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Social welfare and protection for economic growth and social stability — China's experience.

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Social Welfare and Protection for Economic Growth and Social Stability—China’s Experience

LI Bingqin

China’s Communist Party has directed the country’s welfare system to maintain party authority amidst changing political, social, and economic circumstances. Welfare during the years of central planning was comprehensively provided either directly by the state or through co-operatives with a clear rural-urban divide. Following the death of Mao Zedong, the Chinese economy was liberalised and capitalists began to be accepted as members of the Party. From the late 1970s until the early 2000s, welfare provisions from state and business enterprises gradually declined even as individuals began bearing ever-growing personal responsibility in social assistance. While welfare policy had, until the early 2000s, been used to increase economic efficiency, the many social problems that attended the Chinese model of development soon led Beijing to target welfare policy directly at social well-being. Consequently, more recent policy has sought to spread the benefits of economic growth more equitably.

Keywords: welfare; development; labour; rural areas; cities; inequality; social problems

This paper examines the impact of political, social and economic factors on the changing welfare scene over the past three decades in China, and the consequent implications and limitations. A number of studies suggest that welfare reforms in China have been centred on three themes: economic growth, social stability and political authority (Croll 1999; Cook and Kwon 2007). This paper argues that despite changes in welfare paradigms, the ways in which the state has responded to welfare needs have not really moved away from the core theme of party authority. In different reform periods, contributions to party authority have been the outcome of changing social and economic contexts. As an authoritarian polity, China is often portrayed as a country in which the Communist Party is an almighty force

and can dictate everything as it wishes. However, researchers in Chinese politics are taking increasing note of the co-existence of different views both inside and outside the one-party system. Changes to China's welfare system have not all been imposed in a top-down fashion. Rather, they reflect a negotiation between different political ideologies and different social groups during the periods concerned.

Although Chinese officials have been reluctant to make radical changes to the political system, there have nevertheless been some political changes in the post-Mao era. For example, Deng Xiaoping voluntarily gave up power in 1986 but continued to give directions behind the scenes. When Jiang Zemin came to power, the emphasis was shifted to collective governing. In 2002, a set of new rules was introduced to curtail the possibility of long-term dictatorship:

- (1) members of the Standing Committee for the Political Bureau could only be in power for no more than two terms;
- (2) they should not be older than 70 when they first come to power; and
- (3) no person should work at the same level for more than 15 years.

This is still a far cry from an electoral democracy, but the office term limits rule out the possibility of a leader staying in power indefinitely. What is more, with a fixed term, every new leader develops a unique political theme to serve as the guiding principle of his term of office, so that he will not be considered a pet of his predecessor. The sources of these new themes can be found in the ongoing economic and social situation in China. Every wave of self reinvention in the past has been the outcome of such bargaining processes. The positioning of welfare reform in relation to other policies also reflects these negotiations at work. It is therefore important to examine the role of welfare reform against the backdrop of the interaction between various social and economic factors and resultant political changes.

The following sections of this paper briefly examines the self-reinventions of the Party, then discusses the ways in which these were responses to prevailing socio-economic changes, and how they helped to achieve prosperity and stability in China. The last part of this paper discusses the limits of such a system and future challenges.

Gradual reform as an approach to avoid conflicts (pre-1992)

The urban welfare system during the Central Planning era had three main principles: guaranteed employment (“iron rice bowl”), egalitarian distribution, and cradle-to-grave welfare coverage (Ngok 2010). At the same time, rural welfare was based on a different, co-operative system. To maintain such a system, the national income had to grow steadily in order to support a growing population. The economy indeed grew for several years in the 1950s, but this was followed by a series of political campaigns by Mao against his rivals, which distracted from the focus on economic growth (Weatherley 2006). Today, it is difficult to tell whether the economy would have continued to grow had there been no political turmoil.

Theoretically, the Central Planning system suffered from serious problems. First, public ownership cultivated disincentives to improve productivity and led to welfare dependency (Leung 1994). Second, the egalitarian ideal, when faced with the constraint of resource scarcity, was manipulated by officials in favour of party members, people with more senior positions, and state sector employees (Bian and Logan 1996). Third, the perpetual rural-urban divide cultivated a strong sense of privilege among urban residents. The impact of the *hùkǒu* (戶口) system has been so profound that resistance to equalising social welfare entitlement among urban residents remains strong to this day.

In the early stages of the welfare reform, the Party was keen not to cause strong resentment among the public. There were attempts to radically change the welfare system, but whenever there were signs of resistance, reforms were put on hold.

Pre-reform economic situation and the political debates

Many people cite 1978 as the year that economic reforms began after the Cultural Revolution. In this year, rural areas began to adopt a household responsibility system. More recent studies suggest that reforms had already begun in 1975, during which Deng Xiaoping was appointed to clean up the mess caused by the Cultural Revolution. The reforms were intended to restore the order of central planning, and help the economy recover quickly. Unfortunately, Deng was again removed from his position by Mao (Qin 2008). As shown in Chart 1, the economy had already returned to a track of accelerated growth from 1976. When Mao died, there was no political

CHART 1. REFORMS FROM 1975 HELPED TO IMPROVE THE ECONOMIC SITUATION



Data source: World Databank, <http://databank.worldbank.org/ddp/home.do>

consensus over the direction of reforms. The reformers were faced with three choices: continue with central planning, turn to the market, or stay somewhere in between.

