

Transferring from the poor to the rich: Examining regressive redistribution in Chinese social insurance programmes

Liu J., Liu K., Huang Y. Transferring from the poor to the rich: Examining regressive redistribution in Chinese social insurance programmes

Social insurance promotes progressive redistribution through risk pooling and cross-subsidy. However, in China, risks and protection are mismatched, with benefits and protection accruing to the privileged while high-risk groups are inadequately protected. This article reports on a study of the sources of regressive redistribution in Chinese pension, health and unemployment insurance programmes, and discusses the possible cause of this redistribution paradox. It argues that the government has adopted different strategies for welfare reform towards different socioeconomic groups. For the core groups, such as public employees, reform has been characterised by replacing old programmes with new (i.e., a replacement strategy). For marginal groups, the government has handed off its responsibilities to individuals and the market (a retrenchment strategy). This political pecking order of welfare reform is the cause of distorted distributional outcomes. As social policy programmes continue to spread in developing countries, China's case illustrates that they may reinforce existing disparities rather than realise progressive redistribution, risk management and social inclusion.

Junqiang Liu¹, Kai Liu², Yunong Huang³

¹ Center for Chinese Public Administration Research, School of Government, Sun Yat-sen University, Guangzhou, China

² Department of Social Security, School of Labor and Human Resources, Renmin University of China, Beijing, China

³ School of Social and Policy Studies, Faculty of Social and Behavioral Sciences, Flinders University, Adelaide, Australia

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Junqiang Liu, Center for Chinese Public Administration Research, School of Government, Sun Yat-sen University, No. 135 Xingangxi Road, Guangzhou 510275, China
E-mail: jq.liu123@gmail.com; liujq26@mail.sysu.edu.cn; kevin-liukai@hotmail.com

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The redistribution paradox of Chinese social insurance

For to all those who have, more will be given, and they will have abundance;
But from those who have nothing, even what they have will be taken away.

Matthew 25:29, *New Revised Standard Version*

Without any redistribution mechanisms, rich people would accumulate advantages continuously while the poor would be deprived of any opportunity, just as the 'Matthew effect' indicates. Social programmes are designed to effect redistribution by pooling risk among a large number of people and transferring from the better off to the worse off through progressive income redistribution (World Health Organization, 2000). However, the establishment of social programmes does not necessarily mean that they will work as designed. Let us start with a quotation from Venieris (2012, online):

It is an overwhelmingly clientelistic system based on public resources and on insurance benefits according rather to political than contribution criteria. It is a

social security mosaic granting privileges to powerful groups and offering very poor protection to the less advantaged. It is a contested kind of anti-citizenship which is based on sociopolitical status, and neglects equalising rights, preserving social exclusion and unfair distribution.

This is not a comment on Chinese welfare policies, but rather a sharp critique of the Greek welfare system. Nevertheless, by the end of this article, if we were to commence with this quotation as characterising the Chinese welfare system, most readers would agree with the description. Over the past decades, the welfare system has diffused throughout developing, nondemocratic regimes (Mares & Carnes, 2009). While the motives underlying these programmes vary, so too do the outcomes. China, as the largest of these regimes, has expended significant effort in building and restructuring its social programmes. To date, China has established one of the broadest social protection systems in the world, at least if we measure by scale. However, neither the outcomes nor redistribution effects of Chinese welfare policy have yet been adequately examined (Gao, 2010). This prompts some potentially difficult observations.

Firstly, in 2008, the State Council of China decided to pilot a pension system reform programme through public institutions (*shi ye dan wei*) in five provinces. The intention was to divert some of the public employees from a generous government pension scheme to a less generous enterprise pension programme. The announcement of this policy was followed by a tide of applications for early retirement. Confronted with such strong resistance, none of the five provinces have yet published a reform proposal. It was only through the efforts of the Chinese central government, and as late as in 2014, that substantive progress was finally made possible (Ma, 2014).

Secondly, the unemployment insurance (UI) programme in China had accumulated a surplus of renminbi (RMB) 175 billion (equivalent to US\$26.4 billion) by 2010, 2.69 times greater than revenues for that year. Meanwhile, only 23 per cent of the registered unemployed received benefits. If those unemployed were considered, the rate of collected compensation would be even lower. As a pay-as-you-go scheme, UI does not need to hold large sums on reserve. Readers may be puzzled by the sharp contrast between the huge surplus and the strikingly low take-up rate of UI.

Are these phenomena extreme cases, or do they represent the general picture of Chinese social insurance? If they are outliers, there would not necessarily be a problem with the overall social insurance system in China. However, it is difficult to exclude this possibility without a thorough examination of the redistribution patterns of China's social insurance programmes. This article serves as an attempt to answer this question by conducting a critical evaluation of three major social insurance programmes in China to examine the origins and implementation of regressive redistribution.

This article contributes to the literature in two ways. First, it defines and examines the regressive redistribution of Chinese social insurance, covering pensions, health and UI. An empirical evaluation of the redistributive aspects of such programmes will increase our understanding of their functioning in general. Second, the investigation of the political origins of the regressive redistribution effect of Chinese social insurance is accompanied by a review of the overall logic of Chinese welfare reform. This will shed light on the development of internal redistribution mechanisms beyond the conventional Western democratic context. A rich body of knowledge has been accumulated on the introduction, evolution and reform of welfare states in advanced capitalist countries (Castles, Leibfried, Lewis, Obinger, & Pierson, 2010; Esping-Andersen, 1990; Goodin, 1999). Although some progress has been made in social policy in the developing world (Gough & Wood, 2004), there remains much still to be done (Carnes & Mares, 2007).

