

Entrenching poverty: The drawbacks of the Chinese government's policy programs

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As in many other developing countries, government economic and fiscal policies in China have often benefited the better off, to the detriment of the rural poor. The Chinese government has launched ambitious, well-funded programs to alleviate rural poverty, but these have been offset by the overall climate of government policy.

Poverty and rural taxation

Within each region taxes discriminate against the poorest rural households, since the taxes are based largely on agriculture and take less account of other sources of income. A survey in the mid-1990s, based on 500 rural households that were selected randomly from poor regions spread across China, concluded that 'the taxes appear to be highly regressive, with households in the lowest quintile paying a higher absolute amount than those in the top quintile' of the surveyed rural households (Wu et al. 1996:12).¹ Another survey found that while the average rural household in 1995 directly lost 3.4 per cent of its total income to taxes and fees, impoverished households in the poor regions paid 5.6 per cent (Riskin and Li 2001). In a third survey, conducted in 1994 in a poor rural township in Shanxi Province, the average rural household paid 12.3 per cent of its income in taxes and fees, while the local wealthy paid only 0.13 per cent (Xiong and Yang 1997:19).² The poor households in non-poor regions fare even worse. In a 1995 survey, it was found that such transfers to governments absorbed fully 15.7 per cent of their total incomes, a high burden for a very impoverished family (Riskin and Li 2001). Analysing the survey, Riskin and Li have concluded that the 'government and collective seem to be major contributors to rural poverty in non-poor regions'.³

Starting in 2001, new rural taxation policies have been put in place across China that shift an even higher portion of the tax burden onto the shoulders of poor farmers. Under the previous system of revenue collection, China's villagers had, as a whole, suffered from local officials' imposition of a wide range of user fees. These have now been prohibited, and only a single tax on farmland is allowed. This reliance solely on a land tax discriminates against the impoverished households, which generally rely on farming full-time, unlike their more prosperous

¹ Khan (1998:46) makes a further claim that in 'rural China the poor (ultra poor) pay "net taxes" at a rate that is 27 (36) times higher than the "net tax" rate paid by the non-poor'.

² Also see Lu (1997:119) for a 1992 survey of a Guizhou township, which found the poor paying a far higher percentage in taxes than the prosperous.

³ Notwithstanding Riskin and Li's conclusions about the impoverished households in the better-off districts, these households may be in a less onerous situation than their counterparts in the poor regions. Importantly, the local governments of the better-off districts provide better public services such as schooling and offer marginally better welfare benefits—enough, usually, to ensure that the impoverished households do not literally go hungry. The local authorities in the poorer parts of the hinterlands do not have similar financial resources at their disposal, and the poorest there—unless they are disabled or elderly widows covered by the Civil Affairs Bureau—are sometimes left without any type of safety net at all. (This footnote is based upon my own on-the-ground observations.) It should be noted that Riskin and Li find otherwise, and conclude from their survey that the poor in both regions received about the same amount of public transfer income (Riskin and Li 2001).

neighbours—while the abolition of user fees disproportionately benefits the well off, as many of the fees were imposed against their discretionary spending, such as annual motorbike fees and the like. In short, the new tax system is even more regressive than its predecessor.

The fertiliser crisis

Poor farmers are also hurt by another government practice of the reform era. Due to changes to the rural credit system, they do not have access to chemical fertilisers, which they need to supplement the very infertile soils prevalent in most of China's impoverished districts. Extensive household interviewing that I conducted in the impoverished hill country of China's southwest revealed a doubling or, in some cases, even a tripling in grain output by families who can afford to buy sufficient chemical fertilisers in comparison to those who cannot afford any. One vital reason is that the improved grain seeds now on the market depend upon sufficient soil nutrients. Thus, in many of these villages, chemical fertiliser use is the dividing line between households that are able to upgrade to the high-yield varieties and households that cannot. It is the difference between development and hunger.