Gradual reform as a compromise

Moving the start date of the reform period from 1978 to 1975 has an important implication: it helps to show that there was never a clear-cut path for the reformers in China, who were unsure how reforms should proceed. Some believed that without political turmoil, central planning could have worked. The economy's rapid recovery after the 1975 reforms helped to support this argument. Others disagreed with this interpretation. The Household Responsibility Reform in rural areas was a bottom-up initiative by farmers to rebel against the planning system. Earlier experiments could be traced even to the 1950s. In the 1970s, Anhui had already embarked on the experiment without permission from the centre. This resulted in a serious dispute in Beijing between the pro-market and pro-planning factions. Even at the local level, not many provincial leaders supported the practice of Anhui. In cities that benefited from the planning system,

marketisation was also not necessarily perceived positively. To avoid the politically charged violence amongst different factions, seen during the Cultural Revolution, a gradual reform approach was introduced in the early 1980s as a compromise. Reforms would begin in rural areas first; and the future of these reforms would depend on outcomes in the rural regions.

Deng's "Socialism with Chinese Characteristics" was to a great extent a pragmatic approach to balancing the two conflicting poles of opinions. His later handling of the conflicts between the two sides also showed that he was not interested in standing firmly on any one side by denouncing both complete westernisation and extreme leftist views (Chai 2003).

Breaking away from work unit welfare

By 1978, unemployment had become a serious problem. Rapid population growth and poor economic performance had made it difficult to create enough jobs for young people in the 1960s and 1970s. Many were sent to the countryside to help on farms. When the Cultural Revolution ended, tens of millions of people returned to their hometowns. Many of them could not find jobs and often turned to alcoholism and violence. Social stability was seriously threatened. To tackle this problem, a number of policies were introduced. First, the state started to promote entrepreneurship. The initial success of some self-employed people motivated many others. Some people with public sector jobs also quit to enter the private sector. The idea was to carry out incremental reform so that people would be attracted to the private sector voluntarily. However, this approach did not achieve its intended results easily. People in the private sector soon learnt to appreciate the value of the state sector's work-unit welfare system. The higher cash income in the private sector was not always good enough to make up for the loss of welfare benefits. Work-unit welfare became the bottleneck slowing down economic liberalisation (Wu and Xie 2003). It was also believed that unemployment was ultimately due to the oversupply of labourers. Therefore, the "One Child Policy" was introduced to reverse the population growth trend set by Mao. Furthermore, a social security system was set up to reduce the welfare burden of work units. The social insurance system required contributions by individuals and employers. A social insurance-based pension system was also set up to help establish the social pooling of pension funds and break up the close linkage between employers and welfare. Finally, enterprises were required to gradually withdraw from providing social services.

In rural areas, as households took over social responsibilities from rural collectives, the collective social protection system was stopped. At the same time, organised development programmes were introduced to relieve rural poverty (Ngok 2010).

At the same time, political movements in the 1980s called for political democratisation. This was arguably a period in which reformers were opposed by leftists keen to preserve the socialist ideal and highly risk-averse welfare systems. The leftists were reminded that they needed to be more open-minded and the public was taught to appreciate the advantages of a market economy. Politically, intellectuals were concerned about the possibility of a return to Mao's style of government. Despite the reformer's insistence that it would not be the case, some urban elites believed that without a democratically elected government, the return of a dictatorship could not be ruled out. Several waves of student movements in the 1980s, especially in 1989, reminded the Chinese leadership that the threat to party authority was real. For several years after 1989, the direction of reform remained unclear. In 1992, a speech given by Deng reassured that marketisation would continue. In hindsight, this was again an outcome of negotiations between the political left and right. Renouncing radical political changes, the reformers focused their attention on accelerating the economic transition.

A housing provident fund was set up at the end of 1991 to help people to buy houses in the private market. At the same time, public rent levels were increased in order to push people out of the rental sector (Li 2005). The marketisation process was not smooth. The country experienced several rounds of inflation, which caused panic responses from the public. As a result, reforms in housing, price and labour contracts were put on hold several times and were only resumed when the economic situation improved.

Welfare reform to support economic growth and the resulting political change (1992–2003)

Growth-oriented economic reform

When Jiang Zemin came into power with the support of Deng, economic reforms accelerated. The priority during this period was reforming state enterprises so that they could compete in the market in an increasingly open economy. State enterprises were pushed to the market at a much faster pace. After 1992, politicians championing market liberalisation were put

in top positions to ensure that the direction of economic reform was not reversed and that radical political reforms did not set in (Perry 1993). The central thrusts of reform in this period were to improve economic efficiency and open the economy more broadly to the world. However, some scholars began to worry that the rapid introduction of overseas competition would jeopardise the ability of Chinese enterprises to develop. They argued that despite the growing private sector, state and collective enterprises were still the largest employers in China. After long-standing state planning and control, Chinese enterprises and businessmen were not yet used to the challenge of global market competition. Newly emerging industries would need a transitional period so that they could grow before becoming full-fledged competitors to foreign companies which had far more resources and better management skills (Leung 2003). Also, without setting up a social security system, Chinese enterprises, bearing the burden of welfare provision, would find it difficult to compete in the market. This line of argument was reinforced by the examples of the four Asian Tigers (South Korea, Taiwan, Hong Kong and Singapore): these economies were export-oriented, yet the state played an important role in cultivating business competitiveness. Major export industries such as car manufacturing in South Korea were subsidised and supported by the state (Unger and Chan 1995).

