

**Welfare Reform and the Mobilization Power of the
Displaced Workers in China, 1994 to 2004**

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This manuscript has been read and accepted for the Graduate Faculty in Political Science in satisfaction of the dissertation requirement for the degree of Doctor of Philosophy.

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ABSTRACT**Welfare Reform and the Mobilization Power of the
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Radical economic restructuring in the 1990s resulted in massive layoffs in China's state sector. Protests by SOE laid-off workers reached its peak in 1999, but puzzlingly abated despite increasing popular contentions in recent years. Why have laid-off workers, despite their enormous size as a social group, their huge losses in economic reform, and their displayed strength in confrontations with state authorities in the 1990s, failed to become a leading group in China's increasing social protests and instead become pacified over the years?

Through policy tracing of seven welfare programs and fieldwork in Sichuan Province, this dissertation seeks to examine how two decades of welfare reform have affected the mobilization power of laid-off workers. Three interplaying mechanisms, either intended or unintended results of welfare reform, explain laid-off workers' pacification.

The market ideology strengthened at the first stage of welfare reform (1980 to 1996) results from the transformed relationships between and among the state, enterprises, and individuals. Individualist approach characteristic of reform at this stage has changed the role of the state from a direct welfare provider to a regulator. Such change contributes to diverting workers' target of blame for layoffs from the state to the management of individual enterprises at the later stage.

Strong state intervention at the second stage of welfare reform (1997 to 2004) fragments laid-off workers internally through its age-related benefit packages. Early retirement and higher benefits of pension relative to other programs fulfill the socialist

social contract and appease the most vocal group among the laid-off. Active labor policies further divide laid-off workers into those able to relocate jobs and those unable. Livelihood-guarantee arrangements make mobilization even harder, both emotionally and operationally. Furthermore, great public sympathies won by state intervention deprive workers of social soil for further mobilization.

Finally, declining profitability of the state sector reduces workers' bargaining power accordingly. In sum, lack of a common target of blame, weakened capacity to mobilize, and public support for authorities explain laid-off workers' pacification in the late 1990s.

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List of Abbreviations

ACFTU	All-China Federation of Trade Unions
BSA	Basic Subsistence Allowance
CYN	The Chinese Yuan
<i>Dibao</i>	Minimum Subsistence Allowance
ECH	Economic and Comfortable Housing
HC	The Highest Court
ISSA	International Social Security Association
ILO	International Labor Organization
ISSA	International Social Security Association
MCA	Ministry of Civil Affairs
MHRSS	Ministry of Human Resources and Social Security
MOH	Ministry of Health
MOF	Ministry of Finance
MOLSS	Ministry of Labor and Social Security
NDRC	National Development and Reform Commission
PAYGO	Pay-as-you-go
PBC	People's Bank of China
REC	Reemployment Center
SC	State Council
SOE	State-owned Enterprise

Welfare reform and the Mobilization Power of the Displaced Workers in China, 1994-2004

Introduction

Victims of Market Transition

Active integration with the world economy is the essence of China's strategy in managing its transition from a closed, command economy to an open, market economy. After a quarter century of transition, China's foreign trade increased forty-one fold, making the country the fourth largest trading nation in the world. The policy of opening the Chinese economy to international trade and investment seems to have produced enormous benefits, making China one of the biggest beneficiaries of globalization.

Yet often neglected are the segments of the population that have been mercilessly displaced by the same process. As the dominant production units under the command economy, State Owned Enterprises (SOEs) were most directly and adversely affected by the influx of Foreign Direct Investment (FDI) in coastal China. Urban employees who worked in state and collective enterprises or other state institutions had dropped from 99.8 percent of the working population in 1978 to just 37.3 per cent in 2001. About 60 million jobs have been retrenched in the space of a few years starting in the 1990s. The urban jobless rate has reached 10 percent or even higher by the end of 1990s.¹

1 Wang, Linda, "Market Reforms, Globalization and Social Justice in China". *Journal of*

Because of their age, lack of appropriate skills or education, these laid-off workers can hardly compete in the market. The growing non-state sector, domestic or foreign, generally provides more work for rural migrants at the lower end and the highly educated at the higher end, than for the laid-off.² Disappearing with the laid-off workers' permanent jobs is also a comprehensive set of work-associated benefits, including pensions, health care, and housing subsidy. Almost overnight, the majority of the working class, in whose name the country was thus far ruled, finds itself the new urban poor amid the country's burgeoning market economy and globalization. The former SOE workers became the biggest group of victims in urban China in the country's economic transition. The grievances of these victimized groups were vented through widespread but sporadic street protests regardless of the possible repression in an authoritarian regime.³ Throughout the 1990s, the Ministry of Labor tallied thousands of public gatherings, strikes, petitions and demonstrations each year.⁴ According to a trade union journal, 247 workers' demonstrations occurred in Henan province during 1998 alone.⁵ According to statistics collected by Xiao Zhengbang, a member of the Chinese People's Political Consultative Conference, incidents of unrest by workers in the course of enterprise reforms have increased 9.2 per cent since 1998, among which collective petitions account for 60.8 per cent, blockades of roads 26.2 per cent, sit-ins, street demonstrations, and gatherings 9 per

Contemporary China 13:38 (February, 2004).

2 Dorothy J Solinger, "Labor Market Reform and the Plight of the Laid-off Proletariat," *The China Quarterly*, (2002): 304-326.

3 See William Hurst, "Understanding Contentious Collective Action by Chinese Laid-off Workers: The Importance of Regional Political Economy". *Studies in Comparative International Development* 39, No.2. (Summer 2004): 94-120; Hurst, William and Kevin J. O'Brien, "China's Contentious Pensioners". *The China Quarterly* (2002): 345- 360; Solinger, 2002.

4 Hurst and O'Brien, 2002.

5 Ibid.

cent, and strikes 3.8 per cent.⁶

Other Contentions in China

Concurrent with the protests by the laid-off workers are the increasing protests by other social groups. Statistics shows that social protests in China have been growing at an unprecedented speed since 1994. According to official reports, there were only 8,700 mass incidents in 1993. This figure grew to 10,000 in 1994 and continued to grow in the following years, with 12,000 in 1995, 17,000 in 1997, 25,000 in 1998, and 32,000 in 1999. The average number of the so-called mass incidents in each year has exceeded 40,000 since 2002. This figure reached 74,000 in 2004, topped 90,000 in 2007, and further climbed to 127,467 in 2008. The occurrences of mass incident grew at an average rate of 22.2 per cent between 1994 and 2004. The participants of these incidents have increased from 730,000 to 3,760,000, averaging an increase of 17.8 per cent annually.⁷ Recent studies indicate that mass incidents in China have increased not only in number but also with higher sophistication and complexity in their organization as well as at larger scales.⁸

The causes for these mass incidents are diverse, ranging from labor disputes,

6 Lu, Jianbin and Wang Hangyun. "Pochang Jianbing Qiye Zhigong Laodong Guanxi he Shehui Baozhang Yanjiu" (Study on the Labor Relations and Social Security of Workers in Bankrupt and Reorganized Enterprises). *Jingji Wenti Tansuo* (Exploration on Economic Problems) (July 2003).

7 The figures are from Li, Yongcong and Jinsheng Chen. "Guanyu Quntixing Shijian De Lixing Sikao" (Rational Reflection on Mass Incidents), Project of National Social Science Funds (02BFX030); the number of incidents in 2008 comes from China Labor Bulletin cited in Carol Divjak "Chinese labour report points to rising discontent," 14 August 2009, <http://www.wsws.org/articles/2009/aug2009/chin-a14.shtml>; Jonathan Fenby, "China's Slow Civic Awakening", *The Guardian* (UK), 19 September 2008; Hu, Lianhe, Angang Hu and Wang Lei, "Guan Yu Wo Guo She Hui Bu Wen Ding Yin Shu Bian Huan Tai Shi De Shi Zhen Fen Xi" (Empirical Study of Unstable Factors in the Contemporary Chinese Society), *Tan Suo* (Exploration) (June 2007):105-114.

8 See Murray Scott Tanner, "China Rethink Unrest," *The Washington Quarterly* (Summer 2004); Shouhu Du and Zhengmo Guo et al. 2006. *Yufang Chuzhi Maodun Liyi Yingfade Qutixing Shijian de Youxiao Jizhi Yanjiu* (Studies on the Effective Preventive Mechanism of Mass Incidents Caused by conflicting interests).

environmental pollution, and land use and resettlement, to official corruption.⁹ These mass incidents have attracted much public attention due to the uncontrollable media coverage inside and outside China. Take the year of 2008 for example. As many as 30,000 people rioted in Weng' An County in Guizhou Province on 28 June 2008, in response to allegations that local police had mishandled the investigation of the death of a teenage girl. Dozens of cars were burnt and windows and offices in local government's buildings were smashed. Less than one month later, 500 rubber growers in Menglian, Yunnan province had a violent clash with police. The farmers, armed with knives, injured 41 police officers and damaged several police cars. The confrontation was rooted in a long-running dispute between farmers and a local rubber company. In October 2008, taxi drivers in Chongqing staged a city-wide strike to protest against excessive administrative fees and the local government's lax control over unlicensed taxi services. Taxi drivers in two other cities – Sanya in Hainan province and Dali in Yunnan province followed suit immediately. On 17 November 2008, a group of 30 petitioners, who opposed a resettlement project in the Wudu District of Longnan City, initiated a protest, and eventually, more than 2,000 people became involved and 30 participants were arrested.¹⁰ These are just a few of thousands of mass incidents staging in China each year.

Puzzles and Research Questions

Given the lead role the Chinese working class has played in China's various contemporary social movements, one would tend to anticipate that such intense

9 Du and Guo, 2006.

10 For a thorough review of protests in China in 2008, see Datong Li, "The Wengán model: China's fix-it governance," accessed on 15 May 2008 at <http://www.opendemocracy.net/article/the-wengan-model-china-s-fix-it-governance>; "2000 Riot in China's Gansu Province", 19 November 2008, Los Angeles Times.

reaction from the SOE laid off workers would be very likely to lead the increasingly bold mass protests in China into a new stage. However, Such scenario never happened in reality. In fact, with the gradual completion of the state sector restructuring, the most radical downsizing of the state sector has drawn to an end. According to Li Yizhong, the Party Secretary and Vice Director of National Committee of State Assets under the State Council, 50.4 per cent of large-sized state enterprises have reformed their ownership system and more than 90 per cent of small- and medium-sized state enterprises have completed ownership transformation until 2003.¹¹ In other words, the peak of downsizing and layoff due to bankruptcy, reorganization, and ownership reform in state enterprises has passed. Protests triggered by layoffs have decreased accordingly.

According to the statistics of Ministry of Labor and Social Security, the total of laid-off SOE workers dropped from a peak of 7 million in late 1990s to around 1 million in early 2005.¹² The study by the Sichuan Academy of Social Sciences confirms that mass incidents triggered by enterprise reforms, which had started in the middle 1990s, reached their peak in the late 1990s and early 2000s, and gradually decreased in number with the completion of reforms in most SOEs.¹³ Such trend is confirmed by the study done by the Hong Kong-based China Labor Bulletin (CLB). It investigated a 100-case sample of workers' protests in 2007-2008 to reveal important trends and factors behind the labor unrest in China. It finds that 58 cases out of the 100 cases involved rural migrant workers, the most exploited section of the Chinese working class, 34 disputes involved urban workers, and only 8 disputes by urban workers who had lost their jobs through state-owned enterprise (SEO) restructuring. It

11 Zhongguo Dianli Qiye Guanli (China's Electricity Industrial Management), March 2005, p.27.

12 "Basic Subsistence Guarantee System to be Merged into the Unemployment Insurance System," ISSA.

13 Du and Guo, 2006.

concludes that while layoffs are ongoing due to the privatization of SOEs, the main area of the job losses and labour unrest is now in the export-processing industry where violations of the basic rights of workers are rampant, instead of SOEs.¹⁴

Therefore, despite the increasing number of mass incidents, protests by laid-off workers have instead been decreasing since the late 1990s. This is against conventional wisdom, given the sheer size of this social group, the privileges it enjoyed, and the extent of loss it suffered in the course of the state-sector reform.

Why have China's SOE workers, once the vanguards of the Chinese communist revolution, not galvanized the increasingly bolder mass incidents leading the development of contentious politics in China into a new chapter? Why has such a large number of protests by the Chinese working class failed to produce larger political effects, in contrast to eastern European countries in the early 1990s,¹⁵ or China's own Tiananmen protest movement of 1989?

This study thus poses the research question of why the laid-off workers, despite their enormous size as a social group, their huge losses in the economic reform, and their displayed strength in confrontations with state authorities in the 1990s, have failed to become a leading group in China's increasing social protests and instead become pacified over the years.

Theories of Failure of Mobilization

Current studies on Chinese workers' failure to mobilize fall into three general frameworks: the organization approach that analyzes workers' organizational

14 Carol Divjak, "Chinese labor report points to rising discontent," accessed on 14 August 2009 at <http://www.wsws.org/articles/2009/aug2009/chin-a14.shtml>.

¹⁵Kuran, Timur, "Now Out of Never: the Element of Surprise in the East European Revolution of 1989," *World Politics*, 44:1 (1991): 7-48; Lohmann, Susanne, "The Dynamics of Informational Cascades: the Monday demonstrations in Leipzig, East Germany, 1989-1991," *World Politics* 47:1 (1994): 42-101.

capacities, the statist approach that calls attention to state strategies, and the marketization approach that emphasizes the irresistible force of market transition and corresponding choices of workers under the market hegemony.

Organization Approach

The resource mobilization theory asserts that resources are crucial in social mobilization, such as movement leadership and organizations, countering the deprivation theory that posits a necessary connection between grievances and collective action. Therefore, this school of studies considers the absence of strong organizations to lead the mobilization as a major source of deficiency of mass mobilization in contemporary China. Noticing that unions are directly controlled by the CCP in authoritarian China, this body of literature argues that despite the large membership of Chinese unions (almost all workers are registered in unions), they are only rubber stamps and have no capability to lead any activities against authorities.¹⁶ Independent unions or associations are simply not allowed in an authoritarian regime.¹⁷ The only mobilizing structures clearly available to most workers are social networks of neighbors in apartment blocks and housing projects.¹⁸ Noting that economic restructuring has led to a systematic erosion of labor interests such as collective layoffs, deprivation of benefits, ruthless labor rights abuses and brutal working conditions, Lee concludes that lacking effective state protection and organizations of their own, the Chinese workers have become increasingly vulnerable to

16 Chen, Calvin and Rudra Sil, "Communist Legacies, Postcommunist Transformations, and the Fate of Organized Labor in Russia and China," *Studies in Comparative International Development* 41: 2 (Summer 2006): 62-87.

17 Jiang, Xueqing, "Fighting to Organize." *Far Eastern Economic Review* 164: 35 (September, 2001): 72-75.

18 Hurst, 2004, p. 106. Also see Ching Kwan Lee, "The 'Revenge of History': Collective Memories and Labor Protests in Northeastern China." *Ethnography*, 1, 2 (December 1998): 217-237; Benjamin L. Read. "Democratizing the Neighborhood? New Private Housing and House-Owner Self-Organization in Urban China." *The China Journal*, 49 (2003): 31-61.

the “whip of the market” and to despotic managerial power.¹⁹ Chen further argues that the Chinese workers’ capacity to protect their rights in an increasingly capitalist economy depends on how they could organize in a limited political space allowed by an authoritarian regime through refining its identity, role, and interests in the market economy.²⁰

Besides, the construction of “collective action frames” is important in social mobilization.²¹ It enables leaders of social movements to accentuate grievances by magnifying injustice and creating emotional pivots. Only when a dominant belief system that legitimizes the status quo is replaced by an alternative mobilizing belief system that supports collective action for change, would a social movement occur. The construction of action frames relies on public discourses, persuasive communication during mobilization, and consciousness raising during episodes of collective action. The media are usually used to transmit symbols and frames in a move towards constructing consensus, at least in those taking part in the action and who are meant to be mobilized.²² Tight control over media and means of public communications in an authoritarian regime like China further limits the movement leaders’ capacity to mobilize.

Meanwhile, the presence of abundant alternatives in a market economy disrupts workers’ calculation equation of gains and losses from mobilization, hence fragmenting workers internally.²³

Finally, the political apathy resulting from the weariness of frequent political

19 Lee, Ching Kwan, “From Organized Dependence to Disorganized despotism: Changing Labor Regimes in Chinese Factories,” *The China Quarterly* 157 (1999): 44-71.

20 Feng Chen, “Industrial Restructuring and Workers’ Resistance in China,” *Modern China* 29:2 (April 2003): 237-262.

21 Tarrow, Sidney. 1998. *Power in Movement: Social Movements and Contentious Politics*. Cambridge: Cambridge University Press.

22 Ibid. Chapter 7: p.106 -117.

23 Yong Shun Cai. 2001. *The Silence of the Dislocated: Chinese Laid-off Employees in the Reform Period*. Ph.D dissertation in Political Science, Stanford University.

movements before the reform era and the worry for reprisal makes it even harder for workers to organize or to act on a common identity.

Statist Approach

The statist approach explains the appeasement of workers by focusing on the state policies and strategies. This school emphasizes that China's gradualist approach to reform, in contrast to the "big-bang" approach²⁴, allows Chinese decision makers to target certain sectors for pilot reform and acquire valuable knowledge for use in other sectors. Most important, gradualism allows reformers to make and correct political errors, and avoids costly mistakes that can derail the reform.²⁵

It is further argued that the sequence and timing of reform in China has eased the potential social opposition. By not reforming its state sector first, China chose to protect its state sector while opening itself to foreign investments. The large influx of FDI created enormous competitive pressures on the state sector. Meanwhile, foreign joint ventures became laboratories for any new regulations and practices, which could have been opposed fiercely if otherwise enacted in the state sector first, and produced demonstration effects. Finally, the changes brought about by foreign joint ventures unavoidably led to ideological reformulation, which diverted public debate from a

24 This approach, characterizing the reforms of the former Soviet bloc, created large groups of losers. The government may have no credible means to compensate them. As a result, losers from big-bang reforms tend to oppose them fiercely, making the reforms politically less sustainable. Mass protests, under the explanation of this approach, were the manifestation of such economic grievances, which had been exacerbated by corruption and rent-seeking activities of the early winners of transition (Murrell, 1993; Roland 2002; Minxi Pei. 2006. *China's Trapped Transition*. Cambridge, Massachusetts: Harvard University Press).

25 Mathias Dewatripont and Gérard Roland, "The Virtues of Gradualism and Legitimacy in the Transition to a Market Economy," *The Economic Journal*, 102 (1992): 291-300; Susan Shirk. 1993. *The Political Logic of Economic Reform in China*. Berkeley: University of California Press. Yuanzheng Cao, Yingyi Qian and Barry R Weingast. 1997. "From Federalism, Chinese Style, to Privatization, Chinese Style." Discussion Paper No.1838. The Center for Economic Policy Research, accessed at <http://deepblue.lib.umich.edu/bitstream/2027.42/39516/3/wp126.pdf>; Lau, Lawrence, Yingyi Qian, and Gérard Roland, "Reform without Losers: An Interpretation of China's Dual Track Approach to Transition," *Journal of Political Economy* 108 (1) (2000): 120-143; Gallagher, Mary Elizabeth. 2005. *Contagious Capitalism: Globalization and the Politics of Labor in China*. New Jersey: Princeton University Press.

private-versus-public one towards a foreign-versus-nationalist one. This reorientation of ideological debates successfully avoided potential political opposition from the camp of socialism. Hence, by attracting the young and skilled away from the state sector, creating competitive pressures on the state sector, producing demonstration effects and reformulating ideological debates, the particular sequencing of reform in China successfully dissolved political opposition. Thus, the Chinese path of reform at first protected, then fragmented, and finally marginalized the urban working class.²⁶

Such policies as ‘maintaining large enterprises and letting go the small and medium-sized ones (*zhua da fang xiao*)’ further help to fragment workers internally by reforming SOEs selectively and in a certain sequence.²⁷ Preserving large SOEs at the initial period of SOE reform reduced the size and scale of oppositions from workers.

At micro-level, since downsizing is carried out in the principle of keeping the capable and firing the incompetent in individual enterprises, workers either young or with education and skills are usually not among the downsized. This group of workers would, therefore, not join mobilizations of the downsized workers. Thus, the principle of downsizing at enterprise level not only deprives the leadership of potential mobilizations but also divide workers along the lines of ages, education, and skills.²⁸

Marketization Approach

Marketization theorist argues that the popular recognition of egalitarianism and “eating from the big pot” in the era of planned economy as root causes for China’s economic backwardness makes the market transition since 1978 and its

26 Gallagher (2005) makes a convincing argument. John Fingleton et al. 1996. *Competition Policy and the Transformation of Central Europe*. London: Center for Economic Policy Research.

27 Cai, 2006.

28 Xing Tong, “shehui bianqian yu gongren shehui shenfeng de chonggou,” (Social transformation and the reconstruction of workers’ social identity) *Shehuixue Yuanjiu* (Study of Sociology) 6 (2002).

underlying liberal ideology widely embraced in China. The acceptance of free competition, therefore, diverts workers' blame away from the government. After interviewing dozens of workers in a factory in Tianjin, Blecher argues that the workers did not rebel against the retrenchment because they believed the retrenchment was a rational and necessary economic decision and to the best interest of their factory and society as a whole. Thus, the hegemony of market is held as the primary explanation for the workers' non-mobilization.²⁹ Similarly, the availability of possible better job opportunities, thanks to a prospering non-state sector, is another condition shaping workers' decisions.³⁰ Developing a typology of workers' reactions to enterprise reforms (obedience, exit, and voice), Liu notes that obedience and exit are the prevailing choices among the state workers. Identifying with and support for the goals of enterprise reform for improving efficiency and profitability, majority of workers tends to side with enterprise management and consider layoffs as a necessary ill in economic transition. Penalties and rewards in the hands of management and the sword of Damocles of being the next to be laid off put another pressure on workers to adjust to the changes. Availabilities of better job opportunities increase the chances for workers to exit the system through resigning or early retirement. It is the prevailing choices of both obedience and exit among the state workers that explain the lack of mobilization among workers.³¹

Through a comprehensive and monopolistic control of resources that determine the life chances and rewards of the urban workers and their families, workunits in pre-reform China develop a clientelistic relationship between the

29 Marc J. Blecher, "Hegemony and workers' politics in China," *The China Quarterly* (2002): 283-303.

30 Cai, 2006.

31 Aiyu Liu, "guoyou qiye zhidu biange guocheng zhong gongren de xingdong xuanzhe," (Workers' choice of actions in the course of SOE restructuring) *Shehuixue Yanjiu* (Study of Sociology) 6 (2003).

working class and the party state. The “organized dependence” effectively prevents any possibilities of mobilizations by the Chinese workers.³² The market transition in China has, to a certain degree, transformed such social structure but the containment effects of workunits on collective actions still hold.³³ This is largely due to the fact that China’s market transition is gradual. Legacies of workunits in the era of planned economy still influence the mentalities and behaviors of SOE workers at different degrees.

In these studies, China’s welfare policies, which have undergone tremendous changes since 1978, have not been given due attention as an explanatory variable, despite repeated Chinese official discourses on relying on welfare programs to serve the economic reform and maintain social stability.

Welfare reform in this study

In this research welfare reform is defined as the transformation of arrangements with regard to welfare provision during China’s economic reform since 1978. According to Chinese authorities, welfare reform has been conducted concurrently with economic reform and designed at different stages to serve the purpose of deepening economic reform (1980 to 1996), maintaining social stability (1997 to 2004), and delivering social justice (2005 to present). Due to the subject matter of this study, my research will cover the first two stages of the welfare reform, namely between 1980 and 2004.

Although welfare provision is occasionally recognized as one component of a

32 Andrew G. Walder. 1986. *Communist Neo-Traditionalism: Work and Authority in Chinese Industry*. Berkeley: University of California Press.

33 Shizheng Feng, “danwei fengge yu jiti kangzheng” (Fragmentation of work units and collective action), *Shehuixue Yanjiu* (Study of Sociology) 3 (2006).

comprehensive package adopted by the Chinese Communist Party (CCP) to seek workers' acquiescence,³⁴ no studies so far has treated welfare reform as an indispensable variable in explaining the failure of social mobilization by workers in China. This research seeks to fill this void by exploring the role of welfare reform in defusing the opposition by workers during the economic transition. It seeks to answer whether and how China's welfare reform has helped the Chinese government to continue its economic reform in general and to maintain social stability in particular.

Welfare as Independent Variable

Three puzzles internal to the Chinese welfare regime make China's welfare policies highly relevant to the topic of collective action among Chinese workers.

Puzzle 1. State Withdrawal vs State Intervention: Policy Contradiction?

The essence of China's welfare reform is to withdraw the state's primary responsibility in welfare provision and to share responsibilities among the state, enterprises, and individuals. This policy orientation directly leads to the privatization of welfare provision and the consequent retrenchment of workers' welfare benefits. However, studies find that the state has never been able to reduce its role in the process of welfare provision in China.³⁵ In their study of labor policy, Lee and Warner (2004) find that the Chinese government's role in labor policy has been

34 This study benefits greatly from the insights of Professor Dorothy Solinger regarding welfare in China. She notes the path-dependency feature of China's welfare development. She also regards welfare as a component of the more comprehensive state strategies to maintain social stability. She details the meager and residual benefits of *dibao* (social assistance program) and questions whether it is the state-provided *dibao* that in reality entrapped the poor and prevented their upward mobility. What differs this study from her academic interests is that this study adopts a historical institutional approach to trace the evolution of seven welfare programs and discusses their effects on the mobilization power of workers in the wake of massive layoffs in the late 1990s.

35 Kwong-Leung Tang and Raymond Ngan. "China: Developmentalism and Social Security." *International Journal of Social Welfare*, (2001: 10: 253-259); Grace. O. M. Lee and Malcolm Warner. "The Shanghai Reemployment Model: From Local Experiment to Nationwide Labor Market Policy." *Comparative Politics*. (March 2004), 174-189.

strengthened instead.³⁶ This interventionist role is demonstrated in the government's active involvement in job creation, guarantees for basic living, and reemployment projects for the unemployed, especially former SOE workers. Even though they did their research in Shanghai, these reemployment activities, stipulated in central government's decrees, can be found in all Chinese cities, large and small. The intervention is so strong that one scholar finds that "the government's actual policies and practices towards SOEs have clashed with the official goals of reducing the state's direct involvement in the economy and making it a market-based entity."³⁷ How should these contradictory policies, including policy designs and policy results, be explained?

Relatedly, despite the Chinese government's active intervention through labor policies and welfare networks, there has been a growing inequality in China. What the laid-off workers have recouped through government intervention has been far less than what they have lost in the course of economic liberalization. Is this the failure of the interventionist policies or achieving equality through redistribution is simply not the focus of the interventionist policies?

Puzzle 2. Growing Inequality ---- Failure of Welfare Policy?

It may seem indisputable that welfare policy plays an important role in maintaining social stability. The first social insurance act to protect workers dated to Germany in 19th century. Its primary aim was to acquiescence German workers by improving their work condition and work benefits. However, welfare as an explanation for the appeasement of Chinese workers appears stretching at the first sight.

36 Ibid.

37 Hu, Xiaobo, "The State, Enterprises, and Society in Post-Deng China: Impact of New Round of SOE Reform," *Asian Survey*, Vol. 40, No.4 (Jul.- Aug., 2000), 641-657, p.656.

An easy rebuttal for this welfare argument is the widespread and growing concerns over China's soaring economic inequality in recent years. An important indicator for economic inequality, the Gini coefficient in China was 0.32 in 1980, but it reached 0.45 in 2001. According to the World Development Report 2004, China's Gini coefficient ranked, in an ascending order, eighty-fifth out of 120 economies. China is thus being transformed from an egalitarian society to a highly unequal one.³⁸ This inequality has grown between urban and rural areas, across regions, and within regions. As an instrumental tool to redistribute social wealth, China's welfare policy obviously has not fulfilled its mission.

On the other hand, welfare provision in China has been reformed since 1980. Welfare benefits provided to workers have been retrenched drastically during the reform period. Conventional logic would hold that the retrenchment of both jobs and welfare benefits available to workers would most likely lead to intense protests by workers and thus to endanger both economic and welfare reforms. It would be counterintuitive to argue that retrenched welfare benefits have pacified workers.

Puzzle 3. Welfare development: what drives it forward?

Finally, welfare development theorists would find it hard to identify the momentum for China's welfare development.