This article is organised as follows. The next section examines regressive redistribution in pension, health care and UI programmes, followed by the proposal of a 'political pecking order' model for Chinese welfare reform and concluding with a discussion section.

Regressive redistribution in Chinese social insurance programmes

Social insurance is designed for 'pooling to redistribute risk and cross-subsidy for greater equity' (World Health Organization, 2000, p. 100). Distributional implications are therefore at the centre of the analysis (Feldstein & Liebman, 2002). In theory, progressive redistribution is expected to be the desirable outcome of social insurance. In the real world, somewhat ironically, the outcome is often a regressive redistribution. This article defines regressive redistribution as two kinds of mismatch: (i) the mismatch between risk profile and protection, which means high-risk groups are not adequately protected and *vice versa*; and (ii) the mismatch between benefits and economic conditions, which means that the worse off have little or inadequate subsidy while the better off receive generous benefits. In this section, these mismatches are examined for the Chinese pension, health care and UI programmes.

Regressive redistribution in pension programmes

In China, pension programmes are mainly an urban phenomenon. For the rural areas, the Ministry of Civil Affairs launched a pension programme in 1992, but this has so far achieved little. Taking care of older people is left for the most part to the market and families (Shi, 2006). In urban areas, however, successive waves of reforms have been proposed (Beland & Yu, 2004). Two types of pension programmes have been established. The first, *tuixiu* (退休), covers public employees who work in government and public institutions. Members of these schemes do not have to contribute but nevertheless receive generous benefits. The second type is the basic pension programme for enterprise employees (*yanglao*), which covers those working in state-owned enterprises (SOEs) and other firms. Employers contribute 20 per cent of wages and enrollees 8 per cent of their salaries as premiums (Tang & Ngan, 2001; The State Council, 2005; Wang, 2006). These two programmes primarily cover workers in the formal sectors.

Regressive redistribution in pension programmes manifests itself in two ways. First, there are huge gaps between urban and rural coverage and benefits, which are further exacerbated by gaps in income and risk profiles. Second, in urban areas, public employees enjoy far more generous pension benefits than those working in firms, the so-called dual track of retirement (see Table 1).

Table 1. The coverage and benefit level of pension programmes in rural and urban areas.

Year	Coverage (%)		Monthly benefits per person (replacement rate)	
	Rural	Urban	Rural	Urban
2000	7.6	35.4	36 (0.19)	544 (1.04)
2001	7.5	34.5	44 (0.22)	556 (0.97)
2002	7.0	33.4	43 (0.21)	623 (0.97)
2003	7.1	33.2	49 (0.22)	636 (0.90)
2004	7.1	33.5	–	669 (0.85)
2005	7.3	34.4	–	727 (0.83)
2006	7.3	34.1	–	843 (0.86)
2007	7.1	35.6	–	945 (0.82)
2008	7.8	37.8	–	1,114 (0.85)
2009	10.2	39.6	–	1,229 (0.86)

Sources: National Bureau of Statistics of China, various years; Ministry of Labour and Social Security, various years; Ministry of Civil Affairs China.

Notes: (1) Since 2004, the expenditure and benefits data on the rural pension programme have not been released, with no reason given. (2) The replacement rates in brackets (columns 4 and 5) are calculated as: (i) replacement rate of rural pension scheme = monthly pension income \times 12/net income of rural resident per year; (ii) replacement rate of urban pension scheme = monthly pension income \times 12/disposable income of urban resident per year.

(3) The exchange rate of US\$ to renminbi is 1:6.8282 by 31 December 2009, based on Bank of China data: <http://www.boc.cn/sourcedb/whpj/>, accessed on 13 March 2015.

The coverage and benefit level of pension programmes in rural and urban areas

As Table 1 indicates, in the 2000s, rural pension coverage varied from 7.1 to 10.2 per cent, while programmes in urban areas covered more than one-third of the urban population. The rural/urban ratio in coverage was one-fourth. The gap was even bigger in terms of benefits. The average pension benefit was less than RMB 40 per month (<US\$7), which is only 1/14 of the benefit received from urban pension programmes. If measured by replacement rate, the gap grows even larger.

These huge gaps stem from the contribution structure of these pension programmes. In urban areas, either members do not need to pay premiums (*tuixiu*) or most of the contributions come from their employers (*yanglao*). In addition, these programmes are heavily subsidised by the government. As Figure 1 shows, from 2000 to 2008, government subsidy of the basic pension programme for enterprise employees increased from RMB 29.9 billion to 143.7 billion (US\$21 billion), a

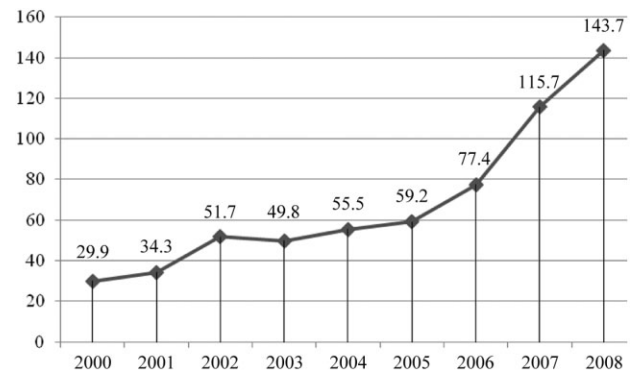


Figure 1. Subsidy to the basic pension programme for enterprise employees [renminbi (RMB), billion].

Sources: Data for 2000 to 2005 are from Ministry of Finance, various years; data for 2006 to 2008 are from Development Research Center of the State Council, various years.