Nevertheless, state protection did not generate expected economic outputs and many state enterprises continued to run inefficiently. Increasingly, it became clear that the heavily subsidised state sector was sucking up scarce resources that were crucial for private sector growth. The overall costs of the distortion caused by the state might in the long run be bigger than the East European “Big Shock” (Fan 1994). Furthermore, the East Asian economic crises of the 1990s meant that affected countries had had to undertake painful economic restructuring. Such changes in the global economic climate helped China’s reformers to gain ground against the protectionists. At the same time, several rounds of negotiations at the General Agreement on Tariffs and Trade and World Trade Organization (WTO) put pressure on China to open its economy further. According to the WTO entry requirements, state enterprises would need to operate in the same way as private enterprises. To achieve this, Chinese state enterprises had to be reformed. These reforms involved the following aspects:

1. **Life-time employment.** Unemployment, still a politically sensitive term then, was expressed as a period of *xiàgǎng* (下岗), in which workers were laid off, but continued to receive welfare benefits from

former employers. To help people cope with the shock of *xiagang*, a social safety net with three protection mechanisms was adopted: a social insurance against unemployment; living allowances offered by the previous employers or the re-employment centres funded by the local government; and a minimum living standard guarantee for the unemployed.

2. **Pensions.** In 1997, a basic pension insurance system to which enterprises and individuals would contribute towards was set up. It comprised a social pooling account and an individual account. Further changes were made in 2000, and the system is still in use today.
3. **Healthcare.** In 1998, a basic health insurance scheme that involved employer and individual contributions emerged, where 30 per cent of contributions were put in an individual account and the rest were put in a social pooling account. At the same time, hospitals began to operate like private businesses. The idea was that competition would prompt hospitals to improve productivity.
4. **Housing.** In 1998, the employer housing provision was officially abandoned. New employees were expected to use the money they had accumulated in the housing provident funds or get bank loans to buy houses in the private market (Li and Gong 2003).

The supporting role of welfare policies can be observed in the changing spending patterns of the government. As shown in Table 1, the total government expenditure had dropped from about 30 per cent of GDP to 11.7 per cent in 1997. The trend began to reverse from 1998 when radical reforms of the enterprises started. The amount spent on unemployment benefits accelerated in the following years. This was because as more workers became *xiagang*, government expenditure on education increased and its importance as a proportion of total expenditure began to drop after 1998, as a result of a policy to consolidate rural education and improve efficiency. At the same time, the importance of state spending on healthcare also declined in this period, matching progress in enterprise reform. However, it is important to note that the overall spending on the poor was marginal in comparison to other spending, showing the minimalistic approach to welfare and the intention to prevent welfare dependency.

These reforms helped to relieve the social burden taken on by state and collective enterprises. At the same time, the social insurance schemes required both employers and employees to contribute to the welfare entitlement of

TABLE 1. SOCIAL EXPENDITURE AND PERCENTAGE (%) OF TOTAL GOVERNMENT EXPENDITURE

	Education		Unemployment Benefits		Health		Total Government Expenditure (TGE)		GDP
	100 million yuan	% of TGE	100 million yuan	% of TGE	100 million yuan	% of TGE	100 million Yuan	% of GDP	100 million yuan
1978					35.4	3.2	1122	30.8	3645
1979					40.6	3.2	1282	31.6	4063
1980					51.9	4.2	1229	27.0	4546
1981					59.7	5.2	1138	23.3	4892
1982					69.0	5.6	1230	23.1	5323
1983					77.6	5.5	1410	23.6	5963
1984					89.5	5.3	1701	23.6	7208
1985					107.7	5.4	2004	22.2	9016
1986					122.2	5.5	2205	21.5	10275
1987					127.3	5.6	2262	18.8	12059
1988					145.4	5.8	2491	16.6	15043
1989					167.9	5.9	2824	16.6	16992
1990					187.3	6.1	3084	16.5	18668
1991					204.1	6.0	3387	15.5	21781
1992	728.8	19.5			228.6	6.1	3742	13.9	26923
1993	867.8	18.7			272.1	5.9	4642	13.1	35334
1994	1174.7	20.3	5.1	0.1	342.3	5.9	5793	12.0	48198
1995	1411.5	20.7	8.2	0.1	387.3	5.7	6824	11.2	60794
1996	1671.7	21.1	13.9	0.2	461.6	5.8	7938	11.2	71177
1997	1862.5	20.2	18.7	0.2	523.6	5.7	9234	11.7	78973
1998	2032.5	18.8	20.4	0.2	590.1	5.5	10798	12.8	84402
1999	2287.2	17.3	31.9	0.2	641.0	4.9	13188	14.7	89677
2000	2562.6	16.1	56.2	0.4	709.5	4.5	15887	16.0	99215
2001	3057.0	16.2	83.3	0.4	800.6	4.2	18903	17.2	109655
2002	3491.4	15.8	116.8	0.5	908.5	4.1	22053	18.3	120333
2003	3850.6	15.6	133.4	0.5	1116.9	4.5	24650	18.1	135823
2004	4465.9	15.7	137.5	0.5	1293.6	4.5	28487	17.8	159878
2005	5161.1	15.2	132.4	0.4	1552.5	4.6	33930	18.3	184937
2006	6348.4	15.7	125.8	0.3	1778.9	4.4	40423	18.7	216314
2007	8280.2	16.6	129.4	0.3	2581.6	5.2	49781	18.7	265810
2008	10449.6	16.7	139.5	0.2	3593.9	5.7	62593	19.9	314045
2009	10437.5	13.7	145.8	0.2	3994.2	5.2	76300	22.4	340507

