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CHAPTER 2

Who gets what and how: governance based on subpopulations

Looking at observable public policies in order to capture the tactics used by the state in maintaining its legitimacy is complicated, especially as regards social policies that change frequently and differ across various social groups. However, the governmentality logic underlying whom to govern and how to govern is shown in the design of governmental programmes, in the way that social problems are defined and divisions/distinctions are established, and in the different kinds of knowledge produced to shape people's ideologies. Here and in the next chapter, I probe into the different designs of policy experiments and schemes, examine the techniques intentionally used by the Chinese government to shape the public's expectations and manufacture public consent, and discuss the rationale behind these practices.

In China's current, massive transition, social welfare provision is one of the most important areas that can be directly perceived by the public. It is also an arena in which we can vividly see a close interaction between the state and the public. For instance, there may be a 'trade-off' between the opportunities and challenges of promoting a welfare reform in pensions or health care. Going ahead affects how the state manages its budget, whether it can increase economic efficiency through privatisation and so on. At the same time, it also brings challenges due to the fact that some sectors will disappear during the process, and the allocation of social benefits will face a possible major reshuffle. To best capture the details from a specific area of social policy, my empirical work in this chapter focuses on the case of major pension policy changes during the social welfare reform conducted by the Chinese government after the 'reform and opening up' in 1978. I look intensively at social policies relating to welfare for the elderly (such as old-age insurance, pensions, and so on) because this area is one that can reveal the state's purposeful design in modifying the distribution of public goods and balancing the role of the government and

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the public in welfare provision. The existence of multiple programmes – such as basic social security, old-age insurance, and pension plans – also suggests that social policies relating to old-age benefits are in an area where many negotiations are possible. People are less likely to give up their existing benefits; thus, the state needs to devote greater effort to the changes that it plans.

The key questions I answer in this chapter are 'How is access to welfare resources distributed among different social groups, and how does the distribution change along with the reforms?' In the reformed welfare system of China, the social rights to income and social security are now more frequently defined on an individual basis than they were in the previous system. They used to be defined collectively through work units (*danwei*, a place of employment) and people's communes (*renmin gongshe*, the highest administrative levels in rural areas). Unlike the old system, in the new system, the issue of who gets what and how they get it has gradually become connected to individuals' endowments, such as their social status, political status, social capital, and so on. From the late 1990s, the government promoted various pension scheme reforms, under which people with different occupations have their own distinctive accessibility to various welfare benefits. For instance, the reform of basic pension scheme for enterprise employees distinguishes the individual contribution rate levied on different age groups, a scheme that was not applied to employees from other sectors such as public institutions before the 2010s. Identifying how and why the state distributes certain benefits but not others, and to some groups/regions but not others, may help to answer the questions regarding the state's overview of population-based governance and its tactics of resource differentiation.

To address the question of resource differentiation, I trace the social schemes related to old-age benefits in China from the early 1950s (with a focus on the period after 1978's 'reform and opening up') and sort out comparisons among the different policy schemes that were available to people of different political status (different urban/rural areas or *hukous*,[1] occupations, party membership, and so on). In the 2010s there were several parallel pension plans, because distinct schemes were devised to cover people of different status. There are pension plans tailored for government employees, for employees of public institutions, employees of enterprises, urban non-salaried residents, and rural residents. The political status that combines residential and occupational difference is crucial for Chinese people seeking access to these differentiated welfare benefits.

2.1 How do entitlements differ: differentiation in benefit entitlement

Welfare benefits, as a type of scarce resource (or public good), can be used by the state in exchange for loyalty, forming coalitions and breaking down a population's capacity to coordinate any critical collective action. In theory, the distribution of welfare benefits can be the result of the authority's intentional

manipulation, negotiations between interest groups, and the influence of socio-historical factors – for instance, demographic and geographical features that may respectively lead to the varied distribution of health issues, and change the distribution of certain health care benefits. Therefore, it is difficult to image a welfare regime in which everyone enjoys exactly the same social benefits – we are more likely to see various welfare schemes and programmes tailored for different social groups and regions, some enjoying more social benefits than others (Frazier 2010). In his book *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States* (2002), Hacker described the coexistence of public and private social benefits that are unequally distributed to different populations in the USA. Some programmes are fully funded by public expenditure, and some programmes benefit the recipients through tax breaks and credit subsidies. There are also programmes that are promoted and regulated by the government while they are completely funded by private contributions – normally from higher earners. So China is not unusual in having multiple welfare schemes and programmes.

However, the mechanism that leads to the coexistence of multiple programmes may not be the same for regimes with distinctive political institutions and paths. In the USA, Hacker identified the timing and sequence of policy development during which the public–private social benefits were constructed through political debates. Business interests played a central role in shaping the landscape of welfare distribution. In an authoritarian regime such as China, the central government has enjoyed far more power in the process of policymaking and resource allocation. Even in a typical policy experiment, which is assumed to be more flexible and open-ended than policies announced as one-off decisions, the central government would set the direction and guidance. Provincial and local governments would enjoy only a conditional and limited autonomy in localising and reinterpreting the details of the policies. So in China multiple social programmes coexisting is more a consequence of centralised policymaking.

