

# **The Politics of China's Urban Social Welfare Reforms since the 1980s**

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## **Abstract**

The Chinese social welfare reforms since the 1980s have been characterized as fragmented and incremental. Social welfare system after the reforms in urban China is neither liberal as in Anglo-Saxon countries nor universal as in Nordic countries. Instead, China's urban social welfare has developed on three distinct dimensions: 1) social insurance: a payroll-tax-based and contributory social insurance system was established to privilege and benefit particular sectors and socioeconomic groups such as the state sector and employees of large-sized enterprises; 2) privatization/capitalization: part of the social insurance funds were privatized (capitalized) and selected private sectors (firms) were incorporated into the social insurance; 3) targeting: social benefits were remarkably extended to some low income groups such as laid-off workers, unemployed persons, and early retirees. Without examining the micro-foundation of each dimension of the reform policies, the trajectory of China's urban social welfare reforms seems quite puzzling. This paper attempts to explore the political economic logic of China's urban social welfare reforms that began in the mid-1980s.

To achieve the goal, this paper first categorizes labor force in urban China into four socioeconomic groups (public sector insiders, public sector outsiders, private sector insiders and private sector outsiders) and then examines social welfare preferences of each of these four socioeconomic groups. Based on the distinct social welfare preferences of the four socioeconomic groups, this paper argues that the cleavages on social welfare policy in urban China take place along two lines of conflicts: public-private sector conflicts and labor market insider-outsider conflicts. Second, this paper explores how the government accommodates these social cleavages in decades of urban social welfare reforms. This part of analysis touches upon various preference-to-policy translation mechanisms in urban China, including the fragmented authoritarian policy-making process and informal interest articulation channels such as protest and street demonstration. Based on process-tracing of China's social welfare reforms from the mid-1980s and some anecdotal evidences collected from second-hand materials about social policy making, this paper finds that the three major dimensions of China's social welfare reform policies are basically responding to the two social cleavages embedded in the four socioeconomic groups of urban China. Nonetheless, some important questions regarding the politics of China's urban social welfare are insufficiently addressed at the current stage of the study. This paper will briefly discuss them in the concluding remarks and will outline a plan of further study along this line.

## *1. Motivation and Literature*

Since the mid-1980, China's social welfare programs (such as pensions, health insurance, unemployment insurance, work injury insurance and minimum living allowance) have dramatically expanded. In 2007, more than two hundred million Chinese participated in the social pension and basic health insurance programs. In the same year, government's insurance expenditure was 789 billions RMB and increased by 21.8% from the last year. According to the selectorate theory (Bueno de Mesquita et al. 2002: 560), incumbent politicians allocate the limited available resources in the way that maximizes their chances of political survival. When the winning coalition that keeps the politicians in office is small, politicians only need the support of a few individuals to stay in office so they will allocate the majority of resources to provide private goods (such as pork, patronage, cronyism) to their supporters. When the winning coalition gets larger, private goods must be distributed to more people and thereby becomes more costly than public goods. Hence, large-size winning coalition induces politicians to provide public goods (such as education, social welfare and services). However, the sizes of selectorate and winning coalitions have changed little in China during decades of economic growth and social welfare development. What is the momentum of Chinese social welfare development? What explains the expansive social welfare policies in China's social welfare reforms?

In recent years, academic interests and researches on Chinese social welfare are rising. Some scholars study China's social welfare reforms as social consequences of the Chinese economic reforms particularly the State Owned Enterprises (SOEs) reform (Lee, 2002; Cai, 2002; Hurst and O'Brien, 2002; Gu, 1999; Chen, 2000). Other scholars directly examine the

policy making and implementation of specific social welfare policies. Frazier's works on China's pension reform (Frazier, 2004a, 2004b, 2006, 2010) and Duchett's writings on China's health and unemployment policies (Duchett, 2001, 2003, 2004, 2008) are, to my knowledge so far, the most thorough studies about Chinese social welfare policy during 1980-2005. Both of them provide students of Chinese politics with abundant information and insightful thoughts about various conflicts (e.g. the central-local conflict, inter-regional conflict, inter-ministerial conflict and bureaucratic conflicts etc.) involved in the making and implementation of social welfare policy. Even so, their works, or broadly the existing literature about China's social welfare, suffer several weaknesses. First, the existing studies of Chinese social policy is quite fragmented, without much conversation with each other. Perhaps this is attributed to the narrow focus of each work: some being confined to a certain fragment of reform periods (e.g. the reform in the late 1990s) and others to a particular social policy area (e.g. pensions, health insurance, unemployment insurance). Most of them do not consider a coherent political economic logic behind the patchwork of social welfare reforms in urban China. Second, most of the existing studies about China's social welfare focus on the supply side of social welfare policy. Such a focus leads the scholars adopting the "top-down" perspective in the sense that their arguments usually starts from the policy initiatives at the government level and treats the policy demands and policy preferences in the society as given. Hence, the individual social welfare preferences in urban China are left unknown. Moreover, without taking account of the policy demands "from the bottom up", the extant explanations of social welfare policy seem ad-hoc and lack prediction power. The political economy literature about welfare state and redistribution preferences in western industrial countries

provide helpful references to overcome the aforementioned weaknesses in the existing studies about China's social welfare.

The literature of welfare state demonstrates that social welfare in western advanced industrial countries has been evolving along distinct paths (Esping-Andersen, 1990; Hall and Soskice, 2001). The politics accompanying the different paths vary dramatically. The debate about the logic underlying the rise, expansion and reform of the welfare state in western countries during the post-WWII era is still ongoing. The conventional interpretation of the rise of welfare state in the perspective of power resource (Korpi 1978, 1983) face various challenges by other perspectives that take account of many other factors pertaining to the recent changes and reforms of the welfare state, to name a few, globalization (Cameron, 1978; Katzenstein, 1985; Garrett, 1999; Rodrik 1997), post-industrialization (Iversen, 2001), varieties of market coordination or corporate governance (Hall and Soskice, 2001; Roe, 2003), cross-class coalitions (Swenson, 2002; Mares, 2003), and taxation system (Kato, 2003). Although the welfare state literature is developed mainly on the experiences of western democratic industrial countries, its *theoretical framework* is helpful to study the welfare-state building in developing countries. Hauserman proposes a comprehensive yet clear theoretical framework to disentangle the complicated and multidimensional policy—the pension reforms in France, Germany and Switzerland during 1970-2000 (Hauserman, 2006). The framework starts from individuals' preferences for pension policy, and links the conflict lines derived from individuals' preferences to political actors' policy preferences in the making of pension policy, and ends with policy outputs that are translated from the political actors' policy preferences under each country's specific institutional constraints. This framework combines

the supply side of social policy with the demand side and is conducive to the exploration of a coherent logic behind social policy. This paper will employ such a theoretical framework to study the political economy of Chinese social welfare reforms since the 1980s.

Study of individual preferences for redistribution is not novel in the literature of political economy. The most prominent work might be the Meltzer-Richard model (Meltzer and Richard 1981), which predicts that under the conditions of majority democracy all voters with incomes below the mean income will have strong preference for redistribution policy. Many other scholars use survey data to explore factors other than relative income that affect individual preferences for redistribution and have found that religion, family tie, education, gender also significantly affect individuals' preferences for redistribution (Scheve and Stasavage, 2009; Alesina and Giuliano, 2008, 2009; Iversen and Soskice, 2001). The underlying theories of these studies about individual preferences for redistribution are the industry model (Richard-Viner Model) and the factor model (Stolper-Samuelson Theorem). The industry model suggests that distributive conflicts in the society take place along sector/industry line. In contrast, the factor model implies that distributive conflicts take place along factor line, that is, capitalists (capital owners) and workers (labor) should have conflicting policy preferences. Other scholars go beyond these two classic-economic models to search alternative explanations of social cleavages on redistribution. For example, Hiscox finds that inter-industry factor mobility is a salient determinant of social conflicts (Hiscox 2002). Equipped with these theories and models about individual preferences for redistribution, this paper will discuss urban Chinese' preferences for social welfare and consider the social cleavages embedded in these redistribution preferences as the base of the

politics of Chinese social welfare reforms.