Data source: China Statistical Bureau, China Statistical Yearbook, various issues

the latter. This meant that if a person had a job and the employers were willing to sign up to the state social insurance schemes, he would be in a good position. However, this gradual social insurance reform did not try to integrate the different social insurance accounts. Adding all the accounts together, the total contribution as a proportion of a worker's income became very high. A number of investigations carried out recently on income tax suggest that in the current contribution system, Chinese social security contribution has become one of the highest in the world (Qu 2011). Not all private employers are interested in participating in the schemes, and as the relevant legislation has yet to appear, it has been difficult to extend these social insurance schemes to the non-state sector. Therefore, for quite a long time, a large proportion of people working in the private sector and the unemployed have not been covered by the social insurance system. Another problem is the legacy of the planning system. As observed by many researchers (Logan et al. 2009; Ngok 2010; Logan et al. 1999), entitlements under the new welfare system in this period were still defined by status rather than by need, e.g., senior cadres enjoying better subsidies to larger houses and better healthcare coverage. This has contributed to a widening gap between the more resourceful and the less resourceful.

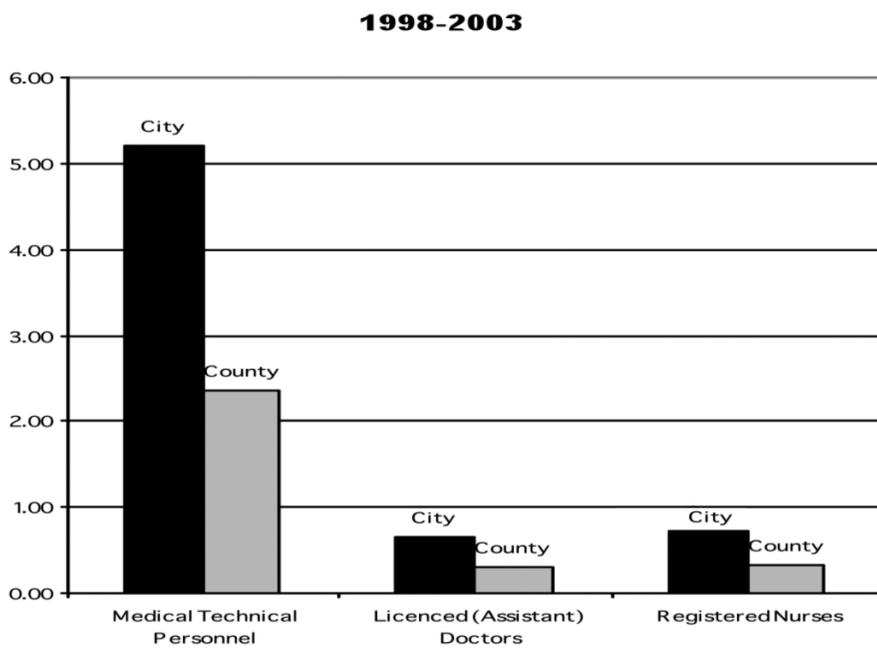
During this period, rural welfare and social services were also reformed. For example, rural education was reshaped to improve education efficiency. Rural schools were merged and more concentrated in townships. This meant rural children had to leave their home villages or travel a long distance in order to attend school (Li and Piachaud 2004). A similar situation also occurred in the health sector. Following the reforms, rural cooperative healthcare collapsed and coverage of rural healthcare services also deteriorated. Chart 2 shows the rural-urban gap in terms of healthcare staff members per one thousand people.

On the whole, welfare reform in this period (1992–2003) was designed to support the reform of state enterprises and to improve economic efficiency. Measured by GDP growth, economic reforms during this period were indeed successful, and the government was keen to continue to pursue economic growth (see Chart 3).