Note: The exchange rate of US\$ to renminbi is 1:6.8346 by 31 December 2008, based on Bank of China data: <http://www.boc.cn/sourcedb/whpj/>, accessed on 13 March 2015.

380 per cent increase over 9 years. However, before 2009, pension programmes in rural areas seldom received government subsidies, and rural residents had to pay most of the premium themselves if they wanted to join the programme. This resulted in two major consequences. First, coverage was slow to extend and only a tiny portion of rural residents were covered; and second, the benefit level remained low, which undermined the attractiveness of the programme and further slowed its progress.

These huge gaps in both coverage and benefit level between rural and urban areas are only one side of the story. The regressive redistribution is further magnified by the contrast between income gaps and different risk profiles.

Firstly, as Figure 2 shows, since 2000 the income gap between rural and urban residents has been growing. In 2009, urban residents had an average disposable income of RMB 17,175 (US\$2,515) or 3.3 times the net income of rural residents (RMB 5,153; (US\$755). This income gap means that rural and urban residents have different capacities to confront the financial risks of old age.

Secondly, older people in rural areas face higher risks in old age and are more likely to live in hardship (Saunders & Sun, 2006). Most rural elders rely on family support (40%+) or labour income (50%+) (Table 2). Less than 10 per cent obtain any income from pensions, social assistance or so on. This means that they have to rely on a relatively unstable income. Not only do they lose earning capacity as they grow older, but family support is more likely to be insecure because more and more young people are migrating to urban areas while rural elders are left behind. Family support may also fluctuate with the economic

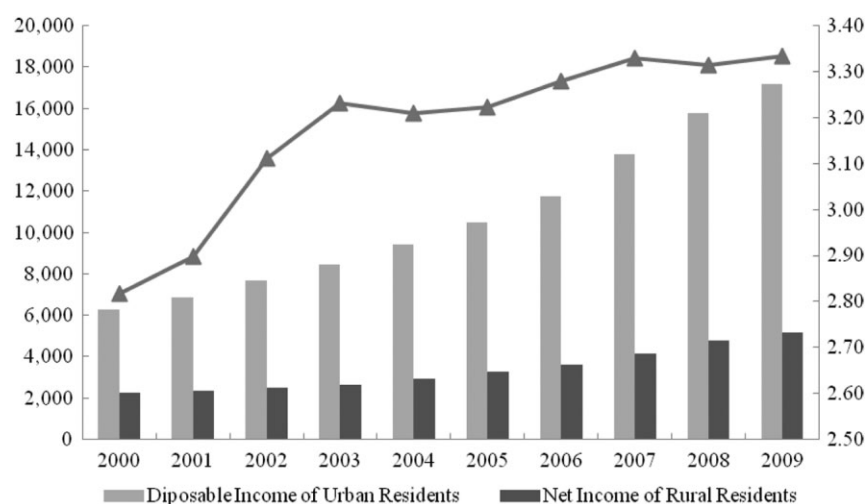


Figure 2. The income gap between rural and urban residents [renminbi (RMB)].

Source: National Bureau of Statistics of China, various years.

Table 2. The sources of income of rural and urban residents aged 60 and above (%).

Year	Family support		Pension		Labour		Social assistance and other sources	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
2007	42	32	4	47	50	17	4	5
2008	40	30	4	47	51	18	4	5
2009	40	28	4	49	51	18	5	6

Sources: National Bureau of Statistics of China, 2008, 2009, 2010.

Note: City and township are combined as one urban category. Also, incomes that come from social assistance and other sources are combined as 'social assistance and other sources'.

conditions of individual family members, their willingness to support their older family members and so on. Rural elders therefore face much higher risks in old age than their urban counterparts who draw over half their income from public schemes and other more stable sources of support (Table 2).

In summary, there are very large gaps between rural and urban residents in terms of both coverage and benefits. At the same time, rural residents face higher risks in old age, but receive far less protection. These gaps, along with the heavy subsidy of urban schemes, constitute the first source of regressive redistribution in pension programmes.

The dual track of retirement arrangements

Even if the rural/urban disparity is disregarded, the dual track of retirement arrangements in urban areas reveals another source of regressive redistribution. As mentioned above, two separate pension programmes cover urban employees. Public employees are covered by the *tuixiu* scheme, while workers in private firms are covered by *yanglao*. These two arrangements comprise the so-called dual track of retirement (*tuixiu shuang gui*

zhi). This arrangement existed till late 2014 when the central government decided to adapt the social insurance design to the *tuixiu* scheme. However, under the forthcoming reform, annuity schemes are to be applied to guarantee that public employees' benefits will not decrease (Ma, 2014). Regressive redistribution characterises the differences between the members of these programmes.

Firstly, public employees have higher salaries than enterprise employees. As Table 3 shows, the average annual wage of public employees in 2009 was RMB 34,062 (US\$4,988), while the equivalent for enterprise employees was only RMB 31,302 (US\$4,584). The income gap becomes larger if the generous occupational welfare given to public employees is taken into account.

The income gap is not reduced through the existing pension programmes. On the contrary, the different benefits actually enlarge the disparity. As Figure 3 shows, the pension benefits received by the three types of urban employees vary greatly, and the gaps have been growing over time. In 2005, a government employee received an annual pension of RMB 18,410 (US\$2,281), and an employee of a public institution

Table 3. The average salaries of public employees and those in enterprises (person, RMB/year).

Year	A: Public employees	B: Enterprises employees	A/B
2000	9,553	9,207	1.04
2001	11,639	10,484	1.11
2002	13,232	11,901	1.11
2003	14,634	13,585	1.08
2004	16,572	15,534	1.07
2005	18,939	17,749	1.07
2006	21,407	20,495	1.04
2007	26,099	23,943	1.09
2008	30,194	28,165	1.07
2009	34,062	31,302	1.09

Source: Ministry of Labour and Social Security, various years.