Based on a detail examination of Chinese social welfare reforms since the mid-1980s, this paper argues that *the politics of Chinese urban social welfare reform since the mid-1980s has been taking place along two lines of social cleavages: the public-private sector conflict and the labor market insider-outsider conflicts*. Empirical evidences collected from the literature and my interviews with Chinese enterprises and government officials in the summer of 2009 provide primary support for this argument. The remainder of this paper will unfold as following. Section 2.0 introduces China's pre-reform situations and the social welfare reform processes since the mid-1980s. Section 3.0 examines socioeconomic groups' preferences for social welfare policy and the social cleavages embedded in those preferences during the reform era. Section 4.0 explores how the government strategically accommodates those social cleavages in decades of urban social welfare reforms given Chinese authoritarian institutions. Section 5.0 summaries the argument, discusses its limitations and outlines an agenda for further research.

## ***2. China's Urban Social Welfare: Pre-reform Situations and the Reform Processes since the mid-1980s***

This section is to provide a background for further exploring the politics of China's social welfare reform. The pre-reform situation of social welfare was a stark contrast to the circumstance in the reform era. Understanding the pre-reform situation is helpful to understand socioeconomic groups' preferences for social welfare policy during the reforms. The first part of this section will briefly review the Chinese political economic situations before reforms and the second part will introduce China's social welfare reforms since the mid-1980s along three policy dimensions —insurance, capitalization and targeting.

## 2.1 The “Iron Rice Bowl” and social welfare in the pre-reform era

In the socialist China before economic reforms, all enterprises were called “work units” (*Danwei*).<sup>1</sup> The major functions of work units, in addition to fulfilling the production quotas set by the central state, were to place employment as much as possible and to provide employees with social welfare. The lifetime employment (“Iron Rice Bowl”) with egalitarian social welfare was the feature of China’s socialist social welfare system before reforms. Industrial workers in the urban areas were privileged with various kinds of social benefits including housing, health care, pension, traveling, offspring’s schooling and the like.

In the long term, the “work-unit style” enterprises with comprehensive social welfare responsibilities inevitably resulted in inefficiency and incompetence. On the one hand, many enterprises<sup>2</sup> were nearly devastated by the heavy burdens of financing permanent social welfare for their employees; on the other hand, the lifetime employment with egalitarian social welfare provisions gave rise to employees’ excessive dependency on the “iron rice bowl” without sufficient incentives to improve work performance, let alone innovation. Every aspect of employees’ private lives from housing to marriages, from family planning to children’s schooling, from seeing a doctor to funeral, would be planned by their work units. It wouldn’t be an exaggeration to say that prior to reforms every Chinese work unit was like an independent society small yet well-organized. Therefore, the following social welfare reform was a thorough and profound social reform for enterprises as well as their employees.

The year of 1978 is usually treated as a turning point of Chinese economy. It should also be considered as the watershed of Chinese social welfare development. Before 1978, decades

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<sup>1</sup> Generally speaking, work units in pre-reform China consisted of state-owned enterprises, government agencies and public institutions such as hospitals, schools, and research institutes.

<sup>2</sup> There were only two types of enterprise ownership in pre-reform China: state-owned firms and collective-owned firms. Both of them were non-private sectors.

of collectivization and socialization had established a comprehensive, egalitarian yet unsustainable social welfare system in urban China. The market economy reforms began in 1978 aimed to transform the command economy that lacked efficiency and market competitiveness. The SOEs reform in the mid-1980s started with efforts to abolish the lifetime employment and to establish a competitive labor market in urban area. Once the foundation of the socialist economy--lifetime employment –gradually collapsed, social welfare system accompanying with it began to dramatically change in urban China.

## 2.2 The social welfare reform since the mid-1980s

China's social welfare reform began in the mid-1980s and has been ongoing for more than two decades. The reform is a trial-and-error process with apparently contradictory policies intertwined. It is impossible to perfectly fit the Chinese social welfare system into any of the “three worlds of welfare state” stylized in western capitalist countries. At most, the Chinese social welfare is a hybrid-- the European-continental-country social insurance system combining with some liberal and universal supplements. This section aims to briefly review the China's social welfare reforms since the mid-1980s and to demonstrate how the reform progress on three different policy dimensions: insurance, capitalization and targeting.

First, the main component of Chinese social welfare after the reform is social insurance. The last two decades has witnessed the establishment of an employment-based and contributory social insurance in urban China. Since the mid-1980s, experimental measures were adopted by selected cities to create “pooling” of pension funds with transferring the responsibilities of pension provisions from firms to local government. Several regulations issued by the State Council beginning in 1991, formalized the practice of financing the

pension obligations through a combination of “social pools” and individual retirement accounts (Frazier, 2004a). Similarly, after the experiments of “co-payment” and “risk-pooling” of health insurance in some cities during the 1980s, in 1994 a compulsory social health insurance combined with individual premium contribution began to operate in about 60 Chinese cities. Finally in 1998, the “urban employee basic health insurance system” was established. In this system, employers are required to pay 6%-8% of their total payroll into a local health insurance fund (HIF) and dedicate health insurance accounts (HIAs) held in the name of each employees. Employees pay 2% of their wages into their HIAs. In principal, HIAs pay for an employee’s treatment costing up to 10% of the local average annual wage, after which the HIF pays. There is a limit on how much the HIF will pay for any single individual set at four times of the average annual wage (Duchett, 2004). As for unemployment insurance, it started from the employer-based unemployment insurance established in the SOEs that were experiencing restructuring in 1986. In 1994, the tripartite contributory unemployment insurance was initiated in public sectors and extended to private sectors in 1999 when the State Council promulgated the *Regulations on Urban Unemployment Insurance*. According to the 1999 *Regulations*, employers’ contributions were raised to 2% of their total pre-tax payroll and individual employees are required to make premium contribution of 1% of their wages. Gradually, a payroll-tax-based and contributory social insurance system including pensions, health and unemployment insurances has been established in urban China by the end of the 1990s.

Second, after basic social insurance was established, in the past decade the social welfare system began to be partially capitalized under government’s cautious regulations. For

example, the central government established the National Social Security Fund (NSSF) in 2000. The NSSF assets are invested by ten fund management companies (one of which is a joint venture) appointed by the government (Frazier, 2010:64). Besides, the government has expressed its intention to develop the market for private insurance. The 1998 *Urban Basic Health Insurance System* even preserves room for private health insurance as to pay the medical costs above the upper limit of the basic health insurance. In 2004, the government issued regulations on enterprise annuity (*qiye nianjing*) and encouraged building up enterprise annuity as the second pillar of China's pension system.

Although the Chinese social insurance is principally employment-based, the social welfare reform after the late 1990s pay more attention to targeting labor market outsiders such as SOEs early retirees, laid-off workers and the urban poor, providing them with basic pensions, unemployment benefits and family allowance. In 1999, the central government announced the “two guarantees” policy: guaranteeing laid-off workers receiving basic living allowances and SOEs pensioners receiving their pensions in full and on time. Accompany this policy, responsibilities of distributing pensions were transferred from firms to local government agencies such as banks and postal saving institutes. Moreover, the basic health insurance coverage was extended to laid-off workers. Re-employment centers where laid-off workers are supposed to register<sup>3</sup> are to make contributions on laid-off workers' behalf at 60% of the local average employee wage for the previous year (Duchett and Hussain, 2008). In 2001, SOEs laid-off workers were entitled to unemployment insurance too. Furthermore, the State Council issued the *Regulations on Minimum Living Allowance* in 1999. Family

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<sup>3</sup> In policy, laid-off workers can register at the re-employment center for only 3 years and therefore the health benefits are not insured beyond that period.

whose average income per capita is lower than the local poverty line is entitled to subsistence allowance. After 1999, unemployment funds could be used to subsidize unemployed persons' medical treatment (Duchett and Hussain, 2008).

Table 1 summarizes the major social welfare reform policies since the mid-1980s by policy dimension—insurance, capitalization and targeting. On the whole, the Chinese social welfare reform is proceeding mainly on these three dimensions. To be noted, the logics underlying these three policy dimensions are obviously conflicting with each other. For example, the reform policy on the dimension of insurance is to privilege and protect labor market insiders especially the public sector employees, which is contradictory to the reform policy on the dimension of targeting that aims to universalize social benefits without consideration of employment status. Why did the government adopt apparently conflicting policies in the social welfare reform? Who are the supporters and opponents of these reform policies? The next section will explore individuals' preferences for social welfare to see how they shape the social cleavages in urban China.