There are contending approaches to explaining the initiation and evolution of a country's welfare programs. The industrialism approach stresses that "economic growth is the ultimate cause of welfare state development."³⁹ The social democratic approach stresses the role of popular protests, mobilization and bargaining power of laborers, and the strength of social democratic parties. Popular unrest theorists, on the

38 Wang, Xiaolu. 2008. "Income Inequality in China and its Influencing Factors" in Guanghua Wan, ed. *Inequality and Growth in Modern China*. New York: Oxford University Press. P.18.

39 H. Wilensky. 1975. *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures*. Berkeley: University of California Press. p.24.

other hand, argue that the adoption and improvement of social security programs have occurred as concessions by elites to protests by the poor and workers.⁴⁰ Similarly, Tang (1998) attributes the sudden change of Hong Kong's unresponsive colonial welfare regime to the 1966-67 Riots, which underscored the economic and social grievances at that time.⁴¹ The state-centered approach, finally, focuses on such factors as the characteristics of state formation, imperatives of nation-building, and integral national economic strategies.⁴²

None of the above approaches, however, applies to China well. The Chinese welfare institution was put in place with the enactment of *Labor Insurance Regulations of the People's Republic of China* in 1951 and the following *Revised Regulations on the Implementation of Labor Insurance Regulations* in 1953.⁴³ In such welfare regime, the Chinese working class was given exclusive privileges because of its important role in projected national industrialization.⁴⁴ There have been no prominent changes until 1980s.

Coincidentally, welfare reform, characterized by retrenchment in benefits and privatization, has kept pace with China's economic reform. If one applies the above-mentioned approaches to China, one would find that almost three decades of economic growth in China has not led to corresponding improvements in the access to and coverage of its welfare provision, as predicted by the industrialism approach. Similarly, the causal mechanism identified in the popular unrest theory seems to be

40 Francis Fox Piven and Richard A. Cloward. 1971. *Regulating the Poor: the Functions of Public Welfare*. New York: Vintage Books.

41 Kwong-Leung Tang. 1998. *Colonial State and Social Policy: Social Welfare Development in Hong Kong 1842-1997*. New York: University Press of America.

42 Spalding, R.J. "Welfare Policy-making: Theoretical Implications of a Mexican Case Study," *Comparative Politics* 12 (1980): 419-38; Esping-Andersen, Gøsta et al. 1998. *Welfare State in Transition: National Adaptations in Global Economies*. London: Sage Publications.

43 "Zhonghua Renming Gongheguo laodong Baoxian Tiaoli" in 1951 and "Laodong Baoxian Tiaoli Shishi Xize Xiuzheng Caoan" in 1953.

44 Jiang Zeming. 2006. Except of Jiang Zeming's Works, Di Yi Juan (Jiang Zeming Wen Xian, the first volumn), cited in Tang Jun, "Zhongguo de Shehui Baozhang Zhengce Pingxi" (Analyses on China's Social Security Policies), *Dong Yue Lun Cong* (Discussion Papers in Dongyue), January 2008.

reversed in China. Welfare reform has been initiated before popular protests are staged in China. More intriguingly, instead of bringing increased benefits to its targeted beneficiaries as the popular unrest theory would predict China's welfare reform at the first stage increased individual contributions and retrenched welfare benefits provided to the SOE workers. The retrenchment is so fundamental that it has never been recovered at the later stage of welfare reform despite the heavy state intervention in increasing welfare provision to SOE workers in the late 1990s. This distinguishes China from other welfare countries, such as Germany in the 19th century.

Other studies, by contrast, maintain that China's welfare reform is mainly driven by the initiation and deepening of Chinese economic transition.⁴⁵ The original purpose of welfare reform was to privatize welfare provision and to improve market competitiveness of SOEs. Nevertheless, the argument of economic driven development needs to be further developed to explain a paradox observed in China's welfare reform. That is, on the one hand, welfare reform package tilted conspicuously towards its initial beneficiaries, namely, SOE workers, although the stated goal of the welfare reform is to improve welfare coverage and access to all eligible citizens.⁴⁶ On the other hand, there has been a drastic cut of welfares that workers once enjoyed under the command economy. Thus, whether welfare reform in China is simply path dependent or it is a state strategy to co-opt SOE workers is an unanswered question in welfare development literature.

⁴⁵ Chan, Cecilian and Nelson Chow. 1992. *More welfare after economic reform?: welfare development in the People's Republic of China*. Hong Kong: Press of University of Hong Kong.; Croll, Elizabeth J. "Social welfare reform: trends and tensions," *The China Quarterly* 159 (1999): 685-699.

⁴⁶ Wang, Linda. 1998. *Marginalization and Social Welfare in China*. New York: Routledge; Gu, 2001

In short, China's welfare reform is closely related to China's economic reform. Its initial policy design of state withdrawal in the form of financial decentralization in welfare provision (1980 to 1996) was contradicted by the heavy state intervention in forms of administrative recentralization and active labor policies in the later stage (1997 to 2004). The growing inequality across the society despite the government's redistribution efforts strongly questions the effectiveness of such welfare policies. Thus, the intertwining between China's welfare policies and its economic reform makes welfare reform a highly relevant variable in the study of the Chinese workers' collective action in the course of China's economic reform. This study will contribute to the study of contentious politics in China as well as welfare development theories.

Statement of Argument

To reiterate the issue of concern for this study, despite the large number of protests by laid-off workers, these protests have remained isolated cases and have not accumulated to a level of provoking greater social unrest. Moreover, with the completion of SOE reforms, protests by laid-off workers have abated over years and have been gradually outgrown by other types of protests. Why have China's SOE workers, once the vanguards of the Chinese communist revolution, not galvanized the increasingly bolder mass incidents leading the development of contentious politics in China into a new chapter? Why has such a large number of protests by the Chinese working class failed to produce larger political effects, in contrast to eastern European countries in the early 1990s,⁴⁷ or China's own Tiananmen protest movement of 1989?

Initially the study period of the research was from 1994 to 2004. It sought to

⁴⁷Kuran, 1991; Lohmann, 1994;

examine the effects of welfare reform during this period of time on the mobilization power of laid-off workers in the late 1990s. It sought to argue that internal fragmentation resulting from the age-related welfare benefits provided at this period of time contributes to workers' final pacification.

However, my field researches reveal that the argument for a linear relationship between laid-off workers' pacification and welfare benefits is over-simplistic. It finds that SOE workers' welfare benefits, instead of having increased as one would assume, have in fact decreased since 1980s, given the abolishment of public housing and the publicly financed health insurance, and increased individual contributions in insurance programs under study. Thus, the follow-up question would be why and how retrenched welfare benefits could pacify the laid-off workers.

By extending the study period from initially proposed 1994 further back to the initiation of welfare program in China in 1949, with focus on the development since 1980, this study is able to have a broader view over the development of welfare reform in contemporary China. Through tracing the reform paths of seven welfare programs, this study seeks to reveal political logics underneath. The historical institutional approach adopted in the study helps to view the welfare reform and its impacts on workers' mobilization in a more dynamic way.

According to the causes, purposes, and measures of welfare reform, and consequently different impacts on laid-off workers and their mobilization power, this study divides China's welfare reform from 1980 to 2004 into two phases, with the first stage from 1980 to 1996 and the second stage from 1997 to 2004.

The study identifies public opinion, target of blame, and organization capacity as three main explanatory variables to explain the pacification of laid-off workers. It argues that welfare reform has transformed the relationship among the state,

enterprises, and individuals, strengthened market ideology, reshaped the public opinion on mobilization, and most important, weakened laid-off workers' organization capacity. The remolded state-society relationships have had a profound impact on laid-off workers' target of blame as well as the public support essential to mass mobilization. Finally, measures of welfare reform in the 1990s divided workers internally and weakened their power to mobilize as a social group. Relationships and interactions between these variables and welfare reform are illustrated in Table 1-1(See page 27).

This study argues that the timing of welfare reform is essential in understanding impacts of welfare reform on the mobilization power of laid-off workers. According to the intended purposes of welfare reform, this study divides welfare reform into two stages: the first stage (1980 to 1996) with delinking welfare provision from SOEs and relieving SOEs of social burdens as the main purposes of reform, and the second state (1996 to 2004) with establishing a social safety net and maintaining social stability as the main policy purposes.

The first stage of welfare reform is characteristic of welfare retrenchment and state withdrawal from direct financing of welfare provision. Mandatory individual contributions to previously solely state-financed welfare programs, including pension, healthcare, and UI, as well as the state's efforts in commercializing welfare housing market, for the first time ever, the increase of individual responsibilities in welfare provision. While welfare decentralization gives individual enterprises greater decision-making power over welfare benefits provided to their employees, financial decentralization holds individual enterprises responsible for financing their own welfare provision. The state has changed accordingly from a direct financier for welfare provision to a policy maker and a regulator.

In contrast to the welfare decentralization characteristic of the first stage of reform, the socialization of welfare programs at the second stage of reform has witnessed the recentralization of administration of welfare programs. Instead of continuing to withdraw from welfare provision, the state at the second stage of reform strongly intervenes to establish a functioning social safety net consisting of contributory social insurance programs and publicly financed social assistance program. Thus, this stage has seen both administrative recentralization and the state's heavy intervention and subsidization in welfare provision.

What prompts the Chinese authorities to reverse completely its initial policy design of achieving state withdrawal from direct welfare provision? Meanwhile, if benefit retrenchment has started since the start of welfare reform, how could retrenched benefits be possible to pacify angry laid-off workers in the late 1990s? This study argues that the timing of reforms and their underlying dynamics are crucial in tackling the puzzles. Even though the first stage of reform (1980 to 1996) witnessed a profound retrenchment of socialist welfare benefits, institutional arrangements of financial and welfare decentralization at this stage actually maintained the same or even led to a higher welfare benefits for workers. Thus, welfare retrenchment did not incur strong opposition by workers as conventional wisdom would predict. Moreover, the individualist approach of welfare reform at this stage has strengthened the market ideology and started among the public a reassessment of relationships between and among the state, enterprises, and individuals. Welfare spending in maintaining the increasingly higher welfare benefits compounded financial crises of the state sector, which had resulted in the adoption of more radical restructuring policies in the late 1990s.⁴⁸ Massive layoffs thus became

⁴⁸ See chapter II for details.

inevitable.

Faced with possible mass mobilizations by laid-off workers, Chinese authorities heavily intervened in implementing active labor policies and in creating a social safety net targeting particularly workers retrenched in the course of the economic restructuring. Welfare reform at the second stage has affected workers' mobilization power in three ways.

First, it fragments laid-off workers internally. It divides the laid-off SOE workers into three groups because of its age-related benefit packages. These groups include the retired SOE workers, those about to retire, and the laid-off. For the first two groups, guaranteed pensions to the retired SOE workers and those about to retire fulfill the social contract between the state and SOE workers under the command economy, which the SOE workers consider themselves the most entitled to. Therefore, "contentious pensioners" are appeased. For the last group, reemployment projects, job-training, micro-credit provision and other preferential reemployment policies help the laid-off to be reemployed. These policies benefit especially those relatively young (in their twenties or thirties) to locate a new job. Basic subsistence allowances and unemployment insurance benefits provide as much as five years' benefits to maintain basic livelihood for those who cannot locate a job. If they continue to fail to land a job, either they can have the last resort to claim *dibao* (minimum living allowance), or they can have an early retirement to enjoy pension.

Welfare packages have provided workers with a safety net, have offered the laid-off workers different alternatives and have addressed their different age-related concerns. Among the three groups, those who get their old age benefits guaranteed and those who have secured a new job no longer have incentives to protest. The remaining group is too small in number to gain enough attention and support to

provoke larger protests. Furthermore, they tend to lack the identification of whom to blame for their economic plight. Viewing how the younger generation or their peers prosper because of the opportunities under the market economy, they may even blame themselves for losing out in the market economy. Thus, the consequent fragmentation among the laid-off workers will be the leading cause for the absent accumulation of protests because there are neither common interests among them, nor a common demand on the government, nor a common identification of whom to blame. Lacking in common interests, a common fate, and a common target of blame for what they have lost, the SOE workers' protests inevitably result in isolated cases, and fail to further mobilize. As such, the isolated protests have been unable to produce cascade effects because there is no core initial group that would come from among the downsized SOE workers.

Besides, as long as five years' buffer time provided by such welfare benefits as basic subsistence allowances, unemployment insurance, and *dibao* tactically delayed workers' otherwise concurrent reactions to layoff, which would have been more difficult to control. Meanwhile, it would be much harder for laid-off workers to reorganize and mobilize in five years after their layoff. Thus, these welfare measures have weakened workers' organization capacity.

Finally, strong state interventions have won authorities public understanding and sympathies for its economic restructuring policies and the consequent layoffs. Pervasive public support deprives protests by laid-off workers of the social soil to escalate into larger social unrests.

Thus, I seek to argue that welfare reform, as a state strategy, defuses the motive and mobilization power of laid-off SOE workers because they would either not protest or not protest further if they receive alternative means of livelihood, and

vice versa.

Methodologies and Overview of Chapters

Policy tracing and interviews will be conducted. The former seeks to approach the subject from the macro policy level while the latter from micro individual recipient's level.

Evolution of seven welfare programs under study will be traced. It serves to reveal the trend and pattern of welfare reform and to identify the dynamics underneath. Through tracing the dynamic development of welfare reform goals and policies, it seeks to capture the dynamic interactions between and among laid-off workers' course of actions in the wake of layoffs and related welfare policies.

Empirical study serves to supplement the findings of policy tracing from the micro level. It seeks to explore whether and how welfare policies implemented during welfare reform have achieved their intended policy goals, inter alia, pacifying laid-off workers. Variables of legitimacy to protest and subsistence payments are subjective factors explaining workers' action while public support and government strategies are variables exploring the external conditions that might affect workers' choice of action. It argues that welfare benefits are not sufficient but absolutely necessary factors contributing to the pacification laid-off workers.

This study is fully aware of the impacts of policy implementation may have on the outcomes of welfare policies. But detailed study of how implementation variations of welfare reform policies impacts laid-off workers' protest behavior is beyond the scope of this study. However, this study does point out the protest space created by welfare policies and its varying implementation across the country.

Chapter 1 introduces the background of contentious actions by Chinese

laid-off workers and poses the research question why their contentions did not galvanize increasingly bolder mass incidents in China leading to a larger social unrest. It then summarizes main approaches to explaining workers' failure of further mobilization. Finally, it proposes welfare reform as an explanatory variable and reasons for it.

Chapter 2 traces policy changes in seven welfare programs, including housing, five social security programs, that is, pension, healthcare, unemployment, maternity, and work injury insurance programs, and social assistance program *dibao* (Minimum Subsistence Guarantee). Reemployment Centers (REC) as a supplementary measure for unemployment insurance program in the late 1990s will be covered as well. The chapter will first review the history before welfare reform and introduce the background against which welfare reform was initiated. Then it will trace developments of each welfare program under study. Institutional evolution will be demonstrated by each program's initial institutional arrangements, causes for reforms, goals and measures of reform, and critiques of reform through comparisons between original goals and actual implementations of reforms and underlying reasons. Through the history tracing of each program, this study seeks to identify the dynamics for the development of welfare programs under study and the general trend of China's welfare development since 1980.

Chapter 3 delineates linkages between welfare reform and laid-off workers' pacification, and illustrates how welfare reform has impacted the laid-off workers' mobilization power. Through addressing the puzzle of how retrenched and residual welfare provision could be able to pacify laid-off workers, it argues that the timing of welfare reform is crucial. By dividing welfare reform into two stages (1980 to 1996 and 1996 to 2004), this chapter will examine dynamics of reforms at two stages and

explore how they have shaped SOE workers' incentives to mobilize. The lacking of a common target of blame, internal divides because of different gains and losses in the course of reforms, hegemony of market ideology, and weak public support combine to explain the failure of workers' mobilization.

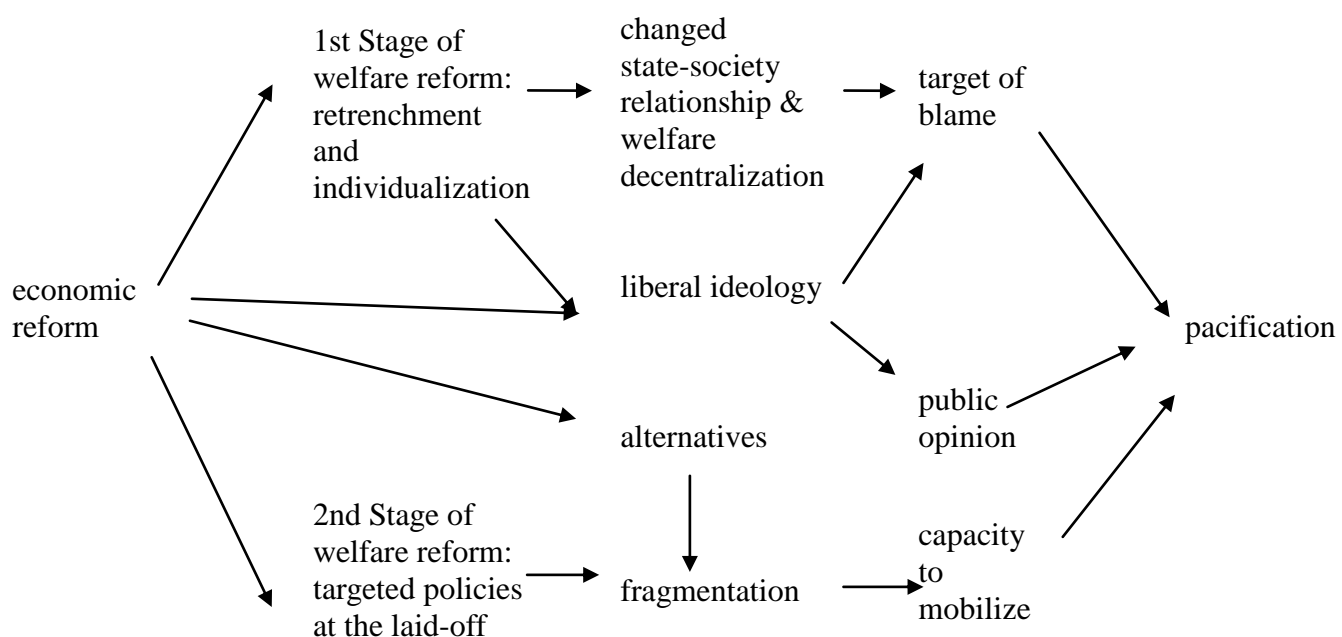
Chapter 4 seeks to use empirical data obtained in Chengdu, Sichuan, to reveal how welfare policies have shaped the laid-off workers' choice of action through a four-tier analysis. At the level of workers, the recognition of achievements in the economic reform despite their own economic plights has weakened workers' perceived legitimacy to protest. The overall improvement of living standard has further weakened the workers' perceived legitimacy and determination to protest further. At the enterprise level, individual enterprise's compensation capacities and the degree to which central policies are implemented have a great bearing on potentials of workers' mobilization. At the state level, age-related reform and compensation policies have fragmented the working class along age lines. A repertoire of coping strategies, including prolongation, intimidation, evasion, and concession has further weakened the workers' mobilization power. At the society level, the dominant public attitude towards the workers' protest is sympathetic but not supportive, which has deprived workers of the social soil essential for sustained protests.

Chapter 5 summarizes the findings of this study. It will highlight the pervasive market ideology, the selective welfare intervention, and the declining political power of the Chinese working class in explaining the pacification of laid-off workers in the late 1990s. It thus concludes that welfare is an effective tool helping the CCP to break privileges of the Chinese urban workers, to co-opt laid-off workers in the late 1990s, and to maintain a smooth economic transition in China.

Finally, the epilogue goes beyond the welfare-protest nexus central to this

study and record an edge-cutting development in Chengdu's welfare provision to land-losing farmers during the process of urbanization after 2003. Just as laid-off workers were once a threat to the social order and stability, land-losing farmers has replaced laid-off workers to become another destabilizing force in the 21st century in China. Two completely different episodes in the history of the Chinese welfare development reflect a common logic. Welfare has consistently been a significant tool in the government's tool kit to remove social obstacles for a further economic growth.

Table 1-1 Dynamic Interaction



Chapter 2 The Evolution of Welfare in the Reform Era

China's economic reform has followed a pattern of "induced institutional change."⁴⁹ This chapter will suggest that China's welfare development has followed the same pattern. Through tracing the evolutionary paths of seven welfare programs --- housing and social security programs, namely, pension, healthcare, unemployment, employment injury, and maternity insurance programs, and the social assistance program *dibao* (Minimum Subsistence Allowances) --- this chapter will identify the dynamics underlying the development of various welfare regimes, the evolutionary trends in the past two decades, and the political logic at each critical juncture of such development.

I argue that the development of Chinese welfare institutions, from their initiation to evolution, has been a compromise among struggling forces: the state, vested interests groups, ideologies, and economic constraints. Among these, maintaining social stability has taken high priority at each critical juncture. As such welfare instrument has been one of the Chinese government's effective tools to maintain a smooth economic transition in China.

The chapter will first introduce the background against which welfare reform was initiated. It will then trace the institutional evolution of each welfare program, from initial institutional arrangements, causes and goals for reform, reform process,

49 According to Justin Yifu Lin, "An induced institutional change refers to a modification or replacement of an existing institutional arrangement or the emergence of a new institutional arrangement that is voluntarily initiated, organized, and executed by an individual or a group of individuals in response to profitable opportunities," quoted from "An Economic Theory of Institutional Change: Induced and Imposed Change," *Cato Journal* 9: 1 (Spring/ Summer 1989), p.13, available at <http://www.cato.org/pubs/journal/cj9n1/cj9n1-1.pdf>; also see Shaomin Li, Shuhe Li and Weiyang Zhang, "The Road to Capitalism: Competition and Institutional Change in China," *Journal of Comparative Politics* 28: 2 (June 2000): 269 -292.

and most important, their actual administration and implementation.

The second section of the chapter will discuss the characteristics of China's welfare system and its development trend. It will identify the driving force of welfare development through comparing the seven welfare programs in terms of their scope of reform, and actual implementation of reform. To an extent, the scope and degree to which changes are made are commensurate to the extent of policy priority that the program has been attached. The more frequent and radical the reform is, the stronger the state intervention will be. Similarly, administrative guarantees are crucial in achieving desired policy goals. The stronger measures are put in place to guarantee the implementation of a certain program, the higher policy priority the program enjoys.

Pre-reform welfare system

The welfare system in China is characterized by a sharp urban-rural divide. Two completely separate sets of welfare system have existed in rural and urban China since the Chinese welfare system was put in place in 1950s. Limited financial resources were directed to urban areas, concentrating on the state sector. Welfare reform, in this study, will concentrate on the transformation of the welfare system in the urban area.

There are three competing explanations for the urban bias of the Chinese welfare system. One emphasizes the strategic importance of modern industries in a newly independent country, where industrial workers were given economic privileges in the form of generous welfare benefits. Another emphasizes the leading position of the Chinese working class, which had helped the CCP to win the civil war in 1949. Therefore, welfare benefits are both a reward for their past support and a price to pay

to win their continuous loyalty. A third explanation approaches from the ideological importance attached to the working class in a socialist ideology.

Whichever explanation it might be, the fact was that workers in China's state sector had long enjoyed the privilege of a comprehensive set of welfare benefits not available to the population in any other sectors of the society.

SOE workers were provided a wide range of social welfare benefits, ranging from free medical care and retirement pensions, inexpensive housing, to transportation and heating allowances.⁵⁰ Considering China's overall low living standard at that time, such welfare benefits were very generous and the urban bias of its welfare system was even more conspicuous.

Initially, there were only three main social security programs under the first *Labor Insurance Regulations of the People's Republic of China* promulgated in 1951: health insurance, employment injury insurance, and old-age insurance. It was later expanded to include maternity and unemployment insurance programs.

In the pre-reform welfare system, the state directly financed the insurance programs. According to the initial institutional design of welfare provision, All-China Federation of Trade Unions (ACFTU) had assumed responsibilities of actual administration of the programs. However, ACFTU had become dysfunctional during the Cultural Revolution (1966 to 1976). Its administrative power over the insurance programs was accordingly decentralized to each work unit. Since then work units had become grassroots organizations to deliver welfare benefits financed by the state.

Welfare reform

Because of the financial crisis squarely faced with the public housing

50 For more detailed account of welfare benefits, see Li Xing, "The Transformation of Ideology from Mao to Deng: Impact on China's Social Welfare Outcome". *International Journal of Social Welfare* 8 (1999): 86-96.

program in 1970s, the welfare reform first started with housing program in 1980.⁵¹ It was followed by pension in 1984, healthcare in 1988, maternity in 1994, and employment injury in 1996. The unemployment insurance program was created from the scratch in 1999.

There are three main reasons for welfare reform: the financial infeasibility of sustaining increasingly expensive welfare programs, the looming risk of failed welfare provision, and the necessity for transition from a planned economy to a market economy. All of these are closely related to China's economic reform since 1978. China's economic reform urged a concomitant reform of its welfare system.

Economic reform

Encouraged by the success of rural reform since 1978, Deng Xiaoping, the chief architect of China's economic reform, decided that economic reform should expand from the rural to the urban area. The 3rd Plenary session of the 12th Party Central Committee adopted *The Decision on the Reform of Economic System* in June 1984. It marks the shift of reform focus from the rural to the urban area.⁵² Price liberalization, separation of enterprise management from ownership, decentralization of enterprises' management, and diversification of enterprise ownership are centerpieces of the decision.

Under the guidance of this decision, a contract responsibility system borrowed from the successful experience of rural reform was set up in SOEs. Fourteen rights were granted to SOEs regarding autonomous management, including

51 The financial crisis of the public housing will be detailed in the section of housing reform in this chapter. Also see Xingquan Zhang, "The Restructure of the Housing Finance System in Urban China," *Cities* 17 (Nov 5, 2000): 339-348; Victor N. Shaw, "Urban Housing Reform in China," *Habitat International* 21 (Nov 2, 1997):199-212. p.201.

52 Jinglian Wu. 2003. *Dandai Zhongguo Jingji Gaige* (The Contemporary Chinese Economic Reform). Shanghai: Shanghai Far Eastern Press. pp.70.

autonomies in setting output prices, hiring and firing labor, and allocating investment finances and fixed capital.⁵³ Under these new systems, SOEs were no longer required to submit all the realized profits to the state. Rather, they were allowed to retain a portion of their profit and spend this for their own purposes. These new systems were designed to give enterprise managers not only managerial autonomy, but also a sufficiently powerful incentive to respond efficiently to market forces.⁵⁴ Such power was further expanded to personnel management in 1986 with the enactment of the *Interim Decision on Contract Labor*. The emergence of the contract laborers, despite their limited numbers, entailed that the practice of life-long employment in enterprises was no longer the only mode of employment in SOEs. Directors would have full authority over the hiring and firing of labor based on his performance and needs of enterprise operation. The nation-wide implementation of management responsibility systems was achieved in 1992.

Impacts of these reforms on the welfare system are profound. It contributed to the financial crisis of welfare provision in some profit-losing SOEs. The consequent failure of welfare provision in the insolvent SOEs creates serious social problems. Meanwhile, heavy social burdens leave SOEs in a rather disadvantaged position in increasingly fierce market competition.

Financial un-sustainability

Financially, the financing for the welfare provision was decentralized from

53 The fourteen rights granted to SOEs were stipulated in *Quanmin Suoyouzhi Gongye Qiye Zhuanhuan Jingying Jizhi Tiaoli* (Regulations on transformation of SOE Management System) on 23 July 1992. It marks the ending of the direct management of SOEs by the government. The reform was also mentioned in Edward Gu, "Beyond the Property Rights Approach: Welfare Policy and the Reform of State-Owned Enterprises in China." *Development and Change* 32 (2001): 129-150. p.134; Barry Naughton. 1995. *Growing Out of the Plan: Chinese Economic Reform 1978-1993*. Cambridge: Cambridge University Press. pp.204-5, pp.294-5.

54 Gu, 2001, 134. This part of soaring welfare spending in SOEs between 1980s and 1996 and its institutional reasons are heavily borrowed from Gu, 2001, pp. 130–9.

the state to individual SOEs. In the era of planned economy, welfare was fully financed by the state. The central government held the power to make key decisions in almost all socio-economic activities. SOEs conducted all production activities and submitted all realized profits to the state. Correspondingly, the government then made a unified plan for resource allocation, including the welfare provision. Under this state-SOE power relationship, the state was the main provider of welfare benefits. SOEs functioned merely as grassroots organizations of the government for the bookkeeping of welfare funds and the delivery of welfare benefits.