Note: Public employees include staff working in government agencies and public institutions. Enterprise employees include persons working in both public and private firms.

claimed RMB 16,425 (US\$2,035) per year. In contrast, a firm worker claimed RMB (8,803 US\$1,091) per year, which was only 48 per cent of the amount paid to retired public servants and only 54 per cent of that available to retirees from public institutions. Information on the pension benefits of public employees became a confidential matter as of 2006. In 2011, the Ministry of Human Resource and Social Security declined a petition for information disclosure on pension benefit levels, saying that this information belonged in a sensitivity category.

Secondly, in addition to the growing gap between benefit levels, there is also disparity in the contribution requirements. By nature, the *tuixiu* scheme enjoyed by public employees is a form of state welfare that is fully paid for by the government. Members are not required to pay any premiums. However, the *yanglao* scheme is a form of mandatory social insurance that requires employers and employees to contribute a significant share of their income, as noted above. These different contribution requirements again negatively influence the income redistribution between public and private employees.

Regressive redistribution in health insurance programmes

In China, the health care reforms over the last three decades have reflected the government's retreat from health protection (Duckett, 2010). This trend only stopped in the mid-2000s, and from 2009 onwards China launched a massive wave of health care reform (Yip et al., 2012). It proudly declared that universal health coverage had been achieved, with over 95 per cent of Chinese people now covered by public health insurance. But in retrospect, more than half of the population had long been left uninsured. This section reviews the disparities in coverage and benefit packages, which have induced regressive redistribution.

Universal coverage? Insurance coverage and risk protection

Market-oriented reforms dismantled the Cooperative Medical Scheme in rural areas in the 1980s and the urban Labour Insurance Scheme in the 1990s. This left a large proportion of the population without any health insurance, public or private. As shown in Table 4, data from the National Survey on the Health Service show that from 1993 to 2003, nearly 70 per cent of the population were uninsured. This situation only improved in 2008, after the ongoing health programmes had been expanded in the mid-2000s. In 2000, the World Health Organization released an evaluation report on health system performance in which China was ranked 144; in the indicator of equality of health financing, China was ranked as close to last, with only three countries scoring lower (World Health Organization, 2000).

Coverage of health insurance varies among socio-economic groups, with the most disadvantaged people having the least chance to be covered by health schemes (Akin, Dow, Lance, & Loh, 2005). These are the poor, the jobless and rural residents (Jalan & Ravallion, 1999). Around 1999, million workers were laid off during the SOE reforms. The fringe benefits of those laid off, including health insurance, were undermined despite their low employability and high health risks. Research shows that in rural areas, poverty induced by ill health is not rare (Liu & Rao, 2006). Without insurance, financial barriers reduce access to health services, which eventually worsens outcomes. A recent empirical study (Huang & Gan, 2010) shows that urban elders who have medical insurance live an average of 5 years longer than those who are uninsured.

After the health reforms, the problem of being uninsured was relieved. But as defined by World Health Organization (2010), universal coverage has three dimensions: insurance coverage, scope of services and benefit levels. In terms of the latter, the problem of regressive redistribution remains. As Table 5 shows, the reimbursement rates of the three major health insurance programmes are an arithmetic progression. As to inpatient costs, the highest level of protection is enjoyed by urban workers (66.2% covered); the inpatient costs of urban residents and rural residents are reimbursed by only 49.2 and 34.6 per cent, respectively.

Serving public servants: privileged health protection for public employees

Just like the design of the *tuixiu* scheme, public employees (especially public servants) also enjoy privileged protection in terms of health insurance through the Government Insurance Scheme (GIS, *gong fei yi liao*). The GIS is free and originated from the Union of the Soviet Socialist Republics' model of the free health

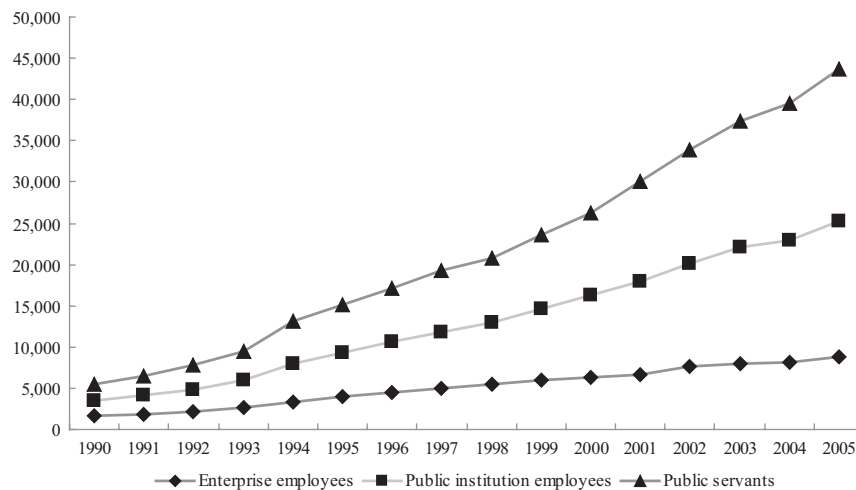


Figure 3. The average pension benefits of public and enterprise employees, 1990–2005 [person, renminbi (RMB)/year].

Source: Ministry of Labour and Social Security, various years.

Note: The exchange rate of US\$ to renminbi is 1:8.0702 by 31 December 2005, based on Bank of China data: <http://www.boc.cn/sourcedb/whpj/>, accessed on 13 March 2015.

