International Journal of Social Science and Human Research

ISSN (print): 2644-0679, ISSN (online): 2644-0695

Volume 08 Issue 08 August 2025

DOI: 10.47191/ijsshr/v8-i8-46, Impact factor- 8.007

Page No: 6138-6144

An Analysis of Household Income Determinants in Northern and Eastern China

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ABSTRACT: This study examines the main determinants of household income in northern and eastern China namely Heilongjiang and Jiangsu provinces. Ordinary Least Squares (OLS) regression was used to analyze how household expenditures including entertainment, education, healthcare, and social activities, and welfare payments affected household income. The study also examines the factor that influence household income in Heilongjiang and Jiangsu provinces to draw attention to regional differences. The findings show that welfare payments raise household income in both areas. Furthermore, household expenditure on social, entertainment and education raise income considerably in Heilongjiang, while similar characteristics have less apparent in Jiangsu, an eastern province. These results highlight the significance for income-enhancing policies to account for regional differences and focus on augmenting welfare support and emphasizing the efficient management of household expenditures to maximize income growth potential.

KEYWORDS: Household Income; Household Expenditures; Welfare Spending; Northern China; Eastern China

I. INTRODUCTION

One of the most essential financial assets for growth of sustainability is household income, particularly on developing country including China. The aggregate gross income of household members including salaries, earning, investments, business revenue and from government's incentive (Organization for Economic Co-operation and Development, 2020). Household income is a cornerstone metric for assessing economic prosperity and social fairness, and over the past forty years, China has witnessed remarkable economic expansion, significantly elevating average household incomes. Moreover, the average per capita disposable income surged from around 3,000 RMB in 2000 to over 35,000 RMB by 2023 (National Bureau of Statistics of China, 2023). However, this income growth has been uneven, perpetuating regional income inequalities, with eastern coastal provinces typically boasting higher incomes than their northern and western counterparts (World Bank, 2021).

Despite concerted national initiatives aimed at alleviating poverty and fostering economic parity, regional variations in household income persist as a significant hurdle (Zhang & Kanbur, 2020),and eastern China's Jiangsu Province, for instance, has reaped the rewards of industrial advancement and urbanization, resulting in markedly higher household incomes; conversely, Heilongjiang Province in northern China, reliant on a resource-based economy and experiencing sluggish industrial progress, exhibits lower average incomes and heightened susceptibility to economic downturns (Li et al. 2022).

According to Huang et al. (2022) and Deng et al. (2024), welfare transfers and household spending on education, healthcare, social, and recreational activities are key factors shaping household income and its distribution. Prior research indicates that welfare payments can elevate income levels and mitigate inequality, particularly among low-income rural residents. Liu (2023) and Acar et al. (2023) have stated that, household investments in education and healthcare are associated with higher incomes, driven by enhanced human capital. However, these dynamics can differ significantly across provinces, influenced by distinct economic structures, policy settings, and social contexts (Addai, 2022).

While considerable research has explored national-level determinants of income in China, there remains a notable absence of in-depth comparative studies analyzing how welfare payments and household expenditures influence income across provinces with differing economic characteristics (Wang, 2024; Liu and Chen 2023; Zhao, 2023). Wang examined the relationship between household expenses and welfare payments in China, finding that social aid raised incomes and decreased inequality across provinces. In the other hand, National analysis in China showed that household expenditures in education and healthcare sectors where the major factors contributing to increased household income and reduced socioeconomics gaps. Regardless of geographical variations, a nationwide study but Zhao (2023) highlighted how household investment and social welfare programs have majors' impact on income distribution in China. Therefore, there is a lack of studies comparing the northern and eastern provinces, which makes it difficult to develop effective policy measures to address regionally specific issues related to the determinants of household income. To bridge this, this study aims to dissect the factors shaping household income in northern and eastern China, with a specific focus on Heilongjiang and Jiangsu provinces, which evaluates the impact of welfare payments and household expenditures, including education, social and recreational activities, as well as healthcare, on household income levels. By comparing these determinants between the two provinces, the study endeavors to provide nuanced insights that can guide the creation of more effective regional policies aimed at boosting income and reducing inequality; thus, this study employs econometric software STATA 17 for its analysis and is structured around a literature review, theoretical framework, empirical model, empirical results, as well as a discussion and a concluding section.