Table 1 about here

### ***3. Individual Preferences and Social Cleavages in the Reform Era***

Since the market economy reform took off in the 1980s, the once homogenous Chinese workforce begun to diversify. Diversification of firms' ownerships and the rise of a domestic labor market are the main forces driving the dramatic change of labor force from the mid-1980s to the late 1990s. First, most SOEs went through either ownership restructuring by privatization and equitization or corporate reorganization by amalgamation and dissolution during this period. Second, private sectors including private-owned firms, foreign-owned

firms and joint ventures proliferated and grew rapidly. Thirdly, the rural-to-urban migrant workers continuously increased and even have become the main workforces in some southeastern regions. As a result of these three changes, the previously uniform industrial workers greatly diversified and were distributed in various sectors. Workers' remunerations and social benefits began to vary across sector and even within sectors. At the same time, a large number of previous SOEs workers got laid off or early retired (*neitui*) from their enterprises. Many migrant workers in the private sectors, though keeping employed, were treated discriminately by employers, working without fixed-term labor contract and legal protection.

The social welfare reform in the 1990s was to response to the labor dislocation derived from the rise of domestic labor market and the diversification of labor force in urban China. In order to understand the complicated and apparently contradictory reform policies, it is crucial to figure out 1) who are subject to the social welfare reforms in urban China; 2) what are their preferences for social welfare; 3) based on the preferences of these people what a feasible reform strategy will be for the government. This section attempts to answer these questions in order.

### 3.1 Sector, employment status and socioeconomic groups in urban China

As in many Latin American countries and European continental countries, Chinese labor force, since the reforms, has been remarkably divided by employment status. Borrowing the terminology from the literature of welfare state in European continental countries, I will use labor market “insiders” and “outsiders” in the following text to describe the groups with different employment status in Chinese labor force. The employees with the following

characteristics are labeled as “labor market insiders”: 1) having formal employment relation/contract with firms<sup>4</sup>; 2) receiving remuneration and social benefits (*wuxian*) including pensions, health insurance, unemployment insurance, work injury insurance and maternity benefits entitled by the labor law. Employees who do not fulfill these two conditions are referred as “labor market outsiders”.

Because of the socialist legacy embedded in the newly established market economy during the reform era, Chinese labor market insiders are distinctly divided by sector. The most remarkable is the public- private sector division. Public sectors usually include center-owned enterprises (COEs), state-owned enterprises (SOEs)<sup>5</sup> and collective-owned firms while private sectors comprise foreign-owned enterprises (FOEs), private-owned enterprises (POFs) and joint ventures. Likewise, labor market outsiders can also be categorized according to the sectors they used to work for: public sector outsiders who were laid off or retired from public sectors and private sector outsiders who were dismissed from private sectors or being employed by some small private firms without formal labor contract, or being self-employed. To be noted, laid-off workers (dismissed from public sectors) and unemployed persons (mainly from private sectors) were officially distinguished by the Chinese government before 2001. The former were not officially treated as “unemployed” because they were supposed to maintain labor relation with their enterprises though they were not on the enterprise’s payrolls. Laid-off workers maintain their “labor relations” by

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<sup>4</sup> This paper will not study employees of government and public institutes such as hospital, schools, social associations etc. because first, their social benefits since reforms have experienced less change compared to the ones of enterprises employees; second, the number of this kind of employees is much smaller than the one of enterprise employees.

<sup>5</sup> Here SOEs mainly refers to enterprises owned by the provincial or municipal governments. Although the COEs also belong to SOEs in a strict sense, I purposely separate COEs from the broad category of SOEs here because the former has more political and economic privileges than the latter. This distinction will be specified in Section 3.1.

registering at the re-employment centers built in the SOEs or the cities/district where their enterprises locate while the “ordinary” unemployed persons register at the Labor Bureau. Hence, by design Chinese government’s unemployment rate was only counting the number of the latter—the unemployed persons from private sectors. Table 2 displays the categorization of socioeconomic groups in urban China by the two factors—sector and employment status.

Table 2 about here

### 3.2 Socioeconomic groups’ preferences for social welfare

Given the aforementioned four socioeconomic groups as the subjects of Chinese urban social welfare reforms, this part is to predict their preferences for social welfare policy. Although these predicted preferences are not tested by individual-level data in this paper, the processes of social welfare reform as mentioned before, especially the timing of social welfare policies on different dimensions, do respond well to the rise and fall of the preference conflicts among the four socioeconomic groups. Below I will elaborate the preferences of these groups one by one.

First, public sector insiders support the status quo of social welfare system which is characterized by the payroll-tax-based and contributory social insurance. Public sector insiders are the vested interest group in the Chinese social welfare system no matter before or after reforms. Someone might disagree and contend that the market economic reform which attempted to increase economic efficiency and the following social welfare reforms that eliminated the “Iron Rice Bowl” were actually against the interests of industrial workers in public sectors. I argue that this statement is defective for several reasons. First, no empirical data has been found to support the contention that social welfare in the “Iron Rice Bowl”

system was more quantitatively or qualitatively generous for public sector workers than the social insurance system after reforms. Second, the social welfare reform in the 1990s was comprehensive and its real effects for beneficiaries were comprehensive. Although some traditional social benefits such as housing and life-time employment were cut off by reforms, the risk pools of social insurance benefits have been expanded from individual firm to city and even province in some cases (such as pension and health insurance in Beijing and Shanghai), which significantly increases the sustainability of social benefits. Third, “socializing” the social benefits by social insurance programs reduced operation cost of public sectors and thus increased their profits, from which workers might benefit. The SOE employees, who managed to secure their positions in the dramatic re-organization and re-structuring of their enterprises in the late 1990s,<sup>6</sup> are the winners of the social welfare reform. A database compiled from 800 state-owned and non-state-owned firms surveyed in 2000 indicates that SOEs pensioners in the sample saw a 31.2% rise in per capita pension benefits between 1994 and 1999, while those retired from other sectors suffered a decline of 15% (Frazier, 2010: 79).

Second, private sector insiders lack incentives to join the social insurance system if without extra and sufficient supplements from the government. The private sector in China concentrates in light and service industries such as food processing, textile, electronic appliance, construction, catering, chemical products, legal consulting, business services and the like. Compared to the COEs and some large-sized SOEs in public sectors that are dominant in the monopoly and strategic industries such as railway, telecommunication, and

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<sup>6</sup> Large-sized SOEs are more likely to survive not because of their sizes but also because of the state’s preferential policy (“grasping the large, letting go the small”) for them during the SOEs reforms.

energy, firms in private sectors are relatively small in size and are more exposed to fierce market competition. On the one hand, some private firms that possess high technology and solid finance background are making profits as much as some COEs and large-sized SOEs do. On the other hand, a large number of firms in private sectors are struggling with increasing market competition due to low technology and capital shortage. According to extant theories, large-sized private firms should prefer privatized and capitalized insurance programs which can secure firms' autonomy in management (Mares 2003: 29); small-sized private firms should be interested in basic compulsory social insurance that can mediate the disruptive effect of economic disturbances and alleviate risks from fierce market competition (Swenson 2002: 37-40). Based on my interviews and field experiences in the summer of 2009, I found that private sector insiders in some profitable firms do receive generous social benefits from private insurance programs run by private or commercial insurance companies. However, private sector insiders (both workers and managers) in unprofitable firms usually tried to avoid participating in any social insurance program, which is against the theoretical prediction. Given the firms' capital shortage, managers (usually also the owners) of the unprofitable private firms are reluctant to enroll employees in compulsory social insurance for fear of increasing labor cost. But it seems puzzling that Chinese workers in these unprofitable private firms also lack incentives to participate in basic social insurance. Workers in the less profitable and small-sized private firms are usually low-skilled and migrants from rural areas with some particular demographic characteristics (young, healthy and single etc.). They do not support payroll-tax-based and contributory social insurance for several reasons according to my interviews. First, the demographic characteristics of these

workers make them have less risk-averse preferences for social insurance programs especially pensions and health care. Second, these workers change work frequently and thereby they are usually unqualified for social insurance benefits that require premium payment for a certain number of years with one employer. Third, many of these workers are unable or unwilling to settle down in urban areas due to some discrimination towards rural people embedded in China's household registration system and social ideas. So workers in small private firms lack interests in the social insurance programs whose funds are pooled at municipal level, because when they find new jobs in other regions, transferring benefits or social insurance accounts from the current location to the others, if possible, is very time-consuming and costly. Actually, private sector insiders especially those in small-sized firms save money for the future or purchase some flexible commercial insurance programs rather than joining the payroll-based social insurance. Hence, participation in the payroll-tax-based and contributory social insurance is not in the best interests of private sector insiders if without extra or strategic supplements by the government.