More specifically, the different components of welfare benefits in a SOE were financed from different sources. The construction of public housing was financed from workunit-based ‘capital construction funds’ and the other welfare provisions were financed from workunit-based ‘employees welfare funds.’ Both funds came from governmental fiscal appropriations. The ‘capital construction funds’ were allocated to individual SOEs in line with the state capital investment plan, while the ‘employees welfare funds’ were distributed to all SOEs according to the size and total salary roll of each enterprise.”⁵⁵

Due to economic reforms, the central government ceased to distribute fiscal appropriations to SOEs’ capital construction funds and employees’ welfare funds from the mid-1980s. SOEs, thus, had to self-finance welfare provision to their own employees. Usually, this comes from the retention of their profits. By the early 1990s, this transition from a state-based welfare funding mechanism to a self-financing based one was virtually complete.⁵⁶

One of the consequences of the financial decentralization of welfare provision was the soaring welfare spending throughout the 1980s. The ratio of

⁵⁵ Gu, 2001, p.132-3.

⁵⁶ Gu, 2001, p.134.

employees' welfare funds to the total payroll funds reached 18.5 per cent in 1980, and nearly doubled, reaching 32.3 per cent in 1995.⁵⁷ This is far more than the 11 per cent standard set by the state. This dramatic increase was triggered by both the institutional legacies of SOEs and by the incentive structure embedded in the current institutional relationship between the state and SOEs.

On the one hand, pension spending due to the increasing number of retirees taxed heavily on the state sector. Compared with their counterparts in the non-state sector, most of which were created after economic reform and whose employees were relatively young, SOEs have much heavier burden in the terms of more retirees to take care of due to their longer history. According to the Chinese National Statistics Bureau, around 77 per cent of retirees were former SOE employees in 1995, a mere decline from 81.2 per cent in 1990.⁵⁸ Aging population exacerbated this problem. The number of retirees increased from 22.7 million in 1990 to 46.48 million in 2004. The number of retirees from enterprises has increased from 18.45 million in 1990 to 36.1 million in 2004.⁵⁹ Take Chengdu as example, the dependency ratio (the ratio between retirees and working staff) increased from 0.19:1 in 1990 to 0.49:1 in 2003, which implies that 100 employees supported 19 retirees in 1990 while the same number of employees had to support 49 retirees in 2003.⁶⁰ Because of the practice of early retirement, this ratio tends to increase further.

57 Gu, 2001, pp.13.4. The high increase of rate of SOE welfare spending is confirmed by other studies. Jin Lu observes that compared with welfare spending in 1980, welfare spending by SOEs has increased almost 30 per cent in the late 1980s (Jin Lu, "Firm welfare spending during China's Economic Transition: Strategic Choices and Institutional Mechanisms," paper presented at the annual meeting of the American Sociological Association, Philadelphia, 12 August 2005. available at http://www.allacademic.com/one/www/research/index.php?click_key=1&PHPSESSID=4d3c0c30f7a54956474f89c8794f7c89); Croll, 1999, pp.687.

58 See Table 2-1 in this chapter, the percentage is calculated by number of enterprise retirees at year end divided by number of retirees at year. Figures are from China Labor Statistical Yearbook, 2005.

59 *China Labor Statistical Yearbook*, 2005, pp.550.

60 *Chengdu Statistical Yearbook*, 2004, pp.61.

Table 2-1: Number of and Pension Benefits for Retirees, 1990-2004

Year	Number of Retirees at Year-end (million)	Number of enterprise retirees at year-end (million)	Pensions for Retirees (100 million Yuan)	Pensions for enterprise retirees (100 million Yuan)
1990	22.7	18.45	396.2	307.1
1995	30.65	23.66	1305.6	915.6
2000	38.48	29.78	2733.3	1846.6
2001	39.89	30.72	3072	1988.5
2002	41.96	32.61	3659.4	2417.2
2003	44.96	34.86	4148.9	2684.6
2004	46.48	36.1	4510.9	2867.3

Sources: China Labor Statistical Yearbook, 2005, pp.549-550.

Since work units now assumed full responsibilities for all employees including retirees, pension spending by the state sector consequently climbed up steadily from 1980 to 1996. It had accounted for more than half of total welfare spending since 1994.⁶¹ The same situation can be found in the housing program. The non-state sector excluded flatly housing from its employees' benefit packages, while work units in the state sector had to take the place of the state to become big investors in the construction of welfare housing. The total investment in housing increased from CNY14.92 billion in 1981 to 49.93 billion in 1990.⁶²

On the other hand, the current incentive structure exacerbated the problem. Under the new institutional design, SOE managers would have to bargain with the state over profit share or profit retention. Thus, SOE managers tended to under-report profits

61 Gu, 2001, pp.138.

62 Gu, 2001, pp.135.

because they feared that the state would raise the base figure of profits to be handed over in the next round of bargaining,⁶³ as Kornai observed in Hungary during its transition. The incentive of retaining more profits made SOE managers inclined to maximize the cash incomes (wages and bonuses) and non-cash incomes (a variety of welfare benefits) for all employees, themselves included.

Charged with multitasks of efficient production and social welfare provision, SOEs tend to be given low profit incentives for improving productivity. Consequently, compared with their counterparts in the non-state sector, SOEs' financial performance continues to be poor.⁶⁴

Thus, both the institutional legacy and institutional incentive structure made the welfare expenditure of the state sector rise continuously. The soaring welfare spending by the SOEs greatly impaired SOEs' competitiveness in a market economy. Over the period from 1978 to 1998, the competitiveness of the SOE sector has been consistently lower than that of the non-state sectors.⁶⁵

Risks of failed welfare provision

Meanwhile, since the pre-reform welfare system did not involve insurance schemes, there was no institutional arrangement by which welfare funds could accumulate surplus during financially solid years to be spent during financially poor years, the welfare system in these SOEs might collapse, thus bringing about more serious social consequences. The work unit-based welfare system was further

63 Naughton, 1995, pp.123, pp.284-5.

64 Bai, Chong-En, David D. Li, Zhigang Tao, and Yijiang Wang. "A Multitask Theory of State Enterprise Reform." *Journal of Comparative Economics* 28 (2000): 716-738.

65 Jefferson, Gary H., Thomas G. Rawski and Yuxin Zheng, "Chinese Industrial Productivity: Trends, Measurement Issues, and Recent Developments," *Journal of Comparative Economics* 23: 2 (1996): 146-80; Gary. H. Jefferson and Thomas G. Rawski, "Enterprise Reform in Chinese Industry," *Journal of Economic Perspectives* 8:2 (Spring 1994): 47-70; Jefferson et al. "Growth, Efficiency, and Convenience in China's State and Collective Industry," *Economic Development and Cultural Change* 40: 2 (1992): 239-66.

challenged by the fact that under fierce market competition, some SOEs became insolvent. They could not pay even wages for their active employees, let alone the welfare benefits for their retirees. Protests by retirees due to livelihood difficulties occurred in early 1980s in some coastal cities that had carried out the economic reform earlier than the other parts of the country.⁶⁶ It was clear that the problem of failed welfare provision could become pervasive if no remedies were made.

Competitive Disadvantage

Responsibilities for welfare benefits of employees, including an increasing number of retirees, became an increasingly unbearable burden that was likely to suffocate SOEs. This burden put SOEs in a much disadvantageous position when competing with the non-state sector. Even within the state sector, enterprises with more retirees had less advantage in the market than those with fewer retirees. The establishment of a market economy with fair market competition calls for a new institutional arrangement.

Under such circumstances, in order to help SOEs shed the burden of welfare provision, to create a level playing ground for SOEs to compete in a market economy, and to improve the efficiency of the state sector, welfare reform became imperative. Besides, economic restructuring and the resultant increase of labor mobility also placed a strong call for a welfare arrangement that was delinked from work-units.

The following section will examine respectively the five social insurance programs (pension, healthcare, the unemployment, work injury, and maternity), housing program, and the social assistance program *dibao*, including their respective causes and processes of reform.

66 Xiao-yuan Shang. "Zhong Guo She Hu An Quan Wang de Xian Zhuang Ji Zheng Ce Xuan Ze" (Situation and Policy Choices on China's Social Safety Net), *Zhan lu Yu Guang Li* (Strategy and Management) (June 2001).

Pension reform

Reform Causes

Until the mid-1980s, China had maintained an urban- and enterprise-based Pay-as-you-go (PAYGO) pension system. Under this system, a retiree of a SOE would receive his/her pension from his/her enterprise, which ran a PAYGO pension scheme with the firm's own revenue. The small-scale pension scheme had a rather high risk of pension failure, particularly when the firm was running profit loss. Fragmented pension provision left enterprises with limited capacities of controlling risks of possible funding shortages. In the early 1980s, quite a few incidents of retiree protests due to pension arrears occurred in the coastal area where market reform was introduced earlier than the other parts of the country. The fragmented pension provision was challenging social stability.

Moreover, the scheme design of PAYGO system, to a certain degree, was exacerbating the funding problem. Generally, there are two types of pension schemes: PAYGO system or a fully-funded system. Under the PAYGO system, employers and workers are required to contribute to a pension fund through a payroll tax. Retirees are supported directly by pension contributions from current workers. Each generation of workers is supposed to support the previous generation of workers. In turn, the current generation will be taken care of by a future generation. Pension benefits are pre-determined, regardless of the accumulated value of individual's contributions over the years. There is no risk of outliving the pension assets since pension benefits are drawn directly from an on-going risk pooling public pension fund. The benefit level can be pegged to years of service, inflation, and market indices.⁶⁷

⁶⁷ Jinxing Huang, 2004. *The Politics of Economic Restructuring and Old-age Pension Reform in China*. Ph.D dissertation in Political Science. Stanford University. P.41.

By contrast, a fully-funded pension schemes is a mandatory saving program. Under this scheme, employers and employees make regular contributions to individual pension accounts, which are invested in a diversified portfolio under the individuals' names. Current workers' contributions are not used to pay retirees. The value of personal accounts relies on market performance. A worker's pension depends on the accumulated value of their individual accounts. This type of pension schemes links benefits directly to individual contributions and pension fund performance. The close link between contribution and pension benefits in a full-funded scheme encourages participation. Moreover, funding is also a good source to help national infrastructure building or to invest in other social welfare projects as in Singapore.⁶⁸

The underlying assumption of the PAYGO system is that cash inflow and outflow would achieve an equilibrium so that each generation of retirees would receive old-age support. However, once aging labor force leads to more retirees withdrawing their pension benefits or fewer workers making contributions, the pension fund would encounter deficits.

What China's pension system was facing in 1980s was the growing number of retirees, the increasingly lowered dependency ratio between current employees and retirees, and aging population. Especially, with the deepening of economic restructuring, early retirement was used as one of the strategies to allure redundant labor to leave their work units. Sudden increase of the number of retirees due to economic restructuring in the late 1990s compounded the funding problem.

In addition to the unsustainable funding, the extremely uneven distribution of pension burden across enterprises was another challenge calling for pension reform. Many old SOEs were heavily burdened by their large number of retirees (some SOEs

⁶⁸ Ibid.

had more retirees than current workers), while others (mainly new firms) had very few or no retirees.⁶⁹ Unevenly distributed pension burdens greatly impaired the market competitiveness of old SOEs and ran against the cause of China's market transition.

Under such circumstances, pension reform was first experimented in some cities in 1984 and had been in full swing since 1986. It was given a high priority in the overall welfare reform thanks to the large number of retirees, the amount of funds needed, the burden differences between the new and old enterprises,⁷⁰ and the pressure of retirees' potential protests on the social stability.

Measures of reform:

Privatization of welfare provision and its de-linking from enterprises (*shehuihua*) are the main components of welfare reform. Collective welfare provision in a pre-reform era began to shift to an individualist welfare provision.

Social pooling

The first element of pension reform was to socialize the program through pooling previously enterprise-based pension funds. Under the socialized pension program, SOEs will contribute 8 per cent of their payrolls to the pooled pension fund. In return, pension benefits will be distributed by the pension fund instead of individual enterprises. In this way, the risk of pension insolvency of an individual enterprise is avoided. Since all enterprises contribute to the pension fund based on the payroll of current employees, pension responsibility for retirees is shared among all enterprises, creating an optimal competition environment among all SOEs and preventing the

69 Jun Ma and Fan Zhai. "Financing China's Pension Reform," presented at the Conference on Financial Sector Reform in China (September 11-13, 2001). p.3.

70 Liu, Cheng. 2006. *Shehui Baozhangfa Bijiao Yu Yanjiu* (Comparative Study on Social Security Legislations). Beijing: Chinese Labor and Social Security Press. p. 159.

collapse of the pension program in some SOEs.

The ultimate goal of pension reform is to establish a nation-wide pension system, with a unified pooling of pension funds, a single rate for contributions, a single rate for benefits, and a single agency for pension management and distribution.

Creation of individual accounts

The second element of pension reform deals with the funding problem facing the program. This funding problem partially results from the PAYGO pension scheme used in China. As many other countries, China had been practicing PAYGO system before the pension reform in 1980s. Due to the aging population, these countries felt the great pressure of sustaining their pension programs and started to look for ways to reform. Chile started its pension reform in 1980 and successfully transformed from an insolvent PAYGO program into a new structure that relies heavily on funded defined contribution individual accounts.

Inspired by Chile's successful transition from a PAYGO system to a fully-funded system, and also influenced by the policy recommendations made by the World Bank, China opted for a three tier pension scheme. Under such a scheme, the old-age pension consists of a state-guaranteed public pension, individual mandatory savings, and an enterprise sponsored supplementary pension or enterprise annuity. Compared with the previous pension program, this scheme divides responsibilities for social security among the state, enterprises, and individuals.

Reform process

Pension reform started in 1984, with the Labor Department's pilot programs in some cities and counties to pool pension funds across enterprises. By 1985, all cities were encouraged to set up funds for pensions to be pooled across firms so that

enterprises with different numbers of retirees could share costs. In 1986, pooling was established on a limited basis across state enterprises at the municipal level, and an individual contribution scheme was implemented for contractual workers within SOEs. Since then, pooling was extended to workers in collective owned enterprises in many cities. In 1991, the State Council issued the *Decision on the Reform of the Retirement Insurance System of Employees in Enterprises* (No.33 Document), calling for the establishment of a pension system combining pooled funds and individual contributions. The individual contribution was first put forward in the design of reformed pension program.⁷¹ A three tier system was envisaged: a basic pension plan by mandatory enterprise and individual contributions, a supplementary pension plan funded by enterprises in sound financial conditions, and individual savings.⁷²

Table 2-2: Overview of Policies for Pension reform

Year	Document	Document Number
2000	Notice on Accelerating the Implementation of Socialized Distribution of Pensions	MOLSS No.9
1999	Circular on Related Questions on Establishing Pension Pooling at Provincial level	MOLSS No.37
1998	Circular on Pooling of Pension fund at Provincial Level and Transfer of Pension Pooling at Industry level to Local Administrative Agencies	SC No.28
1998	Interim Regulations on Independent Management of Revenues and Expenditures of Pension Funds for Employees in State Enterprises	MF, MOLSS, PBC, GRS, No.6
1997	Decision on the Establishment of a Uniform Pension System for Employees in State Enterprises	SC No.26
1995	Circular on Deepening the Reform of Pension System for Employees in State Enterprises	SC No.6
1991	Decision on Reforming Pension System for Employees in State Enterprises	SC No.33

71 China State Council, 1991, No.33.

72 Ma and Zhai, 2001, p.3.

Sources: Ministry of Human Resources and Social Security website

However, the pension reform was heavily influenced by decentralization. The implementation of pension reform rests with local governments. “Unfunded mandate” by the central government for local governments to finance a new pension system made pensioners heavily dependent on the efforts of local government agencies to collect sufficient payroll deductions from firms within their jurisdiction.⁷³

Facing scarce implementation at the local level, in 1995, the State Council issued another decree, the *Circular on Deepening the Retirement Insurance System of Employees in Enterprises*,⁷⁴ urging enterprises to “further their pension reforms.” It proposed the integration of the unified fund and individual accounts and aimed at a socialized program rather than the traditional enterprise-based pension programs. Two plans for the basic pension plan were proposed with different individual contribution rates. The circular permitted municipal and prefecture governments to select a reform plan and provincial governments were given the right to approve the choice by lower level governments. This resulted in a highly fragmented system in which provincial and local governments selected various combinations of the two plans. Again, such a policy was not operational given its vague nature of not specifying the contribution rate and benefit levels associated, and implementation requirements for the local Labor and Social Security bureaucracies.⁷⁵

Besides, the incentives for different government offices to compete over the management of pension funds as a profitable business further prevented the higher level of social pooling of pension funds. A case in point is an episode of failed social

73 Mark W Frazier. “China’s pension reform and its discontents”, *The China Journal* 51 (January 2004).

74 China State Council, 1995, No. 16.

75 Huang, 2004, p.94.

pooling between 1980s and 1997.

Pension premium collection and benefit distribution were carried out based on the principle of “deciding output according to input” in 1980s. An average pension premium was collected from all the enterprises and pension benefits would be distributed to enterprises based on the actual number of retirees in the enterprises so that the pension burdens would be shared among all the enterprises.

However, because a certain percentage of administrative fees was allowed to be charged to the pooled funds, such monetary incentives prompted many government agencies to compete for administrative control over pension pooling. Pension pooling was divided among several different government agencies. Pension pooling for SOEs was under the Labor Ministry while that for institutional work units was under the Personnel Ministry. People’s Insurance Company was responsible for the pension of collective enterprises while the eleven national industries with monopoly status such as railway, electricity and banking had their own industrial pension pooling.⁷⁶

While competing for profitable enterprises, which were the main contributors to pension pooling, insurers usually competed by offering better pension benefits. Thus, the interest convergence among enterprise employees, enterprise managers, and government agencies led to high pension premiums, high pension benefits, and accordingly high financial burdens on enterprises. This was exemplified by the increasing replacement ratio. In some extreme cases, pension replacement ratio in some localities was even negative, meaning pension benefits were higher than local wages.

Therefore, even though the loss-making enterprises no longer had the problem of failing the provision of pension benefits due to their larger number of retirees, the

⁷⁶ See Shang Xiaoyuan and Huang Jingxing’s “fractured authoritarianism”

financial burden on other enterprises had increased instead. This financial burden eroded the profit-making capability of financially sound enterprises as well as loss-making enterprises. In 1996, this situation reached a critical moment. Half of all SOEs either made an operating loss or became bankrupt. Because of the fiscal subsidies paid to loss-making SOEs, the state sector as a whole incurred a net loss of three billion yuan.⁷⁷ The financial base of previous social insurance had been eroded and many pensioners failed to receive their pensions on time, if at all.⁷⁸

It was against this background that social insurance reforms of 1997 were introduced. The State Council issued the decree of *Decision on Establishing a Uniform Basic Old-Age Insurance System of Employees in Enterprises* in 1997. It marks the establishment of a pension scheme integrating social pool funds and personal saving accounts. The system separates a basic pension plan (social pooling) which aims to set a floor of benefits, from a supplementary pension plan (individual accounts) which is linked to accumulated contributions. Social pooling was to be financed entirely by enterprise contribution of 13 percent, and would provide 20 per cent replacement based on the previous year's local average wage. Individual account would be financed by individual contributions of 8 per cent plus 7 percent from enterprises, and it would entitle retirees to a monthly annuity equal to 1/120 of the account's notional accumulation plus an indexation factor. According to the document, contributions to social pooling were to be pooled initially at the provincial level and later at the national level.⁷⁹

The integration of fund pooling and individual account, without necessary financial subsidies to the individual accounts of employees who had never had

77 East Asia Analytical Unit (EAAU). 1997. *China Embraces the Market: Achievements, Constraints and opportunities*. Canberra: Department of Foreign Affairs and Trade, p.333.

78 Peter Saunders and Xiaoyuan Shang, "Social Security Reform in China's Transition to a Market Economy," *Social Policy & Administration*, 35: 3 (July 2001): 274-289, p.281.

79 Ma and Zhai, 2001, p.3.

individual accounts before the reform, resulted in local governments' contingent use of the funds from the individual accounts of current employees to fund the pension of retirees. This practice resulted in occurrences of a large number of empty individual accounts. Empty accounts pose a great risk for the health of the whole pension system. Therefore, the 1997 system largely failed as funds in most individual accounts were "borrowed" to finance the benefit payments of the basic pension plan.

In order to resolve the problem of empty account and to explore ways to cover the transition cost, *Piloting programs on Improving the Urban Social Security System Reform* was issued by the State Council in December 2000, with Liaoning being selected as the pilot province. Later, the pilot program was extended to Jilin province and Heilongjiang province in the east northern China.

Critiques on the implementation of pension reform

A pension program envisioned vs a program compromised

There is an observed compromise between the long-term goal of the pension reform and a short-term contingency. A financial gap was created when shifting from a traditional PAYGO system to a three-pillar pension system. This financial gap kept widening with more retirees entering the pension program, rendering local government unable to pay off current retirees. Due to the heavy costs of transition, the pension reform was struggling between transforming into a three pillar system and paying off current retirees. Far from achieving the goal of creating a national pension program, not even close to establishing a pension program at provincial level, pension programs ended up being unified only at the city level. It ends up being only a temporary response to workers' unrest.⁸⁰

80 Huang, 2004, p. 200.

Moreover, the claimed goal of pension reform was the marketization of pension program, reducing the responsibilities of the government and enterprises and increasing the personal contribution. In reality, while the personal contribution was added, that of the government and enterprises was not reduced accordingly. A case in point is the choice of Liaoning as a province for the pilot pension program in 2001. By 2002, the central government had subsidized CNY 35 billion to implement the pilot program. Similarly, due to different levels of pooling of pension funds in different regions (ranging from county-level to municipal and provincial level) and a sharp contrast in terms of economic growth, the central government has had to provide about CYN 15 billion annually over the past few years to help the less developed central and western regions cover the pension funding gap. In 2007 alone, the total of such earmarked transfers exceeded CYN 87 billion.⁸¹ After all, the goal of the pension reform is centered on the Chinese government's effort to maintain social stability, as expressed in several government decrees.⁸²

One of the problems faced with the Chinese pension reform is that it shifted the enterprises responsibilities to individuals without sufficient funding for such a transition. There was no legislation to recognize the entitlement of current retirees to part of the state-owned assets.⁸³ Furthermore, no legislation of pension premium collection led to regional differences in this respect. Places where there is a diverse

81 "Pension for Retired Workers to increase for another three years", from ISSA website,

82 Huang, 2004, p.89

83 Given the transition costs have already become big obstacles for further pension reform, some scholars suggest that selling shares of state assets (*guo you gu jian chi*) and issuing long-term national bonds (*faxing changqi guozhai*) should be adopted to raise necessary funds to cover the transition cost. See Gongcheng Zheng, "Zhongguo Shehui Baozhang Gaige yu Zhidu Jianshe," *Zhongguo Renmin Daxue Xuebao* (Newspaper of People's University of China), May 2003; In fact, "in recognition of the legacy obligations, the government decided in 2003 to transfer some of its shares in SOEs, particularly those that were being listed on stock markets and those not listed but already organized as joint stock companies, to the National Social Security Fund." This is one step further in the direction of using part of the state assets to cover the transition costs. See Mukul Asher et al, "Social Security Reform in China: Issues and Options," Report of policy study by China Economic Research and Advisory Programme (27 Jan 2005). pp.5; Dasong Deng and Changping Liu. 2007. 2005-2006 nian zhongguo shehui baozhang gaige yu fazha baogao (Report of Reform and Development of China's Social Security, 2005 to 2006). Beijing: People's Press.

economic profile are better prepared to enforce pension rules. Those relying on one or two key SOEs had bigger problems. In some regions, such as Shengyang, the mandatory saving accounts were used to pay off current retirees and soon became empty accounts. Urban enterprises continue to face heavy tax burdens to fund the current welfare system.

Early retirement as a contingent policy option

In order to relieve the pressure of unemployment, and provide more employment opportunities for the young labor force, early retirement was applied to redundant workers who had less than 5 years to reach official retirement ages (55 for male workers and 50 for female workers) as a part of SOE reform package. This arrangement was first introduced in *Regulation on Transformation of SOE Management System* in 23 July 1992, which stipulates alternatives for SOEs to redirect their redundant workers. The arrangement of early retirement was reiterated in *Regulation on Arrangements for SOE Redundant Workers* in 1993.⁸⁴ The research group on “Urban Employees’ Social Insurances” recommended that 5 years early retirement should be mandatory until 2020. According to them, the early retirement has benefits of not reducing national coffer, not adding more burdens to enterprises, and not affecting individuals’ income. In addition, it can provide more job opportunities for the young labor force.⁸⁵

However, early retirement put a lot of pressure on the pension system. From 1980 to 1998, the number of retirees is growing twice as fast as the number of active

84 State Council Order (1993) No. 111, Guoyou Qiye Fuyu Zhigong Anzhi Guiding (Regulation on Arrangements for SOE Redundant Workers)

85 The Research Group on Urban Employees’ Social Insurance. “Chengzhen Zhigong Shehui Baozhang Zhi du Gaige de Silu Yu Fangan” (Thinking and Blueprints for Urban Employees’ Social Security Reform), *Research of Sociology*, (issue 6 1999), cited in Zhang Lizhi, “On China’s Social Security”, *Research of Sociology* Issue 3, (1997).

workers. By June 2002, the number of urban active workers in the pension plan declined to 90.6 million, while the number of retirees increased to 30.70 million. China's pension deficit nearly doubled from the previous year. The most common retirement ages across the 30 OECD rich countries was 65, but it was 59 for men in non-OECD countries and 57 for women.⁸⁶ In China, it was 60 for men and 55 for women. The laid-off workers are offered the option of early retirement at 55 for men and 50 for women. Relatively generous public pension schemes with low retirement ages were causing much of the problem.

Contrary to the practice of improving the retirement age to release the pressure on the pension fund as in many industrial nations and against the policy recommendations by international organizations such as World Bank to reduce the pension burden by gradually increasing the retirement age, lowering the wage replacement rate and indexing pensions to prices rather than wages⁸⁷, China had to adopt an opposite strategy of reducing its retirement age to alleviate its soaring unemployment. The state was caught in the dilemma of instability from either too many laid-off workers or too many retirees not receiving promised pension. The fear for social instability has provided a strong and consistent incentive for the government not to forfeit its responsibility to urban workers.⁸⁸

Early retirement, as an effective policy to divert the tremendous pressure away from the employment system, had been implemented between the late 1990s and 2005.

However, this policy is gradually losing its favor. With the completion of

86 Cris Giles, "Pension Systems in Asia at Risk, Says OECD," *Financial Times* (January 8, 2009).

87 World Bank (1997a). *China 2020: Development Challenges in the New Century*. Washington DC: World Bank Publications; World Bank (1997b). *Old Age Security: Pension Reform in China*. Washington DC: World Bank Publications.

88 Kwong-Leung Tang and Raymond Ngan. "China: developmentalism and Social Security." *International Journal of Social Welfare* 10 (2001): 253-259. p.258.

economic restructuring in most SOEs, layoffs were no longer as severe as before. Consequently early retirement was no longer encouraged. As the *Decision on Improving the Basic Pension Insurance System of Employees in Enterprise* enacted by the State Council on 3 December 2005,⁸⁹ the employer-employee pension contributions to be credited to individual accounts will be reduced from 11 per cent to 8 per cent of payroll and one per cent will be added to the basic pension benefit for each additional year of contribution after 15 years. .. As compensation, all employees will be entitled to one additional percentage of pension benefits for each year of contribution after 15 years... The purpose of the new policy is to curb early retirement and improve the compliance rate.⁹⁰ The policy purpose of early retirement to relieve the pressure of SOE reform is evident.

Pragmatic expansion of coverage

Despite its gradual expansion into other sectors of the society, pension is far from a universal right available to each Chinese citizen. As Linda Wang argues, instead of implementing a universal pension system, the pattern of social welfare reforms mirrors in its coverage the categories created under the planned economy.⁹¹ For almost fifteen years since the pension reform (from 1984 to 1998), pension was only available to employees of state-owned and collective enterprises in urban areas. It expanded to foreign-invested, private, and other types of enterprises in urban areas in 1999 and became available to all employees in urban area only in 2002.