II. LITERATURE REVIEW

A. Positive Impacts of Welfare Expenditure on Household Income

Prior research has extensively examined the link between welfare expenditure and household income, uncovering both positive and negative correlations contingent upon a country's socioeconomic backdrop; Hashim et al. (2019) noted that as household income rises, spending on welfare-related domains like education, healthcare, and social protection typically increases, reflecting a positive relationship, which occurs because households, having satisfied basic needs, can then allocate additional resources to secondary priorities; Ahmad (2020) observed that sustained welfare spending can elevate household well-being by easing financial pressures associated with essentials such as food, health, and education, which allows low-income households to allocate more resources towards productive endeavours, fostering long-term income growth. Noor and Hassan (2018) demonstrated that welfare aid enhances educational opportunities for low-income households, directly boosting their prospects for securing more stable and lucrative employment in the future, and Lee (2019) emphasized that effective welfare expenditure bolsters human capital by nurturing improved skills and health within communities, thereby underpinning household income advancement and poverty alleviation.

B. Negative Effects of Welfare Dependency

While welfare expenditure is designed to bolster low-income households, recent studies have revealed notable negative impacts on household income in specific contexts, and a prominent concern is the emergence of welfare dependency, which may undermine households' drive to boost their own earnings. Lim and Ramli (2021) pointed out that sustained welfare benefits, without proper oversight, can foster long-term dependency, with households exerting less effort to pursue additional income sources, which creates a persistent "poverty trap" that is challenging to escape; Balakrishnan et al. (2024) experimental study in Compton, California, demonstrated that unconditional basic income payments could diminish labor market participation, especially among part-time workers, and this decline led to a reduction in average household income, highlighting the potential adverse effects of poorly targeted welfare expenditure; similarly, Lin et at. (2022) research in Sweden underscored that welfare assistance could reinforce household's reliance on social support, diminishing their motivation to seek employment or enhance their skills, thereby negatively influencing long-term income prospects; Simonsen et al. (2025) examination of welfare reform in Denmark revealed that while cuts in welfare benefits resulted in a slight decline in children's well-being, the overarching goal was to motivate households to become more economically self-sufficient and increase their own income levels.

C. The Dual Role of Education Spending

While education spending is generally seen as an investment in human capital and long-term income growth, certain studies have raised concerns about its potential negative or unintended effects on household income; Lim and Ramli (2021) caution that excessive expenditures on education, when not accompanied by corresponding employment opportunities, may fail to produce immediate income benefits, and households may face substantial educational costs or debts without experiencing a proportional rise in income, thereby exacerbating financial pressures. Hashim et al. (2019) highlights situations where increased education spending among middle-income households results in the depletion of resources without commensurate income gains, which arises from a misalignment between the education provided and the demands of the labor market, creating an "education-income gap". Such a gap can temporarily reduce household savings and disposable income, undermining short-term financial stability despite potential long-term advantages.

D. Social and Entertainment Expenditures: A Mixed Picture

The interplay between household expenditures on social and entertainment activities and overall income has increasingly drawn scholarly attention within the realms of household economics, consumption patterns, and financial health; Research findings are diverse, revealing that this relationship is complex and shaped by various factors, including income brackets, cultural norms, and economic resilience, and several studies highlight that moderate spending on social and recreational pursuits can yield positive long-term impacts on household income by enhancing psychological well-being, building social capital, and fostering economic participation. For instance, Zhang et al. (2022) and Shi at al. (2022¬). Using multiple regression analysis, Zhang et al. (2022) showed that social capital not only affects social and psychological aspects of quality of life but also increases household's economic position by rising. In addition, the findings of Shi et al. (2022) using PLS-SEM found that social interactions facilitate the accumulation of social capital, which can open doors to superior job prospects, professional networks, and access to critical information resources.