In Mao's day, each rural market town contained a publicly owned credit association. When the collective fields were divided up among households in the early 1980s, these credit associations, which accept interest-bearing savings deposits in the rural areas, became the main source of loans to support farming by individual families. The credit associations initially gave priority to providing credit for 3–12 months' duration, which would enable families to buy agricultural inputs at the start of the growing season, to buy animals for fattening and quick resale, or to tide a family breadwinner over during a sudden illness.

The credit associations, however, have come under strong pressure from the state to be businesslike in their operations. They therefore normally reject the poorest households' requests for loans on the grounds that such households cannot guarantee repayment as they do not possess collateral. The applicant's own residence and the fields the family has been allotted do not count as collateral, as evictions of families are next to impossible. This latter policy is worthy of praise, since it protects rural families in China from descending into the status of landless labourers. But it also means that they need to fall back on draught animals or pigs or other movable assets as their collateral. And these families do not have the wherewithal to raise animals precisely because they lack fertiliser and cannot grow enough to feed themselves, let alone their livestock. Families can get trapped with persisting low yields in this vicious circle. Overall, in the three dozen impoverished villages I visited in Yunnan, Guangxi and Guizhou provinces, somewhere between 10 and 15 per cent of the households had fallen into this trap, unable to afford any chemical fertiliser whatsoever. In the worst-off villages, a majority of the families were in these straits.

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In these circumstances, various state welfare agencies do intervene to keep the very poor from starving. The poorest of the poor obtain some free relief grain for a couple of months of the year. But even these grain deliveries are usually not sufficient to stave off hunger pangs in the late winter and early spring. Officials in two of the counties that I visited in the poor hill country noted the absurdity of delivering free grain to families when these same families could, more cheaply, greatly increase their own grain yields if provided with some chemical fertiliser.

Many of us hold reservations about chemical fertilisers because their misuse sometimes produces

damaging side effects: to soil structures, rivers and ecosystems in general. But the alternative in rural China, notably, spells hunger and stark poverty, as families that cannot afford chemical fertilisers struggle to raise crops in fields that lack nutrients. To be sure, such families add to the fields whatever organic fertilisers they can find, but, on the whole, the families that use chemical fertiliser simultaneously add more organic fertiliser to their fields than can households that lack chemical fertiliser. The reason is simple—families with bigger crops also gain more silage as a by-product, which means they are better able to raise livestock and so obtain extra manure to recycle into their fields. Fortunately, this assiduous use by Chinese farmers of organic fertilisers (including, of course, household faeces) to supplement applications of inorganic fertiliser also helps to offset the potentially deleterious effects of chemical fertiliser misuse on soil structures.

Misuse of chemical fertiliser does occur, however. Discussions with agricultural specialists in China reveal that a great many Chinese farmers—and even local agricultural extension officers—know little about how to apply fertilisers in ways that will retain a balanced soil. Higher yields mean more trace elements are sucked out of the soil and many of the farmers know nothing about the need to replace trace elements. They know little about optimum levels of fertiliser use, and when they can afford to buy all of the fertiliser that they feel they need, they reportedly spread on too much. China would do well to use the mass media to provide advice to farmers on the use and abuse of chemical fertiliser. But unless some miraculous genetic engineering of crops can provide a cure-all to the problem of depleted soils, chemical inputs will remain all too necessary.

The central government's poverty-reduction programs

The government is well aware of the hardships faced by the poor. A number of special programs have therefore been established that are targeted specifically toward helping impoverished families. In particular, the State Council established a Leading Group for Poverty Reduction in 1986, and, in the 14 years up to mid-2000, this organ had funnelled a total of 138 billion yuan into poverty-reduction efforts (LGOP, UNDP and World Bank 2000:32). In 1999 alone, 26 billion yuan (US\$3 billion) of central government funds were budgeted to these ends (LGOP, UNDP and World Bank 2000:14). Until recently, almost all of these funds were targeted toward 592 designated 'national poverty counties'. This list was revised in 2001 to shift more of this funding toward counties in China's western poverty regions. A quandary, though, is that today more than half of the rural poor live in areas that have not been designated for this central government assistance (for example, see Riskin and Li 2001). Government policy has meant they are cut off from most forms of poverty assistance.