Third, public sector outsiders demand for egalitarian social benefits as in the "good old days" with the "Iron Rice Bowl". These workers' dramatic change of employment status, from being the privileged industrial workers falling to being laid-off workers or early retirees due to the bankruptcies of a large number of SOEs, not only cut off their income sources but also left them suddenly by their own feet in a society without a well-developed social safety net providing basic pension benefits, basic health care and family allowance. The worse was that by Chinese government's special definition of "laid-off" before 2001, these workers were considered still having labor relation with their previous employers—SOEs that were

supposed to take care of their laid-off workers' social welfare so they were not eligible for unemployment insurance. Paradoxically, the SOEs that had to lay off or get some of their employees early retired were also those that could not afford pensions, health insurance and even severance fees. Consequently, these early retirees and laid-off workers fell into the grey area between the domain of government and the one of SOEs with no agencies being in charge of their subsistence allowance and even lump-sum compensation. No doubt public sector outsiders have become China's most contentious protestors in the past decade (O'Brien and Hurst 2002). Most public sector outsiders who are in their 50's now are the generation who have experienced years of political movements and economic reforms since the new republic was founded in 1949. They deem social welfare especially pensions as the basic returns to their whole life's services and sacrifices for prosperity of the country. However, the discrepancy between their increasing subsistence needs and their declining political and economic capabilities make them becoming the strong-willed but powerless opponents of the current payroll-tax-based and contributory social insurance system.

Finally, private sector outsiders prefer minimum but universal social benefits. Compared to public sector outsiders who possess decades of work experiences in public sectors, many private sector outsiders are relatively young, low-skilled and more geographically mobile (migrating from the countryside to other areas). They usually find jobs in small-sized private firms that demand for high flexibility but low labor cost. Hence, the interests of private sector outsiders are closely linked to the rise and fall of private sectors. These private sector outsiders are the "backup" work force for private firms whose production schedules are unstable due to business cycle or external shocks in the market. As sufferers of income and

employment instability of private firms, private sector outsiders are interested in basic social security benefits such as family allowance and unemployment benefits which can reduce their risks of falling into poverty. It is worth mentioning that in some sense private sector outsiders share similar social welfare preferences with the private sector insiders especially those are employed in small-sized private firms.

Table 3 summarizes the social welfare preferences of these four socioeconomic groups. Now the conflicts among these groups for social welfare that shape the processes of China's social welfare reforms become obvious. The following will proceed along this line.

Table 3 about here

### 3.3 Social cleavages and its predicted impacts on urban social welfare reform

Based on the social welfare preferences of the four socioeconomic groups, three lines of conflicts are discernible in urban China: labor market insider-outsider conflict, status conflicts within labor market outsiders and public-private sectoral conflict within labor market insiders. First, the insider-outsider conflict is the most prominent among the three social cleavages on social welfare. Since China's current social insurance programs (mainly referring to pensions, health insurance, and unemployment insurance) are employment-based, the social insurance system inevitably stratifies labor force by employment status. In addition, China's private insurance and financial investment markets are still underdeveloped because of the limited openness of these markets and restriction set by the central government. As a result, labor market outsiders do not have many insurance options and thus have to rely on private saving or family supports for living when they can not work due to sickness, disability or aging.

Second, conflicts within labor market outsiders are palpable too and at least parts of these conflicts are caused by the policy design of the government. Labor market outsiders who were laid off or retired from public sectors were treated by the government differently from the outsiders of private sectors. China's artificial division between being "laid-off" and being "unemployed" might be unique in the world. The purpose of this division, interpreted by some scholars, is that the government tried to avoid social panic and unrest by concealing the real unemployment rate that had strikingly surged since the 1990s (Solinger, 2001). The cost of doing this "for the sake of social stability" is that millions of laid-off workers and early retirees lost social security entitlement. Ironically, protests and collective actions by these laid-off workers and retirees who could not tolerate government's unfair treatment towards them has been one of the major threats to China's authoritarian regime since the 1990s. To appease labor unrests, the government ended up with compensating these contentious protesters by plenty of ad-hoc financial payment. After 2001 the artificial division between "laid-off" and "unemployed" was abolished gradually. Nonetheless, conflicts between public sector outsiders and private sector outsiders regarding social welfare policy will not disappear completely in a short run. As the above sections have mentioned, these two socioeconomic groups differ on several aspects, just to name a few, demographic characters, skill levels, household registration status, mobility, social connections, and political experiences. These sociopolitical differences might continue to divide these labor market outsiders and keep their preferences for social welfare divergent in the foreseeable future.

Third, public-private sectoral conflict within labor market insiders has become more significant as the private sectors have been proliferating and growing rapidly since the 1990s.

As the above has shown, public sectors are dominant in those heavy and strategic industries. Public sectors not only differ from private sectors in their respective dominant industries but also in structure of corporate organization and management. For instance, enterprises in public sectors still maintain Chinese Communist Party (CCP) branch in organization and the secretaries of party branch are usually the main decision-makers for the enterprises. It is worth emphasizing here that trade union organizations at enterprise level in China most exist in public sectors and they are directly “led” by the party branch in enterprises. The party branch of public sector enterprises is to minimize or at least conciliate conflicts between labor and management as well as between enterprises and government. The payroll-tax-based and contributory social insurance is well implemented and supported in public sectors not only because it caters to the interests of public sector enterprises but also because public sector enterprises are less able and less willing to resist government decrees. On the contrary, firms in private sectors desire more autonomy in management. Some of them (those large-sized and profitable private corporations) prefer rewarding their employees by recruiting them into generous private insurance programs such as firm annuity and some of them (the small-sized and less profitable private firms) prefer reducing labor costs by minimizing social benefits payments. Neither of these two preferences of private firms is well met by the payroll-tax-based and contributory social insurance system. Therefore, unless China’s current social insurance system incorporates the interests of private sectors in social welfare such as capitalization of social insurance funds and privatization of its management, the public-private sector conflict will continue to be one of the largest obstacles to the expansion of social insurance system in urban China.

Table 4 displays the three lines of social cleavages on social welfare among the four socioeconomic groups. It is to be emphasized that the sector heterogeneity in China is very high. Even within public sectors or private sectors respectively, firms dramatically vary on several aspects: firm size, technology level, profitability, regional business environment and risks. I am not denying that other conflicts regarding social welfare can be significant too. Nonetheless, the three aforementioned conflict lines (public-private sector conflict, labor market insider-outsider conflict and employment status conflict) are more manifest in practice and analytically useful to understand the politics of social welfare reform in urban China.

Table 4 about here

So far, I have examined the fragmented labor force (the four socioeconomic groups) in urban China and their conflicting preferences for social welfare. Then the question becomes how the government accommodates those conflicting preferences of different socioeconomic groups in social welfare reforms. By breaking down the social welfare reform policies into three dimensions-- social insurance, privatization/capitalization and targeting-- as done in Section 1.2, it is not hard to find the answer to this question. Table 5 summarizes the reform policies adopted by the government towards each of those socioeconomic groups.