However, numerous scholars have explained that expenditure on social, health and entertainment negatively impact well-being and household income such as Wang et al. (2024) and Cai and Xu (2022). The results of fixed-effects regression, instrumental variable regression and propensity score matching on CFPS data (2016-2020) have shown that the cost of healthcare on wellbeing (SWD) can reduce individual happiness without any real benefit to well-being. Meanwhile, Cai and Xu (2020) have stated that, although the effect of insurance and social contributions on income redistribution reduces inequality, it can widen the inequality gap especially among rural residents. Cia and Xu (2020) used the data from the China Household Income Project Chip (CHIP) from 2012 and 2018, which uses panel data regression models.

E. Health and Medical Spending: Income Booster or Financial Trap?

Health and medical spending stand as a pivotal factor shaping household economic welfare, and increased expenditures on healthcare are frequently linked to improved health outcomes, which in turn can bolster household productivity and income levels. Lee (2019) demonstrated that healthcare investments foster superior physical and mental well-being, enabling individuals to engage more productively in the labor market, and this improvement subsequently contributes to increased household income and broader economic expansion. Other than, Noor and Hassan (2018) underscore the significance of public health spending, particularly when directed towards preventive care and subsidized medical services, in alleviating out-of-pocket expenses for lowincome households, and this financial relief empowers households to redirect resources towards income-generating endeavors, thereby underpinning economic stability. In addition, spending on health and medical not only enhances upward mobility and household income but also boosts income for low- and middle-income households (Zhang et al. 2024). In addition, Ordinary Least Squares (OLS) results have shown that improved health status supports sustained earning potential and reduces income inequality (Zhang et al. 2024).

On the other hand, there are previous studies that have stated that investment or expenditure in health has a negative impact on household income such as Liu et al. (2023) and Qui and Zhang (2024). Using a fixed-effects regression model, Liu et al. (2023) finding have shown that, health shocks caused by medical expenses significantly reduce household income and cause poverty in rural areas and low-income households. Furthermore, using the same method namely fixed-effects regression model, the findings of Qiu and Zhang (2024) have explained that medical expenses can substitutes spending on essential needs such as education, food and housing especially for poor households thus weakening the long-term income potential of households. Furthermore, substantial health and medical costs can impose considerable financial strain, particularly on low- and middle-income households; Ahmad (2020) reveals that catastrophic health expenses frequently compel households to exhaust savings or accumulate debt, precipitating a decline in their economic standing. This predicament, known as the “medical poverty trap”, is prevalent in countries with inadequate health insurance coverage. Hashim et al. (2019) emphasize that unpredictable and exorbitant medical costs can diminish disposable income and consumption, adversely affecting household welfare. Households allocating a significant portion of their income to medical care may struggle to meet other essential needs, leading to a cycle of poverty.

III. EMPERICAL MODEL

The method used in this study is a quantitative method which the initial phase of this study involves a quantitative descriptive analysis aimed at elucidating the socioeconomic profiles of populations in Jiangsu Province and Heilongjiang Province. Subsequently, an OLS analysis is performed, and the OLS method was selected as the primary analytical tool for estimating the regression model due to its capacity to yield efficient and unbiased estimates under several classical assumptions. This approach is employed to investigate the determinants of household income in northern and Eastern China. The study utilizes the Multiple Linear Regression technique, implemented through the OLS method, to assess the relationship between a dependent variable and multiple independent variables, using econometric software, namely STATA version 17. The multiple linear regression model applied in this study is formulated as follows:

$$Y_i = \beta_0 \;\; \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} \quad \varepsilon \tag{1}$$