Table 4. The percentage of uninsured (1993–2008).

	Urban	Rural	Overall
1993	27.3	84.1	69.9
1998	44.1	87.3	76.4
2003	50.4	79.0	77.9
2008	28.1	7.5	12.9

Sources: Center for Health Statistics and Information of MOH, 2004, 2010.

Table 5. The reimbursement rates of medical insurance schemes, 2008.

Schemes	Reimbursement rates for inpatient costs (%)
BHI for urban employees	66.2
BHI for urban residents	49.2
New Rural Cooperative Medical Scheme	34.6

Source: Center for Health Statistics and Information of MOH, 2010.
BHI, Basic Health Insurance.

service system. Before the 2000s, the GIS covered employees in government bodies and public institutions, as well as college students and others. Eighteen million people were covered by 1981, increasing to 94 million by 1988 (Qian, 1992). After 1999, the Basic Health Insurance for Urban Employees scheme gradually replaced the GIS. Although the number of people covered by the GIS decreased, its budget continued to shoulder most of the financial burden. As Figure 4 shows, from 1993 to 2006, GIS expenditure accounted for almost 40 per cent of the total government health budget. Even in 2007, the year with the lowest percent-

age of GIS expenditure, the expenditure was RMB 45.1 billion (US\$6.17 billion). As a retired vice-minister of the Ministry of Health (various years) has revealed, the GIS now serves only a small proportion of the population (8.5 million government officials at most) (Yin, 2006). According to the fourth National Health Service Survey, the GIS has covered only 3 per cent of the urban population (Center for Health Statistics and Information of MOH, 2010, p. 6).

Like the *tuixiu* scheme, GIS members are not required to pay any premiums. All expenditure is covered by the government. If a person incurs medical expenses, the GIS can cover most of his or her bills, whether it be outpatient or inpatient costs; the reimbursement rate is always at least 95 per cent. In contrast, members of the other three programmes (see Table 5) have to contribute before obtaining any benefits. It is clear that the privileged GIS scheme is another source of regressive redistribution.

Regressive redistribution in UI

After enjoying secure jobs for decades, urban workers had their 'iron rice bowls' (a Chinese term for guaranteed security) broken by the market-oriented reforms, exposing most of them to the risks of unemployment to some extent (Leung, 1994). Job loss harms people financially, socially and psychologically. Those who lost their jobs during this period formed the majority of the new urban poor in the 1990s and 2000s.

As a response to the rising unemployment problem, a UI programme in China was established step-by-step, starting in 1986 (Duckett & Hussain, 2008). Officially, this has been a successful policy that protects workers from job insecurity. In reality, in 2010, only 65 per cent

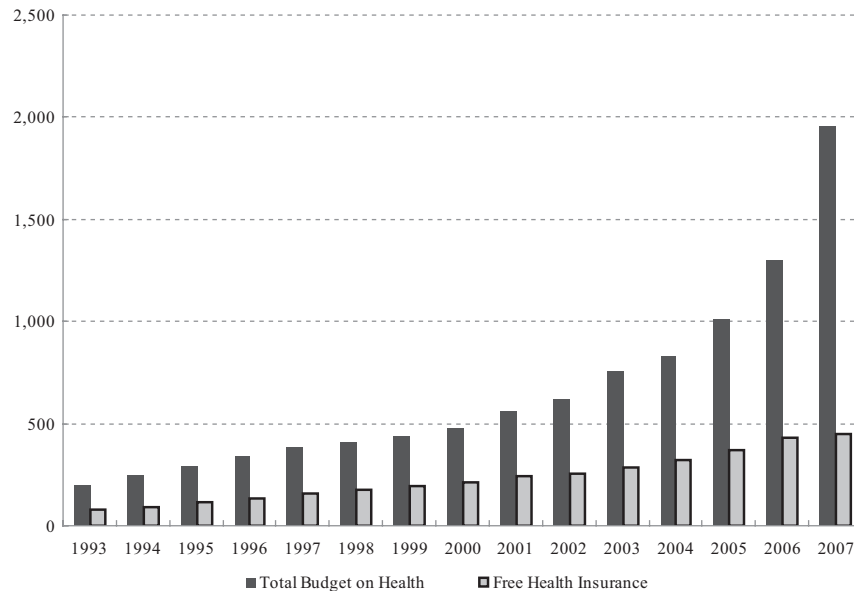


Figure 4. The budget for health and Government Insurance Scheme (GIS), 1993–2007 [renminbi (RMB), billion].

Source: Ministry of Finance, various years

Notes: (1) Data in 2007 include medical budget for administrative agencies, public institutions and subsidies to medical insurance for public servants.

(2) Data in this figure reflect only the total number of local governments. The central government's expenditure on GIS is not included.

(3) The exchange rate of US\$ to renminbi is 1:7.3046 by 31 December 2007, based on Bank of China data: <http://www.boc.cn/sourcedb/whpj/>, accessed on 13 March 2015.

of UI revenues were distributed to the jobless, with the remaining 35 per cent being held in bank accounts. At that time, only 23 per cent of the urban registered unemployed were subsidised by UI. It is noteworthy that China's unemployment rate has been underestimated. Official statistics report an urban rate of 4.1 per cent in 2011 (National Bureau of Statistics of China, 2012). However, according to a recently released report based on a large-scale panel survey, the jobless rate that year was actually 8.05 per cent (China Household Finance Survey, 2012).