Political changes in response to social and economic changes

In his second term, Jiang Zemin introduced the “Three Represents” (*sāngè dàibiǎo*, 三个代表) concept into the Party Constitution. Signifying a turn towards capitalism, it meant that the Party now represented three priorities:

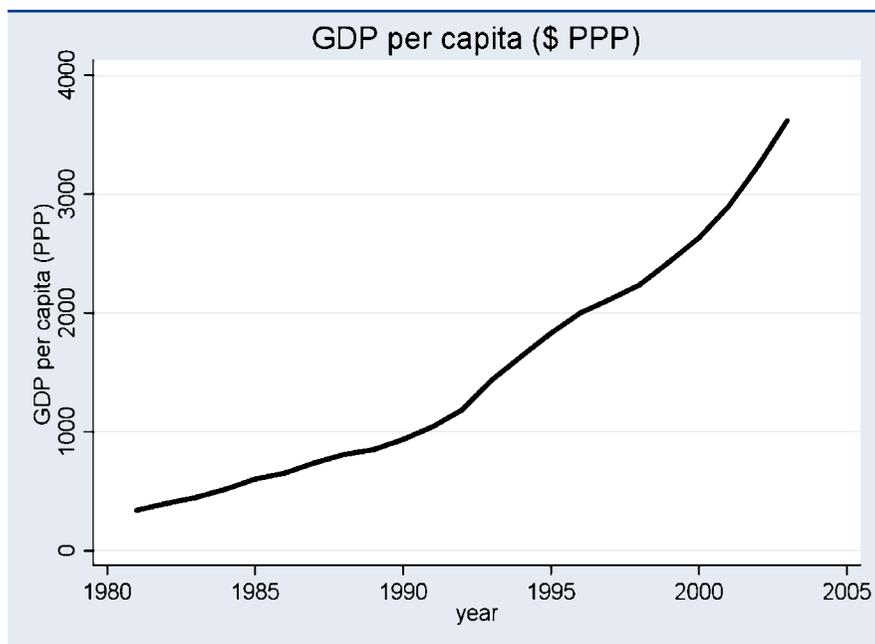
**CHART 2. MEDICAL TECHNICAL PERSONNEL IN HEALTH CARE INSTITUTIONS
PER 1000 PEOPLE**



Data source: China Statistical Bureau, China Statistical Yearbook, various issues

Economic Productivity, Cultural Development, and Political Consensus.¹ This change opened the Party membership to “capitalists”. In light of the economic situation in the 1990s, the Three Represents was also a way to ingratiate the Party with the increasingly powerful capitalist class. As a result of enterprise reforms, many state and collective enterprises were closed down. The state had to introduce large numbers of re-employment projects to relieve the tension caused by mass unemployment. However, ultimately, whether or not these people could escape the unemployment trap had very much to do with the availability of new employment opportunities. In a shrinking state and collective sector, it was not realistic to expect a massive increase in employment. New enterprises that were not in the traditional state and collective sectors became crucial to the economy (see Chart 4). Changing the Party Constitution was a way to acknowledge the importance of the newly emerging capitalist class, and to send a signal to the public that the Party was willing to represent all social classes.

CHART 3. GDP PER CAPITA (1980–2003)



Data source: China Statistical Bureau, China Statistical Yearbook, various issues

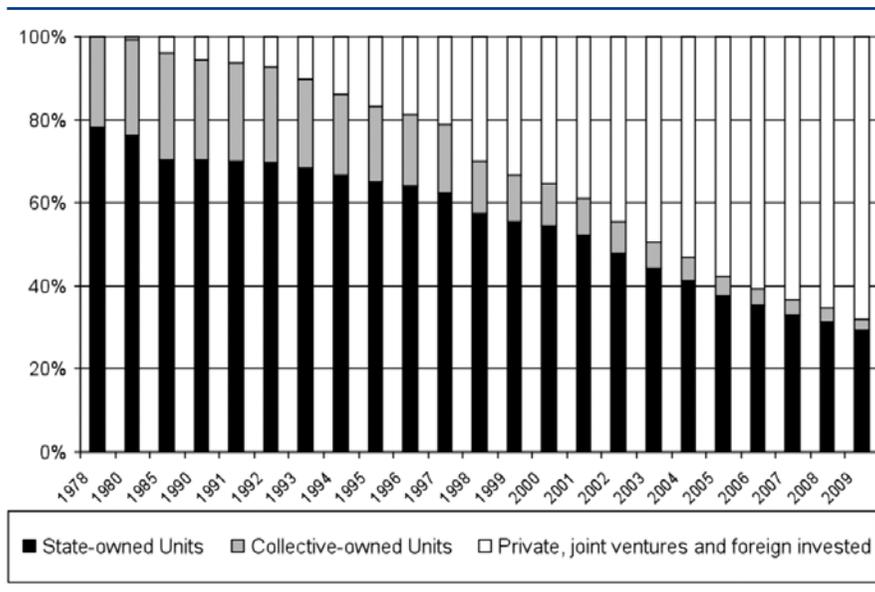
From pro-growth to social harmony (2003–the Present)

Socio-economic changes

In contrast to the earlier period in which efficiency was the only priority, the national development strategies shifted, from 2002, to “prioritising efficiency and giving consideration to fairness” in the 16th CPC National Congress Report (Jiang 2002). This change was influenced by several economic and political factors.