However, the pragmatism of integrating the pension program in a broader economic reform witnessed another expansion of the pension coverage between 2003

89 No. 38 Guo Fa, 2005

90 "Government to improve pension system for enterprise employees", ISSA website, accessed in December 2008.

91 Linda Wang. 1998. *Marginalization and Social Welfare in China*. New York: Routledge.

and 2004. For the first time, pension was extended to farmer-turned urban residents in some cities. The accelerating urbanization and the pilot project of integrating the rural development in the urban planning left previous farmers with no farming land and the consequent income resources. It became imperative to include this group of farmer-turned urban residents into the pension system because it is essential both to co-opt farmers, who lost farm lands and thus lost sources of income, to continue the urbanization, and to maintain social stability given that farmers now constitute another big social group who have lost means of subsistence as laid-off workers were a decade ago.

Nevertheless, extension of social coverage has remained one of the high priorities in the government agenda in recent years, and the number of people covered under pension insurance schemes constitute a binding quota in the government's Eleventh Five-year Plan (2006-2010). The 2007 focus of expansion will be pension for urban residents engaged in flexible types of work (including the self-employed) as well as employment injury insurance for domestic farmer-turned migrant workers who are engaged in construction work.⁹²

Pension as effective redistributive tool

As a special group recognized as being the most entitled to the government support, retirees in China were given relatively better benefits in a residual welfare system. A pre-reform social contract existed between the government and retirees that urban state workers would receive a minimum wage from the state, and in return, the state would provide lifelong employment, health care, education, and old-age benefits.

⁹² "Social Insurance Coverage Witnesses Rapid Expansion", International Social Security Association (ISSA) website, accessed on 10 December 2008, <http://www.issa.int/aiss/Observatory/Country-Profiles/Regions/Asia-and-Pacific/China.-The-People-s-Republic#>

This tacit contract was recognized by not only retirees themselves, but also the government and the other social groups in the society. Thus, pensioners' contention for pension arrears and fight for better benefits to alleviate "livelihood difficulties" resulting from pension arrears became one of the main sources of popular protests in late 1990s.⁹³

Besides the measure of recentralizing the administration of pension program as discussed earlier, the gradual improvement of pension benefits became an important policy tool to appease pensioners.

For three years from 2005 to 2007, the government raised continuously the pension benefits for retired workers, the total of which stands at 42 million currently. As a result, the average per capita monthly benefit went up from CNY 719 in 2005 to CNY 815 in 2006 and an estimated figure of CNY 963 in 2007, respectively. Through another three years of pension hike, the average per capita monthly benefit for enterprise retiree is expected to exceed CYN 1,200 by the end of 2010. Despite such an increase, however, the average rate remains much lower for enterprise retirees. A retired engineer who is covered under the basic urban pension scheme for enterprise employees, for instance, may receive only half or even less benefit compared to his or her university classmate who retired from the government and is covered by a separate budget-financed scheme.⁹⁴

Such benefit improvement turns out to be effective in alleviating the living difficulties of retirees. Studying the redistributive measures between 1988 and 2002 by using the China Household Income Project data (CHIP), Qin Gao finds that the total urban social benefits strongly targeted the bottom pre-tax pre-transfer income

⁹³ Antoine Kernén and Jean-Louis Rocca, "Social response to unemployment and the 'new urban poor': case study in Shenyang city and Liaoning Province" *China Perspective* 27 (Jan-Feb, 2000); Jean-Louis Rocca, "The Rise of Unemployment in Urban China: The Contradiction of Employment Policies" *China Perspective* 30 (July-Aug. 2000). pp. 52-53.

⁹⁴ "Pension for Retired Workers to Increase for Another Three Years", ISSA.

decile.⁹⁵ The presence of elder members and higher education levels in a family were significantly related to more total social benefits. This provides a statistical support for the attraction of pensions in ordinary people's eyes. Pension, as an important policy tool to acquire acquiescence of retirees (worker retirees given its slow expansion into other social groups) and to maintain social stability, was given considerable priority in China's welfare reform. Pensioners are a big group of beneficiaries of China's residual welfare system.

Unemployment Insurance

Reform causes and process

China's unemployment insurance program evolved from the *Interim Waiting for Employment Insurance Scheme* in 1986 and later the *Waiting for Employment Insurance Scheme* in 1993. It was only officially created in 1999, given that unemployment was against the socialist ideology of full employment under the command economy. The UI is one of the products of China's economic reform.

The lifelong employment in the state sector was broken for the first time because of the introduction of the labor contract system to the collective and the state sector in early 1980s. The labor contract system became the prevalent employment structure in urban China in 1991. All enterprises were given full autonomy over the firing and hiring of their own contracted employees. Increased labor mobility called for a corresponding insurance scheme to insure laborers against job insecurity and to facilitate labor mobility. Meanwhile, the *Law of Bankruptcy* was adopted by the People's Congress on 2 December 1986. Some long-term loss-making SOEs were allowed to go bankrupt. Because it had long practiced "high ratio of employment and

⁹⁵ Qin Gao. 2006. "Social Benefits in Urban China: Determinants and Impact on Income Inequality in 1988 and 2002." Research Paper No. 2006/117 of United Nations University-World Institute for Development Economics Research.

low rate of wages” in SOEs, redundancy and inefficiency were endemic in SOEs. The “hidden employment” due to the redundant labor force in these loss-making enterprises started to be exposed.

In order to relieve enterprises of the burden of hidden unemployment and to facilitate the labor mobility, the *Interim Waiting for Employment Insurance Scheme* was established in 1986.⁹⁶ It requires work units to contribute 1 per cent of their payroll to the unemployment fund. However, this fund was underutilized in the late 1980s due to its narrow coverage, which extended only to employees in bankrupt SOEs.

Table 2-3: Overview of Policies for Unemployment Insurance Reform

Year	Document	Document Number
2003	Replies from The Highest Court on Laws applying to embezzlement of unemployment insurance funds and minimum living allowance funds for laid-off workers	HC 28 Jan 2003
2000	Application and Distribution Methods of Unemployment Insurance	MOLSS No.8
1999	Ordinance on Unemployment Insurance	SC No. 258
1998	Circular on Fully Implementing the Work of Ensuring a Minimum Standard of Living and Reemployment of Laid-off State Enterprise Workers	SC and the Central Committee of the CCP
1993	Waiting for Employment Insurance Scheme	SC No.110
1986	Interim Waiting for Employment Insurance Scheme	SC No.77

Source: Ministry of Human Resources and Social Security

The acceleration of the economic reform prompted the State Council to

⁹⁶ It was due to the socialist ideology, the unemployment insurance then was called the waiting for employment insurance at that time. In fact, this scheme had the same nature as the unemployment insurance in any other countries.

re-issue the *Waiting for Employment Insurance Scheme* in 1993. It was revised to provide a basic living allowance, medical care subsidies, and some training and information for reemployment to unemployed workers from SOEs. 1.94 million people claimed unemployment benefits in 1994, more than the total of benefits distributed during seven years between 1986 and 1993.⁹⁷ The unemployment insurance system in China aims at helping the unemployed personnel maintain a basic standard of living. Nevertheless, a lion share of the unemployment fund was used on laid-off workers. Money used in protecting the minimum living standard of living of laid-off workers had been increasing from 37 per cent in 1999 to 62 per cent in the first half of 2001.⁹⁸

The Unemployment Insurance program was officially established in 1999 with the stipulation of *Regulations on Unemployment Insurance*. It aims to provide a basic level of income protection to the unemployed as well as to help them gain new employment through related reemployment programs. The contribution rate is raised from 1 per cent in 1986 to 3 per cent of the payroll. Individuals should also contribute to their individual account.

According to the State Statistics Bureau, unemployment refers to the urban registered unemployed who first possess non-agricultural residence; second, are within a certain age range (16 to 50 for male and 16 to 45 for female); third, are able and willing to work; and fourth, have registered with the local labor bureau for employment. This rule in fact has limited the role of the UI. As detailed in the following sections, this definition has rendered some laid-off SOE workers ineligible for the UI.

Limited coverage and benefits of UI

⁹⁷ Chenggong Zheng eds. 2005. *On Social Security*. Shanghai: Fudan University Press. p.210

⁹⁸ Lee and Warner, 2004, p.22.

The coverage of the UI is limited. It had only covered employees of bankrupt SOEs for seven years from 1986 to 1993. The UI scheme in 1993 extended the coverage to employees of disbanded SOEs, and employees who had terminated employment relationship with enterprises. It expanded later from SOEs to other state institutions and finally to private enterprises and joint ventures. But its main beneficiaries are still the SOEs.

The protection level of the UI is relatively low. Put the low benefits on the side, it requires that only employees, who have worked and whose employing enterprise has paid for the UI for at least one year and less than five years, should be eligible for 12 month unemployment benefits. Those who have worked and paid for more than five years should be eligible for a maximum of 24 months of benefits.

Relief measures to an overburdened UI

Three lines of Guarantees

With economic reform passing the initial stage of incremental reform characterized by increasing management autonomy, the more radical strategy of ‘grasping the big enterprises and letting go the small and medium ones’ was adopted in the late 1990s to deepen economic restructuring. Massive layoffs resulting from the policy of retrenching staff to enhance efficiency became a prominent social issue after the 15th Party Congress in 1997.⁹⁹

Since the unemployment insurance system did not have sufficient funds to deal with massive layoffs, the government had to adopt an interim measure of establishing in-plant Reemployment Centers (REC), which were tasked to disburse monthly basic subsistence allowance (higher than unemployment insurance system) to

⁹⁹ Stephen W.K. Chiu, “Good governance or muddling through? Layoffs and employment reform in socialist China,” *Communist and Post-communist Studies* 37: 3 (Sept 2004), p.395-411.

laid-off workers, pay their social insurance premiums, reimburse their medical expenses and provide them with free reemployment training and job counseling services.

The Central Committee of the CCP and the State Council jointly issued the *Circular on Fully Implementing the Work of Ensuring a Minimum Standard of Living and Reemployment of Laid-off State Enterprise Workers* on 9 June 1998. It requires that an enterprise should have to submit a formal request to establish a reemployment center before it can lay off its surplus workers.

The laid-off workers can stay in the reemployment centers for a maximum of three years and the benefit level is reduced gradually each year. If a worker remains unemployed after three years and meets the criteria for an unemployment insurance benefit, he or she will be entitled to the unemployment insurance benefit for a maximum of 2 years. Any urban resident whose average family income is under the local minimum subsistence standard will be entitled to an urban resident minimum subsistence allowance, which is less than the unemployment insurance benefit. These three systems constitute the so-called “three lines of guarantee” for laid-off workers.

The funding of such reemployment centers is normally shared equally by the relevant SOEs, local unemployment insurance fund, and the local or central government’s financial revenues. The central government alone appropriated a total of CNY 73.1 billion between 1998 and 2003 to support such centers.¹⁰⁰ While providing unemployment benefits to the laid-off workers, the UI also provides funding support to the living subsistence allowances. For example, it provided CNY 4.1 billion to re-employment centers in 1999, accounting for 45 per cent of the total expenditure of

¹⁰⁰ “Basic subsistence guarantee system to be merged into the unemployment insurance system”, ISSA website, accessed on 12 December 2008.

Basic Subsistence Allowance Fund.¹⁰¹

As early as 2001, some provinces started to phase out the basic subsistence allowances (BSA) for laid-off workers in SOEs. More than half of the provinces had merged the UI and BSA by June 2005.¹⁰²

The central government decided to appropriate CYN 10.9 billion in 2005 to help the laid-off workers get new jobs. The amalgamation of the two systems had basically been realized by the end of 2005.

Reemployment center

An institutional bridge between work-unit and society

The goal of reemployment center (REC) is to “help laid-off workers obtain reemployment by using different administrative means. It is hoped that under “top-down” government direction, enterprises and trade unions would cooperate to terminate worker’s dependence on enterprises and assist them to find their ways to the market.”¹⁰³

In reality, REC works more as an institutional bridge between a work unit and the society. Its participation was compulsory instead of being voluntary. The workers might risk losing both BAS and UI benefits if not registering in RECs.

Because of the tricky definition of *xiagang* (laid-off), which only refers to those “who have left their posts and are not engaged in any types of work in the same unit, but still maintain a relationship with the unit they have worked,”¹⁰⁴ laid-off workers were not eligible for unemployment benefits. They had to register in RECs to be eligible for Basic Subsistence Allowances (BSA). Once they registered in RECs,

¹⁰¹ Zheng Gongcheng, 2005, pp.210.

¹⁰² “Basic subsistence guarantee system to be merged into the unemployment insurance system”, ISSA website, accessed on 12 December 2008.

¹⁰³ Lee and Warner, 2004, pp.177.

¹⁰⁴ Chinese Labor Statistical Yearbook, 1997, p.588.

they could only stay in those centers for three years and then they would graduate from the centers. Their employment relationship with their enterprises would automatically be terminated. They would officially become unemployed then.

Either pessimistic of the work prospect in three years or reluctant to give up their once special status of being a SOE worker, some laid-off workers were unwilling to terminate their employment relationship with their enterprises. Thus, they chose not to register in RECs even though they were laid-off and accordingly had no income. According to a survey by the Labor Union of Shanxi Province on the living status of laid-off workers in 2001, around 120,910 laid-off workers did not register in the RECs, accounting for 38.24 per cent of the total laid-off workers.¹⁰⁵ This group of workers was actually excluded from both BAS and unemployment benefits.

Safety valve to maintain the social stability

As an interim measure to cushion the sudden shock on the unemployment insurance exerted by massive layoffs in the late 1990s, reemployment centers, on the hand, provided a less shocking way for workers to accept the fact they were terminated the employment relationship with their SOEs, which might be the places where two generations in a family had worked.¹⁰⁶ As argued by Lee and Warner (2004), reemployment center may be seen as a viable institutional bridge between work-unit and society. It is clearly a compromise between the protection of the *danwei* system and the harsh course of simply pushing the responsibility for the unemployed onto the wider society.

¹⁰⁵ Run-ping Ding. "San tiao bao zhang xian cun zai de wen ti yu dui ce yan jiu" (Problems and Policy Solutions to the "Three lines of Guarantee") *Jinyang Journal* Issue 1 (2004).

¹⁰⁶ In the old welfare system, in the case of an employee's invalidity, death, or retirement, one of the employee's family members, the wife, the eldest son or daughter who reached working age would be offered the job in the same or other enterprises as compensation (cited from Li Xing, p. 90). This policy made it quite common that two generations in one family have worked in the same SOE for years, especially those old industrial enterprises where layoff could be the most.

The RECs' role as a social safety valve could be illustrated by the fact that local governments sometimes had to give in to the pressure of social instability and to give special permission for laid-off workers to remain in the centers after three years, despite the State Council's decree to phase out RECs in 2003. For instance, in Shanxi (a province in central China), an insolvent enterprise failed to pay its employees wages for twelve months as well as employees' pension contribution for CYN 7.6 million and medical care insurance contribution for CYN 2million. Employees' frustration was aggregated by the cut-off of electricity in both the enterprise's residential and production areas because of its arrears of utility fees. The angry employees took to the street and blocked the main traffic of the city. Under the pressure of inciting more severe social unrests, the local government had to give special permission for all 1,307 employees of the enterprise to register in the reemployment center and enjoy all the financial benefits for the laid-off, even though they were not the laid off in a strict sense.¹⁰⁷

Chan, Ngok, and Phillips (2008) comments RECs' role in such way: "Instead of dumping surplus workers into the labor market directly, RECs regulated the release of unwanted staff in a gradual and orderly manner. Secondly, RECs played a dual role in plugging the gaps existing in China's unsound social security system in three ways: they preserved workers' entitlements to pensions, unemployment insurance and health insurance; firm got financial relief as they shouldered only one third of the costs of these schemes; and the pressure on unemployment insurance was alleviated because two years elapsed before unplaced laid-off staff members started claiming unemployment benefits."¹⁰⁸

¹⁰⁷ Ding, 2004, p.30

¹⁰⁸ Chak Kwan Chan, King Lun Ngok, and David Phillips. 2008. *Social Policy in China: Development and Well-being*. Bristol, UK: The Policy Press., p.104

How effective?

Reemployment center was meant to provide both welfare provision, and employment services and job training programs.

Since its funds came from three sources (the local government, enterprises, and social funds), its success is constrained by the capacities of all parties concerned. Therefore, the effectiveness of REC varied across cities, provinces, and regions. Many centers simply did not fulfill their supposed role. For instance, some centers in the city of Wuhan in central China, merely provided a form for the entrants to fill out but had virtually nothing on hand. A desperate worker in one case reported thus having received no money, no training, no placement, and having heard nothing from his center after he had signed a contract with the center for 18 months.¹⁰⁹ Such problems often provoke protests and demonstrations. In the study of Lee (2007), 30,000 workers from 20 bankrupt factories marched in the streets in Liaoyang in the north-eastern rustbelt in March 2002 because of the arrears of welfare benefits.¹¹⁰

The reemployment statistics of these reemployment centers was not optimistic. Lacking in necessary skills and education often leave these laid-off workers in no position to compete in such a highly competitive job market as that in China. In the first half of the year 2001, among 7.69 million laid-off workers, the official statistics concede that only 11.1 per cent of the total had succeeded in finding new jobs. This proportion was 4.9 percentage points lower than that of the same period in the previous year. The reemployment rate of these laid-off employees within a year had been declining from over 50 per cent in 1998 to 31 per cent in 2001.¹¹¹ Officials from the Ministry of Labor and Social Security had warned that chances for the laid-off to

¹⁰⁹ Dorothy J Solinger, "Why We Cannot Count the "Unemployed." *China Quarterly*, (No. 167, 2001), 573-833, p.683.

¹¹⁰ Lee, 2007, p.23.

¹¹¹ Ru Xing, Lu Xingyi, and Li Peilin, edu. 2003. *Analysis and Forecast on China's Social Development 2004*. Beijing: Social Sciences Documentation Press. pp.6.

obtain reemployment might deteriorate in the years to come.¹¹²

Moreover, some institutional loopholes resulted in the higher operational cost of RECs and put heavier financial burdens on the government and the unemployment insurance fund. The lack of effective monitor over the distribution of benefits through RECs and the lack of transparency in the operation process offered some enterprises an easy way to collect unqualified benefits. The cases of applying for benefits in the name of laid-off workers without actually distributing them or simply creating the non-existed names to cheat on benefits were not few. In addition, the problem of “hidden employment” (claimed to be unemployed but actually being hired and paid) further compromised the cost-effectiveness of RECs.

With the development of the unemployment insurance and minimum subsistence system, in-plant RECs have finally been phased out, merging with the unemployment insurance. Even though the re-employment center still keeps its name, it is now an organ under one of the employment bureau of Labor and Social Security Department. It may have some similar functions, such as reemployment training, as in-plant reemployment centers. It differs from the latter in the latter’s narrow focus on laid-off workers.

Social Assistance: *Dibao*

***Dibao*: a social assistance or a social insurance?**

The British sociologist Townsend discussed the goals of a social welfare system at different levels.¹¹³ In the core of social welfare system is the means-tested social assistance to the social minority to alleviate poverty. Its second broader goal is to provide a minimum income security to social majority. Its purpose is to mitigate

¹¹² China daily, 28 July 2001; People’s Daily, 30 July 2001 cited in Lee and Warner, 2004, p.24.

¹¹³ Peter Townsend. 1979. *Poverty in the United Kingdom*. London: Allen Lane Publishers.

any shocks and unexpected risks to individuals' income security. And the third ultimate goal is to pursue social justice through redistributive tools of social policies.

Similarly, social assistance, according to International Labor Organization (ILO), is part of a social security system, which is included in broader social protection schemes. Accordingly, social assistance is defined by ILO as the assistance provided by the government to the general public who are in need, particularly the elderly, the sick, invalids, survivors and the unemployed. Its main characteristics are: 1) a person does not have to join the program (by paying contribution) prior to receiving benefits; benefits are paid as legal right in prescribed categories of need; 2) the entire cost of the program is met by the government; 3) eligibility is determined by a person's other income and resources. The benefit grant is designed to bring the person's total income up to a community-determined minimum, taking into account other factors such as family size and unavoidable fixed obligations such as rent; grants are not related to the applicant's previous earnings or customary standard of living; and 4) social assistance is more or less the same as social welfare or social work. It is problem-oriented and provides a certain amount of scope for discretion in determining awards, within the framework of the rights established under the law.¹¹⁴

By contrast, social insurance, in ILO's definition, provides insurance for wage earners. The principle elements of social insurance include: 1) participation is compulsory, with few exceptions; 2) it is financed by contributions which are normally shared between employers and workers, with, perhaps, state participation in the form of a supplementary contribution or other subsidy from general revenues; 3) contributions are accumulated in a special fund out of which benefits are paid; 4) surplus funds are invested to earn further income; 5) a person's right to benefit is

¹¹⁴ International Labor Office. 1989. *Introduction to Social Security*. Geneva: ILO, pp.5.

secured by his contribution record without any test of need or means; 6) and contribution and benefit rates are usually related to what the person is or has been earning.¹¹⁵

As a means-tested public assistance financed by the national financial budget, China's *dibao* program is a social assistance program different from all other five social insurance programs.

Cause for reform: why Social Assistance?

For a long time, families are the main social units to provide individual protection against risks and income insecurities in China. Public/social assistance is only provided to those having no labor ability, no families, and no source of income (traditionally called “three nos”) and disabled veterans. Hardship assistance was given to enterprise employees, but it was only for once and there were not any established institutions for the provision of such assistance. As Asian financial crisis in 1997 underscored the need for more institutionalized social assistance policies and programs for people facing the risk of unemployment and poverty in Asian Pacific countries,¹¹⁶ the massive economic restructure carried out in the late 1990s saw the expansion of the boundaries of the traditional social assistance and its institutionalization in China.

The expansion of the social assistance program had practical reasons. On the one hand, because of the massive layoffs in the late 1990s, many laid-off workers could not find a job even after job trainings in RECs. Developed as a third layer of a social safety net, *dibao* (minimum subsistence allowance) worked with the other two measures (BSA and the unemployment insurance) to maintain the living standard of

¹¹⁵ Ibid, pp.4

¹¹⁶ For details, see Sravoth Paitoonpong, Shigeyuki Abe, and Nipon Puoponsakorn, “The Meaning of “Social Safety Nets””, *Journal of Asian Economics* 19 (2008) 467-473.

laid-off workers. Allowed to stay in the reemployment center for three years and to have two years of unemployment insurance benefits, a laid-off employee can, in theory, receive unemployment benefit support for a total duration of five years. *Dibao* serves as the last resort of social protection for laid-off workers after the five years. Facing the problem of mounting unemployment and the inadequacy of the contributory social insurance programmes in terms of both coverage and income protection, the Chinese government has, since the late 1990s, put greater emphasis on the development and institutionalization of the means-tested social assistance programme.

On the other hand, the over-expensive, selective, and regressive social insurance programs had become more and more unaffordable for the public finance. The reform focusing on the expansion of coverage, using the newly collected premiums to pay off the current beneficiaries, was found simply not sustainable in the long run. The “structural imbalance” embedded in China’s welfare system, characterized by over-valued and selective social insurance programs on the one end versus the residual marginalized social assistance program on the other end of the spectrum, was vehemently blamed for exacerbating the problem of un-sustainability of social insurance programs.¹¹⁷

Economic restructuring in the late 1990s galvanized the need for redressing this imbalance and revisiting the importance of social assistance in a well-designed welfare system. Meanwhile, the pursuit for achieving social justice through an effective and sustainable social security system calls for the strengthening of a social assistance program, in which the government takes full responsibilities to guarantee

¹¹⁷ See Tang, 2007; Shang, 2001.

its citizens a subsistence living.¹¹⁸

History and Development of Social Assistance

Dibao was pioneered in Shanghai in 1993 to provide monthly social relief benefit to the poor urban citizens whose per capita income fell below the local minimum living standard. The actual allowance paid to each beneficiary is equal to the difference between the local minimum living standard and the household per capita income. As any other social insurance programs, the central government issued general guidelines for determining the assistance line at the basic-need level. The local governments set the actual assistance level based on local financial capacities. Thus the benefit level varies across cities, ranging from CYN 200 - 300 in the coastal areas to over CYN 100 in some inland cities. In order to avoid the long-term dependency on social welfare, it is regulated that the unemployment benefits should be lower than the local minimum wage and social assistance level should be lower than the unemployment benefits.

The Ministry of Civil Affairs (MCA) encouraged other cities to adopt the program in 1994. The State Council issued a circular requiring the establishment of such a system in all cities in China in 1997. It defined three types of targets covered by the program: the traditional ‘three nos’, the unemployed whose unemployment insurance benefits have been terminated and their total household incomes are below the locally defined assistance line, and employees whose working incomes, including pensions and allowances, are below the locally defined assistance line.¹¹⁹ This program was established in all the cities in 1999, for the purpose to serve people

¹¹⁸ Tiankui Jin, “Lun Dixian Gongpin”, (On Fundamental Justice), 9 November 2007, available at Ministry of Civil Affairs public website, <http://dbs.mca.gov.cn/article/csdb/llyj/200711/20071100003468.shtml>.

¹¹⁹ Jun Tang, Lin Sha, and Zhenxing Ren . 2003. *Report on Poverty and Anti-poverty in urban China*. Beijing: Huaxia Press.

facing inadequate income protection because of unemployment, low wages and old age. Article 45 of China's Constitution clearly states that its citizens should be entitled to public assistance. *Regulations on Urban Residents' Minimum Living Standard Guarantee System* in 1999 materialized the constitutional right and made the accessibility to the *dibao* benefits a citizen's legal right.

Since then this programme has grown dramatically in terms of expenditures and the number of recipients, as shown in Table 2-4. There were only 5,316,000 people receiving *dibao* in both urban and rural areas in 1999. This figure increased 190 per cent from 4 million in cities in 2002 to more than 11 million in cities alone in 2001 and stabling around 22 million of recipients in cities since 2002. Among five composition groups within the recipients, SOE laid-off employees has been the largest one until 2005 even though its absolute number has decreased over 1 million from 2002 to 2005. By the end of 2006, a total of 22.4 million urban citizens nationwide received *dibao*. A total of CNY 22.42 billion was disbursed. The average monthly *dibao* allowance is CNY 169.60 and average monthly per capita *dibao* allowance is CNY 82.9.¹²⁰

Table 2-4. Beneficiaries of *dibao* Program

Year	Total Beneficiaries	Employed	Laid-off	Retired	Unemployed	Three Nos
1996	849	-----	-----	-----	-----	-----
1997	879	-----	-----	-----	-----	-----
1998	1,841	-----	-----	-----	-----	-----
1999	5,316(joint)	-----	-----	-----	-----	-----
2000	4,026	-----	-----	-----	-----	-----
2001	11,707	-----	-----	-----	-----	-----

¹²⁰ *Min Zheng Shi Ye Fa Zhan Tong Ji Bao Gao*, 1999 to 2006 (Statistical Report On the Development of Civil Affairs, from 1999 to 2006); Statistics from 1996 to 1999 come from *China Statistical Yearbook*, 2007.

			-	----		----
2002	20,647	1,868	5,545	901	3,583	919
2003	22,468	1,793.3	5,184	907	4,090	990
2004	22,050	1,410	4,689	731	4,231	954
2005	22,342	1,141	4,307	613	4,101	958
2006	22,401	976	3,500	530	4,200	930

Number of people: in thousand; CYN: in billion

Sources: *Min Zheng Shi Ye Fa Zhan Tong Ji Bao Gao*, 1999 to 2006 (Statistical Report On the Development of Civil Affairs, from 1999 to 2006); Statistics from 1996 to 1999 come from *China Statistical Yearbook*, 2007.

Social Assistance in rural area

Despite the establishment of the entitlement to social assistance as every citizen's constitutional right, China's social assistance program has a strong urban bias. Social assistance program had existed in rural China since 1949. However, with the dissolution of communes during the rural economic reform in 1978, it has lost its financing and operational foundation and collapsed.

The social assistance program strengthened in the urban area in the late 1990s has been gradually extended to the rural area since 1997. But no matter whether it is in terms of funds or in terms of coverage, the rural social assistance program lags far behind its urban counterpart. The skewed development in favor of urban program has a strong political logic. The central and provincial subsidies were guaranteed to cities to maintain the running and expansion of the program in 2001. The difference between urban *dibao* recipients and rural *dibao* recipients was only 1 million in 2000, when the *dibao* was just established. This difference increased five folds within two years from 2001 to 2002, with recipients in the rural area stagnating at 4.07 million while recipients in the urban area soaring to 20.64 million. In the same year of 2002 cities has achieved "provision of *dibao* to anyone eligible". Since 2003, the number of

urban recipients stabilized around 22 millions, marking the stabilization and institutionalization of the program in the urban area. Official statements claim that nearly all the urban poor have got covered by the program.