Within the nationally designated poverty counties, lists of impoverished households are usually drawn up based on village heads' appraisals. As a means to minimise the corrupt diversion of aid funds, notice boards in each village display lists of these poor households in numerous counties. To a certain extent this safeguard works. Interviews turned up a number of very poor households that have received interest-free or low-interest loans under this program. But the central government's efforts to constrain corrupt diversions of the finding have not always been successful. In the course of my rural household interviewing, I came upon several instances where quite prosperous households had been provided with substantial aid-the-poor credit; and, in all of these cases, the households were closely connected to important local officials. In one case, for instance, when I asked to interview a recipient, the man I was escorted to was the township Party Secretary's elder brother, who lived in a well-furnished home.

Even officially, the central government has not always required that the aid-the-poor credit be directed toward a poor rural household. Starting in 1989 and lasting through the first half of the 1990s, priority was given to lending such funds instead to county factories, even to private firms, in the mistaken belief that this would provide considerable work for the poor and thus have a trickle-down effect. In 1992 and 1993, at the height of this program, about half of all of the subsidised poverty-reduction loans were lent to industrial enterprises in the nationally designated poverty counties (World Bank 2000:para 110). But Beijing belatedly discovered that the program had ‘minimal or no poverty reduction impact’ (World Bank 2000:paras 326–27). The poverty counties are poorly located for industrial development and many of their enterprises, public and private alike, started losing money. Rather than promoting development, the expanded publicly owned enterprises became a drain on local government coffers. The central government eventually abandoned the trickle-down argument and, by 1996–1997, the Leading Group for Poverty Reduction was specifying that loans should instead be aimed directly at impoverished village households. Nevertheless, rural governments sometimes continue to divert the poverty funds to county industry. In December 2000, the deputy head of the poorest county in eastern Qinghai advised me that the county was currently directing 30 per cent of the aid-the-poor credit provided by the central government into county-based industry, much of it privately operated.

In recent years, the Leading Group in charge of China’s antipoverty work has moved to channelling funds into microcredit programs for the most impoverished farmers (Unger 2002a). These microcredit projects presuppose that there are micro-entrepreneurial activities available to pursue in isolated hill villages, activities that are only waiting for the provision of a [p. 31] small amount of start-up capital. This is not necessarily the case—not unless a household’s agricultural productivity has increased above subsistence level. For instance, raising pigs or flocks of chickens or handfed sheep requires extra foodstuffs beyond a family’s subsistence needs and there are few other entrepreneurial opportunities available to farmers in isolated communities.

The government’s microcredit model derives from the very different circumstances faced in the crowded countryside of Bangladesh, where market women who turn over their stock of goods in mere days or weeks can do well with short-term microcredit at high annual rates of interest. Transplanting the program to China’s remote hinterlands has, understandably, frequently encountered difficulties. Similarly, the current ‘open door’ poverty-reduction efforts (described by Ben Hillman in this issue of *Development Bulletin*), which seek to push more poor subsistence farmers toward crops for the market at a time of progressively lower agricultural market prices, is fraught with risks that these vulnerable households are ill-suited to undertake.

A number of the other programs financed by the Leading Group operate just as poorly. But the very large sums of money that the Chinese government has pumped into poverty-reduction projects in the nationally designated poverty counties nevertheless have had a positive effect. A set of surveys analysed by Azizur Rahman Khan and Carl Riskin (2001:77) show that the numbers of rural Chinese caught in what they call ‘extreme poverty’ declined by about 22 per cent between 1988 and 1995. This rate of decline was almost twice as high as they found to be true for the rural poor as a whole. During the following eight years between 1995 and 2003, the aid-the-poor funding has continued to flow into impoverished counties, and it appears that the numbers in absolute poverty have continued to decline to some extent. During this same period, the far larger numbers of rural families across China who are impoverished, but less abysmally so, have remained persistently high, and probably have even increased due to the falling prices for agricultural produce and a decline in opportunities for off-farm work (on the latter, see Unger

2002b:128–9).