In equation (1), subscript *i* means the *i*-th respondent. *Y* denote household income (in RMB China) while X_1, X_2, and X_3, represent for household expenditures such as, social, entertainment and education and education spending, health expenditure, medical expenditure and welfare payments; Additionally, X_4 and X_5 specifically capture healthcare expenditure, encompassing both health and medical spending; ε represents the error term and β_0 is the intercept. Two research hypotheses are proposed in this study, namely the first hypotheses posits that there is no significant relationship between welfare payments and household income in Heilongjiang and Jiangsu provinces (H_0: There is no significant relationship between welfare payments and household income in Heilongjiang and Jiangsu); the second hypotheses states that there is no significant relationship between household expenditures on social and entertainment activities, as well as healthcare, and household income in both provinces (H_0: There is no relationship between household expenditures on social and entertainment activities and healthcare and household income in Heilongjiang and Jiangsu provinces).

IV. DATA AND RESEARCH AREA

This study uses cross-section data, focusing on northern and eastern China, specifically Heilongjiang and Jiangsu Provinces, and the data were sourced from the China Family Panel Studies (CSPC), conducted by the Institution of Social Science Survey at Peking University. Heilongjiang Province, located in northern China, encompasses 12 prefecture-level cities and one autonomous prefecture namely Harbin, Qiqihar, Mudanjiang, Jiamusi, Daqing, Yichun, Jixi, Hegang, Shuangyashan, Qitaihe, Heihe, Suihua and Dxing'anling (not a city). By the end of 2022, its permanent resident population reached 30.99 million, with a regional GDP totaling 1,590 billion Yuan; in contrast, Jiangsu Province, situated in eastern China, spans an area of 107, 200 square kilometers and includes 13 prefecture-level cities, with a total population of approximately 85.150 million as of 2022, and the province recorded a regional Gross Domestic Product (GDP) of 12,287.56 billion Yuan in the same year. The name of cities in Jiangsu province are Nanjing, Wuxi, Xuzhou, Changzhou, Suzhou, Nantong, Lianyungang, Huai'an, Yancheng, Yangzhou, Zhenjiang, Taizhou and Suqian. The number of respondents used in the Northern province was 327 respondents while in the eastern province it was 220 respondents. Therefore, a total of 547 respondents were used in this study for both provinces in 2022.

V. EMPIRICAL STUDY AND DISCUSSION

The household and socioeconomic characteristics of the populations in Heilongjiang and Jiangsu Provinces, China, are detailed in Tables 1 and 2. Research findings reveal that in Heilongjiang Province, the average annual household income is RMB 79,539.676, with a standard deviation of RMB 66,213.535, and the income distribution spans a wide range, from RMB 0 to RMB 78,000 per year. A significant portion of the population with zero income comprises subsistence farmers residing in rural areas. Studies by Li et al. (2024) and Wang & Xu. (2021) note that some subsistence farmers and nomadic populations in China report zero formal income, yet they sustain their livelihoods through informal economic activities and self-sufficiency strategies that are not reflected in official income statistics. In contrast, in China's eastern province of Jiangsu, the minimum annual household income was approximately RMB 4000, while the maximum reached RMB 1,605,400. For both provinces, the minimum observed values for education expenditure, social and entertainment spending, health expenditure, medical expenditure, and welfare payments were zero per year; In Heilongjiang Province, the maximum annual values for these variables were approximately RMB 91,000, RMB 80,000, RMB 70,000, RMB 70, 000, and RMB 40,000, respectively. In Jiangsu Province, the corresponding maximum values were roughly RMB 155,700, RMB 150,000, RMB 160,000, RMB 160,000, and RMB 80,000 per year. A comparative analysis of the two regions indicates that households in eastern China allocate significantly more each year to education, social and entertainment activities, healthcare services, and welfare payments, and this disparity in spending patterns likely reflects differences in economic development, income levels, and access to social amenities between the provinces.