Retrospectively, UI has performed poorly in subsidising the jobless. As Table 6 shows, from 1999 to 2010, the take-up rates of people actually collecting UI benefits were below 50 per cent in 8 of the 12 years. An interesting contrast is the dramatic growth of surpluses, with UI showing RMB 175 billion (US\$26.4) in surplus in 2010, over 10 times more than in 1999. These figures cast doubt on the efficiency of the UI programme.

Why does UI perform so poorly in protecting the unemployed? There may well be many causes, but one plays a central role: UI covers mainly people at low risk and leaves the high-risk population outside and unprotected. The majority of UI enrollees work in formal sectors, such as SOEs or public institutions. Although they have a much lower risk of losing their jobs, they continue to contribute to the UI scheme. Eventually, this imbalance between investment and withdrawal

Table 6. The surplus rate and rate of unemployment insurance, 1999–2010.

Year	Accumulated balances (billion RMB)	Surplus rate (%)	Take-up rate (%)
1999	16	128	47
2000	20	122	55
2001	23	121	46
2002	25	118	57
2003	30	122	52
2004	39	133	51
2005	52	153	43
2006	73	180	39
2007	98	208	34
2008	131	224	29
2009	152	263	26
2010	175	269	23

Source: Ministry of Labour and Social Security, various years.

Notes: (1) The current year surplus rate = current year surplus/current year revenue.

(2) Take-up rate = UI recipients/registered unemployment.

(3) The exchange rate of US\$ to renminbi is 1:6.6227 by 31 December 2010, based on Bank of China data: <http://www.boc.cn/sourcedb/whpj/>, accessed on 13 March 2015.

UI, unemployment insurance.

leads to the accumulation of huge reserves. This is the origin of the large surplus from the supply side. Conversely, most people in the informal sectors are unlikely to be covered by UI as they have no stable jobs or regular incomes. When they lose their job, they are not

eligible to apply for UI benefits because they have no record of contributions. That is the reason for the low collection rate from the demand side. Ultimately, UI protects people who are already quite safe and excludes people who are in dire need of assistance.

The above discussion has reviewed regressive redistribution in the three major social insurance programmes in China and has shown that there is a systematic bias against the less advantaged. This indicates that the two problematic cases (pensions and UI) mentioned at the beginning of this article are not outliers but represent an overall trend. The remainder of this article goes further, digging into the causes of regressive redistribution in China's social insurance schemes. Only by constructing a logical explanation can this phenomenon be understood. The next section focuses on the mechanism underlying this distribution paradox.

In or out of the system (*tizhi*): the political pecking order of welfare reform in China

In 2013, a headline news story drew wide attention. The city government of Harbin released a solicitation to fill 448 openings for sanitation workers. The jobs attracted 7,186 applicants, among whom were 29 with master's degrees and 2,954 with bachelor's degrees. The magic factor that attracted so many overqualified applicants is that the positions came with *bianzhi*, which can be translated as 'establishment of posts' or 'personnel slots' (for more on the concept of *bianzhi*, see Brødsgaard, 2002). People with *bianzhi* are considered insiders of the system as they are paid through the government budget and enjoy almost tenured positions. In addition, *bianzhi* is always related to welfare, insurance and other benefits. One applicant interviewed for the story said that even if he died, he would prefer to die with *bianzhi* (The China Net, 2013).

The mismatch between protection and risk

Prior to the market reforms, welfare was delivered through the work-unit system (for an excellent review of this, see Lu, 1993). This absorbed the majority of urban employment. Within the system (*tizhi*), people held secure jobs and enjoyed generous welfare provision. However, during the reforms, the work-unit system shrank substantively and many SOEs went bankrupt or had to downsize by laying people off. System outsiders multiplied accordingly.

System insiders include public servants, public institution employees and SOE workers. They have stable jobs and generous fringe benefits. The rest are usually regarded as system outsiders – the self-employed, informal workers, rural residents, the jobless and so on. The protection and risk levels are mismatched between

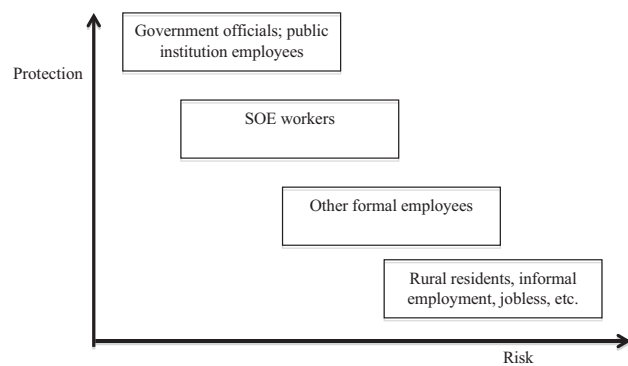


Figure 5. The mismatch between risk and protection. SOE, state-owned enterprise.

insiders and outsiders, as shown in Figure 5. Government officials and public institution employees enjoy the highest level of protection, and their risk levels are the lowest. At the other extreme, marginal groups have had the lowest level of protection for decades, and yet they are most vulnerable to the risks of old age, illness and unemployment.

Empirically, this pattern is partly supported by the data in Table 7. According to a sample of 1 per cent of the population census data in 2005, SOE workers enjoyed much higher coverage from the three major social insurance programmes (67–83%). In comparison, workers in private enterprises had far lower coverage. Further, the largest group, the self-employed, had the lowest coverage of all.