This skewed development pattern persisted until 2005 and started to change in 2006. By the end of 2006, 23 out of 31 provinces and autonomous regions in China or 2133 among all 2862 counties nationwide had set up such system, and a total of CNY 4.16 billion was disbursed during the year to 15.93 million rural people, who received on the average a per capital monthly allowance of CNY 33.2. Official statistics show that China had 23.65 million rural poor by the end of 2005, 5.62 million less than 2001.¹²¹ For the first time in 2007, the total numbers of recipients of *dibao* subsidies in the urban and rural areas reversed, with the rural area having 1 million more than the urban area. But how long it will take for the program in the rural area to develop to the same level as that in the urban area will depend on the new momentum behind the development.

Table 2-5. Comparison of *Dibao* Funds and Recipients in urban and rural China

Year	Recipients	
	Urban	Rural
1999	5,316(joint)	
2000	4,026	3,002
2001	11,707	---
2002	20,647	4,078
2003	22,468	3,671
2004	22,050	4,880
2005	22,342	8,250
2006	22,401	15,931
2007	22,721	35,663

Number of people: in thousand; CYN: in billion.

Sources: *Min Zheng Shi Ye Fa Zhan Tong Ji Bao Gao*, 1999 to 2006 (Statistical Report On the Development of Civil Affairs, from 1999 to 2006).

The financial crisis in 2009 could be the needed momentum since “improving

¹²¹ “Minimum Subsistence system to be implemented nationwide,” ISSA website, accessed on 10 December 2008.

people's living standard through increasing the subsidies to low-income families in both rural and urban areas" was regarded as one of the strategies to maintain the smooth development of the economy by the Chinese government.¹²²

Increasing central financing of the program

Social assistance had been the responsibilities of governments at much lower level. It had been financed by county governments or district governments before the establishment of *dibao*. Now the financing for *dibao* was shared between the municipal and district governments. Provincial governments would provide some financial help to some poverty areas in the provinces.

Different from any other insurance programs, a notable change in the financing of the *dibao* program is the increasing central commitment. As the last line in the policy of "three lines of guarantees", *dibao* was intended to provide SOE laid-off employees the last resort to alleviate livelihood difficulties. Initially, SOEs shouldered full responsibilities for paying the benefits to their own eligible employees, and local Departments OF Civil Affairs were responsible for the eligible applicants without SOE connections or those from bankrupted SOEs. Given that more than 25 per cent of *dibao* beneficiaries were laid-off employees from SOEs, this policy resulted in about 10 percent of those eligible for laid-off assistance having not received their payments.¹²³ With the problem of laid-off employees becoming critical, the central government, on the one hand, started to put pressure on local governments to extend coverage. On the other hand, the central government started to increase its subsidies on the program.

¹²² "Ministry of Civil Affairs and Ministry of Finance Gave One-time Subsidies to Rural and Urban Low-income People", news from Ministry of Civil Affairs, <http://www.mca.gov.cn/article/zwgk/mzyw/200901/20090100025938.shtml>

¹²³ Joe C.B, Leung, "The Emergence of Social Assistance in China," *International Journal of Social Welfare* 15 (2006): 188-198. p.193.

Meanwhile, to celebrate the 50th anniversary of the PRC, the benefit levels of unemployment insurance, the *dibao*, and BSA for the laid-off were raised by 30 per cent in 1999. This raised part was largely funded by the central government because it was argued that the central government should care more for the old, newly developed, remote, and poor areas. Besides, the cities with large SOE burdens should have more financial help. Except for seven cities and provinces, namely, Beijing, Shanghai, Shangdong, Jiangshu, Zhejinag, Fujian, and Guangdong, all other cities received subsidies from the central government, which totaled CNY 400 million between July and December in 1999.¹²⁴

The central subsidization has been increasing its subsidizing scope to cover the poverty group created by other centrally approved big programs, such as migration project as a result of the three gorges dam construction.¹²⁵

As a result, the percentage of central contribution in the total expenditure in the urban *dibao* program increased from 27 per cent in 2000 to 60.9 per cent in 2003. Meanwhile, the provinces in the rusty industrial belt in northeastern China, namely Liaoning, Heilongjiang and Jilin, received the largest central government subsidies. Altogether, these three provinces had over 4.6 million *dibao* recipient in 2003. These provinces also have the highest concentration of loss-making national SOEs.¹²⁶

Table 2-6: Funding of *Dibao* Program

Year	Total expenditure	Contribution from the central government	% of central contribution in total
1999	1.54	----	
2000	2.96	0.8	27%

¹²⁴ Jun Tang, 2000-2001 *Zhong Guo Pin Kun He Fan Pin Kun Xing Shi Fen Xi* (Situation Analysis on Poverty and Anti-poverty in China, 2001 and 2002), posted on 9 November 2007, available on the website of Ministry of Civil Affairs,

<http://dbs.mca.gov.cn/article/csdb/llyj/200711/20071100003469.shtml>

¹²⁵ Zhengde Zhang, "Dibao Zhidu Jiqi Zai Chongqing de Shijian" (Dibao System and Its Practice in Chongqing), *Tan Suo* (Exploration), (May 2001).

¹²⁶ Leung, 2006, p.193.

2001	4.2	2.3	55%
2002	10.87	4.6	42.3%
2003	15.1	9.2 (60.9%)	60.9%

Sources: figures in 1999 and 2003 are from *Min Zheng Shi Ye Fa Zhan Tong Ji Bao Gao*, 2000, 2004; (Statistical Report On the Development of Civil Affairs, 2000, 2004; figures in 2001 are from Jin, 2007; figures in 2000 and 2002 are from Leung, 2006, p.194.

Benefits of *diabo* have been increasing since its establishment in 1997 despite the area differences across the cities. Continuing to increase *dibao* benefits has been considered as a long-term commitment of the Chinese government. *Dibao* is considered to be able not only to materially alleviate the livelihood difficulties of the urban poor but also to psychologically increase the trust of the group to the government.¹²⁷

Supplementary to the *dibao* program, local charity bodies and trade unions, mobilized by the government, have also contributed to provide cash or in-kind assistance in education, medical service, food and training to recipients of *dibao*.

Despite the increased policy attention attached to the social assistance program and the increased annual subsidization, *dibao* benefits remains residual in the income of households in need. The fast development of the social assistance program since 1990s and its limit in income redistribution and poverty alleviation are well captured in Gao and her colleagues' studies. Comparing the composition and levels of various social benefits based on national Household Income Project survey data in 1988 and 2002, Gao and her colleagues find that public assistance increased significantly from CNY 1 in 1988 to CNY 45 in 2002, which was a sharp increase of forty-four times in value. However, same as any other welfare programs, even though the benefit level of these programs have increased since their respective reforms, their contributions to alleviating income equality have declined due to the much faster increase in market income. This echoes Shang's observation of China's decreasing percentage of the

¹²⁷ Tang, 2007.

spending on social assistance in GDP, dropping from 0.59 per cent in 1978 to 0.23 per cent in 1991, and 0.19 per cent in 1998.¹²⁸

Healthcare System

This section will discuss developments of healthcare system in both urban and rural areas in China. Different development paths, reform strategies, and results will help to shed the light on the political weighing and balancing in the reform of China's healthcare system.

A highly successful pre-reform system

China's healthcare system was once complimented as a model for the rest of the developing countries in 1960s and 1970s because of its remarkable achievements in dramatically improving its people's health level at a relatively low economic level.¹²⁹ Judging by UNDP's human development indicators such as mortality rates and life expectancy, China was doing much better than any other countries at the same economic level. Its under-five mortality rates had substantially reduced from 202 in 1960 to 98 in 1970, and its average life expectancy nearly doubled, rising from 35 years in 1949 to 68 years in 1978. As the world bank development report states: "China's economic structure and national income per person are similar to that of other low-income countries, but the physical quality of life of the majority of the Chinese people is strikingly better than in most other low-income countries."¹³⁰

Despite the urban and rural divide characteristics of China's welfare system, the rural healthcare system was effective in providing the country's more than 800 million rural residents health services not expected from an economy at such

¹²⁸ Shang, 2001, p.6.

¹²⁹ Li, 1998, p90.

¹³⁰ World Bank. 1981. *World Development Report*. New York: Oxford University Press.

development level. Compared with other social insurance programs discussed in this research, the urban bias did not prevent rural healthcare program from consuming a relatively large proportion of national resources. As studies shows, while the number of Western-style doctors per 100,000 population in China was 2.5 times that in India, the number of village-level healthcare workers was 4.5 times that in India.¹³¹

Considering such conspicuous achievements in pre-reform era, the fact would be particularly puzzling that China was ranked in 2003 by the United Nations 61st in health performance among its 192 member countries, and considered by the WHO to have the most unfair healthcare system in the world. Thus, giving due attention to the changes and developments of healthcare arrangements in both urban and rural contexts in the course of economic reform will help uncover the political logics underlying such developments.

Urban healthcare system

Initial arrangements

Urban employee health insurance was set up in 1951 as part of a wider “labor insurance system.” It was composed of two parts: one for the state and collective enterprise employees and their dependents (labor insurance) and the other for public employees working in government departments and other state institutions (free medical services). Same as pension, the health insurance was first handled by the All China Federation of Trade Unions until 1967, when the “Cultural Revolution” started and the work of ACFTU was disrupted. The health insurance was then handed over to enterprises.

Under the planed economy, enterprise employees’ medical costs were paid

¹³¹ UNDP. 1990. *Human Development Report 1990*. New York: Oxford University Press.

through enterprise “welfare funds” allocated by the state.¹³² Individuals did not have to pay any contributions from their own pockets and their medical fees were fully borne by their enterprises. Since enterprises were required to submit all profits to the state and the government made a unified plan for resource allocation, SOE employees’ health insurance fund came from governmental fiscal appropriation.¹³³ Similarly, the medical insurance for public employees was directly funded by the state finance according to annual per capita fixed allocations. Under the auspices of health and finance departments within the government, a “Public Insurance Office” handled this part of the system.¹³⁴ Dependents of those eligible for this insurance could sometimes have half of the costs of their medical treatment subsidized, with schemes varying across institutions and localities.¹³⁵

Reform causes: Strains on the system

Rising costs for medical treatment, increasing hospital visits due to increasing health consciousness, and the lack of an effective mechanism to monitor the healthcare spending combined to make healthcare increasingly an unaffordable burden on the public finance. According to the World Bank, total per capita health spending in China grew by 8 per cent per year in real terms between 1978 and 1986, and then grew by 11 per cent per year between 1986 and 1993.¹³⁶ This trend of

¹³² “In 1969, it was stipulated that this welfare fund, which included funds for welfare and bonuses as well as medical costs, should be 11 per cent of the wage bill. The figure was raised to 14 per cent from early 1993 (Qi, 1996: 123)”, cited from Jane Duckett, “Political Interests and the Implementation of China’s Urban Health Insurance Reform,” *Social Policy & Administration*, 35: 3 (July 2001) 290-306, p.303; Gu, 2001.

¹³³ Gu, 2001, p.132-133; and citation from there Handbook of reforms in China, 1992.

¹³⁴ Duojie, 1995 Cited from Duckett, 2001, p.292.

¹³⁵ Duckett, 2002, p.292; Gu, 2001, p.132-133.

¹³⁶ World Bank. 1997. *Financing Health Care: Issues and Options for China*, Washington D.C.: World Bank. Cited from Duckett, 2002, p.303.

increasing expenditure on healthcare was substantiated by a series of other studies.¹³⁷ Average annual per capita spending on enterprise insurance rose from CNY 35.7 in 1978 to over CNY 200 in 1992.¹³⁸ Meanwhile, the growing number of SOE employees (from 80.19 million in 1980 to 109.55 million in 1995) implies the increase of people eligible for enterprise health insurance.¹³⁹ Such increase, together with the equally growing number of those eligible for health insurance of public institutions, exacerbated the problem.

As the SOE reform characteristic of implementing management contract responsibility system started in 1980s, SOEs were allowed for profit retention and meanwhile had to self-finance their own welfare provision. Together with pension, annually growing healthcare costs strained the SOEs' finance. This was especially true for older SOEs which had to pay for the medical bills of large numbers of retirees or SOEs with high incidents of work-related injuries. Public institutions faced the same strain as local governments gave them a fixed budget for healthcare costs based on the number of their employees ignoring healthcare cost inflation. The reform of healthcare system became imperative.

Reform initiatives

Reform of healthcare insurance program, together with reform of healthcare providing institutions and reform of pharmaceutical manufacturing and distribution system, are three main components of the efforts to reform China's healthcare system.

¹³⁷ According to Aidi Hu, "Reforming China's Social Security System: Facts and Perspectives," *International Social Security Review*, (1997) 45-65. the annual increase in medical expenditure in late 1980s was 20 per cent and this reached 30 per cent in 1990s.

¹³⁸ M. Qi. "Reform of the 'Public Medical Care System' and 'Labor Insurance Medical Care System'" in China, in Gordon White and Xiaoyuan Shang eds. 1996. *Issues and Answers: Reforming the Chinese Social Security System: Papers from an International Workshop held in Beijing, Oct 1995*. Brighton: Institute of Development Studies. PP.121-54.

¹³⁹ *China Statistical Yearbook*, 2003, p.134.

Its purpose is to commercialize healthcare services and to withdraw the state from financing healthcare provision.

Scattered piecemeal experiments were carried out in different localities since the early 1980s. In 1988, the government appointed a working group headed by the Ministry of Health (MOH) to develop a reform plan for urban health insurance reform. However, the resulted city trials were never fully implemented. Later, another reform group headed by the Commission for Economic System Reform was appointed to develop a program, whose work resulted in the pilot programs in Zhenjiang and Jiujiang in 1994. The pilot programs spread to other 57 cities, including Shenzhen in 1995, Tianjin and Shanghai in 1996 and Suzhou in 1997. These pilot programs differ in their particular schemes, but their main thrust was to reduce health insurance spending through increasing individual stakes by paying a share of treatment costs, and through pooling risks among employees of different types of institutions or enterprises by creating risk-pooling funds for employees with serious illness and retirees.¹⁴⁰ The framework of compulsory social insurance to be organized by city government was established.

Drawing on the experience from previous city pilot programs, the central government announced a national program in December 1998 (the State Council's document No.44 the *Decision on Establishing Basic Healthcare Insurance Scheme for Urban Employees*). Compulsory city-level pooling and individual medical accounts remained the main features. The new program targeted urban employees, including those working in public institutions, state, collective and private enterprises, and foreign-invested joint ventures. In this program, employers contributed 6-8 per cent of gross wage costs, and individuals paid 2-3 per cent of wages, which was fully

¹⁴⁰ Gao , 2006, p.37.

accredited to his or her individual account. Around 30 per cent of employers' contributions were to be paid into the individual account. The balance was paid to the social pooling fund. Self-employed individuals could also participate if they paid all contributions for themselves, that is, 8-11 per cent of last year's local average wages. Using 60 per cent of last year's local average wages as base figure, Reemployment Centers would pay the same percentages to contribute to both social pooling and individual accounts for registered laid-off workers.

Contributions to the basic medical insurance fund from the employers and employees shall be deposited into separate accounts, which will be managed separately with different accounting and settlement systems. The social pooling accounts will mainly pay large amount medical bills or expenses of inpatients, while the personal accounts will pay small bills or expenses of outpatients. The individual account is used to pay medical expenses of up to 10 per cent of the local average annual wage income while the pooling fund will reimburse the amount from 10 to 400 per cent of the average annual income according to a certain schedule. Payment beyond 400 per cent will be borne either by individuals or private insurance schemes, if any. Funds were to be pooled and managed at the city level despite that the program aimed at establishing a uniform basic system in cities across the country. Local governments were allowed to adjust contribution levels as appropriate for their city.

Together with Ministry of Health and Ministry of Finance, Ministry of Labor and Social Security jointly make rules over services covered in the basic healthcare insurance, their charges, and ways medical fees are paid. The Ministries are also responsible for deciding on prescription medicines, specifying medical treatments covered in the scheme, and monitoring medical services. Local departments were allowed to make implementation standards appropriate to local conditions. Local

departments will also approve hospitals and drug stores providing basic healthcare services. Employees can choose among the networked hospitals and drug stores to have their services.

Local Social Security Departments are the main management institutions. Outpatient expenses will be deducted from individual accounts directly while inpatient expenses will be settled between medical insurance management institutions and the designated service providers.

However, the implementation of this new national program has been slow. “Adverse selection” resulted in poor participation. Under the new program, premium contributions were calculated as a percentage of the total wage bill, which was intended to spread the risk and the costs among enterprises. In reality, however, enterprises willing to participate were always those with high dependency ratios and disproportionately large demands on funds. Those with younger workforce and having smaller healthcare bills were reluctant to join the program. On the other hand, the lacking in the necessary legislation to enforce the compulsory participation of enterprises and the lacking in the adequate information on the economic situation of enterprises impaired local governments’ capacity to implement the program. Thus, the implementation of the national program was either delayed (such as Tianjin) or even failed (such as Suzhou). In most cases, cities find it hard to collect sufficient funds to cover the insurance expenses.¹⁴¹

Table 2-7 Overview of Policies for Healthcare Insurance Reform

Year	Document	Document Number
2003	Circular on Further Expanding the Coverage of Basic Healthcare Insurance Scheme for Urban Employees	MOLSS No.6

¹⁴¹ For detailed analysis of political interests involved in the implementation of the national program, see Jane Duckett, 2001; Han Jürgen Roßner, “China’s health insurance system in transformation: preliminary assessment, and policy suggestions,” *International Social Security Review*, 57: 3 (2004).

2002	Circular on strengthening Management of Individual Accounts of Healthcare Insurance Scheme for Urban Employees	MOLSS No.6
1998	Decision on Establishing Basic Healthcare Insurance Scheme for Urban Employees	SC No.44
1994	Opinions on Pilot reform of Healthcare Insurance Scheme for Urban Employees	NDRC No. 51

Sources: Ministry of Labor and Social Security.

Rural healthcare system and its collapse

Paralleled to the urban health insurance system was a disparate health system for the rural area. As a core element of Chinese socialism, the rural healthcare system was attached great significance in national welfare policy making in the pre-reform era. The welfare structure for the rural population was built upon a commune-brigade-production team framework. The basic level health providers were "barefoot doctors." They provided the majority of the rural population basic and necessary medical treatment and helped and advised them on disease prevention.¹⁴² At the top level were commune and county providing services which the basic level could not offer. Such a well-structured system of rural healthcare had won international recognition:

“The Chinese system demonstrated that it was possible to provide, at relatively low cost, effective health services to a large rural population. The World Health Organization (WHO) and the United Nations Children’s Fund (UNICEF) drew heavily on the Chinese model in elaborating the primary health care concept which now underpins health policy throughout most of the world.

A focus on primary health care has led to lower infant mortality rates, improvements in nutritional levels, and reduction in the incidence of many serious

¹⁴² Institute of Development Studies (IDS). *Paying for health: new lessons form China*, IDS Policy Briefing No.4. 1995.

diseases, both in the North and South.”¹⁴³

The residual rural healthcare system, which put great emphasis on preventive health service and mass mobilization to carry out preventive health campaigns, turned out to be impressively effective. Commune system, mobilization capacity for healthcare provision of an authoritarian political system, and then low costs of medical services made China able to achieve an almost universal coverage of basic healthcare services in rural China before its economic reform in 1978.

The household contract responsibility system implemented since 1978 changed the once collective agricultural production into one carried out by individual household. Communes, the very units for the collective agricultural production and the very foundation for the rural healthcare provision, were therefore abolished. The rural healthcare system lost its fund sources and infrastructure for operation. Prior to China’s rural reform in 1979, 80 per cent of the production brigades had some form of cooperative medical system which covered about 90 per cent of the rural population. Today, such a system may not even exist.¹⁴⁴

The failure of the government to establish a viable substitute left almost 90 percent of the rural population without basic healthcare, according to the Ministry of Health. In 2003, the average annual income for China's 745 million rural populations was CYN 2,622 (328 U.S. dollars) while the average medical expenses were CYN 2,236 (280 U.S. dollars) according to the Ministry of Health in 2004. A national health survey in 2003 revealed that about 73 percent of people in rural areas who should

¹⁴³ IDS Policy Briefing, 1995, cited in Li Xing, 1999, p.91; As to the rural cooperative medical system before 1978 and its role in providing wide coverage of medical services with low level of government inputs, also see Qingsheng Zhu (Vice Minister of Health of PRC), “Forging Ahead with China’s New Rural Cooperative Medical System,” in *Social Security in the People’s Republic of China*, accessed on Oct 14, 2009, at www.ipc-undp.org/publications/cct/2chine.pdf; Jun Tang, “Zhongguo Shehui Baozhang Zhengce Shuping” (On China’s Social Security Policies) in Dun Li eds. 2008. *Zhongguo Shehui Zhengce* (China’s Social Policies). Beijing: Zhishi Chanquan Chuban She (Intellectual Property Publishing House).

¹⁴⁴ World Bank, 1984; Li, 1999, p.94

have sought medical treatment chose not to do so because of the fear of high cost.¹⁴⁵ For a long time, it had been up to individual family unit to shoulder the entire responsibility for its member's protection and well-being. Although the Chinese government demanded again in the 1990s that the rural cooperative medical system be developed and improved, yet the work had been slow in most areas, with a lingering 10 per cent coverage of the rural population.¹⁴⁶ The coverage dropped to the lowest point of 6.6 per cent in 1998. It only recovered to 9.8 per cent in 2003.¹⁴⁷

Critique

Although China used to boast a wide health care coverage of both urban and rural population during the planned economy period, current health care in mainland China is reportedly unequal and expensive, with limited coverage and large differences in quality and access among income groups, and between rural and urban populations. It not only enlarged the inequalities between the urban and rural areas, but also those within the urban area.

In urban areas, as high as 40 per cent of the non-working residents are excluded from the basic medical insurance programmes for urban employees. Even among the covered urban workers and retirees, individuals often have to bear as much as 30 to 50 per cent of the medical cost. A large number of rural residents remain unprotected by any healthcare scheme. Meanwhile, individuals are sharing increasingly higher percentage of healthcare costs. The percentage of individual spending in total healthcare cost reached its highest in 2001 at 60 per cent, Climbing

145 "China pledges to expand rural medicare system," available on http://en.ce.cn/National/Politics/200703/05/t20070305_10584284.shtml, accessed on 13 Jan 2009.

146 Qingsheng Zhu, p18.

147 Guojia Weisheng Fuwu Diaocha (Research on National Healthcare Services) cited in Xin Gu, "Zhongguo Yiliao Tizhi Gaige: Xianzhuang yu Tiaozhan" (Reform of Healthcare System: Situations and Challenges).

individual spending and concurrently reduced government spending on healthcare, as demonstrated in Table 2-7, made China one of the most unequal society in terms of access to healthcare services.

Table 2-8: Healthcare Spending

Year	Total Costs			Composition of Healthcare Costs			Govt spending in GDP %	
	Total Costs	Govt	Social	Individual	Govt %	Social %		Individual %
1978	110.21	35.44	52.25	22.52	32.2	47.4	20.4	3.02
1980	143.23	51.91	60.97	30.35	36.2	42.6	21.2	3.15
1985	279	107.65	91.96	79.39	38.6	33	28.5	3.09
1990	747.39	187.28	293.1	267.01	25.1	39.2	35.7	4.00
1995	2155.13	387.34	767.81	999.98	18	35.6	46.4	3.54
2000	4586.63	709.52	1171.94	2705.17	15.5	25.6	59	4.62
2001	5025.93	800.61	1211.43	3013.89	15.9	24.1	60	4.58
2004	7595.71	129.01	2225.35	4071.35	17.1	29.3	53.6	4.75

Unit: CYN 100 million.

Sources: *China Health Statistical Yearbook*, 2007, p.83.

Note: the percentage of Government healthcare spending in GDP is calculated by dividing government healthcare spending by GDP

China was ranked in 2003 by the United Nations 61st in health performance among its 192 countries, and considered by the WHO to have one of the most unfair health care systems in the world. A report entitled "Evaluation and Recommendation concerning Chinese Health Care Structural Reform" published in 2005 by a group of experts from the Chinese State Council's Development Research Centre also concluded that the market-oriented Chinese health care reform since late 1990s is basically a failure because of the system's social injustice and low efficiency in

resource allocation.¹⁴⁸

Employment Injury

Reform causes

The first employment injury scheme was introduced in 1951. A trial employment injury insurance scheme for workers in enterprises was set up in 1966.

As all the other insurance programs, the work injury program was managed by enterprises before the reform era. Occurrences of work injuries were quite uneven across enterprises. For example, enterprises in construction and mining tended to have more work injuries, thus having to pay more work injury benefits, than other enterprises. In order to solve problems of fund shortage, to ease the unevenly distributed burden of paying work injury benefits, and to improve the work injury fund's risk controlling capacity, social pooling mechanism was introduced in mid-1980s. Funds were put in separate accounts and managed by local labor and social security departments.

Reform Process

The state set standards for work injury compensation while the scheme is financed solely by employer contributions. Contributions are based on a differential rate and a floating rate. The differential rate is determined according to sector and will be adjusted every one to three years as decided by the provincial government. The floating rate is determined according to enterprise and will be adjusted each year according to the accident rate. Contribution rates are 0.5 per cent, 1 per cent and 2 per

¹⁴⁸ The research report (*Zhongguo Yiliao Weisheng Tizhi Gaige*) was prepared by a research group led by Yanfeng Ge, the vice-director of Social Development Unit in Development Research Center under the State Council, which is an important government think tank.

cent of the payroll respectively for each of the three categories of sectors or trades.¹⁴⁹ The fund is used not only to pay for various benefits but also for accident prevention, occupational rehabilitation, safety bonus, promotion and research, as well as administrative expenses of operational agencies and labor appraisal committees. Specific allocations for each item are at the discretion of the local governments.¹⁵⁰

Usually an enterprise will have to submit application for work injury recognition and verification to the local labor and social security department within 30 days after the occurrence of a work injury accident, or the diagnosis of an occupational disease. Upon the acceptance of the application, the labor and social security department will assign the local work injury institutions to carry out necessary investigation and verification, and will make a decision on whether to give a formal recognition of work injury within 60 days. Within 20 work days after giving the formal recognition, the department shall notify the applicant and also inform the injured employee of its decision, through the delivery of a written notice.¹⁵¹

Work injury benefits are related to the severity of injury, which is measured by ten degrees. For instance, if an employee is verified to have work injury of one to four degrees, he is deemed to have lost labor capability and is entitled to a lump sum of compensation (24 months of wages for the first-degree of injury, 22 months for the second degree, 20 months for the third degree and 18 months for the fourth month). Besides, he would receive monthly subsidies, which vary from 75 per cent to 90 per cent of the average local monthly wages of according different degrees.

Program Development

149 "New employment injury regulations," website of International Social Security Association, accessed on 13 Jan 2009.

¹⁵⁰ Yukun Zhu. "Recent Development in China's Social Security Reforms," *International Social Security Review*, (Vol. 55, 4/2002), p.49.

¹⁵¹ Xiaobao Tian et al. 2006. *Social Security in China*. Beijing: China International Press.p.89.

There have not been any big changes since the establishment of the work injury insurance program. It mainly focuses on enterprises in the state sector. By the end of 1994, it existed in 900 cities and counties of 22 provinces, autonomous regions and municipalities, covering 18 million employees. *The 1996 Ministry of Labor Experimental Measures on Work Injury Insurance (WII) for Enterprise Employees* was intended to cover all enterprises in China. But in reality they were only implemented in some of the urban enterprises in mainland China. Between 2000 and 2003, the coverage stagnated at around 45 million.

Table 2-9: Overview of Policies for Reform of Work Injury Insurance Program

Year	Document	Document Number
2006	Guidelines on Problem Resolution Related to Mobile Workers	SC No.5
	Circular on Implementing Pingan Plan and Accelerating the Enrollment of Mobile Workers in Work Injury Insurance Scheme	MOLSS No.19
	Circular on Well-implementing the Work of Enrolling Mobile Workers in Construction Companies in Work Injury Insurance Scheme)	MOLSS No.44
2004	Circular on enrolling mobile workers in work injury insurance scheme	MOLSS No.18
2004	Work Injury Insurance Scheme	SC No. 375
1996	Interim Work Injury Insurance scheme	MOLSS No.266

Sources: Ministry of Human Resources and Social Security.