First, after China joined the WTO, it soon developed into the workshop of the world, in part because of its rich supply of cheap labour. In the past, however, rural workers had not officially been allowed to work in cities. They suffered from discrimination and could be evicted to the countryside or even arrested if caught working “illegally” in cities. This policy became increasingly unpopular. Apart from concerns regarding human and social rights, preventing rural workers from entering cities forced employers to hire workers on the black market. It increased the risks and labour costs of enterprises, and businesses which thrived on cheap labour were most affected.

**CHART 4. NUMBER OF EMPLOYEES BY BUSINESS OWNERSHIP AT YEAR-END
(IN MILLIONS)**



Data source: China Statistical Bureau, China Statistical Yearbook, various issues

Second, the wealth accumulated by the successful ones did not trickle down. On the contrary, income inequality increased. The Gini coefficient increased to 4.5 in 2005. Both the rural-urban income gap and the urban income gap increased over time. Dissatisfaction became visible. Wang and Wei (2009) found that between 1988 and 2006, a period in which income inequality increased, there were clearly more criminal offenses. There were also numerous protests which were either suppressed or appeased. In 2003, the spread of the severe acute respiratory syndrome (SARS) also revealed weaknesses in the healthcare system (Claeson, Wang, and Hu 2004).

Third, several long-term and structural problems demanded a more balanced approach towards economic development. As summarised by Zhang, Xu and Midgley (2007, 16–22):

- (1) The increased social burden of an ageing society was the direct outcome of the “One Child Policy” introduced in the 1980s.
- (2) When rural labourers moved to cities, only the elderly and young children were left in rural areas. The need for care increased dramatically.

- (3) Cities suffered from a range of illnesses, including over-crowded housing, congested public transportation, high employment pressure, environmental pollution, greater social division and inequality, emergence of ghettos, shortage of water and energy, and higher crime rates.

Fourth, the local government's ability to raise local revenues by selling land use rights to real estate developers and businesses generated great incentives to demolish residential houses or take over land from rural villages. The booming housing market and the possibility of boosting GDP were further incentives to carry out urban regeneration. However, this created a strong sense of uncertainty and marginalisation among existing residents, particularly those who were opposed to the land use changes or felt that the compensation was inadequate.

Pursuit of social harmony—a political turning point

Social policy reforms have played a much bigger part in this period. This was the first time since the 1980s that social welfare reforms were intended to improve the well-being of the people directly. This was a big contrast to earlier social welfare reforms designed to facilitate economic growth and state enterprise efficiency. The reason for such a move was that the social problems discussed earlier were becoming a serious threat to social stability. Greater social inequality was leading to a strong sense of resentment against the rich. Lu (2010) studied the survey of 2004 on social attitudes and found that even with improved social mobility, when income was controlled, people were still very negative about inequality. At the same time, people in both rural and urban areas had much higher confidence in the performance of the national economy than in their own life improvement. This meant that people felt that as the country became richer, they would not benefit as much as individuals (on a five-point scale, the gap between the two was greater than one) (Yuan and Zhang 2011). The dissatisfaction was also turning into action. Between 2002 and 2004, the number of collective action events—including protests, demonstrations, riots, and petitions (*shàngfǎng*, 上访)—had reached more than 40,000 per year. In 2005, that number reached 57,000, ten times more than 10 years before. The number continued to grow after that.

To cope with some of the above-mentioned pressures, social development was put high on the agenda when Hu Jintao came into power in 2003. A further elaboration was made in 2005 to bring forward a development

strategy aimed at maintaining social harmony. The relevant policies contain many elements. Culturally, there were efforts to restore Confucian values to society in order to improve a sense of cultural identity and placate public resentment. However, it seemed that without making solid steps to deal with social inequality, resorting to Confucian values would not be an effective tool to reduce social tensions. Economic policies were also introduced to develop the western provinces by carrying out major investments in the West. Politically, a fresh leadership style has been adopted by the government. The present leadership has tried to show that they are caring and listening to the people. They have made it a point to express condolences to the poor and those affected by natural disasters.

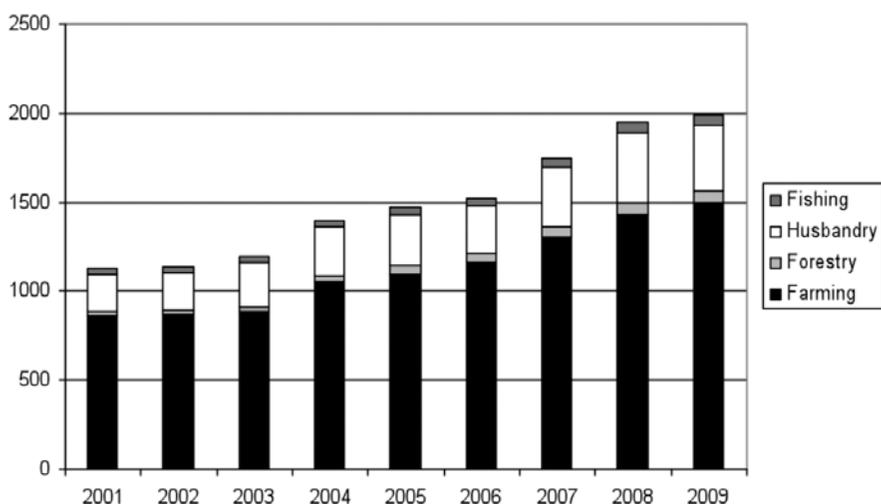
Social policy changes to enhance social harmony

A number of commentators believe that China has entered a period in which social policy has ceased to be used functionally as a tool to achieve economic goals. However, it is hard to separate politics from social goals completely. Not only has the timing of recent reforms matched growing social tensions, but the most immediate responses have also followed the loudest public outcries.