Why are protection and risks mismatched? Why are those groups treated differently? As shown in the cases of pension, health care and UI, a major mechanism of regressive redistribution is embedded in the urban–rural divide. The Chinese *hukou* system of household registration has also contributed. The *hukou* system was established in the 1950s and gradually evolved into a mechanism to control migration from rural to urban areas (Lu, 1993). By separating the population into urban and rural, this discriminatory policy was widely used as a rationing system for all sorts of resources such as education, work opportunities, welfare provision and so on. During this 'one country, two worlds' configuration, the limited surpluses produced by rural residents were reaped to propel urban industrialisation. This caused internal colonisation, where urban residents enjoy generous social protection at the cost of rural residents' deprivation. Even after three decades of reform, the *hukou* system still prevents migrant workers from merging fully into the urban social protection system, although some progress is taking place. This article does not focus further on the details of the *hukou* system, but does focus on several more specific causes by reviewing the process and strategies of welfare reform in China.

Table 7. Coverage of urban social insurance by type of ownership (2005).

Types of enterprises	Employment	Pension (%)	Health care (%)	Unemployment (%)
SOE	538,686	0.83	0.79	0.67
Collective enterprises	185,824	0.48	0.52	0.28
Private enterprises	907,848	0.24	0.36	0.11
Self-employed	1,153,565	0.11	0.24	0.03
Other enterprises	219,614	0.43	0.50	0.28
Total	3,005,537	0.32	0.41	0.20

Source: National Bureau of Statistics of China, 2007.

SOE, state-owned enterprise.

Replacement versus retrenchment: different logics of welfare reform in China

For the past three decades, Chinese welfare reform has been a process in which welfare expansion and retrenchment have been coupled (Frazier, 2010). For system insiders, the government adopted a replacement strategy, meaning that the abolition of one programme is always followed by the introduction of a new one. For outsiders and marginal groups, a retrenchment strategy has been used through which government has delegated its responsibility to the market, families or individuals. The retrenchment strategy changed first in the 2000s, when several health and pension programmes were launched to fill the long-standing gaps.

The process of social security reform in urban formal employment is an illustration of the replacement strategy. Since the 1980s, a series of social insurance programmes have been developed to replace the previous arrangements. First of all, in the late 1980s, workers in SOEs were transferred to pension programmes (*yanglao*), and public employees remained in the generous *tuixiu* programme. Also, Basic Health Insurance for Urban Employees was set up in the mid-1990s to replace the previous GIS and LIS (Labour Insurance Scheme) programmes. Meanwhile, many public servants were still able to remain in the generous GIS scheme. UI was first introduced in the 1980s and implemented in the 1990s, and was used to compensate those who had lost the 'iron rice bowl'. Furthermore, after the free provision of housing policy was suspended in the mid-1990s, the housing fund programme was introduced as an alternative for those who were affected. In other words, the government tried its best to keep system insiders' interests intact in the reform process.

For rural residents, the urban poor and people without stable jobs, social security reform seemed neither benevolent nor relevant. Without any meaningful effort, government restricted even its limited role (Duckett, 2010; Wong, Lo, & Tang, 2006). As to pensions, rural residents have never had meaningful coverage. The Ministry of Civil Affairs introduced the rural pension programme in the 1990s, but coverage never exceeded 10 per cent, not to mention the meagre level

of benefits provided (Table 1). The rural cooperative medical plan was built nationwide under political mobilisation in the 1970s, but quickly collapsed in the mid-1980s, leaving rural residents uninsured for decades until the late 2000s. Farmers still have no employment protection, and the prevalence of under-employment had prompted the formation of the largest group of migrant workers in the world. In urban areas, the government was pressed to build the Minimum Living Standard Scheme (*di bao*) to shelter the new urban poor, mainly laid-off SOE workers and other underprivileged people. However, these safety nets were quite inadequate, both in terms of coverage and protection. China's poverty line has long been held at a low level (Khan & Riskin, 2001). In fact, the elevation of the poverty line is only nominal after inflation is considered. According to the World Bank (2009), there were 254 million people in China still living on less than US\$1 per day in 2007.

The past decades have witnessed the privatisation of social protection in China. In the health service, waves of privatisation have led several local governments to sell public hospitals to private owners (Tam, 2010); in education, commercialisation and privatisation are popular (Mok & Ngok, 2008); and in the social services, handing off social welfare to society as a whole was once the theme of reform (Wong, 1994). The diminishing role of the state in those fields might somewhat relieve its budget pressures, but has caused serious problems in terms of equitable access to social services.

Political pecking order of welfare reform and the formation of propitiatory state

Why does this happen? Why has the Chinese government adopted these welfare reform strategies? In a deeper sense, what is the underlying driving force of social programme development in China? A whole monograph would be required to fully examine the politics of welfare reform in China, so this article offers only a brief and tentative review of its logic. Yasheng Huang (2003) once used the term *political pecking order* to analyse the status of enterprises in China.

Huang compared SOEs, collectively-owned enterprises and private firms, and found that the nature of ownership determines the relative ranking of firms in terms of political status, opportunities to acquire loans, options for commercial gain, protection from the law and so on. Similar to the political pecking order of enterprises, social protection is also hierarchically structured (see Figure 5).

Social programmes are always used by the ruling class to consolidate legitimacy, and China is no exception (Chan, 2010). In order to maintain power, China's ruling party needs to do at least two things. First, it has to guarantee the loyalty of its ruling foundation; and second, it needs to overcome (or pacify) social revolt. In terms of the former requirement, in that public employees form the regime base, this group naturally becomes the focus of the state's attention as it is the one in which the ruling party is willing to invest. Policymakers need to secure the support of such groups because these are the people who run government agencies, public organisations and SOEs. The privileged position of these groups is reinforced by their own characteristics: They have stable jobs and a regular income, which makes policy implementation easier. Policymakers are inclined to implement new programmes first in the public sectors because progress (and hence performance) is easy to achieve. Besides, compared with other groups, these people are system insiders and have better access to information. Hence, their voices can be better heard, which explains why the pension reform in public institutions mentioned in the introduction made no progress: It contradicted the interests of those public employees.