So, if the central government operates under constraint from a limited budget, how has it designed the differentiation of social rights and what were its main criteria? In the existing studies of China's society, one important standard that was identified in the differing accessibility of resources was political status (Bray 2005; Lu and Perry 1997; Q. Zheng 2015). The difference of political status mainly resulted from the *hukou* system (Cheng and Selden 1994). People in China were born with the political status of being either rural or urban residents of their local area and were not supposed to move freely across regions. The rural/urban status, or *hukou*, was 'political' in the sense that it largely determined an individual's access to initial public resources such as education (since schools are mostly localised resources), and local elections occurred at the village and district level. Thus it was constructed on residential variation. When individuals got a job, they entered into an occupation-based status, joining the staff of the government, staff of a public institution, staff of

an enterprise, working as a peasant, and so on (M.-k. Lee 2000; Xie, Lai, and Wu 2009). These status categories determined certain other public resources that an individual could access, such as pension plans and health care plans (Wang and Chai 2009). To give an example, as the economic reform proceeded, many rural residents left the countryside to search for temporary jobs in cities. However, even though they worked in the cities, their *hukou* status was still that of rural residents and they were ineligible for public goods such as education, housing, and pension benefits in the cities where they lived and worked (Y. Song 2014). In other words, people with different endowments did not enjoy the same public resources in China. Moreover, the unevenness of benefit allocations across different types of public resource schemes was distinctive. For instance, Cai and his colleagues (2018) identified the differentiation and polarised pension benefit allocation in China, using public transfer data. They showed that the public transfer in pension benefits was more concentrated in the top quartile of earners than was the case for those in education and health care. Those from the top quartile aged 75 received an annual pension of RMB 12,029 on average, and from the second quartile received around RMB 3,460 per person, while the elderly from the bottom quartile received less than RMB 189 a year (Cai, Feng, and Shen 2018).

The variation of welfare benefits in China's case did not merely apply to differentiation in one policy scheme; rather, it was systematically designed to provide different social groups with different programmes in order to maintain a balance of loyalty as well as avoid the risk of any hostile coalition. The formation process of such segregation entailed less political conflict than occurs in representative political systems, and showed more sense of 'overview' or 'seeing the bigger picture' from the ruler's standpoint. It would seem quite in order if certain groups were privileged or sacrificed to improve 'the general good' or to reduce 'the general cost'. The question that then arises is 'who is to be sacrificed and who is to be kept safe in the era of transformations, and what tactics will the state use if public discontent is stirred up over the inequality?'

2.2 Pension reforms in China: a de-synchronised story

The allocation of welfare benefits is recognised as a useful tool for showing the generosity of the authority and buying loyalty from the public (Haggard and Kaufman 2008; Karshenas and Moghadam 2006; Rimlinger 1971). If budget constraints occur in a given period, one reasonable assumption regarding the allocation of welfare benefits is that the government will distribute the limited fiscal capacity to the social group that costs least per unit (that is, per person, or per group of people), and can maximise the gains for the state. But how to decide which group to favour and which to give up? There are two common assumptions about the objectives of the state: to maintain broad social stability, and to maintain active compliance, such as support or consent. The

former is more basic, while the latter is more desirable, but they are in general not mutually exclusive. If the priority/objective for the government is 'political stability', then the resource will be allocated to those who enjoy the greatest negotiation and bargaining power. For maintaining compliance objective, the public's consent is fundamental to the state's legitimacy; it relies heavily on people's perceptions that social justice and equality are being considered (at least shown superficially by state attempts to redistribute benefits) and the belief that the authority will meet the public's expectations. Hence the central authority does its best to meet (or seem to meet) the public's needs in order to get loyalty in return when the authority senses pressure or risks over legitimation. Under the assumption of consent manufacture and maintaining compliance, the state is more likely to redistribute public resources to social groups who are relatively disadvantaged.

I develop my hypothesis about the government's choice in welfare allocation on the basis of careful consideration regarding these two assumptions, and take into account the nature of authoritarian authority – which has an instinct to share power and benefits within its inner power circle. A strategic resource differentiation, therefore, is a reasonable hypothesis: the state will uphold favouritism towards core elites, but wield the weapon of redistributive equality when necessary, and only to a certain extent. Meanwhile, the government employs other tactics such as persuasion by propaganda, and gradual experiments to keep the general public opinion under control. To support this argument I draw evidence from institutional analysis and statistical comparison of China's pension reforms. The institutional analysis focuses on variations in timing, direction, and content of reforms, so as to collectively present a whole image of strategic differentiation in welfare benefit allocation by the government. To precisely identify the different entitlements to benefit across pension schemes, I collected statistical data from the China Labour Statistical Yearbooks, Local Fiscal Statistical Yearbooks, National Statistical Bureau Dataset and other datasets (such as G. Zheng 2016),[2] and compared variations including the eligible population, participating population, coverage rate, pension benefit (per person per year), incremental rate of pension benefit, and so on.

In the 2010s there were five parallel pension plans,[3] each tailored for one group of people – government employees, public institute employees, employees of enterprises, urban non-salaried residents, and rural residents. The fragmented pension scheme was compatible with the categories of political status, which originated from the socialist planning economy that locked the whole populace into a registered permanent category of residence (rural or urban) and a work unit (in an SOE, government post, or elsewhere) (Whyte 2012). From Table 2.1, we can identify the differences in accessing the public resources between the distinctive social groups. In the present pension system, only government employees enjoyed a full fiscal-funded retirement payment (Pozen 2013). Before the 2000s and 2010s reforms of the scheme, public institution employees used to enjoy a similar political status and comparable welfare

Table 2.1: Comparison between different pension schemes in China (in 2015)

Scheme recipients	Scheme name	Nature	Funding source
Government employees	Pension Plan for Government Employees (PGE)	Government-funded pension	Government
Public institution employees	Pension Plan for Public Institution Employees (PPIE)	Government-funded pension➔social insurance	Government➔ government and individual shared
Enterprise employees	Pension Plan for Enterprise Employees (PEE)	Enterprise-funded pension➔social insurance	Enterprise (government takes ultimate accountability) ➔ government, enterprise, and individual shared
Urban non-salaried residents	Pension Plan for Urban Non-salaried Residents (PUR)	Social insurance	Government and individual shared
Rural residents	Pension Plan for Rural Residents (PRR)	Social insurance	Government and individual shared

Source: author.