Specifically, the payroll-tax-based and contributory social insurance system was finally established by the late 1990s at the expense that millions of SOEs workers were kicked out from public sector workforces, either by being laid-off or early retirement. Despite so, the social insurance is still fragmented among regions and financially unsustainable with huge deficits. In order to consolidate the social insurance system, its coverage needs expansion. The profitable firms in private sectors no doubt become the targets of this expansion. Private

sectors accept the payroll-tax-based and contributory social insurance as their second-best choice only when the government compensates them on other dimension of social welfare policy or in other policy areas (e.g. tax concession). The compensation for profitable private firms contributing to the social insurance pools includes capitalizing portion of the social insurance funds and developing private insurance as supplements. At the same time, the rapid growth of the profitable private sectors can be, at least partially, attributed to a large number of labor market outsiders as backup labor force. These outsiders who stand in long lines at the gate of private firms for jobs lower the labor cost of incumbent workers and thus increase the competitiveness of Chinese firms in the world market in terms of price. To secure the “comparative advantage” of abundant and flexible labor force at the same time to maintain labor quiescence, the social “safety net” – subsistence allowance and unemployment benefits – were initiated in the late 1990s and were rapidly promoted national-wide. To sum up, multidimensionality of social welfare policy is the key for the government to accommodate the various preferences of socioeconomic groups with respect to social welfare. However, some questions remain unclear: what are the institutions that help translate the preferences of different socioeconomic groups into the social welfare policy; how the multidimensional social welfare reforms are realized in practice. The next section will shed light on these questions.

Table 5 about here

#### ***4. The Politics of Social Welfare Reform in Urban China***

This section will examine how the government uses urban social welfare reforms to accommodate the social cleavages in the context of Chinese authoritarian institutions.

Without much information about the policy-making process of Chinese governments I have to focus on other evidences to analytically link the preferences of socioeconomic groups to social policy. These evidences include 1) the timing of various social welfare reform policies; 2) policy-making institutions and incentives of policy makers; 3) anecdotal evidences collected from other scholars' works about social policy making in China. The nature of Chinese social policy-making is basically non-democratic in the sense that it is usually not through legislation in the congress but only by deliberation among relevant government agencies. The government, which is not generated by popular elections in China, makes the policy decision at the central level and transmits the policy to its local subordinates for implementation. Thus, many institutional factors will involve in the preference-to-policy translation in China, just to name a few, the central-local relations, the party-government relations, bureaucrat evaluation system, and inter-government fiscal relations. The space of this paper does not allow me to elaborate how each of these institutional factors specifically affects social policy making in China. But the analysis of this section will try to take account of these factors in explaining the processes of Chinese social welfare reforms on the three policy dimensions—social insurance, capitalization/privatization and targeting.

#### 4.1. Sectoral conflicts and social insurance in urban China

The sectoral conflicts among labor market insiders are manifest in two changes during the social welfare reforms. The first change is the establishment of a cross-sectoral social insurance system. The second is the expansion of social insurance coverage. In the former process, the reluctance and resistance of privileged COEs and large-sized SOEs to participate in the social insurance were finally overcome by the intervention of CCP authority and some

tough central leaders. However, the second process-- the expansion of social insurance is still subject to many obstacles stemmed from the sectoral conflicts deeply embedded in Chinese political economy.

COEs are very profitable since they monopolize the production and markets of strategic industries such as petroleum, natural gas, telecommunication, railway, and steel. In the early 1990s, many of them were permitted to form sector-pooled social insurance for their employees. There were eleven such sector-administered insurances at the national level by the late 1990s incorporating COEs in mining, nonferrous metals, railroads, petroleum, banking, insurance and others (Frazier, 2010: 127-128). Employees in the sector-based social insurance enjoyed higher benefits with lower contribution rates. For instance, in Shanghai such pensioners were entitled to pension income that ranged from 30 to 100 percent higher than the average pension of retirees from other sectors (Jiang and Lee 1999:13). Moreover, these enterprises are politically powerful because their management possess high bureaucratic ranking. Many of these enterprises locating in some industrial cities possess vice-ministry or even ministry ranks that are much higher than the ones of municipal officials. The bureaucratic ranks of these prestige enterprises, though was the legacy of command economy in the socialist time, still privilege them from local authority. The rank issues were quite averse to the establishment of the contributory and cross-sectoral social insurance at the beginning of social welfare reform. There is an illuminating example in Frazier's work (Frazier, 2010: 111-112). Panzhihua Steel (Pangang) is one of China's largest steel mills located in the Panzhihua city of Sichuan Province. Many of the city's party secretaries and mayors are former directors or senior party officials at Pangang that itself enjoys a

vice-ministerial ranking. With a workforce numbering 100,000 and very few retirees owing to a relatively short history, Pangang and its directors are reluctant to remit pension and other social insurance funds to the Sichuan provincial government's Labor and Social Security Department (LSS). By 1998-1999, Pangang had accumulated over 300 million RMB in arrears on its social insurance payments. When the LSS officials went to Pangang to investigate and negotiate the back payment, the head of Pangang declined to meet them because of the latter's low bureaucratic ranks. The LSS officials ultimately appealed to their administrative superiors in Beijing at the Ministry of Labor and Social Security (MoLSS). However, the head of Pangang still refused to pay the charge owned when the vice-director of the Social Security Bureau of MoLSS was dispatched to Pangang. His excuse was that Pangang had contributed a lot to the society and the government by distributing credits to so many other firms in China, "the State Council owned him money". It was not until the following year, when the Pangang Communist Party Committee received an order from the China's Communist Party (CCP)'s Central Committee, that Pangang managers were finally persuaded to comply with social insurance payment.

Local SOEs at provincial or municipal levels have lower bureaucratic ranks but they also enjoy close ties with government agencies and bureaucrats. They usually seek protection from the National Development and Reform Commission (NDRC, *fagaiwei*) at the provincial or municipal levels, whose officials often represent the interests of public sector enterprises in deliberations and disputes over share issuance, corporate reorganizations, bankruptcy proceedings, and taxation and social insurance collections. Due to the longer and closer relations between public sector enterprises with the government, which private firms can not

compete for, interests of public sectors are very likely to be over-represented in central policy-making.

Chinese government's policy-making has been characterized as "fragmented authoritarianism" by many scholars (Liebenthal and Oksenberg, 1988; Shirk, 1993; White, 1993) for two reasons. First, policy-making process is opaque in China compared to democratic countries. Most policies are made by the government in forms of State Council decrees, ministry regulations or government notices even conference documents. Second, political actors within the central state involved in policy-making are limited but fragmented. Generally speaking, decision makers include the core elites of top leadership who usually publicly announce or support new policy initiatives, some general coordinating commissions such as the NDRC (usually its subordinate ad hoc commissions or research institutes) and depending on policy areas, some line ministries of the State Council with their research centers. These individuals and bureaucratic agencies have their own interests and organizational missions that implicitly related to their different "constituents" whose interests they strive to defend in the policy-making process (Liebenthal and Oksenberg, 1988; Shirk, 1993; White, 1993). For example, the current Ministry of Human Resource and Social Security (MoHRSS) used to be the Ministry of Labor and Personnel before the reform began and the Ministry of Labor and Social Security during the reform era. It has been in charge of labor and social insurance affairs for public sectors for a long time. This Ministry tends to defend the interests of those enterprises, most of whom are COEs and large sized SOEs (World Bank, 1997). In contrast, the Ministry of Health whose responsibilities include, via subordinate health bureaus in the localities, managing health service providers, tends to

defend providers' income (Duchett, 2003) and thus it is the advocator of the measures permitting private practice and raising treatment fees (Pearson, 1995). The Ministry of Finance is the bureaucratic agency responsible for balancing central government revenues and expenditures (Liebenthal and Oksenberg, 1988). It is often portrayed as fiscally conservative and "chief defender of the state" seeking to minimize excessive budgetary commitments and avoid deficits (Shirk, 1993: 96). NDRC (the National Development and Reform Commission)—the major decision maker in Chinese political economic reforms—were usually found to stand for SOEs in policy-making. In fact, protecting SOEs from increasing market competition by lightening their burdens of social welfare provisions was the original intention and has always been a major goal of China's social welfare reform. This is exemplified by the government's efforts to established a social insurance system and incorporate the profitable COEs into it in order to increase inter-sector and inter-firm redistribution.

In 1998 when the tide of SOEs privatization was rising, the fragmented social insurance system that was established in the early 1990s with huge deficits, by no means could shoulder burden of welfare provisions for more laid-off workers and early retirees. Therefore in the same year, the State Council ordered to transfer the eleven sector-based social insurances to provincial government pools in order to enlarge the redistribution pools of social insurance and deal with more labor dislocation brought about by privatization. The transfer process was extremely difficult given the prerogatives and resistances of the privileged sectors. These sectors that faced the potential of social benefits being cut back after transfer opportunistically exploited their last pension funds not only by generating the "wave of early

retirement” but also by raising pension benefits to even higher levels (Zhao and Xu, 2000:7).