The social control function of welfare is well documented in the literature (see e.g., Piven & Cloward, 1993). For the majority of the Chinese population, the ruling party lacks both the incentive and resources to provide adequate protection. As long as those system outsiders are quiet, the state is happy to do nothing. In response, such a system induces extreme forms of speaking out and, in fact, groups may be treated better if they protest fiercely. This is seen in programmes like the Minimum Standard of Living provision, which was mainly a reaction to the response of laid-off workers during the SOE reforms and land-lost farmers in rural areas (Chan, 2010).

Social programmes are instrumental in maintaining stability, as social unrest has been growing explosively in China. Social policy can be used to externalise the cost of marketisation reform. For instance, social security restructuring was once used to accommodate and support SOE reform (Frazier, 2010, p. 20). Zheng (2012) proposed a heuristic construct – the propitiatory state – to conceptualise the logic of Chinese social policy development. As opposed to the citizenship-based welfare state, Chinese social programmes are

underlined with 'favour-repay logic'. The government provides social protection as a favour and recipients should repay with loyalty. The favour-repay logic also implies that the social protection is totally dependent on the government. The government holds the final right to cut back or even cancel any provision. With limited resources, the government has to provide welfare with discretion and discrimination. As discussed above, groups that are essential to governance will be given high priority. Regressive redistribution is therefore a natural consequence. The term negative welfare (*fu fuli*) was coined to describe this redistribution paradox (Qin, 2010).

Discussion and conclusion

This article has presented an empirical review of the sources of regressive redistribution in pension, health care and UI programmes in China. It has shown that China's social insurance system contains a systematic bias against disadvantaged groups, which may be caused by complex factors such as welfare reform strategies and political considerations (keeping the loyalty of the elites) and so on. These findings resonate with the opening critique, written in reference to the Greek welfare system, and offer reflections on the effects of social programmes in the real world (Venieris, 2012). They remind us that establishing social programmes cannot guarantee better outcomes; in fact, it may make things worse if we overlook how these programmes actually function.

In a broader sense, we may want to know whether there is regressive redistribution in the social programmes of other developing countries. It may be that such a transfer from poor to rich is neither a solely Greek nor Chinese phenomenon. Similar cases can easily be found elsewhere. For example, Thailand has a three-tier health care system that serves three different socioeconomic groups. The best service is targeted at civil servants, who do not need to pay any premiums (just like the GIS in China); the second tier serves people in the private sector with stable jobs and regular pay; and the third tier serves the disadvantaged (Hanvoravongchai & Hsiao, 2007). Civil servants, however, who are well paid and thereby are a low-risk group, are nevertheless accorded the best protection. People covered by the second and third tiers have to use lower quality services although their risk of ill health is greater than that of public servants. This is an obvious example of regressive redistribution. In the Philippines and Kenya, the governmental administration of social insurance funds resembles their counterparts in China. Health funds in the Philippines have accumulated huge surpluses, but administrators always use fund solvency as an excuse for keeping these reserves, which they can divert for other purposes rather than reimburse

members' medical expenses. Such an approach only offers risk protection on paper. Similarly, in Kenya, only 25 per cent of social health insurance funds are used to reimburse health expenses, with the rest being spent on luxury projects or investments (Fraker & Hsiao, 2007, p. 43–60). Enrollees of health insurance in these countries contribute to the programmes but receive incommensurate benefits. Through corruption, their contributions are, in fact, used to subsidise the ruling class. These cases call into question the efficacy of social programmes in the developing world.

What causes the dysfunction of social programmes, even if they are not always an outright failure? How are we to understand the development of social policy beyond the context of advanced democracies? These questions reveal the complexity of evaluating social programmes in the developing world. Limited by space, this article cannot answer them fully but can only briefly bring them to the table for discussion. The origins of social policy were a defensive effort to cope with social riots and/or instability (Piven & Cloward, 1993; Starr, 1982). Under authoritarian regimes, the eligibility, scope and benefit level of such programmes are highly contingent on the relationship between autocrats and their populations (Mares & Carnes, 2009). Social programmes can be used to prevent coups or buy political support. Rarely are they based on citizenship, and thus it is not surprising to see that they reinforce rather than reduce social disparities.

However, even in a democracy, bad governance is another hurdle for social programmes en route to realising their purpose. Lacking transparency, accountability and technical sophistication, such programmes can become sources of leakage, corruption and cronyism. Social programmes can be manipulated, and as such may lead to the extremely inefficient use of scarce social funds. Using a public expenditure tracking survey, Reinikka and Svensson (2004) showed that the leakage rate of the capitation grant for schools' nonwage expenditures in Uganda was as high as a stunning 87 per cent. Many schools receive nothing, and even among the 'winners' of the meagre 13 per cent granted, distribution is regressive, with schools in better-off communities receiving more than others.

In the textbook view, social programmes are expected to realise progressive redistribution, risk management and social inclusion (Baldock, Manning, & Vickerstaff, 2007). Tides of the adoption and diffusion of social programmes have spread into the developing world, but the emergence of such programmes cannot be seen as unalloyed good news. Their effectiveness remains uncertain. The redistribution effects of such programmes have not been adequately examined in a systematic way. More critical analysis of social programmes in developing countries is required in order to identify the right direction for welfare development. In

theory, too, future analyses will enrich our understanding of the dynamics of social policy development for broader application under other conditions. Only through the systematic accumulation of knowledge can effective policy interventions be achieved.

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