of the laid-off workers, applying for the microcredit to start a home-based business was not on their schedule and only a few would really like to take it up. Even so, only around 30 percent of applications were approved in Xi'an. The dissemination of the idea of starting a small business through community meetings, road shows and free training had no significant effect in persuading the laid-off workers.

### **One child allowance**

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<sup>2</sup> The loan amount is normally between 20,000 to 30,000 yuan. The repayment period is normally 2 years, with a possible extension of 1 year. During the normal repayment period, the interest generated will be paid by the Central Government.

<sup>3</sup> There have been recent changes to this policy, as in some cities government relief recipients can now also apply for microcredit.



In one of the communities, we saw a copy of a petition from a group of laid-off workers asking for the one child allowance. It contained dozens of signatures, and had already been sent to numerous governmental departments at different levels. In order to encourage the workers to have one child only and to reduce their reluctance to implement the policy, the government had promised that people would be entitled to an allowance of 5 percent of their retirement pension, or about 30-50 *yuan* per month in 2008. It was a very small amount, but of considerable importance to poor laid-off workers.

In some other communities only a small number of eligible workers, who had retired before 2007, had received the allowance. As the pension varied greatly between different enterprises and between workers and cadres, some received a few hundred *yuan*, while others received only 20. A new allowance policy issued by the provincial government abrogates the disparity. However, as of January 2010, the workers in that community had not received anything, as the final standard had not been released.

## 7. Conclusion

This paper addresses urban poverty in Shaanxi Province, where reconstruction of its state sector has deeply influenced former state workers, by using a mixed methods approach. By combining quantitative and qualitative methods I have demonstrated that these workers and their families have been negatively affected by retrenchment and continuing inability to benefit from China's economic reforms. Beyond this simple insight, however, I showed that the combination of objective and subjective poverty analysis enables us to see the problem in a dynamic and contextual way.

The military and textile industries, as two of the most typical and established industries in the Shaanxi Province, have undergone u-shaped development during their histories. Established in the early socialist era, military and textile enterprises were ideal workplaces for urban residents. With the support from government, their economic performance peaked in the early reform era, i.e. the 1980s and early 1990s, during which time economic risks were overlooked. Later, the changes in macroeconomic policy, the downturn of the textile market and the changes brought about by post-Cold War international relations, compelled the industries to reform themselves. While the government initially stuck to its policy of saving the SOEs, these attempts were ultimately unsuccessful. Poverty emerged as social welfare provision by the SOEs and the state lagged behind needs in a rapidly changing economy. Under political pressure, some SOEs and the local government offered better compensation and options to the workers relative to other similar textile mills in China.

From a policy standpoint, I showed that the MLSS as a monetary measure of well-being has not yet been able to provide sufficient support for the poor, as a subjective poverty line approach shows that the MLSS underestimates the needs of poor households. Moreover, due to its harsh qualification standards and focus on identifying fraudulent applications, it does not reach all of the extremely poor. By comparison, the PPA results illustrate the dynamic and contextual understanding of poverty, layoff and livelihoods by poor themselves. Survey data of communities revealed that the households had fewer employed and more unemployed members, who were also more likely to be disfavoured in the labour market due to age, ill health and low skill levels. The surveyed households experienced

nominal household income increases which were offset or more than offset by inflation.

By examining the relationship between perception gaps and subjective poverty, we found that these gaps matter in households' subjective assessments of well-being, while monetary measures are less able to capture these key elements. Clearly, the differences between the "objective" poverty line measures and people's subjective assessments of their situation are likely to have implications for the unrest that has been experienced in *danwei* communities. The mixed methods approach has also helped to reveal hidden aspects of poverty, not normally captured in quantitative surveys. In particular, evidence from the qualitative research suggests that policies aimed at supporting laid-off workers have often been poorly implemented and poorly targeted. Therefore research on China's urban poverty needs to take a more multidimensional direction, at a higher level of methodological integration, and to interact more closely with the poor.

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