In the first eight months of 1998 when the due date of transfer is September 1<sup>st</sup>, nearly 800,000 retirees of dubious qualifications were moved into pension registries (Frazier, 2010:128). An estimated 55 % of these early retirees were in their 40s and even 30s (Jiang and Lee, 1999: 11). Given the huge deficits in their municipal social insurances, provinces were reluctant to receive another large number of pensioners from the sectors who had been used to enjoying social benefits above local averages. In order to compensate those provinces that suffered from the transfer, the central government agreed to subsidize them for the sudden increase of social insurance beneficiaries who had before drawn benefits from their sector pools. For example, the center agreed to transfer 400 million RMB in subsidies to Sichuan province to make up the deficit between pension collections and payouts in 2000. Even so, the Sichuan Labor and Social Security Department (LSS) leaders still expressed some reluctance to sign on to the agreement of transfer. The then-Premier Zhu Rongji used his characteristic bluster and ordered the LSS leaders to sign (Frazier, 2010: 128) The National Ministry of Finance also raised the most vocal opposition within the government to these transfers and is increasingly anxious about having to fund China’s pensioners with central government budgets.

After the personal intervention of Premier Zhu Rongji, the sector-based social insurance pools were finally merged to provincial government management and placed under provincial-level LSS departments. In addition, after intensive negotiation between local authorities and the privileging COEs and SOEs, many of these enterprises that would have once enjoyed the protection of provincial and even national governments grudgingly handed

over pension contributions to *municipal* pools (Frazier, 2010:128). The “bargaining” between those privileging enterprises and local authorities regarding social insurance contributions often resulted in stalemate that could not be resolved for a long time until CCP central authority stepped in. In Shanghai, the municipal government once clashed with the managers at Baoshan Steel (*Baogang*), one of the largest SOEs in the region, because managers at Baogang were reluctant to turn over their 2 million RMB in annual pension contribution to the Shanghai municipal government. As in the case of Pangang mentioned above, CCP intervention was indispensable in solving the sectoral conflicts on social insurance payment. The leaders of the Shanghai Municipal Party Committee order the leaders of Baogang’s enterprise party committee to comply (Frazier, 2010: 125).

However, the one-time fiscal subsidy from the central government and the political pressure either from the top political leaders or from CCP authority can not completely eliminate the sectoral conflicts embedded in the social insurance system. Actually It is politically danger to lower those COEs’s and SOEs’ social benefits to a substantial extend since they are the major tax contributors to the *central state* and many officials and their families are stakeholders of those privileging enterprises. For exchange of their participation in the social insurance system, the government keeps increasing the benefit level of social insurance. For example, even though the number of retirees national-wide grew from 34.4 million to 37.7 million (less than 10%), the reported annual per capita pension distribution has risen by more than 15% between 1998 and 2000 (Frazier, 2004b: 58). Then the question becomes where the money comes from to support the increasing social benefits. The first source is the central government who, though unwillingly, keeps injecting fiscal resources

into the social insurance funds. The second as well as the most controversial source is mandatory individual accounts for social insurance. China's pension and health insurance are designed to be financed by both social insurance funds and mandatory individual accounts. It is said that local governments have already emptied the "notional" individual accumulated accounts of current workers to cover the pension and health care distributions for current claimants (Frazier, 2010: 13). The third source is the contributions from profitable firms in private sectors. In order to increase insurance contributions the government eagerly and strategically extends social insurance coverage to private sectors whose preferences for social welfare lie on privatization of social insurance.

Some scholars state that China's social insurance especially pension and health insurance is in deficit by any measure (Frazier, 2010; Duchett, 2008). In the constraints of fiscal austerity, social welfare reform is not a win-win game but has to be a zero-sum one (Hauserman, 2007). Given the striking sectoral conflicts in the China's social insurance system, political exchange is indispensable in promoting reforms. The government's strategy is to selectively incorporate private sectors into the social insurance system as potential contributors; in exchange, the government gradually capitalizes portion of the insurance funds and encourages developing private insurance as supplement to social insurance. It has been seen that many local governments devised various measures to collect social insurance revenues from private sectors particularly the profitable foreign-owned and private-owned firms. For example, Shanghai labor authorities have attained broad pension coverage rates by Chinese standards. They have done so by essentially allowing different sectors of the labor market to contribute at different rates (Frazier, 2010: 116). Moreover, thanks to the vast

volume of Foreign Direct Investment (FDI) and private investment in China's eastern and southern regions, governments in these regions have successfully increased financial revenues for social insurance contributions in recent years. Frazier found that the presence of FDI and job creation in Dalian, a coastal city in Liaoning Province, presents local officials with a lucrative resource for financing pensions. They have expanded coverage and amassed a large sum of supplementary pension funds, which one informant estimated at 300 to 400 billion RMB (Frazier, 2010: 109).

However, private sectors especially those profitable private-owned and foreign-owned firms that the government attempts to incorporate into social insurance also have larger bargaining power to resist social insurance contributions. When persuading these firms to participate in social insurance, the government implicitly or explicitly promises to capitalize part of the insurance funds and encourages developing private insurance for supplement. In 2000 the central government established the National Social Security Fund (NSSF). As of 2005, it had about 180 billion RMB, and the assets were invested by 10 fund management companies that acted as trustees on the board of the National Council of the Social Security Fund (Frazier, 2010: 64). Moreover, it was reported that in 2002 there were 29 life insurance companies and 8 property insurance companies providing over 300 health insurance products in China. Most of them are for serious diseases and medical expense insurances which are supplementary to the basic social health insurance (Tao). In 2004, the Chinese government issued regulations to provide a legal framework for voluntary corporate pension plans known as enterprise annuity (*qiye nianjing*), the so-called "second pillar of China's pension system" (Wu, 2005). In 2009, Fujian province in the Southeast China announced that by May 2009,

4,695 enterprises in its jurisdiction have established enterprises annuities covering 250.1 thousand employees (Yang, 2009). In addition to enterprise annuities, a handful of insurance companies are allowed to offer pension insurance contracts, which account for approximately 47% of enterprises' supplementary pension plans in China (Wu, 2005). Even so, many private sectors/firms still seek to avoid social insurance contributions and bargain with local government over reduced social insurance payments and reduced workforce coverage because under China's fragmented authoritarian policy-making structure, the provision of social insurance benefits will continue to be skewed to public sectors.

#### 4.2 Employment status conflicts and social security in urban China

As many SOEs were privatized, re-organized, shut down or converted to shareholding entities in the late 1990s, Chinese economy underwent a massive labor force reduction. Official employment data shows that SOE employment peaked at about 109.5 million employees in 1995 before falling to 69.2 million at the end of 2002 (Frazier, 2006:1). The number of workers employed by SOEs in the sectors of manufacturing, mining and utilities fell from 44.0 million in 1995 to 15.5 million in late 2002, a 65% decline (SSB and MoLSS, 2003: 23). SOEs shed 40.3 million jobs between 1995 and 2002, while non-SOEs including government and service sectors increased their workforce by 16.8 million (Frazier, 2006: 1). Based on a survey of five cities and using international definitions of unemployment, some scholars found that unemployment rate among urban residents increased from 6.1% in January 1996 to 11.1 % in September 2002 (Giles, Park and Zhang, 2005). Other scholars put the real unemployment rate at 11.6% in 1999 and 11.5% in 2002 (Xue and Zhong, 2006). As for pension, the rapid decline in SOEs workers has turned millions of workers from

contributors into pensioners. In Liaoning Province, for example, the number of pensioners rose from 646 thousand in 1989 to 3.15 million in 2003 (Frazier, 2010: 107).