A crisis in schooling and medical care

Education and medical-care delivery in China's prosperous rural districts have improved dramatically over the past two decades. Some rural townships in the coastal regions, with revenue pouring in from rural industry, have become mini-welfare states. But the story is quite different in the impoverished regions in China's hinterlands.

It is vital for the children there to receive primary-school educations. Illiteracy and innumeracy would condemn them to a lifetime of poverty, unable to take advantage of new farming techniques and unable to obtain a living wage in industry. Already, a lack of education means that young adult migrant workers from poor villages secure only the most poorly paid and most dangerous work in the worst of China's industrial sweatshops (Unger 2002b).

Yet, today in many of the poorer counties, the education system is in crisis, again, due to government policies. During the Maoist period, the central government largely left the local rural areas to fend for themselves, providing few resources, and little has changed. Beijing continues to leave it up to county administrations, village governments and parents to foot the lion's share of the costs of schooling, and in poor districts they are very hard-pressed to do so. Under the collectives, the leaderships of impoverished villages were able to divert funding from the collective coffers into the village school before the villagers received their wages. Today, with the land divided among households, there are no such collective funds to draw upon in these villages.

The county governments are supposed to step in to maintain education, but in the impoverished regions the county budgets are very tight, and education often gets short shrift. The village schools are largely sustained on the principle of 'user pays', which means rural parents have to pay tuition fees to cover a great many of the expenses. School facilities are inadequate as a consequence. In some of the poorest villages that I have visited, there are not enough desks and chairs to go around, and children are requested to bring their own. Where the county governments do not provide sufficient funding to help with teachers' salaries, it becomes hard to attract adequate staff and the quality of teaching can be as bad as the school facilities. Many of the teachers in the poorest villages are themselves not adequately educated.

Even though the facilities and teachers tend to be sub-standard, the school fees in poor rural areas tend to be as high or even higher than in the better-off parts of rural China, since the latter schools receive far more generous local government support. An example of how expensive rural education has become for households in poor areas is provided by a survey conducted in a rural county in Hubei Province. It found that 40 to 50 per cent of a family's net income is absorbed by student expenses if all of the children are at school. Not surprisingly, school attendance in some parts of this county had fallen below 50 per cent (*Nongmin ribao* (Farmers' Daily), 13 October 1999). In Qinghai Province, I gathered information on school expenses in half a dozen villages, and, as of the 2000–2001 school year, the charges averaged about 120–60 yuan per year for primary school and up to 400 yuan per year for ninth grade. These are very poor communities where per capita annual incomes amount to less than 600 yuan.

The impoverished parents I interviewed were usually very concerned that their children would be severely disadvantaged in life if they received little or no education. To a degree that is at once touching and inspiring, parents in these poor villages generally make major sacrifices to keep

their children in school, even when it means cutting back on the quality and quantity of food consumed and on other very basic essentials.

It is also clear, in examining my field notes on education from more than three dozen villages, that the poorer the household and village, the more likely that children will drop out of school early. The better off the household and village, the more likely that all of the children, including the girls, will be in school. In the poorest households of poor villages, one or more of the children is likely [p. 32] never even to have entered primary school, especially the daughters. Girls marry out into other families when they grow up, while boys stay in the family, and farmers know that in old age they will need to rely exclusively on their sons' earning power. Given this, the education of girls in poor families is more frequently sacrificed.