The first major move in this period has been the **extension of the coverage of social insurance schemes**. Not only have state enterprises offered social insurance to workers, but enterprises in the private sector have also been urged to make their contributions and administer the coverage. Workers and employers would jointly contribute to pension, unemployment, healthcare, childbirth, industrial accidents, and housing provident funds. The coverage is not limited to urban citizens. As part of the urbanisation strategy, migrant workers from rural areas have also been included partially in the social insurance schemes, though the contribution rate and entitlement are still different from those of urban citizens. Great efforts have also been made to enlarge the coverage of rural social insurance schemes. After some years of piloting, in 2009, a series of rural social protection schemes were formally introduced, including pensions, supporting single-elderly who did not have help from extended families, and minimum living standard provisions for rural households.

The second area is **policies designed to help reduce rural and urban poverty**. In 2004, three rural problems (farmers' income, growth in agriculture and rural social stability) were brought under the spotlight. As a result, income from various agricultural activities has increased significantly after 2007 (see Chart 5).

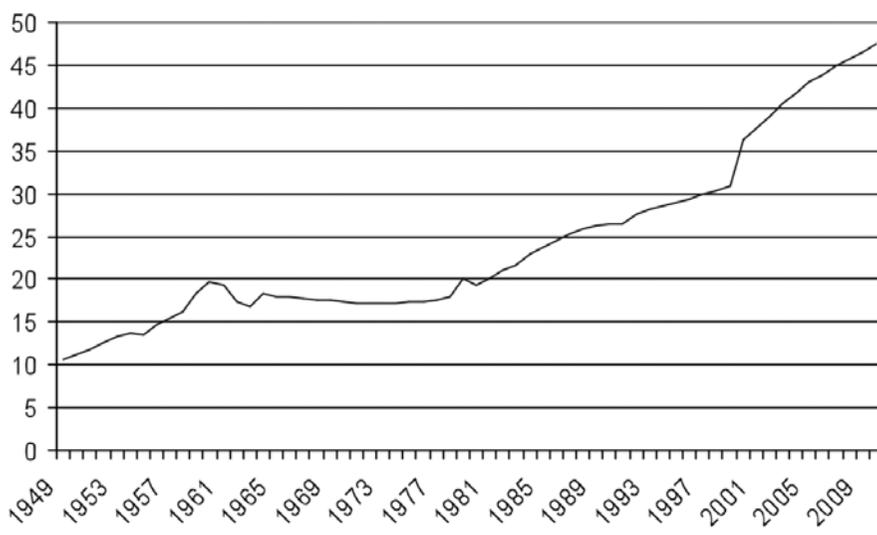
CHART 5. HOUSEHOLD INCOMES FROM AGRICULTURE (PER CAPITAL, YUAN)



Data source: China Statistical Bureau, China Statistical Yearbook, various issues

Another important contributor to the reduction of rural poverty has been the opening up of the urban labour market to rural migrant workers. The initial idea was to unify the rural and urban labour markets and make it easier for migrant workers to take up jobs in cities. As shown in Chart 6, the proportion of the Chinese population living in cities had jumped up from 2000 because of reduced labour mobility control. The pressures of urban industrial growth and service sector development have meant that the needs of migrant workers have to be addressed: both in terms of their basic needs as well as giving them a stronger sense of belonging in the urban environment. Consequently, urban social insurance and some social services such as schooling for migrants' children have been made available to migrant workers. One important measure taken by the government has been to offer legal and social support for migrant workers. However, owing to various institutional constraints, progress in this area has been quite slow.

Urbanisation and the abolition of the rural agricultural tax have helped to further reduce rural poverty and narrow the rural-urban income gap. However, as more poor people move to the cities, some rural poverty has been urbanised and the urban income gap has grown as a result (Ravallion, Chen, and Sangraula 2007). The numbers of collective protests and riots

CHART 6. URBANISATION RATE, PERCENTAGE (%) OF URBAN POPULATION

Data source: China Statistical Bureau, China Statistical Yearbook, various issues

regarding land acquisition and labour rights, and crime rates increased more than ten-fold between 1993 and 2007 (Chen 2009). To calm down protesters, one-off cash payments and administrative powers have been used to fight the fire. For example, construction companies were pressured to pay their workers on time. Pension increases were paid to retired teachers in various cities.

In urban areas, most cities have introduced a minimum living standard guarantee and unemployment benefits so that the short- and long-term unemployed or the disabled enjoy coverage. These groups are also entitled to various other benefits in schooling, healthcare and public housing. However, the entitlements and the generosity of provisions are locally determined and very much dependent on the prosperity of the city concerned (Solinger 2008).