During this period many workers lost their jobs either by being laid-off or by being early retired when their enterprises were reorganized or privatized. Most of these workers were the SOE employees who are already in their 50s or above. Despite enjoying the life-time employment and secure social benefits in the socialist work units three decades ago, they suffered low wages and low consumption compared to the younger generation. Pensions or living allowance after retirement are deemed by them as a “symbolic recognition by the state and firms of the former employee’s years of devoted service” (Hurst and O’Brien, 2002: 350). They are outraged when realizing that their enterprises were actually unable to provide them pensions after retirement as promised in the “Iron Rice Bowl” system. The laid-off workers were officially treated differently from the “normally” unemployed persons. This artificial distinction rendered hundreds of thousands of laid-off workers in public sectors unqualified for unemployment insurance benefits. Also, it creates a *de jure* “status” cleavage between these two groups though they both belong to the group of “labor-market outsiders”. Scholars have found that those SOEs retirees and laid-off workers are the most contentious among labor-market outsiders in urban China (Hurst and O’Brien, 2002; Frazier, 2004a). Compared to the unemployed persons in private sectors, SOEs laid-off workers and retirees are relatively old at ages without much concern about family burdens and reputation in future job market; they had experiences of political participation in the Mao’s time; and they are nostalgic because they believe that the “Iron Rice Bowl” system would not leave them standing on their own feet after retirement. In dozens of cities since the early 1990s, these

“China’s contentious pensioners” have engaged in protests over unpaid benefits, over unfair remuneration in the distribution of severance pay from bankrupt firms, and other causes (Hurst and O’Brien, 2002).

The grievances of SOEs laid-off workers and retirees have led to several episodes of protests and posed serious threats to the Chinese authoritarian regime that was highly sensitive to social unrest. In China, the policy-making realm is opaque, carried out among the elites mainly within the CCP. The CCP’s legitimacy deriving from the revolutions has gradually died away and became to rest upon a fragile base of bringing improvements to the economic well-being of the people. Although the state has succeeded in this aspect by market liberalization, there are still many restrictions, if not more, on political participation and political organizations. Labor unrest is politically dangerous for the Chinese regime particularly in the late 1990s when Asian economy was in crisis and the domestic economy was undergoing painful SOEs privatization reform. Social order is one of a few veto points (the other two are economic growth and family planning) in Chinese bureaucrats elevation system, by which officials who fail in securing social order in their jurisdictions will fail in promotion and even the whole career life in government no matter how well they perform in other policy areas (Whiting, 2001). Labor issue during this period was the Achilles’ heel of China’s social stability. For this reason, local officials who by design would become the immediate victims of labor unrest were very cautious and serious in implementing social welfare reforms. Section 3.1 has demonstrated how the governments took efforts to consolidate the payroll-tax-based and contributory social insurance for labor market insiders. Besides that, since the late 1990s the government has adopted various measures targeting

labor-market outsiders particularly the contentious SOEs retirees and laid-off workers to prevent social unrest. The remainder of this section will focus on three of these measures--“socialization” of social security distributions, expanding unemployment insurance coverage and establishment of the social safety net.

Before market economy reforms, most SOEs in China had the common problem of labor redundancy due to the low efficiency of command economy and political campaigns in the Mao’s time.<sup>7</sup> During the market economy reform, these enterprises in heavy debts faced the dilemma: on the one hand, they had no choice but cut down employee size for cost reduction; on the other hand, in order to do so they needed a large amount of cash for severance fees or lump-sum pensions. A few of these enterprises were able to raise money by privatization, leasing or selling out property to get ride of the dilemma; many others just sat and waited for government’s rescue. As a result, most of the then 30 million retirees along with another 20 million laid-off workers found themselves without incomes because their enterprises and local governments both tried to place responsibility of pensions and subsistence allowance on the other party. It was the ad-hoc financial subsidies from the central government that temporarily appeased these dislocated workers in the late 1990s. Official data from 1999 shows that the “rust belt” provinces (Liaoning, Heilongjiang, and Jilin) in northeast China where pensioner protests have been especially prominent, received a disproportionate share of central government social security subsidies, given the portion of SOE retirees in these provinces. These provinces reported increases of 21% to 28% in per capita pension benefits

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<sup>7</sup> During the “Culture Revolution” in the 1960s-1970s, Mao Zedong agitated millions of urban young students/workers moving to the rural areas for “re-education by peasantry”. Since the 1970s especially after Deng Xiaoping came to power in the late 1970s, most of these people who were in their middle-age have come back to the cities. By government’s preferential policy, many of them were employed by SOEs with some exceptions.

between 1998 and 2000 (Frazier 2004b: 60). In this period, central fiscal spending on social security including pensions, laid-off workers allowance and urban poverty relief increased more than five-fold, and it was set to rise by another 28% in 2002 (Renmin Ribao, March 7, 2002). It is clear to the central government that protests would be endless unless the gray area between enterprises and local governments about responsibilities of pensions and severance payments is eliminated. This consideration gave rise to the “socialization” of social security distribution in the late 1990s.

In 1999 and 2000, the center government ordered *local governments* to implement the “two guarantees” policy: laid-off workers receiving basic living allowances and retirees receiving their pensions in full and on time. By this order, the responsibility of distributing social security benefits has been transferred from firms to local governments. Frazier claims that this administrative change had a sudden and far-reaching effect on China’s social security system (Frazier, 2010). Enterprises, whose failure to distribute pensions was a proximate cause of the pension protests in the past decade, are now freed from troubles while local governments are placed under the enormous pressures the enterprises used to burden (Frazier, 2010: 79). Like the social order as the veto point in bureaucracy evaluation system, the “two guarantees” policy forces the municipal officials to actively target the needy and distribute social benefits to them on time and in full for labor quiescence and ultimately for their own political careers. Thus, the gray area in social security distribution was finally cleared.

As the above has mentioned, laid-off workers in public sectors were ineligible for unemployment insurance benefits since they were still considered as “employed” by the government. In 2001, the re-employment service centers in SOEs or industrial cities that were

established to manage laid-off workers affairs and maintain the nominal employment relations with them were eliminated. Since then laid-off workers have been put under the social unemployment insurance pools. This is a milestone to eliminate the descriptions against laid-off workers for unemployment insurance benefits, though whether the finance of unemployment benefits for laid-off workers is different from the one for “normally” unemployed person is not clear yet. Besides incorporating SOE laid-off workers, the unemployment insurance coverage was extended beyond public sectors and made mandatory for all urban employers and their employees according to the 1999 *National Unemployment Insurance Regulations*. Since 2005, migrant workers, after a period of employment, are also entitled to the same re-employment services on the same terms as those provided to their urban counterparts (Duchett and Hussain, 2008: 7). The dramatic extension of urban unemployment insurance coverage (at least in principal) is a response not only to the status conflicts between laid-off workers in public sectors and the “ordinarily” unemployed persons in private sectors but also partially to the insider-outsider conflicts because around 20% of the unemployment insurance funds are used to pay for re-employment training and job introduction services for labor market outsiders. In 1999 the same year as the unemployment insurance coverage was enlarged, the *Regulations of Minimum Living Allowance for Urban Residences* was promulgated. It aims to provide a safety net for labor-market outsiders with subsistence allowance, whose income falls beneath the local minimum living line. Started from Shanghai and Tianjin in the 1990s, this safety net for the poorest begun to extend to national-wide.

##### ***5. Concluding Remarks and Plans for Further Research***

The Chinese social welfare reforms since the 1980s have been characterized as fragmented and incremental. Social welfare system after the reforms is neither liberal as in Anglo-Saxon countries nor universal as in Nordic countries. Without examining the micro-foundation of social policy, the trajectory of Chinese social welfare reform process seems quite puzzling: on the one hand, it establishes a payroll-tax-based and contributory social insurance system which is to privilege and protect particular sectors especially state sectors; on the other hand, it substantially extends the social benefits to some other sectors and lower classes. This paper attempts to explain China's multidimensional social welfare reforms. First, this paper argues that the cleavages on social welfare policy in urban China take place along two lines of conflicts: public-private sector conflict and labor market insider-outsider conflict among the four socioeconomic groups (public sector insiders, public sector outsiders, private sector insiders and private sector outsiders). Second, this paper explores how the government used social welfare reforms to accommodate these social cleavages during the reform era.