In the poorest parts of the countryside, with low funding, a complete six-year primary school education may not be available to any of the children. In one village I visited in Yunnan Province, no schooling was available after the fourth grade because the school's poorly paid teacher was too busy supporting his family through farmwork. In an even poorer village in Guizhou Province, the village school only went up to second grade. In a third village, where schooling during the period of collectives had been offered through to fourth grade, this was no longer the case. Instead, each year only one grade of children was taught, and the school's only teacher advanced from grade one to grade six with this one group of students. All other children have had to hike to another village for their schooling, or else wait for the local school's six-year grade cycle to be repeated.

In short, a crisis exists in impoverished areas, in which some poor students cannot afford to attend primary school and some schools are not fully functioning. In light of this crisis in elementary education, it is surprising that, in a sweeping move in the late 1990s, the central government decreed that education must be universalised up through ninth grade. What made the decree doubly unrealistic is that the central government has given no indication that it will supply the funding even to universalise primary education, let alone grades 7 through 9. Nonetheless, parts of the decree are being strictly enforced. In Qinghai counties visited in 2000, some of the very impoverished parents who have pulled their children out of primary school were arrested, put on trial and heavily fined—though the effect was nullified by the fact that they have no money to pay any fines and also obviously could not afford to pay the hefty tuition fees for their children to attend school. In the midst of this campaign, in a poor Muslim village in Qinghai, the village party secretary admitted that some 30–40 per cent of primary school-aged children—including the great majority of the girls—were not enrolled and there was little the government could do to enforce attendance.

The central education authorities have also been unrealistic in a different respect. In the late 1990s, Beijing decreed that schools everywhere in China must provide a 'quality education' (Kipnis 2001) and strongly indicated that this included primary-school English classes and classes on operating computers. In Qinghai, plans were obediently put in place in 2000 in very poor villages for rural primary school teachers who themselves do not know English to teach the language. Rural township education departments that could not afford to fix broken windows at primary schools or to provide desks and chairs in classrooms were purchasing the obligatory computers. The central education authorities were demanding that all of China must be fully 'modern' and were imposing that vision (without adequate funding) in ways that are incongruous with the hardships facing destitute schools and parents.

The medical-care systems in such villages are often in as bad shape as the schools. To China's credit, practically all villages have an appointed medical officer. But in the poorer regions they tend to be no better trained than the barefoot doctors of the past. The only pay these part-time personnel receive from government sources is a sum for each inoculation they provide, and the amount is so small that some of the village medical officers are negligent in carrying out this duty. 'User pays' underpins all other services, and poor farmers generally try to avoid the expense of being tended to by such an ill-trained neighbour.

For more than rudimentary treatment, they can go to the township medical clinic, which is staffed by genuine salaried doctors. But in the poor areas that I have visited, county and township budgets do not stretch far enough to cover more than 65 to 70 per cent of what the doctors are supposed to receive as a salary—and even this amount is often months in arrears. The clinics are supposed to make up the difference through charges to patients. Across rural China, they tend to make the bulk of their income by prescribing and selling medicines, and this very often has meant overprescribing and overcharging for medicines. Officials at the national Ministry of Health, whom I interviewed in Beijing in 2000, are well aware of this, as are county and township officials, but they generally consider it too difficult to try to root out the practice. The end result is that many ill people avoid treatment, and the rural clinics tend to be seriously under-utilised, especially in the poorer regions. At the same time, preventable diseases such as tuberculosis have been gaining ground in rural China.

A vicious circle ensues, in which a working family member's illness pushes a family further into poverty, putting medical care even further out of reach. Recurrent ill health makes it that much more difficult for families to lift themselves out of poverty, and is one of the most pernicious aspects of the poverty trap. A weak and underfunded Ministry of Health and local governments do little to assist. It is a crisis in rural medical care that will be exacerbated in coming months by an expected onslaught of Severe Acute Respiratory Syndrome (SARS) and the medical system is almost sure to fail the test. This coming year, the impoverished of China face especially troubling times.

[notes inserted here in original format. References begin on p.33]

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