The rise of work injuries and accidents, especially those of mobile workers, and the serious social impact of these accidents has contributed to the rapid development of the employment injury insurance. The development of the employment insurance started to pick up speed only after 2003. *Regulations on Work*

Injury Insurance, which entered into force on 1 January 2004, stipulate that all enterprises, including private businesses, should participate in the WII scheme. Meanwhile, the recently enacted *Regulations on Safe Production License* also requires all enterprises to participate in the WII as one of the prerequisites to obtain or renew the license. Ministry of Labour and Social Security established Department of Work Injury Insurance in February 2004 to supervise the implementation of the WII programmes throughout the country. By the end of 2004, the WII coverage reached 68.45 million, an increase of 22.70 million over the previous year. Its beneficiaries had jumped from 58,000 people in 1994 to 519,000 people in 2004, increasing almost 10 times over ten years.¹⁵²

This momentum continues beyond the years of this study. In 2005, work injury insurance development objectives were included for the first time in the national social and economic development plans and the coverage is expected to reach 80 million by the end of 2005. The focus of the expansion will be the high risk sectors such as mining and construction where millions of farmers-turned-contract-workers are employed.

MOLSS launched a three-year "Peace and Safety Campaign" (*ping an ji hua*) in 2006 in an effort to extend employment injury insurance (EII) coverage to all farmer-turned migrant workers engaged in mining and to the majority of workers engaged in construction, two industries of high risk where migrant workers are concentrated. An estimated 120 million to 150 million farmer-turned migrant workers are looking for jobs in the urban areas of China. In the construction industry alone, migrant workers account for 80 per cent of the total labour force.

According to this programme, migrant workers recruited by intermediate and

¹⁵² The figures come from *China Statistical Yearbook*, 2007.

large-sized state-owned coal mining enterprises should all be covered in 2006; more than half of the migrant workers in non-coal mining and small coal mining enterprises should join the scheme by 2007; all migrant workers in licensed coal mining enterprises and non-coal mining enterprises as well as the majority of migrant workers engaged in construction will be covered by 2008.

By the end of 2005, the nationwide number of employment injury insurance scheme participants totaled 84.78 million (including 3.34 million from various institutions), nearly doubling the figure of 45.75 million in 2003. Meanwhile, the total funds collected annually rose to CNY 14 billion from CNY 6.5 billion in 2003. The migrant workers in the major state-owned coal mines were basically included in the coverage. By 2010, coverage is expected to be expanded to 140 million people.¹⁵³

Maternity Insurance

Maternity insurance program existed since 1950s as a component of the social security program. As an important component of socialist ideology, a female worker is entitled to a maternity leave of 90 days with pay. In addition, her medical check-up fee, midwife fee, operational charges, hospitalization fee, and medicine costs incurred during the maternity leave period should be covered by her employer. This employer liability scheme applies to SOEs as well as government organizations, civil organization, and public institutions.

The pooling system was introduced in 1994. The then Ministry of Labor issued Experimental Measures on *Maternity Insurance for Enterprise Employees*. According to it, the employers contribute 0.6 to 0.8 per cent of the total payroll to the Ministry of Labor fund that is managed by the local labor and social security bureau.

¹⁵³ “Work Injury Insurance Coverage witnesses rapid expansion,” and “Government launches special programme to extend coverage,” ISSA.

By the end of 2001, the pooling scheme had been adopted in 1,368 cities or counties in 27 provinces, encompassing 33 million workers who account for nearly 30 per cent of the target population. By 2004, 438,380 people had participated in the program.

Table 2-10: Overview of Policies for Maternity Insurance Reform

Year	Document	Document Number
2004	Guideline on Further Strengthening Maternity Insurance Scheme work	MOLSS No.14
1994	Interim Maternity Insurance scheme for State Enterprise Employees	MOLSS No.504

Sources: Ministry of Human Resources and Social Security.

Housing program

Reform Causes

Together with pension and healthcare, housing was one of the three main welfare benefits provided by work units during the era of the planned economy. SOE Employees were provided public housing and only paid nominal rent. Such public housing was financed from workunit-based ‘capital construction funds’, which came from the central government’s fiscal appropriations.

On the one hand, the public housing had long been under-funded because housing was regarded as a non-productive sector in a hierarchy of national investments. The proportion of housing investment in total basic construction investment in China had never surpassed 8 per cent between 1958 and 1978. Between 1952 and 1978, housing investment accounted only for 0.78 percent of GNP.¹⁵⁴

On the other hand, the housing-related maintenance and management became a heavy financial burden on the state budget over the years. The more the government

¹⁵⁴ Zhang, 2000, p. 341

invested in housing construction, the more it had to add fiscal appropriations for housing maintenance and management.¹⁵⁵ On average, every year the state spent CYN 25 billion in new housing construction and another CYN 10 billion on maintenance. But it received only 1 billion incomes from housing rents.¹⁵⁶

Finally, since the central fund appropriation was linked to enterprises' ability to generate surpluses in their economic activities and their strategic importance in a overall national economic plan, those with more resources and better performances were able to invest more money in housing while those with less resources and difficult economic situation had less money to invest in their employees' housing. Thus, before the housing reform in 1980, public housing in China had increasingly been troubled by insufficient supplies versus growing demands for public housing, growing financial deficits, and housing inequalities between big and small SOEs and profit-generating SOEs and loss-making SOEs.

Reform Measures

Housing reform started as early as 1980 and was the first welfare program reformed. Its ultimate goal was to commercialize housing, which implied that housing would no longer be a welfare benefit provided by work-units. Instead, it would become a commodity which could be traded as any other commodities in the market. Its construction, maintenance, and management would be conducted in a commercialized manner. The housing reform meant to delink public housing from SOEs. At the same time, a separate housing market would be created to satisfy the housing needs of the market. In 1983, the State Council issued an *Ordinance on Managing Urban Housing*, which officially recognized the role of private housing in

¹⁵⁵ Xiangming Chen and Xiaoyuan Gao, "Urban Economic Reform and Public-housing Investment in China," *Urban Affairs Quarterly* 29:1 (1993): 117-45; p. 124; cited in Gu, 2001, p.139;

¹⁵⁶ Cited in Zhang, 2000, p.339.

meeting people's housing needs and provided legal protection for private property, which departed fully from the previous socialist ideology of the public ownership of land and properties.

Different reform packages had been rolled out since 1980, including sale of new houses for building costs (before 1982), subsidized sale (1982-85), and rent raising to promote sales (1986 -88).¹⁵⁷ However, the housing reform had never been carried out in a real sense until late 1990s. Even though a small commercial housing market was created, low wages made home ownership unaffordable for the ordinary families. Besides, the persisted practice of housing subsidies by SOEs to their employees created no incentives for house purchases. The impasse was caused again by the institutional design of welfare decentralization at the initial stage of the housing reform. Even though the central appropriations for housing were stopped, SOEs were left on their own to handle the housing reform. In return, "profit retention" and "extra-budgetary funds" were allowed to SOEs as financial sources for providing housing to their employees. The "extra-budgetary funds" were the funds outside of the planning control of the state and administered by the work unit themselves. These institutional arrangements between the central government and SOEs gave SOEs great incentives to increase their extra-budgetary funds for improving the housing quality of their staff instead of reducing the financial input¹⁵⁸. Allowing SOEs to finance housing projects by collecting money from workers made it even harder to monitor and curb the housing spending by SOEs.

Even though the State Council issued a series of policies aiming to enforcing

¹⁵⁷ For stages of housing reform, see Yaping Wang and Alan Murie, "The Process of Commercialization of Urban Housing in China," *Urban Studies*, Vol. 33, No.6, 971-989, 1996. pp.974-981; Shaw, 1997, p.203-205.

¹⁵⁸ Chan, Ngok, and Phillips. 2008. p.174

the housing reform between 1980s and 1990s,¹⁵⁹ SOEs continued to be the main provider of housing for their employees. The only change was that SOEs' involvement in housing changed from a central planning basis to an individual basis.¹⁶⁰ Such provision was either through the construction on their own or through purchasing the commercial housing and selling to their employees at highly discounted prices. SOEs' continuing heavy involvement in housing can be demonstrated by both the growth of extra-budgetary funds and Investment in Residential Housing in Urban China.

This situation persisted until late 1990s when the then premier Zhu Rongji set the date of 1 July 1998 as the deadline for terminating the distribution of state-subsidized housing. Stopping allocating housing through in kind but through cash was proposed in the State Council's directive *A Further Step on Deepening Housing Reform and Accelerating Housing Construction in Urban Areas* in 1998. All enterprises and institutions had to stop providing rental housing to their employees by the end of 1998.

These housing reform policies directly impacted the pattern of the construction of enterprise housing: "the 1950s and 1980s were the two main periods in which most enterprises housing were built; very few houses were built during the 1960s and 1970s (the Cultural Revolution period); enterprise house building has declined since the 1990s and no new houses were built after 2000."¹⁶¹

As a supplement, a subsidized housing called Economic and Comfortable

¹⁵⁹ "Implementation Plan For a Gradual Housing Scheme reform in Cities and Towns" in 1988; "Continuation of Urban Housing Reform in a Stable Manner" in 1991; "Decision on Deepening the Urban Housing Reform" in 1994; and "A Further Step on Deepening Housing Reform and Accelerating Housing Construction in Urban Areas" in 1998.

¹⁶⁰ Chan, Ngok, and Phillips, 2008, p.174; Gu, 2001; Zhu, 2002.

¹⁶¹ Yaping Wang, Yanglin Wang and Glen Bramley, "Chinese Housing Reform in State-owned Enterprises and Its Impacts on Different Social Groups," *Urban Studies*, Vol. 42, No.10, (September 2005): 1859-1878. p1862.

Housing (ECH) was provided to the urban homeless or the households whose income and living space were below a certain level. ECH is managed by local governments and is sold at subsidized prices. Therefore, housing has been fully delinked from SOEs since 1998.

Table 2-11: Overview of Policies for Housing Reform

Year	Document	Document Number
1998	A Further Step on Deepening Housing Reform and Accelerating Housing Construction in Urban Areas	SC No.23
1994	Decision on Deepening Reform of Urban Housing System	SC No.43
1988	Implementation Plan for a Gradual Housing Scheme Reform in Cities and Towns	SC No.11
1991	Continuation of Urban Housing Reform in a Stable Manner	SC No.71
1983	Ordinance on Managing Urban Private Housing	SC No.194

Conclusion

Trend of welfare reform, deviations, and explanations

As discussed in the previous section, causes for reform are very similar in programs discussed (housing, pension, healthcare, work injury, and maternity), namely, unsustainably high expenditure, uneven distribution of social burdens across enterprises, and collapse of welfare provision in some financially weak enterprises and the resultant strong protests from SOE employees. Therefore, all the welfare programs under study set socialization of programs and delinking welfare provision from enterprises as one of the goals of reform. To a certain degree, welfare reform became a prerequisite for the further economic reform.

Housing was planned to be fully commercialized. Social pooling of funds and the creation of individual accounts became program designs for both pension and healthcare programs. Except for work injury and maternity (financed by employers) and *dibao* (financed by public finance), pension, healthcare and unemployment programs involved individual contributions. Compared with pre-reform era when all welfare programs had been financed through government allocations, individuals' responsibilities in securing welfare benefits had increased. Welfare responsibilities were divided among the state, enterprises, and individuals. The state retreated from direct and sole financing of welfare provision. In this sense, SOE employees' welfare benefits had been retrenched in welfare reform. Meanwhile, welfare reform gradually recentralized the management of welfare programs. Ministry of Labor and Social Security was established in 1998 and took over the administration of all social insurance programs. Both social insurance funds and benefits has been managed and distributed by it or its designators instead of individual enterprises since then.

However, despite the goal of state retreat from welfare provision and the consequent policy designs, each program varies in their actual implementation, especially when large number of layoffs occurred in SOEs in the late 1990s with the deepening of the economic restructure. Among all programs under study, housing became the only program commercialized in 1998, eighteen years after the start of its reform in 1980. It was dropped fully from welfare provision.

Similarly, the government spending in healthcare was also cut sharply. The percentage of the government spending in the total healthcare spending dropped from 36.2 per cent in 1980 to 17.1 per cent in 2004. The percentage of government spending in GDP remained as low as 3 to 4 per cent over the studied period. Low government inputs plus marketization of medical services resulted in skyrocketing

medical charges and the consequent unequal access to healthcare services. A survey done in 14 cities and towns by Zero Point Company in 2005 shows that one fourth of the surveyed did not seek medical treatment due to expensive medical charges.¹⁶² High inequality and low efficiency in medical resource allocation made even the Chinese government's think tank, the research center under the State Council admitted in a research report that China's healthcare reform had failed. In terms of administration, health expenditure reimbursement arrears occurred more frequently than wage or pension arrears.¹⁶³

In contrast, pension, UI, and *dibao* programs did not see the same trend of state retreat. The three programs played an important role in alleviating pressures brought about by the massive layoffs in the late 1990s. Early retirement diverted the reemployment pressure from those aged 45 (female workers) or 55 (male workers) and above. As a result, retirees in China jumped from 9.65 million in 1990 to 41.02 million in 2004. Between 1997 and 1999, the three years with the most SOE layoffs, out of 4.5 million of new retirees, 4.1 million were from enterprises.¹⁶⁴ Large number of retirees plus the huge transition costs resulting from switching from a pay-as-you-go pension scheme to a scheme combining social pooling and individual accounts left pension funds huge fund shortfalls. The provinces whose pension funds could not make ends meet increased from only 5 in 1997 to 21 in 1998 and pension fund deficit reached as high as CYN18.7 billion in 1998.¹⁶⁵ The consequent pension arrears led to pensioners' strong protests. "Contentious pensioners" made pension program one that has received the most government subsidies (CYN 40.8 billion in

¹⁶² Cited in Xing Gu. *Zhongguo yiliao tizhi gaige: xianzhuang yu tiaozhan*, p.2

¹⁶³ John Giles, Albert Park and Fang Cai, "How has Economic Restructuring Affected China's Urban Workers?" *The China Quarterly* (2006): 61-95. p.93.

¹⁶⁴ China Statistical Yearbook, 2008. www.stats.gov.cn/tjsj/ndsj/2008/html/W2238e.htm.

¹⁶⁵ Mengkui Wang, eds. 2001. *Zhongguo Shehui Baoxian Tizhi Gaige* (Reform of China's Social Insurance System). Beijing: Zhongguo fazhan chubanshe (China Development Publishing House). P.59.

2002; CYN 53 billion in 2003, and CYN 61.4 billion in 2004).¹⁶⁶ Moreover, pension is also the only program whose benefits have been raised for years (1997, 2001, 2003, 2005, 2006, 2007)¹⁶⁷. Its benefit level and increase percentage over years are higher than any other welfare insurance programs. Furthermore, the importance attached to the administration of the program is also not comparable by any other programs. Socialized distribution of pension benefits through banks or post offices replaced the practice of enterprise distribution in 1998. A Circular was issued in 2000 to reiterate the implementation of the socialized distribution of pension benefits.¹⁶⁸ The practice of balance contribution, in which an enterprise would only pay the difference between pension benefits payable to it by the social insurance management agencies and contributions due from it, was abolished, because this practice resulted in some enterprises' using their employees' pension benefits for other purposes and having generated pension arrears. Meanwhile, several administrative decrees were issued to guarantee the actual delivery of pension benefits. The implementation of "Two Guarantees" (guarantee delivery of pension benefits and *dibao* on time and in full) was even connected with officials' performance evaluation and promotion. Any violation may end in administrative discipline. Because of these efforts, retirees are found to be one of the social groups that have received the most welfare benefits.¹⁶⁹

Similarly, the UI, *dibao*, and BSA to laid-off workers constituted the "three

¹⁶⁶ Ministry of Human Resources and Social Security (MHRSS). *Laodong he Shehui Baozhang Shiye Fazha Gongbao*, 2002, 03, 04 (Report on Developments in Labor and Social Security), available on MHRSS public website.

¹⁶⁷ The decrees issued in the studied period (1997, 2002, and 2003) are: Lao Bu Fa (1997) No. 226 Document, *guanyu 1997 nian lituixiu renyuan jiben yanglaojing de tongzhi* (Circular on adjusting pension benefits for enterprise retiree in 1997); Lao She Bu Fa (2002) No.3 Document, *guanyu 2001 nian tiaozhen qiye tuixiu renyuan jiben yanglaojing de tongzhi* (Circular on adjusting basic pension benefits for enterprise retirees in 2001); Lao She Bu Fa (2004) No.2 Document, *Guanyu cong 2003 nian qiye qi zhengjia qiye lituixiu renyuan jiben yanglaojing de tongzhi* (Circular on raising basic pension benefits for enterprise retirees from July 2003 on).

¹⁶⁸ Lao She Bu Fa (2000) No. 9 Document. *Guangyu jiakuai shixing yanglaojing shehuihua fang de tongzhi* (Circular on accelerating the socialized distribution of pension benefits).

¹⁶⁹ Gao, 2006.

lines of guarantee” to the livelihoods of laid-off workers. The UI had been evolving with the introduction of China’s labor contract system in 1980s. However, it did not really pick up momentum until the emergence of massive layoffs in the late 1990s. It was officially established only in 1999. The newly-established UI not only assumed one third of the funds contributing to the basic subsistence allowances for laid-off employees, but also provided reemployment services.

Similar development trajectory could be identified in *dibao* program as well. Developing from a minimalist social relief program, *dibao* has expanded quickly over years in terms of its beneficiaries and government subsidies. Grants from the central government were CYN 400 million in 1999, CYN 800 million in 2000, CYN 2.3 billion in 2001, 4.6 billion in 2002, and 9.2 billion in 2003.¹⁷⁰ A total of CYN 260 billion was injected by the central government to basic pension insurance, basic subsistence allowances for laid-off SOE employees and the *dibao* program between 1998 and 2003.¹⁷¹ The central, western, and rustbelt regions, where there was large presence of state enterprises and enterprises weak in financial resources, received the largest share of the subsidies. Majority of the beneficiaries of both UI and *diabo* were initially laid-off SOE employees.

Thus, the important role that UI and *diabo* had played in guaranteeing the basic living standard of laid-off SOE employees and obtaining their acquiescence made both programs the large receivers of government subsidies next to the pension program. Similarly, their actual delivery was also guaranteed by administrative orders.

Apparently, government retreat and welfare retrenchment did not happen equally in all programs under study. Developments of some welfare programs

¹⁷⁰ Yanyin Yang, Vice Minister of Civil Affairs, “The Minimum Living Standard Guarantee System for Urban Residents in China,” in *Social Security in the People’s Republic of China*, available at www.ipc-undp.org/publications/cct/2chine.pdf, p.14.

¹⁷¹ Ibid.

deviated from the original policy goals in the course of reform. This is especially true when the programs have direct bearings on and important role to play in maintaining the social stability. Selective government intervention is obvious in the overall welfare reform. Not having direct bearings on laid-off workers' subsistence (such as housing) and not occurring concurrently (such as falling sick and needs for healthcare), both housing and healthcare were not issues that could produce empathies among laid-off workers, thus becoming potential framing issues for mobilization and posing an immediate threat to social stability. Therefore, both became the programs more or less following their initial policy goals and designs to achieve commercialization, marketization, and state retreat.

By contrast, because of the importance of early retirement as a strategy in SOE reform, the disruptive power of the most vocal group of retirees, and the threat to the social stability posed by the large number of layoffs, pension, UI, and *dibao*, the three welfare programs that could help alleviate the layoff pressures and obtain the acquiescence from laid-off workers, were attached particular policy priorities in terms of huge government subsidies and administratively guaranteed delivery.

By the same logic, due to the small size and limited impacts of work injury and maternity insurance programs, both programs remained marginal. Again, the sudden momentum for the accelerated expansion of work injury program in the mid-1990s came from governments' concerns for the potential disruption of the social order by migrant workers due to increasing occurrences of work-related safety accidents in industries where migrant workers were the main labor force, such as construction and mining.

Thus, the overview of each program's reform causes, goals, processes, and implementations reveals how political calculations, particularly concerns for

maintaining social stability in the face of massive layoffs in the 1990s have affected the implementation of envisioned reform of each welfare program under study.

Protest space created by central edicts and deviation in local implementations

Centrally made policies rely heavily on local implementation, especially when these policies are unfunded mandates that need local financing. Political and economic decentralization in China left welfare reform policies at discretion of local governments.

China's increasing number of protests demonstrates that the Chinese people are not reluctant to stage protests when their very subsistence and interests are threatened, regardless of the authoritarian rule in this country.

Centrally stipulated welfare policies become part of the "legal terms" which laid-off workers could exploit to frame their mobilization, support their claims, and legalize their protest acts. These policies become important resources for laid-off workers to bargain with local officials about their legitimate rights.

A case in point is the protest staged by workers in Liaoyang, a city in the northeastern rustbelt in China in mid-March 2002. Tens of thousands of SOE workers in Liaoyang participated in the protest. It was claimed by overseas human rights organizations as "the largest collective act of defiance since the bloody crackdown of the 1989 Tiananmen Incident."¹⁷² The incident originated from workers' fight for nonpayment of wages, pensions, unemployment allowances and medical reimbursement of Liaotie or Liaoyang Ferro-Alloy Factory. Their grievances came from the fact that "the panoply of worker compensation specified by central government policy remained an empty but tantalizing promise." Their grievances

¹⁷²Lee Ching Kwan. 2007. *Against the Law: Labor Protests in China's Rustbelt and Sunbelt*. Berkeley: California University Press. p.3.

were shared by many local workers. The workers from twenty factories came together to hold the local government responsible for their plights after their state-owned enterprises went bankrupt. They not only demanded payment of back wages, pensions, and unemployment allowances owed them for months, even years, but also they insisted on the removal of the head of the local legislature and former mayor whose seven-year leadership had spawned rampant corruption and wreaked havoc in the lives of the local people. Workers' protest resulted in the redress of the arrears and the removal of the local official held responsible.¹⁷³

Welfare policies vary across the country in their actual implementation. But one of the unexpected roles that the top-down welfare reform policies has played is legitimizing workers' fight for their benefits. As observed by Ching Kwan Lee (2007), the trend of increasing labor strife among China's massive layoff and retired proletariats was mostly triggered by "rampant nonpayment of wages, pension defaults, and the general collapse of the enterprise welfare system." However, top-down reform policies has created a space where workers could stage protests for their rights and rights for living without touching the sensitive nerves of the Chinese authority. In turn, to a certain degree, such a protest space has become a channel and venue for workers to vent their grievances and get the grievances redressed, thus effectively preventing grievances from developing into issues of cross-section or cross-locality nature.

Therefore, these grievances will never become a uniting factor for workers to further

¹⁷³ Ibid, p.3-6.

¹²⁷ See Youmei Li et al. 2008. "fuli zhidu de gaige: cong shifang shichang xiang baohu shehui de zhuanxing" (Reform of Welfare system: From Freeing Market to Maintaining Social Justice) in *Zhongguo Shehui Shenghuo de Bianqian* (Transformation of China's Social Life). Beijing: Zhongguo Dabaiké Quanshu Chubanshe. p.350. It notes that relative to GDP, the government spending on social security, public health, education, and social relief has been dropping since mid-1990s.

¹²⁸ Liu Changzhu. 2007. *Zhongguo Shehui Baozhang Shuiping Quyu Chayi Yangjiu* (Research on Regional Differences of Social Security Level in China), Master Thesis from Dalian University of Technology; Zhu Qingfang and Wu Haiguang. 2003. *Shehui Zhibiao Tixi* (Social Indicators). Beijing: Chinese Social Science Publishing House.

mobilize.

Welfare provision not commensurate to the economic level

Despite the two decades of welfare reform, China's welfare level is still rather low. Although the government expenditure on the social security increased almost 10 percentage points from 1.64 per cent in 1994 to 10.79 per cent in 2006, such increase lagged far behind the economic growth. The percentage of social security spending in the total Gross Domestic Product (GDP) has been stagnating in a rather low level, floating between 1 and 2 per cent of the GDP. Given the drastic increase of government expenditure in GDP from 12.02 per cent to 19.17 per cent in 2006, 10 percent of government spending on social security is not as much as it appears to be

(Table 2-12 is about here)

This echoes the findings by Gao (2006) that even though the real value of social benefits increased over time, its increasing pace was laggard by that of market earnings, yielding a smaller share in final household income since the reforms. Other studies confirm this trend.¹²⁷ This explains why the social benefit transfers were not able to close the increasing income gap caused by the growing market income inequality of the period despite the significant role of social benefits in reducing income inequality in both 1988 and 2002. She also finds that pensions, public assistance, and health (education) benefits increased during the period, while housing (food assistance, and supplementary income) decreased. Similarly, using statistics from *China Statistics Yearbook*, Zhu Qingfang and Liu Changzhu compared the regional welfare spending and found that the welfare spending is not necessarily positively correlated to the region's economic level.¹²⁸ The welfare spending in rich provinces and cities such as Beijing, Shanghai, and Guangdong accounts for a lower

percentage of its GDP compared with their poorer counterparts in the country.

Obviously, welfare reform did not align the strong economic growth and the relatively low welfare level in China.

In a nutshell, this chapter finds that none of the previous theories on the welfare development could fully explain such development in China. China's welfare development is not the spill-over effect of China's economic growth. Neither is it a compromise to the popular pressure or a simple imitation of any other country's welfare regime. Instead, economic reform, especially the market transition of SOEs, has been driving forward the reform of welfare programs. However, when economic needs confront the political needs for social stability, the latter always prevail. Therefore, the scope and timing of the reform of the programs under study are always commensurate with the degree of social influence the program can exert. The more bearing the program has on social stability, the more policy attention it will receive, which is reflected through the higher program benefits, the expansion of coverage to cover groups threatening the social stability, and faster pace of reform.

Table 2-11: Government Spending on Social Security

Year	GDP	Gov Expenditure	Expenditures for SS	Expen/ GDP	SS/ Gov Expen	SS/GDP
1994	48197.9	5792.6	95.14	12.02%	1.64%	0.20%
1995	60793.7	6823.7	115.46	11.22%	1.69%	0.19%
1996	71176.6	7937.6	182.68	11.15%	2.30%	0.26%
1997	78973	9233.56	328.42	11.69%	3.56%	0.42%
1998	84402	10798.18	595.63	12.79%	5.52%	0.71%
1999	89677	13187.67	1197.44	14.71%	9.08%	1.34%
2000	99215	15886.5	1517.57	16.01%	9.55%	1.53%
2001	109655	18902.58	1987.4	17.24%	10.51%	1.81%
2002	120332	22053.15	2636.22	18.33%	11.95%	2.19%
2003	135823	24649.95	2655.91	18.15%	10.77%	1.96%
2004	159878	28486.89	3116.08	17.82%	10.94%	1.95%
2005	183868	33930.28	3698.86	18.45%	10.90%	2.01%
2006	210871	40422.73	4361.78	19.17%	10.79%	2.07%

All data is from China Statistics Yearbook, 2007.

Available on <http://www.stats.gov.cn/tjsj/ndsj/2007/html/H0804e.htm>

Note: SS refers to social security subsidiary expenses, which include expenses on pension and social welfare, social security subsidies and expenditure for the retired in the government and other institutions. Those did not include expenditure for retired persons before 1996, which are listed under the item of Administrative Expenses.

Chapter 3 Welfare and Workers' Mobilization Power

The developments documented so far may seem to argue against, rather for, using welfare to explain the defusing of workers' mobilization power. First, as demonstrated in the last chapter, the essence of China's welfare reform is the retreat of the state's primary responsibility in welfare provision and the increase of individuals' contribution through the privatization and socialization of welfare programs. The comprehensive welfare benefits provided to SOE workers during the socialist era have been retrenched greatly. Second, despite annual increases in national spending on welfare in recent years, welfare provision remains residual and the benefit level is still rather low. Finally, the level of national welfare spending has constantly lagged behind the country's rate of economic development. Therefore, it would seem counterintuitive to argue that a retrenched and residual welfare program has helped to pacify laid-off workers.

The purpose of this chapter is to address the paradox entailed by my argument and explore how welfare reform has defused the laid-off workers' mobilization power. It argues that the timing of welfare reform is crucial. Welfare reform is not static. In accordance with the state's policy goals, I divide post-Mao welfare reform into two stages: the first stage (1980 to 1996) with its focus on privatizing welfare provision and the second stage (1997 to 2004) with its emphasis on maintaining social stability.