Note: Arrows in the table indicate reforms of the pension schemes.

benefits to those of government employees. Afterwards they were now confined to a hybrid pension system in which individuals shared the responsibility for making pension contributions. Enterprise employees before the economic reform had their workplace unit and the government as accountable welfare providers. Nowadays, however, the pension plan for enterprise employees shares this responsibility between government, the enterprise, and the individual themselves. The pension plans for urban non-salaried residents and rural residents were similar; both became defined contribution pension insurance schemes that enjoyed a certain (slim) subsidy from the government compared to other types of employee (Wang, Béland, and Zhang 2014). Still, before the late 2000s, these groups had no systematic pension plan at all.

As the main embodiment of state authority, government officials with formal contracts enjoy the most generous payments after they retire. There is solid evidence from previous studies that have demonstrated the welfare privileges of government-related work units compared to the enterprise units and urban residents compared to migrant workers and rural residents (Chan and Buckingham 2008; Chan and Zhang 1999; Selden and You 1997). Right after the

foundation of the PRC, in 1955, a non-contributory pension scheme was issued for government officials. The employees were not required to contribute to the pension pool since the whole fund was subsidised by the state budget. The income replacement rate for retired government employees could reach 90% or 100%, according to the 'Tentative Retirement Regulation for Government Employees' issued by the State Council in 1956. The 'Notice of Salary Reform for Government and Public Institution Employees' issued in 1993 specified that the in-service salary for a government worker would consist of four parts: the duty wage, rank wage, basic wage, and seniority wage. A retired government employee could enjoy their full previous basic wage plus the seniority wage. The retiree also received some subsidy from the government in line with the duty wage and rank wage based on their working years: the longer the employee worked, the higher replacement rate that they got after retirement. Starting from 2006, when the 'Civil Service Law' was issued, the salary system for government employees changed to a two-tier structure: duty wage and rank wage, plus the corresponding allowances. Since the reform, a retired government employee can still enjoy a replacement rate above 80% of their previous income.

Public institution (PI for convenience in the following discussions) employees, such as schoolteachers, doctors in public hospitals, employees of radio or TV stations, and so on, are also generally thought to be people who enjoy an 'iron rice bowl'. The pension plan for PI employees was exactly the same as that for government employees before the 2006 salary reform: officially, the PI employees were subsidised by the state budget in full or in part (depending on the nature of the work units). The 2006 salary reform specified that the retirees of public institution no longer enjoyed the allowance and performance wage, though the pension was still much better than that of people in other occupations such as enterprise employees. The generous pension plan for government and public institution employees has caused great discontent in other social groups[4] for quite a long time. Under huge pressure from society, the government claimed to have changed the dual track of one pension plan for government public institution employees and another for the remaining social groups in early 2008. The reform plan launched in 2008 (as a policy experiment) turned out to be a proposal that differentiated the pension benefits of PI employees from those of government employees: the old non-contributory pension scheme was changed into a defined contributory pension insurance scheme. Started in 2008 as a pilot policy, it was then implemented across the nation in 2014; all PI employees from then on had to add their own contribution to their future retirement fund.[5] In Figure 2.1, I show the chronological changes in the pension scheme reforms for government employees and public institution employees.

Before the economic reform in the 1980s, only state-owned enterprises (SOEs) were allowed to exist in the PRC. During that time their employees enjoyed high social and economic status, and had an enterprise-funded,