Table 1: Definition of Variables and Units of Measurement in the Empirical Model for Heilongjiang Province

Variables	Description	Unit	Mean	Standard Deviation	Minimum	Maximum
Y	Household income	RMB	79,539. 676	66,213.535	0	780,000
X1	Education expenditure, social and entertainment	RMB	5358.405	11298.279	0	91,000
X2	Education spending	RMB	443.675	10412.577	0	80,000
X3	Health expenditure	RMB	4632.315	7935.616	0	70,000
X4	Medical Expenditure	RMB	4190.400	7635.775	0	70,000
X5	Welfare payments	RMB	2601.963	5806.895	0	40,000

Source: CSPC, 2022

Table 2: Definition of Variables and Units of Measurement in the Empirical Model for Jiangsu Province

Variables	Description	Unit	Mean	Standard Deviation	Minimum	Maximum
Y	Household income	RMB	165,768.583	185,832.228	4000.000	1,605,400
X1	Social, entertainment and education expenditures	RMB	7421.800	14,4829.337	0	155,700
X2	Education spending	RMB	5605.480	13,661.422	0	150,000
X3	Health expenditure	RMB	7107.397	16464.772	0	160,000

X4	Medical Expenditure	RMB	6598.136	16243.318	0	160,000
X5	Welfare payments	RMB	4862.119	9332.053	0	80,000

Source: CSPC, 2022

VI. ORDINARY LEAST SQUARES ESTIMATOR

Tables 3 and 4 display the OLS regression results for household income models in Heilongjiang and Jiangsu provinces, and the analysis reveals that welfare payments variables exert a positive and statistically significant impact at the 1% level in both regions; specifically, a 1% rise in welfare payments correlates with a 3.219% increase in household income in northern China (Heilongjiang) and a 6.828% increase in eastern China (Jiangsu). Welfare payments that have been implemented in both provinces are social insurance, social welfare, mobile payment and urban-rural integration. These results imply that welfare payments not only support residents in maintaining their livelihoods but also help narrow income gaps among households especially in rural area. Prior research by Huang et al. (2022), Deng et al. (2024), and Yang et al. (2024) has similarly highlighted that welfare payments can reduce income inequality, particularly among low-income rural populations.

In addition to welfare payments, expenditures on social activities, entertainment, and education demonstrate a positive and statistically significant effect on household income in northern China at the 1% level. The coefficient for these variables is 3.517, suggesting that a 1% increase in spending on education, social events, and entertainment contributes to a rise in household income among northern residents, and this result aligns with Liu (2023), who observed that heightened investment in these areas is particularly notable in tutoring and supplementary educational activities; similarly, Acar et al. (2023) found a positive correlation between increased education expenditure and household income in Ghana. However, in eastern China, social, entertainment, and education expenditures do not significantly impact household income, and this result is consistent with Addai (2022), who reported that household income had a negative but statistically insignificant coefficient ($\beta \approx -0.16$; $p > 0.30$) in the OLS regression of annual household education expenditure, which suggests that income does not serve as a significant predictor of education spending in the sample, indicating no meaningful relationship between education expenditure and household income in this region.

Table 3: Ordinary Least Squares Estimator of the Household Income Function for Heilongjiang Province

Variables	Parameter	Coefficient	Standard deviation	z - value	p - value
Constant	β_0	63931***	4379	14.94	0.000
Social, entertainment, and education expenditures	β_1	3.517**	1.424	2.47	0.014
Education spending	β_2	-2.653*	1.499	-1.77	0.078
Health expenditure	β_3	-0.049	2.428	-0.02	0.984
Medical expenditure	β_4	0.057	2.508	0.02	0.982
Welfare payments	β_5	3.219***	0.637	5.06	0.000