The third area is **healthcare system reform**. This reform is still in progress and has had to face up to many challenges. Despite the improved health insurance coverage in both cities and rural villages, the public still feels that good quality healthcare is unaffordable and inaccessible. So far, the foci of reforms have been healthcare cost control and resolving the hostile relationship between doctors and patients. These demand more fundamental changes in hospital funding, management, pay structures

and the monitoring of service suppliers. However, because hospitals have long been operating like profit-making businesses, the resistance to changes has been strong.

The fourth main area is **housing reform**. The 1998 reform had successfully pushed people to buy homes and increased the home ownership rate dramatically. However, urban housing has become increasingly less affordable for ordinary wage earners. Young people, lower-income groups and migrant workers have found it difficult to afford houses in cities. They have ended up living in rented accommodations in urban villages and peri-urban farm houses. A housing security system had been developed since 1994, with three broad elements: subsidised home ownership; housing provident funds that people can borrow against with favourable terms; and low rent public housing for the poor and public rental housing at half the market price for newcomers to the local labour market. However, housing reform has always been controversial. The local governments had relied on land sales revenues to support its own spending. As a result, the costs of housing construction have been pushed up. What is more, driven by the lucrative urban housing bubbles, the scale of housing demolition has been unprecedented.

Finally, the effects of the **2007 Financial Crisis** that persist to this day have put a serious strain on China's export businesses, with millions of migrant workers losing their jobs. To avoid a major recession, it was considered necessary to restructure the economy to reduce dependency on exports and boost domestic demand. At the same time, to avoid being weighed down by a sluggish economy, the government decided to invest a large amount of money as crisis relief funds to stimulate the economy. A large part of the money has gone into cheap rental housing and public housing schemes. The government planned to build 10 million flats in 2011 with 1.3 trillion yuan in government funding support, and to spend 36 million yuan within the 13th Five Year Plan period.

Conclusion

This paper shows that since the Communist Party came into power in China, social welfare has been actively used by the state to boost economic growth and maintain social stability. In different periods, there were different priorities. Sometimes economic growth dominated and sometimes social concerns were brought to the fore. These changes also show that Chinese policymakers have taken a pragmatic approach and have embraced different changing perceptions of the relationship between economic growth, social

stability, and party authority. In this sense, despite changes in development strategy, welfare spending has been only a part of a broader strategy—to ensure the Communist Party would be accepted by the people.

Prioritising economic growth and social stability may have had some advantages in the sense that it required the government to be responsive to immediate threats. This has helped China to quickly build up various elements of a modern social security system in a short time. The new welfare system itself has had some limits. It focuses on contribution-based social insurance. The availability and quality of social services has still been poor. Entitlements are not yet portable between different provinces and it therefore remains difficult for migrant workers to be fully integrated into their new communities. The public finance system has yet to be sorted out and the central and local governments do not have a clear division of funding and service provision responsibilities. The patchy approach to reform also further blurs this division. It is difficult for policy enforcers not only to follow the policy changes, but also to assess the outcomes in terms of reducing inequality.

What is more, treating social welfare as a supporting tool to achieve political stability has its own problems.

- On top of the social security infrastructure construction, there have been ad hoc pension increases for retired public sector employees, housing benefits, and public provision as a result of young people's complaints about low housing affordability, eldercare centres for the dissatisfied retired soldiers, etc. All these handouts were meant to stop angry protestors. However, the handouts have also sent strong signals to the general public: that public display of resentment will lead to government compromises, thus inviting more protests. What is more, as society becomes more divided, the government may get trapped between different interest groups. For example, recent complaints about overcrowding cities have become louder than before. Urban residents have become unhappy about the inflow of migrants. Instead of trying to improve efficiency in the delivery of services, some cities have begun to limit migration and resorted to discriminatory policies that they had abandoned in the past. Such policies might now enjoy the support of the local population, but will come at a cost to the migrant population.
- These ad hoc changes have also made the already fragmented welfare benefits even more difficult to disentangle. There is now

greater difficulty in tracing the net benefits that a person might have received, and an overall loss of transparency.

- To pacify public anger, the central government has been quick to make promises. However, the financial and implementation burdens tend to fall on the shoulders of the local government. The reality is, the local government may not necessarily agree with what the central government has promised, and this has resulted in unimplemented policies. This has caused confusion and frustration among the general public, leading to greater doubt about the government's ability to govern and even causing them to question the sincerity of seemingly compassionate leaders. According to surveys carried out by the Lingdian Consultant on the indicators of life quality of Chinese residents, the confidence of the people in the government's management ability reached its peak in 2009, but by 2010, had dropped significantly to pre-2007 levels (Yuan and Zhang 2011).

NOTE

1. In Jiang Zemin's speech at the 16th CPC Congress (November 2002), the translation of the three priorities was slightly different. Economic Production was interpreted as "advanced social productive forces"; Cultural Development was "the progressive course of China's advanced culture"; and Political Consensus was "the fundamental interests of the majority".

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