Figure 2.1: The timeline of segmented pension plan reforms, 1955–2011

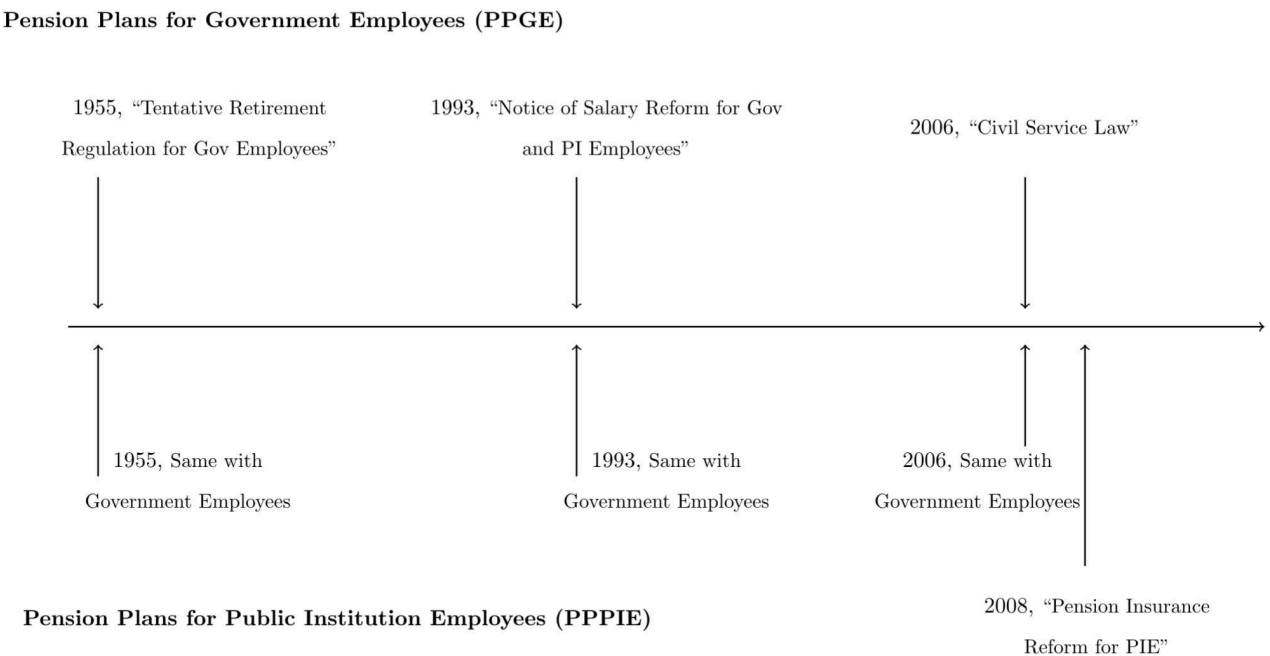
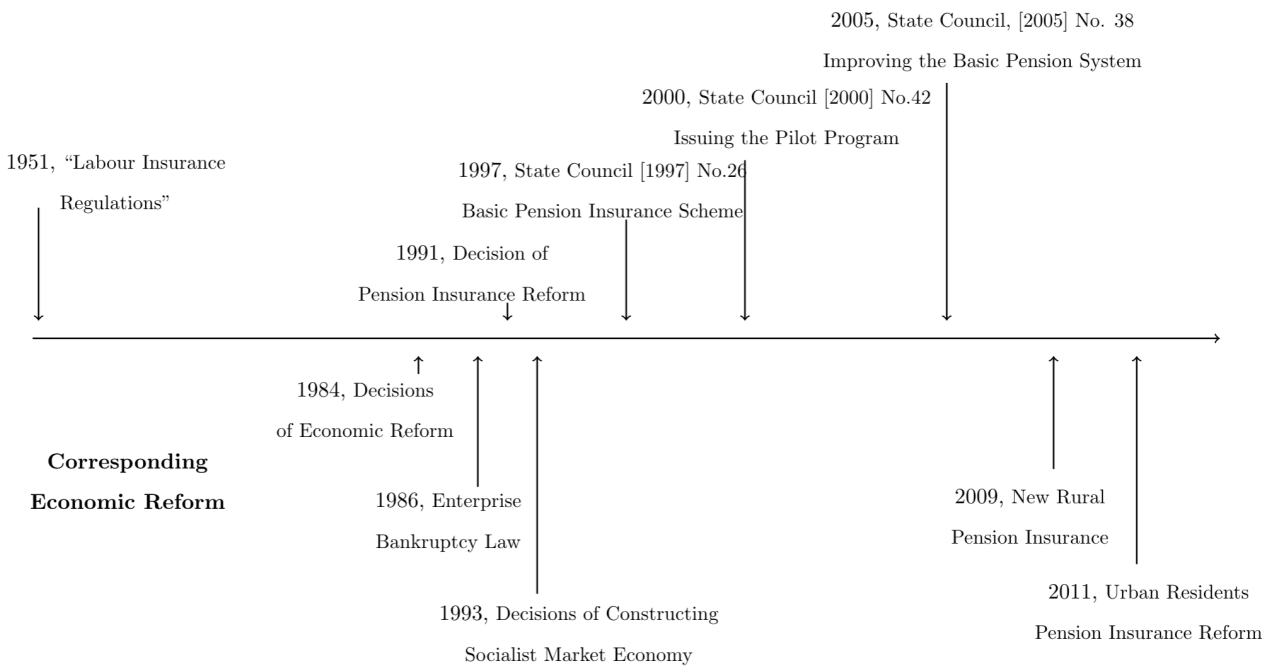


Figure 2.1: The timeline of segmented pension plan reforms, 1955–2011 (continued)

Pension Plans for Enterprise Employees (PPEE)



government-accounted form of social insurance (as had all the enterprises owned by the state) that included education, health care, pensions, and many other benefits. However, when the economic reform started in the 1980s, numbers of SOEs were restructured and hundreds of thousands of employees were laid off (Gu 1999; Gu 2001). The remaining SOE employees suffered from the retrenchment of pension benefits,[6] while the new pension scheme was designed to fit the economic reform of marketisation, cut fiscal expense, and relieve the work units and the government of their burden. Today, enterprise employees are the main component of the labour force, and are a key group for the government. In work they form what is seen as the core engine for economic development. But when they retire they are bad assets – the ruler is impatient to shake off the burden of their welfare provision.

In more detail, the key changes started from the late 1980s and early 1990s, when the dilapidated old pension system for enterprise employees was redesigned as a multilayered pension system. The State Council issued the 'Decision on a Pension Insurance Reform for Enterprise Employees' in 1991, calling for a division of pension responsibility between state, enterprises, and individuals. The pension system pictured by this 'Decision' included a basic retirement programme managed by the state, supplementary retirement programmes funded by the enterprises, and individual savings in the form of a retirement account chosen by each employee (Chao and Dickson 2003). But this announcement was more like a proposal and proved difficult to set in motion due to the lack of funding. People were still expecting the government to admit fiscal accountability and the enterprises were unable to fund the pension pool on their own.