Notes: *p<0.1, **p<0.05. ***P<0.01

Source: CSPC, 2022

Table 4: Ordinary Least Squares Estimator of the Household Income Function for Jiangsu Province

Variables	Parameter	Coefficient	Standard deviation	z - value	p - value
Constant	β_0	123913***	14958	8.28	0.000
Social, entertainment, and education expenditures	β_1	3.121	2.968	1.05	0.294
Education spending	β_2	-1.347	3.168	-0.43	0.671
Health expenditure	β_3	-7.451	9.664	-0.77	0.442
Medical Expenditure	β_4	6.998	9.762	0.72	0.474
Welfare payments	β_5	6.828***	1.352	5.01	0.000

Notes: *p<0.1, **p<0.05. ***P<0.01

Source: CSPC, 2022

Table 3 reveals that among various expenditure categories, only education spending exhibits a statistically significant negative relationship with household income in northern China, significant at the 10% level, while other expenditures show no such effect, suggesting that a 1% increase in education spending is associated with a decline in household income among residents in this region. Supporting this observation, Wang (2024) conducted an analysis using data from 26 provinces and autonomous regions in China from 2004 to 2020, employing a Systematic Generalized Method of Moments (GMM) model, and the study found that public education expenditure, regardless of the period considered, contributed to widening the income gap, highlighting the need for more equitable strategies in the allocation of education funding. For example, increased public education spending may adversely affect household income distribution in northern China. In contrast in the Jiangsu Province, education spending does not have a significant impact on household income. Table 3 and Table 4 indicate that health and medical expenditures do not influence household income in either province.

The results for the first hypothesis (H_0: There is no significant relationship between welfare payments and household income in Heilongjiang and Jiangsu provinces) reveal that H_0 is rejected in both provinces, indicating a statistically significant positive association. Furthermore, for the second hypothesis (H_0: There is no relationship between household expenditure and household income in Heilongjiang and Jiangsu provinces), the findings show that H_0 is rejected for Heilongjiang province, where social, entertainment, and education expenditures demonstrate a significant relationship with household income. However, these factors do not exert a significant influence in Jiangsu province. Overall, this study has successfully met its objectives by demonstrating that both welfare payments and household expenditures affect household income, with notable variations between the two provinces, and this research examined factors influencing household income in Heilongjiang (northern China) and Jiangsu (eastern China), highlighting that welfare payments have a strong positive impact on household income in both regions, particularly in eastern China, where such support plays a key role in enhancing family income and narrowing income disparities.

VII. CONCLUSION AND RECOMMENDATIONS

This study investigated the determinants of household income in Heilongjiang (northern China) and Jiangsu (eastern China), with a focus on welfare payments and household expenditures on education, social and entertainment activities, as well as healthcare, and the results reveal that welfare payments have a strong and positive impact on household income in both provinces, with a particularly pronounced effect in Jiangsu, suggesting that welfare support contributes significantly to income growth and the reduction of income inequality. In Heilongjiang, expenditures on social, entertainment, and educational activities also exhibit a positive influence on household income; however, in Jiangsu, these expenditures do not yield a statistically significant effect. In Heilongjiang, increased education spending is associated with a marginal decline in income, implying that the distribution of educational funds may influence income inequality within the region, and healthcare spending does not significantly affect household income in either province. Welfare payments emerge as a crucial factor in enhancing household income and narrowing income gaps, while the impact of household expenditures varies between the two provinces, and these findings suggest the importance of tailoring income-enhancing policies to regional contexts, emphasizing both welfare support and the efficient allocation of household expenditures.

ACKNOWLEDGMENT

I'm Mr. Xu Yusen would like to express my sincere gratitude to my supervisor, Dr. Nurul Syafiza Che Nan, for her invaluable guidance, constructive feedback, and continuous support throughout the course of my research. I also wish to extend my heartfelt thanks to Universiti Kebangsaan Malaysia (UKM) for providing the academic environment, resources, and opportunities that made this study possible.

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