The four socioeconomic groups in China have distinct preferences for social welfare policy: public sector insiders are the *status quo* supporters enjoying quite generous social benefits drawn from the contributory and payroll-tax-based social insurance pools; private sector insiders pursue autonomy in social benefits provision so they prefer private and capitalized insurance; public sector outsiders are the generation who lost the most in reforms and they demand for fair compensation for their losses; private sector outsiders are the backup labor force for China's rapid economy growth and they support minimum yet universal social benefits. Given these diverse and conflicting preferences on social welfare,

China's social welfare reforms operate as political exchanges among these different socioeconomic groups. Along the public-private sector conflict line, the payroll-tax-based and contributory social insurance which is devised for the interests of public sectors is strategically extended to private sectors with compensation from capitalizing and privatizing some of the insurance programs. In line with the insider-outsider conflicts, since the employment-based social insurance basically excludes labor market outsiders, they are compensated by a newly established social safety net providing minimum living allowance and unemployment benefits. What are the political channels that the social cleavages shape the policy outputs of social welfare reforms is the hardest part in analysis of this paper. Without much information about the Chinese government's decision-making process, my analytical strategy in this paper is to examine the processes of social welfare reforms and the incentives of political actors (political leaders and bureaucrats) involved in the social policy-making and implementation to see how well they respond to the conflicts among the socioeconomic groups. The conclusion so far is that the process of China's social welfare reform fits quite well the two lines of social conflicts: the public-private sector conflict and the labor market insider-outsider conflict. In other words, the politics behind the social welfare reform in urban China can be considered taking place along these two lines of social cleavages.

Is the conclusion of this paper robust? What are the possibly alternative explanations? Can this conclusion travel to other countries with similar socioeconomic situations as China? Will the social preference configuration be changed by the multidimensional social welfare reforms after the late 1990s? What are the implications of current reform policies for further

reforms? This paper might raise more questions than it has solved. In the further study of this project, I will make efforts on two main aspects. The first is to further explore social welfare preferences and the variation of social benefits at individual level. As Section 2.1 has admitted, public-private sector conflict and insider-outsider conflict are only two of the various conflicts embedded in Chinese political economy and they are not necessarily the most salient ones in all time periods and regions. The most effective way to detect social cleavages is to make social surveys to collect individual-level data. Survey data is also helpful to detect the variation of social policy benefits in the society. In this paper, I used three policy dimensions to categorize the complicated social welfare policies—insurance, capitalization and targeting. The next step is to figure out how to quantitatively measure the mix of these three dimensions in order to better capture the variation of social policy outputs across regions and sectors. Based on the above analysis, employees working in private sectors are expected to have more social benefits coming from private/capitalized insurance programs (e.g. private annuities, commercial insurances) while those employed by public sectors such as large sized SOEs are expected to obtain more social benefits from the social insurance programs (pensions, health care and work injury insurance etc.). By comparing data from Chinese Household Income Project conducted in 1988 and 2002, Qin Gao has found that those employed at private enterprises received less social benefits than those employed at public institutions or enterprises in 1988, driven by less employer-provided housing benefits and food assistance, but they received more total social benefits in 2002, mainly from health benefits (which were based on self-contribution) and cash transfers (Gao, 2005: 91). In this sense, survey data is indispensable to capture the variation of social benefits

received by individuals (e.g. the percentages in total household income coming from pension, basic health insurance, company annuity, private health insurance, unemployment benefits, and subsistence allowance respectively) and to see how the variation correlates with individuals' characteristics such as their employment sectors, residence regions and employment status.

Second, the political channels through which Chinese social welfare preferences are translated into social policy deserve more research in the future. To be honest, this part is underspecified in this paper so the analytical linking between socioeconomic preferences for social benefits with social welfare policy is weak and ad hoc in explanation. It has been shown in the existing literature that socioeconomic groups have distinct channels to influence political decisions. The influences of labor market outsiders on social policy are less institutionalized than of labor market insiders. The usual ways adopted by the former are street protests, public demonstrations, and petitions. Moreover, the appeals in these collective actions taken by labor market outsiders differ across sectors and regions. For example, Ching-Kwan Lee has classified Chinese labor's protests into two categories: protest of desperation common in the rustbelt regions (northeast China) for subsistence needs such as severance fees and pensions and protests against discrimination common in the sunbelt regions (southeast China) for faire wage and social benefits (Lee, 2008). In contrast, the political impacts of labor market insiders especially the large sized SOEs and large-sized private firms are less contentious yet more complicated. These sectors are not the most threatening to the regime; instead, they are loyal supporters of CCP (Pearson, 1998; Dickson, 2003; Tsai, 2007) and continuously receive preferential policy from the state. Why?

Obviously, the mechanism that these privileging sectors influence policy-making is different from the one of contentious protesters. In future research, I would explore two lines of literature to draw testable hypotheses: literature about “state capture” and authoritarian policy-making process and literature about contentious politics by the “disenfranchised” in non-democracies.

To put all in a nutshell, this paper is a beginning of my study about the politics of Chinese social welfare reforms. Ultimately, efforts along this line will help illuminate ways in which the Chinese political economic reforms can progress in the 21st century.

Appendix: Tables

Table 1 Summaries of China’s Social Welfare Reform by Policy Dimension since the 1980s

Program Dimension	Pension	Health Insurance	Unemployment Insurance
Insurance	<ul style="list-style-type: none"> <li>● Mid-1980s, experiment of pooling pension funds at city level;</li> <li>● In 1991, formalization of the payroll-tax-based pension in the forms of social pools plus individual retirement accounts</li> </ul>	<ul style="list-style-type: none"> <li>● In the 1980s, experiments of “co-payment” and “risk-pooling” in some cities;</li> <li>● In 1994, compulsory social health insurance combined with individual premium contribution was experimented in about 60 cities;</li> <li>● In 1998, formalization of the urban employee basic health insurance system.</li> </ul>	<ul style="list-style-type: none"> <li>● In 1986, employer-based unemployment insurance was established in some SOEs;</li> <li>● In 1994, the payroll-tax-based and contributory unemployment insurance was established in public sector;</li> <li>● In 1999, the unemployment insurance was extended to private sector;</li> </ul>
Capitalization	<ul style="list-style-type: none"> <li>● In 2000, NSSF was established;</li> <li>● In 2004, enterprise annuity was promoted by the government;</li> </ul>	<ul style="list-style-type: none"> <li>● After 1998, private health insurance was encouraged to develop and pay the medical costs above the upper limit of the basic health insurance.</li> </ul>	

<p>Targeting</p>	<ul style="list-style-type: none"> <li>● After 2000, responsibility of distributing pensions was transferred from firms to local government agencies.</li> </ul>	<ul style="list-style-type: none"> <li>● Between 1998 and 2001, laid-off workers could participate in the basic health insurance during the periods of registration with the re-employment center.</li> </ul>	<ul style="list-style-type: none"> <li>● After 1999, unemployment funds could be used to subsidize its recipients' medical treatment.</li> <li>● In 2001, SOEs laid-off workers were entitled to unemployment insurance;</li> <li>● In 1999, minimum living allowance was established.</li> </ul>
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Table 2 Socioeconomic groups by sector and employment status

	Insiders	Outsiders
Public Sectors	COEs ( <i>yangqi</i> ), SOEs, Collective-owned firms	(early) retirees, laid-off workers
Private Sectors	Foreign-owned firms, Joint ventures, Private-owned firms	the self-employed, the unemployed, Atypical employees (dispatching labor <sup>8</sup> , probationary employees, non-contracted workers etc.)

Table 3 Social welfare preferences of the four socioeconomic groups

	Insiders	Outsiders
Public Sectors	Status quo (payroll-tax-based and contributory insurance)	Egalitarian social benefits and the “Iron Rice Bowl”
Private Sectors	Capitalized and private insurance	Universal social benefits

<sup>8</sup> Dispatching labor refers to those workers who are dispatched by services agencies to particular firms for temporary work. These workers don't have employment relation with the firms they are working at but with the agencies that dispatch them. Usually, the firms that receive dispatching labor will pay salaries directly to the workers but will not enroll them in social insurance or other social benefits programs.

Table 4 Social cleavages on social welfare policy

	Insiders	Outsiders
Public Sectors	Insider--outsider conflicts	
Private Sectors	Sectoral Conflicts	Status Conflicts (pre-2001)
	Insider--outsider conflicts	

Table 5 Social welfare reform strategies towards each socioeconomic group

	Insiders	Outsiders
Public Sectors	payroll-tax-based and contributory social insurance (status quo)	ad-hoc financial subsidies and compensation measures
Private Sectors	status quo with the supplements of private and capitalized insurances	subsistence allowance and unemployment benefits

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