A more official-looking reform started in 1997 when the State Council issued Document no. 26, named *Decision on Establishing a Unified System of Basic Pension Insurance for Enterprise Employees* (State Council 1997). Again, this 'Decision' promoted the idea that the responsibility for raising funds for this new pension system should be shared between enterprises, employees, and government, although, de facto, it was still not compulsory. However, the 1977 'Decision' did have a clear plan for the size of contributions: individual accounts should be kept at 11% of the employee's salary and individuals had to contribute 8% of their salary (starting with 4%). The employer should make up the shortfall in individual accounts, namely 3% of the individual's salary, while separately contributing no more than 17% to the social coordination account (the total contribution of an enterprise should not exceed 20% of an individual's total wages).

To further clarify the divisions between individual and social pooling accounts, as well as to make up for the deficit in individual accounts, the central government issued Document no. 42 in 2000 (State Council 2000) and no. 38 in 2005 to promote the new policy experiment of 'fully funding individual accounts'[7] (State Council 2005). These documents clearly spelt out how to construct a workable three-dimensional hybrid pension reform for urban

enterprise employees. First, at the individual level, contributions to individual accounts were to be borne solely by employees paying in at a rate set at 8% of their wage. Meanwhile, the separate contributions from the enterprise per employee should not be partially diverted to individual accounts but paid in full into an account under the social coordination plan. This definition of the contributory pension scheme clarified the private nature of individual pension accounts and implied that individuals should play a larger role in the funding of their pensions. In addition, the reform emphasised that the longer the employees contributed, the more they would receive when they retired, thus strengthening the connection between an individual's working history and their entitlement to the related welfare. The reform also expanded the coverage of the pension system to wage earners in other categories, such as the employees of small private businesses, in addition to the employees of state-owned or collective-owned enterprises. This was to pluralise the sources of the funding, as well as the enterprise annuities, encouraged by the government as a way of supplementing the basic pension insurance. In the meantime, the reform recommended that individuals explore the possibilities of registering with commercial pension schemes. Until they did so, however, a multi-sourced, defined contributory pension plan was established for all enterprise employees.

Unlike the salaried urban citizens, rural residents and urban non-salaried residents had no clear pension plan at all until the late 2000s. Although some scattered pilot policies to pay pensions to rural residents were implemented at county level in 1992 (also called the 'Old Rural Pension Plan'), these initiatives were mostly unsuccessful and none of them was turned into a national policy. In 2009, the State Council issued 'Guidance on Establishing a New Rural Pension Scheme (Pilot)', also called the 'New Rural Pension Plan'. The nationwide policy started in 2011 and thereafter rural residents were able to register with a pension plan where they could contribute a certain amount of money (the original plan in 2009 included five contributory rates – of RMB 100, RMB 200, RMB 300, RMB 400, and RMB 500 per calendar year. The scales would be adjusted every year according to the annual net per capita income of rural residents as a national average and they would enjoy accordingly a subsidy from the government's fiscal budget. The pension plan for urban non-salaried residents was issued in 2011, and was similar to the rural residents' pension plan. They are both defined contributory pension schemes funded jointly by individuals and the state.

The reforms for different social groups were conducted at various times and went in various directions. As shown in Table 2.1 and Figure 2.1, the pension policy reform process was a multi-track segregation in the fulfilment of social rights. State employees enjoyed the most generous pension benefit and the government budget took full responsibility for their lives after retirement. Facing the big wave of economic reform and pressure on the fiscal capacity, it was the enterprise employees (of state-owned enterprises in

particular) that suffered from the large-scale lay-offs and were encouraged to take charge of their own social risks. Later on, when popular discontent about the dual track heated up, the central authority was happy to reduce its responsibilities and shift the burden onto public institution employees in order to appease the widespread sense of grievance. A follow-up tactic to replenish the political support pool for the government was to launch the pension plan for rural residents and urban non-salaried residents in order to buy off the seemingly least costly population. I give more details below of the state's efforts to carry out a 'loyalty buyoff' with rural residents in the section on the generosity of the pension scheme.

2.3 Generosity and coverage: segmented resource allocation

How generous were the detailed benefit differences between the schemes? The size of benefits received per person and the extent of the schemes' coverage are commonly used indices for identifying the details of welfare programmes (X. Huang 2014; Ratigan 2017; Riedmüller 2008). Accordingly, I collected statistical data from multiple sources of datasets and considered the variations across schemes, including their eligible population, participating population, coverage rate, pension benefit (per person per year), incremental rate of the pension benefit or welfare provision, and other statistics showing how they compare.[8]

The pension plans for government employees (PGE) and public institution employees (PPIE)

Since the government data are constantly kept confidential and vague, I used two approaches in my calculation to estimate the high replacement rate of the pension plan for government employees and public institution employees – the most privileged groups. I also show that they have a higher coverage rate than the enterprise employees and rural residents. Both calculation approaches listed below endorse this argument.