The chapter will discuss how welfare reform carried out at each stage has defused laid-off workers' mobilization power through influencing workers' target of blame, capacity to mobilize, and public support the workers may have. Among the mechanisms that have weakened that power, I emphasize transformed state-society relations, wide acceptance of market ideology, alternative means of livelihood in a

nascent market economy, and fragmentation of age-related welfare benefits. The dynamic interaction between welfare reform and workers' pacification is illustrated in Table 1-1.

The first section will focus on the impacts of welfare policy changes on SOE workers during the first stage of welfare reform. It argues that due to the path dependency of decentralized institutional arrangements, this stage saw the actual increase of workers' benefits despite the privatization of welfare provision. The welfare reform during the first stage did not undermine the workers' vested interests. However, it did reinforce the transformation of state-society relations and a market ideology through its individualist approach.

The second section will address policy changes during the second stage of welfare reform. It argues that heavy state intervention is the main characteristic of this stage. Selective subsidization on pensions, *dibao*, and unemployment insurance has an underlying political logic of pacifying laid-off workers through welfare intervention.

The first stage of welfare reform (1980 to 1996)

As shown in Table 3-1, among the seven welfare programs under study, the reform of housing, pension, and healthcare programs started in 1980s while the reform of UI and *dibao* did not pick up momentum until the late 1990s. The work injury insurance program and maternity insurance program did not have big changes until the mid-way of the 21st century. According to the starting time and policy purposes of each of those reforms I divide welfare reform into two stages.

Table 3-1: Overview of Reforms of Seven Welfare Programs

Programs	Starting years	Reform Reason	Reform measures
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Housing	1980	Financial burden & uneven distribution; supply shortage; unequal access	Commercialization
Pension	1984	Financial burden & uneven distribution; arrears-related protests	Social pooling & individual account
UI	1986	Emergence of unemployment	Enactment of interim waiting for unemployment insurance scheme
	1999	Massive layoffs	creation of the UI
Healthcare	1988	Financial burden	social pooling and individual accounts
	1998	Financial burden	social pooling and individual accounts
Work Injury	1996	Increasing occurrences of accidents among migrant workers	employer liability
Maternity	1994	-----	employer liability
Dibao	1997	Efforts to establish a social safety net	public finance

The first stage (1980 to 1996) was marked by the privatization of welfare provision and the retrenchment of welfare benefits. During this period, reform of three major components of socialist welfare, namely, housing, pension, and healthcare, was started. Housing reform came first, beginning in 1980, followed by pension reform in 1984 and healthcare reform in 1988.¹⁷⁴ Work injury and maternity insurance program remain almost unchanged until 1990s.

One of the main incentives for the central government to launch the above three reforms in the 1980s was the fiscal burden and the social impact that would entail should those programs in heavily burdened and financially weak SOEs collapse. For example, SOE investment in residential housing reached as high as 88.2 per cent of the total national investment of CYN 14.92 billion in 1981. Meanwhile, the failure of unprofitable enterprises to provide pension and healthcare to their retirees caused the

¹⁷⁴ See Chan, Ngok, and Phillips, 2008, p.169-180 for more details.

retirees' protests in the coastal provinces in the early 1980s. This was especially true for the old enterprises with a large number of employees and retirees. As the first step to relieve SOEs of heavy financial burdens, housing reform started in 1980, with the goal of commercializing residential housing. This entails that housing should no longer be a social service to be provided by SOEs to their employees. Five main policy guidelines were issued by the State Council to guide the housing reform between 1980 and 1998.¹⁷⁵

Pension and healthcare reform followed, with the intention to share financial risks and to distribute social burdens across enterprises. Both programs changed from a model of primary state welfare provision to one combining social pooling and individual accounts. Pension and healthcare were no longer the liabilities of the state or work units alone. Individuals should also contribute to both programs to be eligible for benefits. 8 per cent of one's wage should be contributed as premium to his pension and 2 to 3 per cent to his healthcare insurance.

Thus, the initial stage of welfare reform underwent a paradigmatic change to the China's welfare regime. Welfare was no longer a social service guaranteed by the state. Welfare responsibilities were shared among the state, work units, and individual employees. Compared with the pre-reform era, SOE employees' major welfare benefits suffered cuts in different degrees. Housing was to be privatized and commercialized. Individuals should either pay higher rent or purchase his own housing from his enterprise or the commercial market. In addition, individuals should also contribute to his pension and healthcare. Thus, retrenchment of welfare benefits was the main feature of the initial stage of welfare reform.

¹⁷⁵ Please refer to chapter II housing reform for details. These are documents issued in 1983, 1988, 1991, 1994, and 1998.

Workers' unaffected interests at the first stage of welfare reform

Actual increase of welfare benefits

Against the policy intention of retrenching welfare benefits in order to stall actual or potential fiscal crisis, the reform of all three welfare programs failed to end soaring spending in each of the three reformed programs. SOEs continued to be the main investor in housing construction in the urban sector and the main provider of housing to urban employees. Even though the percentage of investment by SOEs in residential construction dropped from 88.20 per cent in 1981, it still accounted for more than 50 per cent in 1996 despite a series of government orders to enforce housing reform measures.¹⁷⁶

Similarly, the percentage of welfare funds for employees, where pension, healthcare, and other welfare benefits came from, in total wages, increased from 18.47 per cent in 1980 to 33.51 per cent in 1997.¹⁷⁷

Obviously, despite the central government's policy of retrenching welfare benefits, the actual welfare benefits provided to the SOE workers did not reduce accordingly. This is a paradox found in the first stage of China's welfare reform.

Institutional explanation for the paradox

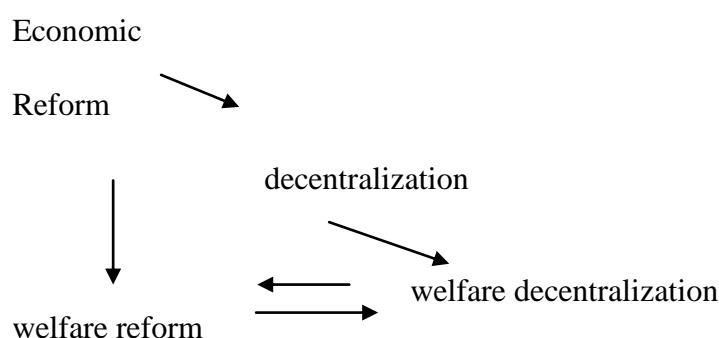
Understanding the institutional background against which welfare reform was carried out is the key to understand this paradox. Economic reform provided a broad framework where welfare decentralization inexorably affected the results of welfare reform. As demonstrated in the model below, economic reform directly led to

¹⁷⁶ Gu, 2001, p.135; Also see Shaw, 1997, p. 201. "In 1984, the state allocated CYN 18.23 billion in housing construction. The figure went up to CYN 31.86 in 1988. Housing investment took 7.1 per cent of the Gross National Product in 1984 and 8.14 per cent in 1985." After housing reform, the percentage of housing investment in GNP increased dramatically. According to Xingquan Zhang (2000), it was only 0.78 percent between 1952 and 1978.

¹⁷⁷ Studies by Gu (2001), Shang (2001); Chan, Ngok, and Phillips (2008) all confirmed this pattern of increasing welfare spending after the retrenchment-aimed welfare reform at the first stage.

economic decentralization, in which welfare decentralization was an important component. Meanwhile, the further economic reform requires the corresponding reform of welfare provision. Thus, welfare reform and legacies of institutional arrangements of welfare decentralization interacts with each other in the course of reform and affects the implementations and results of welfare reform.

Table 3-2: Impacts of Economic Reform on Welfare Reform



In the era of the planned economy, the state was both a welfare policy maker and a provider. SOEs were the grassroots policy executor, responsible for the actual delivery of welfare benefits. SOEs submitted all profits to the state. The state then made a unified plan for resource allocation. Both capital construction funds (where the funds for housing came from) and employees' welfare funds (where pension, healthcare, and other welfare benefits came from) were allocated from the government's social appropriations. The former were allocated to individual SOEs in line with the state capital investment plan, while the latter were distributed to all SOEs according to the size and the total salary roll of each enterprise.¹⁷⁸ Types of benefits, benefit levels, and benefit eligibilities were all decided by the state. They were applied to all SOEs, regardless of their size. Individual SOEs were responsible

¹⁷⁸ Gu, 2001, p.133

to distribute these benefits together with payrolls. Thus, before economic reform, welfare benefits in China were unified. All employees enjoyed a same level of benefits based on their work and titles. In this sense, the pre-reform society in China was egalitarian.

Welfare decentralization was one of the institutional reconfigurations resulting from economic reform. Market-oriented economic reform started in 1970s. A series of policies were enacted in 1979, including *Several Decisions on Broadening SOEs' Management Autonomy*, *Decision on Profit Retention by SOEs*, *Interim Decision on Taxation on Fixed Assets of SOEs*, and *Interim Decision on Full-Amount Loan of Liquid Funds to State Industrial Enterprises*.¹⁷⁹ The main tenet of these reform measures was the decentralization of both administrative power and responsibilities from the government to SOEs. SOEs were allowed to retain part of profits to be at their own disposal. The new measures aimed to give SOEs managerial autonomy as well as incentives to improve efficiency to compete in a market economy.

Welfare decentralization was a component of the new reconfiguration of institutional arrangements triggered by economic reform. Under the arrangement of decentralized welfare provision, welfare benefits were no longer allocated by the state according to a centralized plan. Instead, the fund would come from the profit retention negotiated between the state and individual SOEs. This arrangement implies that the more profitable a SOE, the more profit it would retain and more benefits it would give its employees. Thus, the state might still retain the role of making welfare policies and monitoring the implementation of these policies, but it was no longer a direct welfare financing agent.

Under the decentralized arrangement of welfare provision, welfare benefits

¹⁷⁹ Wu, 2003, p.57

were not unified across the SOEs as it had been during the era of centralized welfare provision. Instead, SOE employees saw great variance of welfare benefits between and among loss-making, profit-making, and much profitable SOEs. Welfare decentralization changed SOE's involvement in welfare provision from a central planning basis to an individual basis.

Welfare reform came at the time when the bankruptcy of welfare loomed large in loss-making SOEs or heavily-burdened SOEs. Such welfare reform measures as social pooling and the introduction of individual accounts saved those financially weak SOEs from the potential collapse of their welfare provision. On the other hand, welfare decentralization gave profit-making SOEs enough autonomy to continue providing to their employees with high welfare benefits. The increased part of welfare benefits was big enough to offset the retrenchment incurred by welfare reform measures. Therefore, despite retrenchment, welfare reform at the first stage did not reduce the actual welfare benefits enjoyed by workers in the profit-making SOEs while did provide guarantee to workers in the profit-losing SOEs the basic welfare benefits which they would otherwise risk of being deprived of.

Thus, at the first stage of welfare reform, SOE workers actually benefited from welfare reform as a whole even though the degree to which they benefited might vary.

Explanations for compromised policy results:

The theory of path dependence illustrates how the past institution persists and affects the future decision making and development path.¹⁸⁰ In the case of China, it

180 See Collier, Ruth Berins and David Collier. 1991.. *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America*. Princeton, Princeton University Press. Chapter 1; David, Paul, "Path dependence, its critics and the quest for 'historical economics'", in Pierre Garrouste and Stavros Ioannides, eds. 2001. *Evolution and Path Dependence in Economic Ideas: Past*

was the path dependency of institutional arrangements before the welfare reform that undermined the policy results welfare reform at the first stage intended to achieve. Welfare reform did not change the occupation-based nature of welfare provision in China. SOE workers were still the biggest beneficiaries of China's urban-biased welfare regime. Administratively, enterprises remained the daily administrative and delivery agencies of welfare benefits. Meanwhile, welfare decentralization retained SOEs autonomy in the actual implementation of central welfare policies. Path-dependency of institutional arrangements existing before welfare reform, including profit retention, financial decentralization and welfare decentralization, explained the deviations in implementing the measures of welfare reform, as demonstrated in housing and pension reform. Instead of cutting the expenses, both programs saw even higher expenditure than that before the reform era.

Such path-dependency in the institution arrangements of welfare provision directly affected the enforcement of these top-down welfare reform policies by individual SOEs. It is not surprising that all the three reformed welfare insurance programs have seen non-enforcement in different forms and at different degrees.

Such non-enforcement was evinced by the slow implementation of key policy components in housing reform. Without substantive increase of individual's wage, enterprise employees simply did not have the purchasing power required by housing reform. Besides, it made no sense to them to give up low-rent company housing for unaffordable commercial housing. Similarly, the lack of legislation to enforce the collection of pension and healthcare contribution made "adverse selection" a malaise in furthering pension and healthcare reform.

As Chan (2008) observes, "welfare decentralization gave SOEs more

autonomy in welfare decision, which was intended to improve incentives and efficiency. Under this institutional arrangement, welfare provision, to a large degree, is subject to an enterprise's economic health. Central policies, which were contradictory to its general reform purposes, gave individual SOEs more room to maneuver only to get higher benefits for their employees. Allowing twelve industries with monopoly status (such as electricity, railway, oil, etc) to maintain their own insurance programs protected the unreasonably high benefits for employee of these enterprises. Similarly, by reducing its financial involvement in public housing, the central government encouraged SOEs to invest in housing through profit retention and the use of extra-budgetary funds, which were outside the planning control of the state and administered by work units themselves. Work units were also allowed to finance housing projects by collecting money from workers. In reality, these measures contradicted the purposes of welfare reform."¹⁸¹

The incentive structure embedded in this institutional reconfiguration greatly compromised the achievement of the policy goals of welfare reform at the first stage. Under the institutional arrangement of profit retention, "financial bargaining about profit sharing replaced plan bargaining over resource allocation as the predominant interaction between enterprises and their supervisors."¹⁸² For fear of increased base figures by their supervisors, SOE managers tend to maximize the cash incomes (wages and bonuses) and non-cash incomes (a variety of welfare benefits). As a matter of fact, Shang (2001) argues that because of the convergence of interests between SOE employees and government departments competing for pension funds at the initial stage of pension reform, the replacement ratio of pension in some places increased from 80 per cent to 88 per cent, while the replacement ratio set at the

¹⁸¹ Chan, Ngok, and Phillips, 2008, p.174

¹⁸² Kornai, 1992, p.487-9, p.491

beginning of the pension system in 1950s was only 58 per cent. In some localities the replacement ratio even was even higher than the average wage in those localities. The similar trend can be identified in both housing and healthcare.¹⁸³

Thus, the path-dependency found in welfare reform compromised the reform purposes of the three welfare insurance programs. It is not surprising to find that the actual implementation deviated from the policy design and achieved completely unexpected policy results. Despite the central government's policies aiming at retrenching welfare benefits, the welfare benefits actually provided to the workers did not reduce much at this stage because the welfare benefits were connected with SOEs' profitability and majority of SOEs were still making profits in 1980s.

Changed state-society relations at the first stage of welfare reform

Changed role of state

Welfare reform at this stage reshaped the role of the state, work units and individuals, and remolded the relationships among them. It had two-folded implications.

First, it mitigated the state's primary responsibility in welfare provision. Before the welfare reform, the workunit-based welfare system was financed by neither taxation nor social insurance contributions from employers or employees, as those in the Western countries. Instead, it was fully financed by the state. The Chinese government held the power to make key decisions in almost all socio-economic activities. SOEs conducted all production activities and submitted all realized profits to the state. The government then made a unified plan for resource allocation. Under this state-SOE power relationship, the state was the main provider of welfare benefits.

183 Zhu, Jieming, "The changing mode of housing provision in transitional China," *Urban Affairs Review*, Vol 35, no 4, (2000): 502-19; Jane Duckett, 2001;

SOEs functioned merely as the grassroots of the government for the bookkeeping of welfare funds and the delivery of welfare benefits. The different components of welfare benefits were financed from different sources. The construction of public housing was financed from workunit-based ‘capital construction funds’ and the other welfare provisions were financed from workunit-based ‘employees welfare funds.’ Both funds came from governmental fiscal appropriations. The ‘capital construction funds’ were allocated to individual SOEs in line with the state capital investment plan, while the ‘employees welfare funds’ were distributed to all SOEs according to the size and total salary roll of each enterprise.”¹⁸⁴

The first-stage welfare reform changed this relationship. The state no longer funded welfare provision in full. Instead, a three-party contribution system involving individual, work unit, and the state was established. Welfare was no longer an entitlement of SOE workers. It became partly conditional on an individual’s contribution to the social insurance premiums. In this sense, workers’ welfare benefits were retrenched.

Secondly, welfare decentralization gave workunits ample autonomy in providing higher welfare benefits to their employees contingent upon their financial resources. The association of welfare with SOEs’ profitability and consequently SOEs’ capability in managing their firms further detached the state from welfare provision. By the same token, when a SOE failed to provide their employees with welfare benefits, employees would usually blame their firm management instead of the state.

Thus, welfare decentralization as a component of broader economic reform has transformed the state’s role from a direct welfare provider to a welfare policy

¹⁸⁴ Gu, 2001, p.132-3

maker and regulator. The actual welfare provision was decentralized to individual enterprises financially as well as administratively. Welfare benefits were closely connected with enterprises' economic soundness. The subsequent welfare reform has reinforced the trend. Both enterprises and individuals' responsibilities in welfare provision are strengthened.

Weakened social contract

Enterprise reforms characterized by the contract responsibility system and welfare decentralization destroyed the foundation of the social contract under the planned economy. Under the pre-reform social contract, urban state workers would receive a minimum wage from the state, and in return, the state would provide lifelong employment, health care, education, and old-age benefits to workers. This tacit contract no longer existed during the reform era.

Two main components of the social contract, low wage on the side of workers and the provision of comprehensive welfare to the workers on the side of the state, were no longer viable in a market economy. Economic pragmatism embodied by the slogan of "allowing some people to get rich first" encourages enterprises to compete and prevail in a market economy. The welfare benefits of their employees were directly connected with these SOEs' market performance. The better an enterprise fared in the market, the higher benefits it could reward its employees. Conversely, those socialist welfare benefits were no longer guaranteed. In fact, they were viewed as obstacles towards efficiency and better enterprise performance. Therefore, economic reform simply destroyed the foundation of such social contracts in a planned economy. Welfare reform has reinforced the fading process of such tacit contract. Individuals are encouraged to thrive on market opportunities while taking

more responsibilities for their own well-being.

Reinforced market ideology

Furthermore, the retrenchment of welfare benefits and the increased individuals' responsibility in welfare provision underlined such liberal ideology as individualism and marketism that had already been in formation during economic reform.

“The ideas of equality and egalitarianism as well as collective efforts during the Maoist era have been replaced by an ideology that emphasizes individual affluence over group well-being, and private wealth over common prosperity.”¹⁸⁵ It is believed that the Maoist approach to welfare does not encourage productivity and work incentives. “Every one eating from the same big pot” was deemed as an important factor behind the economic scarcities of the Mao era. Indiscriminating systems such as guaranteed job, pension, medical care, etc, came to be denounced as “the iron rice bowl” — an impediment to market reform.¹⁸⁶

Welfare reform at this stage saw the state retreat its role in welfare intervention. Welfare provision was no longer taken for granted. The risk of losing all or part of welfare benefits made workers realize that welfare benefits were not social services provided by the state but contributions from both themselves and their enterprises. Only when their enterprise was making profit, could they enjoy welfare benefits.

In a nutshell, welfare reform at the first stage, which was characterized of benefit retrenchment, did not happen at the same time when the economic reform took its toll on the urban working class as it did after mid-90s.

¹⁸⁵ Li, 1999, p.93

¹⁸⁶ Ibid

Prior to mid-90s, SOE reform centered on expanding managerial and enterprise autonomy, improving governance, and reforming the wage and bonus system while protecting workers from enterprise closures and layoffs, and even for a period, guaranteeing jobs to the children of retiring workers.¹⁸⁷ The urban working class was spared the brunt of market reform at this stage.¹⁸⁸ In fact, it was better-off as a social group during this period of time. Path dependency in welfare reform explains the little changes in the actual welfare benefits enjoyed by the majority of workers. Therefore, welfare reform at the first stage not only guaranteed basic welfare benefits (pension and healthcare) for the workers in the loss-making SOEs but also maintained the same or even prompted higher welfare benefits (pension, healthcare, and housing) to the workers in the profit-making SOEs.

However, welfare reform did change the role of state from a direct welfare provider to a policy regulator and mediator. It reinforced the changed state-social relations that have already started during economic reform. The social contract under the planned economy was weakened and market-oriented ideology was strengthened.

The second stage of welfare reform (1997 to 2004)

Background of the second-round of welfare reform

Economic reform through improving managerial autonomy and increasing material incentives in 1970s and 1980s did not reinvigorate SOEs. The well-intended welfare reform failed to improve the efficiency of SOEs as well. Instead, soaring welfare spending in the late 1980s heavily taxed the SOEs and further impaired their

¹⁸⁷ Lin, Justin Yifu, Fang Cai and Zhou Li. 2001. *State-owned Enterprise Reform in China*. Hong Kong: Chinese University Press.

¹⁸⁸ Ching Kwan Lee and Mark Selden, "Class, Inequality, and China's Revolutions," Working paper for the conference on Class, Revolution and Modernity, Cambridge University, April 1-2, 2005, p15; Gallagher (2005) and other scholars notes that opening up of the non-state sector first and reforming the state sector later is an essential strategy that has saved China's economic reform from the potential strong opposition from the working class.

competitiveness in the market economy. Moreover, the rapidly developing and robust non-state sector was challenging the very existence of the state-sector. In the early 1990s, even the profit-making SOEs started to report loss. The state sector recorded loss as a whole in 1996. The deteriorating economic status of the state sector prompted the state to adopt more radical enterprise reform measures.

In 1992, the Third Plenary Session of the 14th Central Committee decided to significantly deepen economic reform. To establish a labor market at national level was put on the agenda of the Session. Labor mobility was deemed as one of the important means to improve enterprises' efficiency. The Labor contract system was vigorously implemented after that. Building on the 1986 enterprise bankruptcy regulations and responding to increasing liquidity problems of SOEs, the State Council issued a series of regulations laying out three broad principles for enterprises to apply in handling their excess workers in April 1993.¹⁸⁹ One of these was to permit state-owned enterprises to adopt forced leave with subsistence allowance and social benefits. This was the origin of the appearance of *xiagang* workers or laid-off workers.¹⁹⁰

From the early 1990s, the state began cutting back in subsidies to loss-making state firms, eventually allowing leasing, contracting out and sales of small SOEs through acquisitions and mergers. If layoffs before 1997 were only sporadic, it became system wide after the policy of “grasping the big and letting go of the small” was formally endorsed in 1997. This policy allowed merger and acquisition or lease of small firms, as well as bankruptcy, while big firms in strategic sectors were reorganized. The following three years witnessed large-scale layoffs from SOEs.

¹⁸⁹ Guoyou Qiyie Fuyu Zhigong Anzhi Guiding, Guo Fa (111) hao ling (Regulations on Arrangements for Redundant SOE employees), State Council (1993) No. 111.

¹⁹⁰ M. Francis Johnston and Li Himin, “Estimating China’s Urban Unemployment Rate: background, mechanics and an alternative,” *Journal of Contemporary China*, Vol 11, Issue 31, (2002): 187-207, p.197-198

Bankruptcy (averaging six thousand firms a year) and privatization brought about a rapid surge of unemployment. The number of laid-off workers in different types of unemployment, given euphemistic names like waiting for work, early retirement, taking long vacation, which quietly accumulated in the early 1990s, leaped from 3 million in 1993 to an accumulated total of 25 million by the end of 2001.¹⁹¹

Figures from the China Statistical Yearbook validate this trend. For sixteen years from 1980 to 1996, the number of SOE employees has increased 29.3 million (see Table 3-3). SOE employee numbers reached the peak of 109.55 million in 1995. This number has started to drop since 1996. It dropped from 107.66 million in 1997 to 83.36 million in 1999. Within three years, around 24.3 million SOE employees lost their jobs. The trend of job retrenchment continued. As of 2004, a total of about 45.11 million SOE jobs have been retrenched.

Table 3-3 Employee numbers in the state sector, 1980 to 2005

Year	Total	Farming, Forestry, Animal Husband ry and fishery	Mining and Quarryi ng	Manufac turing	Constructio n	Geographical Prospecting and Water Conservancy
1980	80.19	7.4	6.21	26.01	4.75	1.87
1985	89.9	7.26	7.06	29.75	5.45	1.96
1989	101.09	7.36	7.57	33.44	5.41	1.99
1990	103.46	7.37	7.86	33.95	5.38	1.94
1991	106.64	7.27	7.97	34.82	5.57	1.96
1992	108.89	7.17	7.92	35.26	5.77	1.99
1993	109.2	6.72	8.34	34.44	6.63	1.42
1994	108.9	6.53	8.2	33.21	6.29	1.35
1995	109.55	6.34	8.34	33.26	6.05	1.32
1996	109.49	5.92	8.09	32.18	5.95	1.26
1997	107.66	5.88	7.72	30.11	5.77	1.25
1998	88.09	5.25	5.96	18.83	4.44	1.13
1999	83.36	5	5.25	16.48	3.99	1.08
2000	78.78	4.75	4.48	14.15	3.72	1.07

¹⁹¹ Lee and Selden, 2005, p.15

2001	74.09	4.4	4.02	11.94	3.36	1.02
2002	69.24	4.1	3.47	9.79	3.02	0.94
2003	66.21	4.33	2.59	8.54	2.78	n/a
2004	64.38	4.12	2.63	7.3	2.6	n/a
2005	62.32	3.92	2.35	5.99	2.5	n/a

Unit: in Million

Sources: *China Statistical Yearbook*, 2003, pp134; 2006, <http://www.stats.gov.cn/tjsj/ndsj/2006/indexch.htm>

Note: 1. Not included in the form are the eight industries experiencing increase instead of decrease of employees over the years, including Production and Supply of Electricity Gas and Water, Finance and Insurance, Real Estate, Social Services, Health Care, Sport & Social Welfare, Education, Culture and Arts, Radio, Film and Television, Scientific Research and Polytechnic Services, and Government Agencies, Party Agencies and Social Organizations; 2. The numbers do not include the employees in the urban collective enterprises.

***Xiagang* or layoff: a new social phenomenon**

Different from furloughed worker in Western countries, *xiagang* or laid-off workers in China have essentially no chance of being recalled to their former jobs. But unlike the unemployed, laid-off workers retain an affiliation with their enterprises. The most important aspect of this affiliation is that a *xiagang* worker's personnel file is retained at the enterprise. In theory, enterprises continue to provide insurance benefits and monthly 'living wage' stipends to workers.¹⁹²

Unemployment did not get official recognition until the 1990s, given the earlier socialist ideology of full employment. It was not until 1994 that the terminology of unemployment was adopted for the first time by Ministry of Labor and Social Security (MOLSS) to replace the previous terms of "waiting-for-work." But there was not an agreed official definition for *xiagang* for years, let alone a precise statistics about the layoff.

The definition developed by MOLSS for China Labor Statistical Yearbook is: *xiagang* workers refer to those workers who, because of production reasons, have

¹⁹² Johnston and Li, 2002, p.197

already left their job posts, and already do not do any work at the former workunit, but still maintain their relations with it. This definition has excluded: 1. workers who were working but not receiving pay; 2. seasonal workers; 3. workers from bankrupt enterprises.

After the decision to deepen economic reform in 1997, a new definition was adopted in 1998. It now defined the laid-off as those workers: 1. who were full-time SOE employees before the implementation of the contract labor system at SOEs; 2. became full-time employees after the implementation of the contract labor system and whose labor contracts have not yet expired. It is explicitly meant to include only workers from SOEs.

Because of the vague definition, the number of the laid-off workers was usually under-estimated. Table 3-3 shows that even though 41.45 million of jobs have been retrenched in the state sector from 1997 to 2003, the official layoff figures only came to a total of 30.9 million. Constant underreports of layoff numbers by the state statistics has triggered huge debate over the maneuvering of layoff figures by the state for political purposes.¹⁹³

Table 3-4: Official Number of Laid-off Workers in SOEs

Year	Number
1998	5.948
1999	6.525
2000	6.572
2001	5.154
2002	4.099
2003	2.602

¹⁹³ Solinger has a very insightful discussion about the understatement by official figures of laid-off workers. See Solinger, D. J, "Why We Cannot Count the "Unemployed." *China Quarterly*, No. 167 (2001): 573-833.