> Calculation method 1: according to the pension policy content. First, we can address the generous pension benefit for government employees and PI employees directly from the policy content. The following calculations for pension benefit come from the 'Civil Service Law' issued in 2006. In this reform, the salary structure for government employees was split into two levels: duty wage and rank wage, plus the due allowance. The replacement rate of pension benefits is quite high. As shown in the calculation, pension benefit (b) is related to the pre-retirement salary (s_{r-1}) and an employee's working years (n):

If $n<10$, $b=0.5s_{r-1}$;

$10\leq n<20$, $b=0.7s_{r-1}$;

$20\leq n<30$, $b=0.8s_{r-1}$;

$30\leq n<35$, $b=0.85s_{r-1}$;

$35\leq n$, $b=0.9s_{r-1}$;

Here note that s_{r-1} was calculated differently according to the different stages of the reform of the pension plan. Employees with less than 10 years' service when they retired enjoyed only a replacement rate of 50%. But someone who had worked for more than 20 years would enjoy a replacement of above 80% of their previous salary (it could even reach 90% if they had worked for 35 years before retirement). The pension plan for public institution employees was quite similar.

Calculation method 2: published statistical data. We can also check the generosity of the pension benefit for government and public institution employees from the published statistical data. Columns 2 to 7 in Table 2.2 come from the China Labour Statistical Yearbook, while the total data on employee numbers and salaries come from the Local Fiscal Statistical Yearbook. The other columns are self-calculated statistics based on the fiscal statistical yearbook data and the number of total employees (for instance, in column 9, I weight the average salary of all government and PI employees according to size). Due to the grouping method in the original data, I can display only a number for all government and public institution employees combined here, rather than separate numbers for the two groups for the purpose of comparison. Pension benefits are calculated in Yuan per person per year.

From 1999 to 2015, the rate of retirees' compensation compared to the workers in post increased from 18.6% to 37%. The burden of pension funding also increased greatly; in other words, the state budget investment also increased. Although the data seem less than 100% precise, we can still see a typical pattern of the high replacement rate of pension benefit for government and public institution employees (above 80% in the late 1990s and early 2000s), especially when compared to the situation for enterprise employees (about 50% in the 2000s, shown in Figure 2.2). The low coverage rate may result from the calculation problem in the original data, since the statistical bureau of the government published only the numbers of participants in the pension insurance schemes that needed self-contribution, while most government employees did not need to contribute anything and had access to full repayment from the

public pension budget fund. Thus, the coverage rate in Table 2.2 can probably be better calculated by the number participants in public institution employee schemes *divided by* the number of public institution employees and government employees combined. Either way, it is clear that the pension benefit for government and public institution employees is generous and is largely covered by the state budget.

The pension plan for enterprise employees (PEE)

Enterprise employees experienced the most frequent modifications of their pensions during the whole reform period, and Table 2.3 presents the changes

Table 2.2: Pension benefit for government employees and public institution employees

Panel a. Data from statistical yearbooks

	Persons participated at the year end (millions)			Revenue and expenses of pension fund (100 million Yuan)		
	Total	Workers	Retiree	Revenue	Expense	Balance
1999	7.62	6.42	1.19	93.2	61.8	89.3
2000	11.31	9.77	1.53	189.8	145.4	186.1
2001	12.78	10.68	2.09	253	204.4	233.2
2002	14.58	11.99	2.58	387.8	340.1	364.5
2003	16.25	13.22	3.03	470.6	405.9	441.7
2004	16.74	13.46	3.27	529.9	470.9	475.7
2005	17.72	14.09	3.62	601.6	545	534.3
2006	19.09	15.12	3.96	677.2	609.4	619.8
2007	19.02	14.92	4.09	823.6	811.3	633.2
2008	19.39	15.04	4.35	940.1	882	690
2009	19.83	15.24	4.59	1,070.3	1,007.8	751.8
2010	20.72	15.79	4.93	1,201.1	1,145	818.1
2011	21.08	15.95	5.13	1,409.9	1,339.3	888.5
2012	21.54	16.20	5.34	1,638	1,553.3	973.3
2013	21.68	16.12	5.56	1,831.7	1,729	1,076.9
2014	21.78	15.98	5.79	2,004.2	1,907.4	1,173.7
2015	22.37	16.32	6.05	2,727.7	2,671.8	1,229.6

Source: China Labour Statistical Yearbook (2016).

Table 2.2: (Continued)

Panel b. Self-complied data of pension benefits						
	Total employees (millions)	**Salary p/y (weighted)**	**Benefit p/y (Yuan)**	**Increase rate**	**Coverage rate**	**Replacement rate**
1999	38.60		5,150		20%	
2000	38.52	8,738	9,481	84%	29%	109%
2001	38.31	9,886	9,766	3%	33%	99%
2002	37.77	11,670	13,152	35%	39%	113%
2003	37.95	13,459	13,382	2%	43%	99%
2004	38.38	14,897	14,374	7%	44%	97%
2005	38.89	16,884	15,042	5%	46%	89%
2006	39.45	19,317	15,357	2%	48%	80%
2007	40.04	21,854	19,802	29%	48%	91%
2008	40.71	26,645	20,247	2%	48%	76%
2009	41.13	30,932	21,957	8%	48%	71%
2010		34,248	23,210	6%		68%
2011			26,106	13%		
2012			29,049	11%		
2013			31,085	7%		
2014			32,897	6%		
2015			44,125	34%		

Sources: Local Fiscal Statistical Yearbooks; Author.

Note: The data shown in the table are all rounded up, therefore may have slight differences with the read numbers.

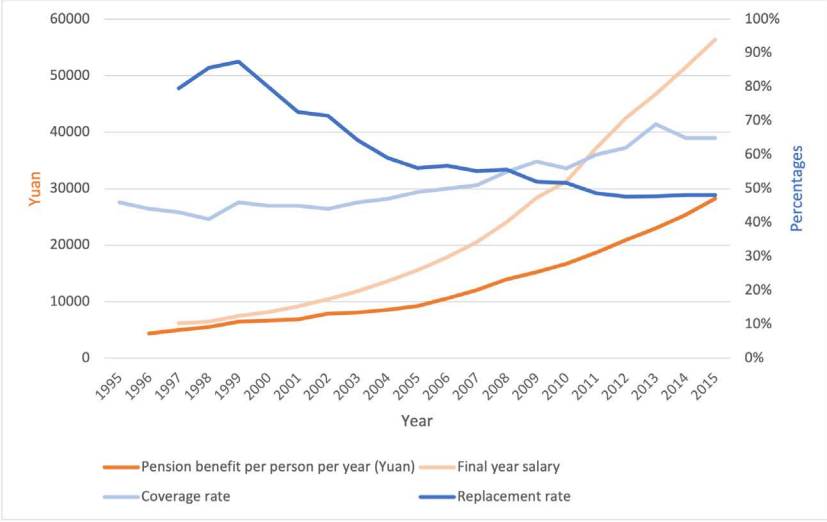
in their pension benefit and rate of increase. It shows the combined statistical data of pension benefits for employees of SOEs and other types of employment (such as self-employed persons) from the China Labour Statistical Yearbook. In addition, Figure 2.2 shows the enterprise employees' pension coverage rate, benefit per person per year, and replacement rate data from the report by Zheng (2016). Compared to government employees and public institution employees, enterprise employees enjoyed far lower pension benefits, considered both in terms of their raw benefit per person per year and the rate of increase. The average benefit per person per year for government employees and public institution employees in 2015 was above 44,000 yuan, while for average enterprise employees it was around 27,000 yuan (or 28,236, in Zheng's calculations) even

Table 2.3: Pension benefit for enterprise employees and others

	Persons participating at the year end (millions)			Revenue and expenses of pension fund (100 million Yuan)				
	Total	Workers	Retiree	Revenue	Expense	Balance	Benefit p/y (Yuan)	Increase rate
1989	57.10	48.16	8.93	146.7	118.8	68	1,330.1	
1990	61.66	52.00	9.65	178.8	149.3	97.9	1,547	16%
1991	67.40	56.53	10.86	215.7	173.1	144.1	1,592.8	3%
1992	94.56	77.74	16.81	365.8	321.9	220.6	1,914.4	20%
1993	98.47	80.08	18.39	503.5	470.6	258.6	2,558.6	34%
1994	105.73	84.94	20.79	707.4	661.1	304.8	3,179.2	24%
1995	109.79	87.37	22.41	950.1	847.6	429.8	3,781.9	19%
1996	111.16	87.58	23.58	1,171.8	1,031.9	578.6	4,375.5	16%
1997	112.03	86.70	25.33	1,337.9	1,251.3	682.8	4,940.1	13%
1998	112.03	84.75	27.27	1,459	1,511.6	587.8	5,542.6	12%
1999	117.22	88.59	28.63	1,871.9	1,863.1	644.2	6,505.9	17%
2000	124.86	94.69	30.16	2,088.3	1,970	761	6,530.9	0%
2001	129.04	97.33	31.71	2,235.1	2,116.5	818.6	6,674	2%
2002	132.78	99.29	33.49	2,783.6	2,502.8	1,243.5	7,472.8	12%
2003	138.81	103.24	35.56	3,209.4	2,716.2	1,764.8	7,636.4	2%
2004	146.78	109.03	37.75	3,728.5	3,031.2	2,499.3	8,029.7	5%
2005	157.15	117.10	40.05	4,491.7	3,495.3	3,506.7	8,726.9	9%
2006	168.56	126.18	42.38	5,632.5	4,287.3	4,869.1	10,114.9	16%
2007	182.34	136.90	45.44	7,010.6	5,153.6	6,758.2	11,341.5	12%
2008	199.51	150.83	48.68	8,800.1	6,507.6	9,241	13,368.1	18%
2009	215.67	162.19	53.48	10,420.6	7,886.6	11,774.3	14,746.8	10%
2010	236.34	178.22	58.11	12,218.4	9,409.9	14,547.2	16,191.6	10%
2011	262.84	199.70	63.14	15,484.8	11,425.7	18,608.1	18,095.8	12%
2012	282.71	213.60	69.10	18,363	14,008.5	22,968	20,270.1	12%
2013	300.49	225.64	74.84	20,848.7	16,741.5	27,192.3	22,367.3	10%
2014	319.45	239.32	80.13	23,305.4	19,847.2	30,626.3	24,766.9	11%
2015	331.23	245.86	85.36	26,613.2	23,140.9	34,115.2	27,108.2	10%

Data sources: China Labour Statistical Yearbooks; Author.

Figure 2.2: Pension benefit for enterprise employees (averaged), 1995–2015



Data source: Zheng (2016).

though their on-duty salary was around 56,000 yuan before retirement. In other words, enterprise employees would have experienced a steeper drop in living standards after retirement. Moreover, although the coverage rate increased after 1997, the replacement rate went in the opposite direction: it dropped from 80% in the late 1990s to 50% in the late 2000s, as Figure 2.2 shows.

The pension plan for urban non-salaried residents (PUR) and rural residents (PRR)

These two pension plans both started quite late on, and involved very limited payments. Table 2.4 shows the pension benefit change for rural residents from Zheng's report in 2016, and demonstrates that their pension scheme had a far lower coverage rate and a low replacement rate. The average (mean) pension benefit per person per year for rural residents was about 1,000 yuan, which is far less than their urban counterparts received (e.g. enterprise employees got 20,270 yuan in 2012 on average). In terms of the value of benefits, the replacement rate in the rural residents' pension scheme was around 13% in 2015, while urban enterprise employees enjoyed a replacement rate of 50% (2015) and government/public institution employees enjoyed 67% (2010, weighted).

To better understand the strategic aspects of benefits differentiation in China, Table 2.5 shows the changing population numbers of the different social groups from 1987 to 2009.[9] Though one cannot point to solid evidence

Table 2.4: Pension benefit for rural residents

	Expense (100 million Yuan)	Recipients (millions)	Benefit p/y (Yuan)	Income per year (Yuan)	Replacement rate
2011	598	87.60	683	6,977.3	9.8%
2012	1,150	130.75	880	7,916.6	11.1%
2013	1,348	137.68	979	8,895.9	11%
2014	1,571	143.13	1,098	9,892	11.1%
2015	2,117	148	1,430	10,772	13.3%

Data source: Zheng (2016).

supporting the hypothesis, a reasonable strategy for a government wanting to reduce its burdens would be to push the largest working population – enterprise employees – towards the open market. And, when a government needs to show generosity and appease discontent over inequality, it could give a modicum of 'alms' to a large but less advantaged population – rural residents – in exchange for more loyalty at relatively low cost. According to my preliminary interviews in summer 2016, many rural residents, especially the older ones, were very content with receiving any subsidy from the government. This was mainly because they had enjoyed few benefits from the state budget beforehand and most of the old people were being cared for by people from their families or the local community. Any cash subsidy from the government seemed like a bonus to them, especially in view of their relatively low income compared to urban employees.

Conclusions

The empirical evidence suggests that the strategy of differentiation in the government's welfare allocation has been to sacrifice the social benefits for employees of state-owned enterprises (SOEs) first, and later on the employees of public institutions, so as to reduce the state's fiscal burden. At the same time, modest or slender welfare benefits were provided for social groups that could be bought off with minimal benefits. During the process, government officials (including the core elites of governance power) consistently enjoyed the most generous social benefits. The various policy shifts of different pension schemes strongly support these propositions, especially the retrenchment policy reform for SOE employees; the expanded coverage for rural residents and migrant workers from rural areas; and the reform of the contribution ratio reform in the pension scheme for public institution employees. The segmented resource allocation in China's social welfare reform has favoured the core elites, while it distributed limited fiscal capacity to the social groups that cost least per person.

Table 2.5: Raw population numbers by type of pension scheme recipient

	Government employees (millions)	Public institution employees (millions)	Enterprise employees (millions)	Permanent rural residents (billions)
1987	8.05	20.32	103.76	8.16
1988	8.43	21.01	106.62	8.23
1989	8.85	21.75	105.64	8.41
1990	9.13	23.01	106.97	8.41
1991				8.46
1992				8.49
1993	9.86	24.26	114.36	8.53
1994	10.43	26.53	115.60	8.56
1995	10.22	27.36	115.42	8.59
1996	10.50	28.23	113.47	8.50
1997	10.62	29.05	110.68	8.41
1998				8.31
1999	10.68	27.92	82.69	8.20
2000	10.73	27.78	77.59	8.08
2001	10.70	27.60	73.34	7.95
2002	10.54	27.23	72.07	7.82
2003	10.71	27.24	71.72	7.68
2004	10.92	27.46	72.60	7.57
2005	10.96	27.93	75.14	7.45
2006	11.11	28.33	77.68	7.31
2007	11.30	28.74	80.19	7.14
2008	11.56	29.14	81.20	7.03
2009	11.83	29.29	84.12	6.89

Data sources: China Labour Statistical Yearbooks; National Statistical Bureau; and author.

Notes

[1] China's '*hukou*' system is a family registration programme that serves as a domestic passport, regulating population distribution and rural-to-urban migration. For decades it was a tool for social and geographic control,

enforcing an apartheid structure that denied farmers the rights and benefits that were enjoyed by urban residents.

[2] A more detailed discussion of the codebook is available in the appendix.

[3] In China's case, the full state-funded pension is literally called the 'retirement allowance', and a pension that requires individual contributions is called a 'pension/social insurance'.

[4] *People's Daily Report*, 2012, 'Unfair dual track of old-age care: [dramatically] different treatment for people with different status'.

[5] *China News*, 2014, 'Track convergence of pension scheme: 30 million public institution employees will start paying into social insurance from July 1st'. https://perma.cc/2MCS-FJ4L [accessed 2018-11-12].

[6] This pension plan was later applied to employees of all enterprises, regardless of ownership.

[7] More information on this policy experimentation is available in Chapter 4.

[8] Owing to a highly scattered and incomplete condition of welfare yearbooks, I tried my best to collect all available data from various sources. There are certain places where the data do not match very well since the statistical bureau stopped publishing many indexes (such as the population and pension benefit for government employees after 2009) and often changed the grouping methods. Thus, I appended notes to each table to clarify the sources and calculations. More information on the codebook is available in the appendix.

[9] The government stopped publishing the employee number and related conditions of government units and public institution units from 2009.

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