Unit: million;

Sources: *China Labor Statistical Yearbook*, 2004, pp.149

Protests by the working class

Even before the radical restructuring measures were implemented in 1997, frustration had already been permissive among SOE workers. According to 1997 All China Federation of Trade Union (ACFTU) survey, one fourth of the surveyed workers said that their position as “master of the enterprise” had declined between 1992 and 1997.¹⁹⁴ The massive layoffs since 1997 made the laid-off workers become one of the biggest social groups contributing to new urban poverty.¹⁹⁵

Chinese workers have long been the main force of social movements in contemporary Chinese history. The Chinese working class was the steadfast bastion and decisive force behind the CCP’s victory against the Nationalist Party in 1949. It was far from reluctant to challenge the ruling party in the 1989 Tiananmen movement in China.¹⁹⁶

The Chinese working class’s response to the layoff was not timid either. Throughout the 1990s, the Ministry of Labor tallied thousands of public gatherings, strikes, petitions and demonstrations each year. According to a trade union journal, 247 workers’ demonstrations occurred in Henan during 1998 alone.¹⁹⁷

“From early March 1997 until May 2002, thousands of displaced workers in Heilongjian and Liaoning Provinces engaged in large-scale protests over unpaid benefits and cadre corruption. The protest spread to a number of cities, and probably constituted the largest social protest movement since the 1989 pro-democracy

¹⁹⁴ Blecher, 2002.

¹⁹⁵ Yuting Liu and Fulong Wu, “The state, Institutional Transition and the Creation of New Urban Poverty in China,” *Social Policy & Administration*, Vol.40, No. 2, (April 2006): 121-137; Kernan and Rocca, 2000.

¹⁹⁶ See Blecher, 2002, p.284-285.

¹⁹⁷ Hurst, Willam and Kevin J. O’Brien. “China’s Contentious Pensioners”. *The China Quarterly* (2002).

movement.”¹⁹⁸

This type of protests has been increasing each year. According to a statistics collected by Xiao Zhengbang, a member of National Political Bureau, the mass incidents by workers in the course of enterprise reform have increased 9.2 per cent compared with 1998, among which collective petition accounted for 60.8 per cent, blockade of road accounting 26.2 per cent, boycott sitting, street demonstration, and gathering 9 per cent, and strikes accounting 3.8 per cent.¹⁹⁹ Labor protests became widespread and received systematic scholarly analysis.²⁰⁰

The working class’ destructive capacity has long been recognized and feared by the CCP. As two of the Chinese officials interviewed by Blecher (2002) acknowledged “the government does not seriously fear students; it most fear the workers.” It might not be the simple coincidence that the crackdown of Tiananmen protests came only after “the first stirrings of the self-mobilization of labor.”²⁰¹

Thus, how the Chinese government will handle this potentially escalating working class unrest is the topic of the next section.

The Second stage of welfare reform (1997 to 2004)

Social safety net combining social insurance and social assistance

1990s witnessed the most dramatic changes ever wrought by post-Mao economic reform: radical economic restructuring of the state sector, transformation of

¹⁹⁸ J. Cheng and K. L. Ngok. (2004) “The Potential for Civil Unrest in China” in A. Heijmans, N. Simmonds and H. van de Veen (eds) *Searching for Peace in Asia Pacific*, Boulder, CO and London: Lynne Rienner Publisher, Inc, pp.166-80

¹⁹⁹ Lu, Jianbin and Wang Hangyun. “Pochang Jianbing Qiye Zhigong Laodong Guanxi he Shehui Baozhang Yanjiu” (Study on the Labor Relations and Social Security of Workers in Bankrupt and Reorganized Enterprises). *Jingji Wenti Tansuo* (Exploration on Economic Problems), July 2003.

²⁰⁰ See Yongshun Cai, 2001; 2006 ; Hurst and O’Brien, 2002; Feng Chen, “Subsistence Crises, Managerial Corruption and Labor Protests in China,” *China Journal*, No.44 (July 2000): 41-63; Ching Kwan Lee, “From the Specter of Mao to the Spirit of the Law: Labor Insurgence in China,” *Theory and Society*, 31:2 (April 2002): 189-228; Kernén and Rocca, 2000;

²⁰¹ Blecher, 2002, p.284-285.

labor institution, the resulting large-scale layoff, and subsequently widespread labor protests.

Due to system-wide SOE bankruptcies, mergers, or reorganizations, the reformed yet still work-unit based welfare system failed to provide workers any income protection against contingencies. The void of an effective social safety risks the incumbent regime of serious social unrests.

Furthermore, increased labor mobility in a fast developing market economy demands the establishment of an equivalent welfare institution. The shift of labor policy from “hidden unemployment” under a planned economy to “real unemployment” in a market economy called for corresponding welfare arrangements. The massive layoff highlighted such shifts.

Under such circumstances, the creation of a functional social safety net became necessary and imperative.

Therefore, the main task of welfare reform at this stage was to establish an effective social safety net. Such efforts started with the direct response to the massive layoff happening in the late 1990s. It is not surprising that UI (social insurance program) and *dibao* (social assistance program), as two welfare arrangements to protect income security, have developed the most rapidly during this period, while pension and healthcare insurance programs have continued to evolve.

Both UI and *dibao* were not officially established in their current forms until 1990s. The UI officially came into being in 1999, evolving from two preceding schemes, *Interim Waiting for Employment Insurance Scheme* existed since 1986 and *Waiting for Employment Insurance Scheme* since 1993. *Dibao* was officially established in 1997 on the basis of traditional public assistance.

Both UI and *dibao* have seen unprecedented expansion since their

establishment in the 1990s. The beneficiaries of *dibao* expanded to cover not only “three nos”, its traditional beneficiaries in the urban area, but also the unemployed whose unemployment insurance benefits have been terminated with their total household incomes below the locally defined assistance line, and those employees whose working incomes, including pensions and allowances, are below the locally defined assistance line.²⁰² Five groups of people benefit from the program: the unemployed, the laid-off workers, the employed, traditional three-nos and retirees. For the first time, *dibao* is recognized as a legal right associated with the citizenship. It has materialized the constitutional right contained in Article 45 of China’s Constitution, which clearly states that its citizens should be entitled to public assistance. The actual number of beneficiaries also increased rapidly. There were only 5,316,000 people receiving *dibao* in both urban and rural areas in 1999. This figure increased 190 per cent from 4 million in cities in 2000 to more than 11 million in cities alone in 2001 and stabilizing around 22 million of recipients in cities since 2002. It has achieved providing *dibao* to all the eligible (*ying bao jin bao*) in cities in 2002.²⁰³

Similarly, UI did not pick up momentum until the central government’s decision to build a socialist market economy and to implement labor contract system nationwide in 1992. It is not surprising that the distributed unemployment benefits in 1994 alone were more than the total of distributed benefits in seven years between 1986 and 1993.²⁰⁴ Since 1999, the number of both the enrollment and beneficiaries of UI has increased. Increased beneficiaries far outpaced new enrollments. Only 98,520,000 employees enrolled in the UI in 1999. During the following three years,

²⁰² Tang, et al. 2003.

²⁰³ 2002 Nian Mingzheng Shiye Fazhan Tongji Baogao (Statistical Report on Developments in Civil Affairs in 2002)

²⁰⁴ See chapter II for details. Zheng Gong-cheng, eds. 2005. *On Social Security*. (Shanghai: Fudan University Press). p.210

the number of enrollment has registered only a slight increase. It reached 105,840,000 in 2004. Compared with the number of enrollment, the number of beneficiaries of UI has increased much faster. In 1999, 1,090,000 people claimed the UI benefits. During the following three years, this number has increased more than four times, jumping to 4,400,000 in 2002.²⁰⁵

In sum, the welfare system at the second stage of development continued its transition from a workunit based welfare system to one based on citizenship. This transition was accelerated due to the fast fading away of SOEs, which were the delivery agents under the old welfare system, and the massive layoff in the SOEs in 1990s. Thus, the most conspicuous development in welfare reform at this stage was the official establishment of UI and *dibao*. Both made a leap forward in terms of their coverage and actual benefits distributed. A social safety net, composed of both social insurance programs and social assistance program, was in formation to provide income security to those left behind the economic growth.

However, path dependency and selectivity continue to be the main feature of the welfare development at this stage.

Path dependency: laid-off workers as the main beneficiaries

Despite the leap forward made in the creation of a preliminary social safety net composed of both social insurance programs, mainly the pension, healthcare, and UI, and the social assistance program *dibao*, path dependency persisted at this stage of welfare development. Despite its broader policy purpose to create a citizenship-based social welfare system, the first and primary beneficiaries of the welfare program continued to be the state-sector employees, the laid-off workers in

²⁰⁵ China Labor Statistical Yearbook, 2005, p.583-4

particular. As Linda Wong (1998) argues, the pattern of social welfare reforms closely mirrors in its coverage the categories created under the planned economy.²⁰⁶

Among five composition groups of *dibao* recipients, laid-off employees has been the largest one until 2005, accounting for around one fourth of the total number of beneficiaries. Money used in protecting the minimum living standard of laid-off workers had been increasing from 37 per cent in 1999 to 62 per cent in the first half of 2001.²⁰⁷

Given the great pressure of laid-off workers' protests had exerted on the regime and the potential escalation of the disruption these protests might incur, appeasing the laid-off workers through alleviating their livelihood difficulties became the government's top priority during this period of time. In supplement to UI and *dibao*, other supplementary measures targeting only the enterprise workers were implemented. A three tier of safety nets, so-called "three lines of guarantees" was specially designed to protect the income security of laid-off workers, in which the Basic Subsistence Allowance (BSA) served as the first layer of protection followed by UI and *dibao*.

Meanwhile, Reemployment Center (REC), as a transitional institution, was required for any enterprises to lay off employees. All the laid off workers would register in REC. Administratively, REC would distribute Basic Subsistence Allowances to laid-off worker each month, contribute on behalf of workers their share of social insurance premiums, and reimburse workers' medical bills while they were in REC. REC also took big initiative in giving workers job trainings to help them reemployed. Psychologically, REC eased workers' panic about a free fall from

²⁰⁶ Linda Wang. 1998. *Marginalization and Social Welfare in China*. New York: Routledge. Also see Dorothy Solinger "Path Dependency in the Transition to Unemployment and the Formation of Safety Nets in China" Paper presented at the annual meeting of the American Political Science Association, Philadelphia Marriott Hotel, *Philadelphia, PA*, Aug 27, 2003, available at http://www.allacademic.com/meta/p64151_index.html

²⁰⁷ Lee and Warner, 2004, p.22

lifelong employment in a planned economy to free competition in a market economy. Its rule of keeping workers for three years gave workers a not so short time to adapt to their new situation and market competition. In a less painful and more acceptable way, it terminated the remaining relations between workers and their work units.

Compared with the regular unemployed people, laid-off workers received much better treatment. They tend to have higher living stipends, better insurance benefits, and more training opportunities. As observed by Yutin Liu and Fulong Wu (2006), Labor Security Programme only supports recently laid-off workers through a monthly or yearly pension contributed by the enterprise pension fund, while the UI program managed by re-employment center only supports those laid-off workers who are seeking jobs. So both programs only benefit those workers who have contracts in the formal sector, and have nothing for the unemployed, poor workers, or retirees.²⁰⁸

The State's role: liberal or interventionist

Contrary to the reduced role of the state in the welfare provision at the first stage of welfare reform, the second stage of welfare reform witnessed a heavy state intervention.²⁰⁹

The interventionist role is first demonstrated in the obvious contradiction between the policy design of economic reform and its implementation, especially the government's regulation over how an enterprise should carry out its downsizing practice. The underlying logic of downsizing is to reduce redundancy and increase efficiency (*jian yuan zeng xiao*), as then Chinese Premier Zhu Rongji instructed. In practice, however, the enterprises did not have absolute autonomy in laying off their employees as in any other market economy. Employees who are designated as

208 Liu and Wu, 2006, p132

209 Tang and Ngan, 2001; Lee and Warner, 2004.

xiagang must be notified a fortnight beforehand. During this period, the reasons for such a decision must be explained to the trade union or the workers' representatives committee. Besides the retrenchment plan, it should also present a re-employment plan, which must be presented, examined and approved by the workers' representatives committee and a report must be sent to the administrative bodies of labor. If these were just formalities, the enterprise laying off people also had to follow a rule that it had to create a REC and share a third of the running fees of the REC. workers and REC are required to sign an "agreement" with a "basic essential protection" component and a re-employment component. The first component concerns the firm's payment of a basic necessary benefit that represents 70 % to 75% of the minimum wage for the respective city and which must by laws be higher than the guaranteed minimum income. The REC must continue to be responsible for the social security payments of pensions, health insurance and unemployment benefits. In terms of re-employment, it must provide professional counseling and training for the *xiagang* so that they can change jobs and must help them to find an activity which enables them to provide their own means of support. It is of little wonder that a scholar commented on the retrenchment in China: "despite the liberal underpinning of the policy of reducing redundancy and improving efficiency, retrenchments came as "a pseudo-scaling down." due to the obvious contradiction between the design and implementation."²¹⁰

The interventionist role is also demonstrated in the government's stimulus labor policies including active involvement in job creation, and reemployment projects for the unemployed, especially former SOE workers. Actively seeking international help, MOLSS, in cooperation with the International Labor Organization

²¹⁰ This term was used by Rocca, 2000, p.44.

(ILO), has implemented a China Urban Employment Promotion Pilot Project from the year 2001 to 2005. It aims to create jobs for laid-off and unemployed workers through development of small business in urban areas by providing 1. “Start Your Business” (SYB) training as entrepreneurship training; 2. Credit Guarantee Fund plus small loans as financial support for business start-up and development; 3. follow-up technical support. This project was piloted in six pilot cities. The effectiveness of SYB training and a small loan are recognized by MOLSS. The National Re-employment Conference in 2002 formulated a series of comprehensive re-employment policies for laid-off workers. Laid-off workers who launch their own businesses are exempted from taxes and administrative fees, and may apply for small-amount loans with central government subsidies for interest payment. The taxes and fees exemption period will be three years and the loan ceiling was CNY 20,000 (about 2,400 US dollars) per person with a term of repayment up to two years. Besides, the government gives subsidies to all service-sector enterprises hiring laid-off workers to cover their social insurance costs. Any service enterprises, in which former laid-off workers account for over 30 percent of total employees, may also enjoy tax reduction or exemption. Large and medium-sized SOEs are also encouraged to launch new and profitable economic entities to employ their own redundant personnel, and such entities may apply for income tax exemption.²¹¹

In addition, the state made unflagging efforts to enforce these welfare policies and measures. Between 1999 and 2000, the central government issued a series of policies to ensure the punctual and full distribution of pension and basic living allowances for the laid-off workers. MLOSS and the Propaganda Department jointly issued in January 1999 *Guideline on the SOE Laid-off Workers' Basic Subsistence*

²¹¹ “Press Conference on Work on Labor, Social Security and Reemployment,” People Daily, 12 Nov 2002, accessed on 23 July 2009, http://english.peopledaily.com.cn/200211/11/eng20021111_106644.shtml.

Allowance and Reemployment work and Guideline on Guaranteeing the Punctual and Full Distribution of Enterprise Retirees' Basic Pension. In February 2000, the General Office of the State Council issued the *Circular on Continuing to Guarantee the Punctual Distribution of the Basic Living Allowance to SOE laid-off employees and Pensions to SOE Retirees.* In May 2000, the State Council issued the *Circular on Ensuring the Punctual Distribution of Pensions to Retirees and the Basic Living Allowances to Laid-off Employees.* “Two guarantees” (pension for retirees and basic subsistence allowance for the laid-off) became the top priority (*yi ba shou gong cheng*) of local governments at different levels.

Financially, the governments at different levels also provided great support for “Two Guarantees.” The central appropriation for the “two guarantees” reached CYN 25.5 billion, 10 billion more than that in 1998. As a result, 90 per cent of the 6.5 million laid-off workers in 1999 received the basic subsistence allowances. A total of CNY 180 billion was distributed to 98 per cent of retirees on time. Besides, the pension arrears of CNY 12 billion were bridged up.²¹² As noted by Tang, the policy of “Two Guarantees” is one of the efforts made by the Chinese government to guarantee income security to laid-off workers and urban retirees.²¹³

As expressed by some influential economists of government think-tanks on more than one occasion, such heavy state intervention is out of the concern for social stability.²¹⁴

Heavy state intervention and growing inequality

²¹² Tang Jun, “2001 to 2002: Zhongguo Pin Kun yu Fan Pin Kun Xing Shi Fen Xi” (Analysis on Situation of Poverty and Anti-Poverty in China between 2001 and 2002), p.5, available at Ministry of Civil Affairs official website, <http://dbs.mca.gov.cn/article/csdb/llyj/200711/20071100003469.shtml>, accessed on 11 January 2009

²¹³ Ibid

²¹⁴ Baek, Seung-Wook, “Does China Follow “the East Asian Developmental Model?” *Journal of Contemporary Asia*, Vol. 35 No. 4 (2005); Hu, Anguang ed. 2002. *Zhongguo zhanluegouxiang (China Strategic Perspective)*, Zhejiang People’s Press; Wu, 2003.

Heavy state intervention for the purpose of offsetting the adverse effects of globalization would result in a bigger government.²¹⁵ The underlying logic is that because openness increases a country's vulnerability to externally induced traumas, a larger public sector would serve to provide a protective counterweight. To address increasing inequality is one of the formidable tasks of an interventionist government under the forces of globalization. However, despite active government intervention in labor and welfare policies, there has been a growing inequality in China.

What the laid-off workers have recouped through government intervention has been far less than what they have lost in the course of economic liberalization. The newly-established welfare in China was residual in nature and meager in benefits. As observed by Liu and Wu (2006), although a three-tier safety network has been set up and has begun to cover more and more of the new poor, the standard of these programs is low and coverage narrow.²¹⁶ It could only serve to keep "heart and soul together."²¹⁷ Solinger observes that with the growing number of urban poverty, China is becoming a highly unequal society in the world. This was indicated by the Gini coefficient, which was only 0.32 in 1980 but reached 0.45 in 2001.

However, no study has so far evaluated the losses and gains of the working class as a whole in the course of China's market transition. An overall evaluation of absolute losses among all the SOE workers, young and old, with skills and without skills, would help to understand the Chinese workers' failure to mobilize after massive layoffs in the late 1990s.

In addition, despite growing inequality and the resulting doubt about the effectiveness of state intervention, the extent to which the impact of such intervention

²¹⁵ See Cameron, David, "The Expansion of the Public Economy: A Comparative Analysis," *American Political Science Review* 72, no. 4 (1978); Rodrik, Dani, "Why Do More Open Economies Have Bigger Governments" *Journal of Political Economy* 106:5 (Oct 1998): 997-1032.

²¹⁶ Liu and Wu, 2006, p.133

²¹⁷ Solinger, 2008.

on the public opinion, the state-society relations, and the laid-off workers is not clear. No study has so far been done in this regard. The empirical study in this study seeks to contribute to the understanding in this respect.

In sum, welfare reform during this period of time was driven further forward with the deepening of economic structuring of the state sector in China. It was characterized by heavy state intervention in labor policies such as job creation, job training, and the creation of a social safety net composed of both social insurances and social assistance. State intervention was such that it was even at the expense of the market notions of efficiency and small government, which underpinned the whole idea of economic restructuring in the first place.

The fledgling social safety net had a strong bias in favor of its initial beneficiaries, the urban working class. The path dependent pattern of welfare development at this stage was obvious.

However, despite the selective and biased welfare provision in favor of the working class, welfare benefits, compared with those before the reform, were far from comprehensive and generous. Some scholars even argue that it is the tough welfare policies on benefit eligibility that has limited laid-off workers' chances to move out of poverty and therefore, it is the state policies that have helped to create the urban poor whose big composition group is laid-off workers.²¹⁸

Then, a logical question would follow how the reduced welfare benefits could be able to pacify laid-off workers. The following section will address this question through analyzing the timing of both economic reform versus welfare reform and state withdrawal versus state intervention. It will then analyze the fragmenting role of the welfare policies at the second stage of the welfare reform on the workers.

²¹⁸ Ibid.

Explaining the laid-off workers' pacification

Timing: welfare retrenchment vs. job retrenchment & state withdrawal vs. state intervention

Through studying the welfare development by stages, it became clear that the retrenchment of welfare benefits did not start at the same time as the massive retrenchment of jobs in the state sector. The retrenchment of welfare benefits and the breaking of lifetime employment started as early as 1980s. Under the planned economy, the state was the provider of welfare benefits. It allocated welfare funds to SOEs according to the central planning and the size of individual SOEs. Individual SOEs were its main delivery bodies to actually distribute the welfare benefits to the individual SOE workers. The economic reform in the 1980s resulted in welfare decentralization as well as financial decentralization. SOEs replaced the state in welfare provision, assuming the role of both financial provision and actual delivery of welfare benefits.

Because of welfare decentralization and the then profit-making capacity of the state sector, workers in profit-making SOEs did not see or at least did not feel the reduction of their welfare benefits. In fact, the 1980s was the golden time for SOEs. For the first time, SOEs workers were given bonuses in addition to their low wages. For the first time, their enterprises enjoyed the autonomy to dispose a portion of the profits they had made. For the first time, SOE workers saw the rise of their wages, which had been flat and low as a part of the socialist social contract.

Meanwhile, if the market reform has seen the emergence of the liberal ideology, welfare decentralization has reinforced it. With the state successfully withdrawing itself from the direct funding of welfare provision, it became well

accepted among workers as well as ordinary citizens to connect welfare benefits with an enterprise's economic health. Welfare responsibility was shared among the state, work units, and individuals.

Massive layoff occurred in the late 1990s. It happened in an environment where the liberal ideology, characterized by the belief in free market competition, management autonomy, and enterprise responsibility, had been practiced for more than a decade. Whether it was the workers or the ordinary citizens, such a liberal ideology already took root in their mind. The empirical study done by Blecher (2002) validates the reign of "hegemony of the market." Gallagher (2005) also notes the demonstration effect of the non-state sector to the state sector and the trickling effect of the prevailing practice in a market economy from the non-state sector to the state sector. Other studies also draw the similar conclusion.²¹⁹

The state, instead of withdrawing its role in welfare provision as it had done at the first stage of welfare reform, strongly intervened in the creation of a social safety net to protect laid-off workers against the shock. Even though the benefits were meager and residual, they were better than none. Without these protection measures, the number of the laid-off workers who had dropped into poverty would have been much higher.

Under such circumstances, where the social contract in the socialist economy had already been weakened by economic reform, the liberal ideology had prevailed, and the recognized role of welfare provision was workunits instead of the state, there is some reason to believe that such heavy state intervention would win much sympathy and support in public opinions. A social movement would be very hard if there was no support from the public. As has been demonstrated in eastern European

²¹⁹ Other studies that stress the sequencing and timing of China's economic reform and the prevailing of market practice over that in a planned economy include: Fingleton, 1996;; Cao, Qian and Weingast, 1998.

countries, if there had been not the support from the ordinary citizens, the “cascading effects” would never have taken place in the early 1990s.²²⁰

Selective state intervention and fragmentation among the workers

The selectivity of state intervention is demonstrated in both measures and degrees of intervention. According to *China's Labor Statistical Yearbook* (2000), about 9,371,765 workers were laid off from the enterprises in 1999, one of the years witnessing the most radical economic restructuring and the highest number of layoff. Among the laid-off, 7,155,462 registered in RECs, of which 2,469,529 workers were below the age of 35 (34.87% of the total laid-off), 3,055,163 were between the age of 35 and 46 (43.13%), and 1,557,288 were above the age of 46 (21.98%).²²¹

There is a noticeable differentiation between welfare policies targeting the different age groups. For retirees, those having the longest work years in the SOEs and having been recognized as being the most entitled to the social welfare according to the socialist social contract, the government concentrated on guaranteeing pension distribution.

In order to stop pension arrears, which was a long unresolved problem since 1980s, local Departments of Labor and Social Security replaced workunits as distributors of pensions, one step further in the socialization of pension collection and distribution. The policy of “Two Guarantees” makes punctual and full distribution of pension benefits top priorities of local governments.²²²

In terms of benefit levels, as discussed earlier in the study, the pension program is the only program where benefits have been raised for three consecutive

²²⁰ Kuran, 1991; Lohmann, 1994

²²¹ China's Labor Statistics Yearbook. 2000, accessed at http://www.molss.gov.cn/gb/zwxx/2005-12/14/content_98013.htm

²²² See chapter II for details.

years (the year of 2005, 2006, and 2007). Even though the benefit level for enterprise retirees still lags behind that of public institutions and government agencies, the policy priority given to the pension program is high and social impacts it creates are tremendous.

For workers with seniority, early retirement was offered half forcefully and half optionally to those who had less than five years to reach the official retirement age, namely, 45 for female workers and 55 for male workers. Under this arrangement, enterprises will pay early retirement workers basic subsistence allowances as well as the premiums for pension and healthcare insurances until they officially retire. Then they would get benefits of both programs from the local Department of Labor and Social Security.

Take the year of 1999 for example. 21.98 per cent of the laid-off workers were above the age of 46. If male and female laid-off workers above the age of 46 are half and half, at least around 10% of the laid off workers would qualify for early retirement given that the age of early retirement is 55 for male workers and 45 for female workers, depending on individual SOEs. The percentage could be higher if some financially capable SOEs might lower their early retirement age.

The rest of the laid off workers was all below the age of 46. Active reemployment policies and interim measures to alleviate their living difficulties were the focuses of the government policies targeting this big group of workers.

Before 2001, RECs were the transitional institutions to guarantee basic livelihoods of laid-off workers and to facilitate their reemployment. RECs were responsible for distributing workers basic subsistence allowances, contributing to their social insurance premiums such as pension and health insurance, reimbursing costs of medical treatment for workers with leave of absence and organizing job training,

vocational guidance and job introductions. Laid-off workers could stay with the center for as long as three years. The basic livelihood guarantee was also achieved through another two years of UI benefits. The last resort would be *dibao*.

In other words, as long as five years' transition time was allowed for laid-off workers. This arrangement produced a buffer effect to prevent laid-off workers from suffering the sudden shock of unemployment and thus prevented potential hostile reactions. It also gave precious time for workers to psychologically adapt to the market ideology. When the inevitable integration with the market economy finally came in five years, the worker would either embrace or passively accept the market economy, or would simply have no possibility to organize and mobilize. Except for those living in the same residential complex, it would be extremely hard for workers scattered across the city to organize any collective actions after such a span of time. It is not surprising to find that the current records of workers' collective actions have a clear pattern of mobilizing based on social networks of neighbors in apartment blocks and housing projects.²²³

Furthermore, as a de facto buffer institution, the reemployment center successfully and unnoticeably divided the workers through its arrangement of three year's graduation time. Take the year of 1999 as example. In 1999, 7,155,462 laid-off workers registered in reemployment centers, among which 6,443,377 signed reemployment agreement, implying that these workers agreed to leave the centers only in 3 years and then officially terminate their employing relations with their employing enterprises. Of these workers having signed the agreement, 3,355,888 had been in the center for one year, 3,275,195 for two years, and 393,090 for three years.²²⁴ Instead of pushing all 6 million unemployed workers to the market, RECs

²²³ See Chapter I note 18.

²²⁴ The number of workers in RECs and the number of workers who signed reemployment agreements

controlled the number of laid-off workers who would be released to the market and therefore divided the total number of laid-off workers. Even if workers still had the potential to mobilize, the reduced number would greatly reduce the threat it would otherwise have posed.

Besides, active involvement in helping workers with reemployment was another strategy to fragment workers. Such chances of fragmentation were further improved due to the abundant opportunities provided by the growing market in China. In 1999, around 4,714,610 laid-off workers in RECs were reemployed while in 2000, 3,623,101 were reemployed, even though it could be merely a job in the service industries or jobs of doing manual work. Moreover, different age groups have disparate job prospects. Compared with those in their forties, the laid-off workers below the age 35 have better chances of getting another job. Finally, the layoff year is also critical in terms of job opportunities. Studies find that the rate of reemployment for the laid-off workers has been deteriorating over the years. It was easier for laid-off workers to be reemployed in the earlier years of layoff in 1990s than later.²²⁵

Understandably, the practice of layoff was more acceptable in the later stage of economic reform than in the early stage. Such inverse relationship between the actual loss of the working class and its acceptance of the market practice and ideology validates the importance of timing in explaining the pacification of the laid-off workers.

Thus, transitional arrangements and labor-active welfare policies played a de facto role in fragmenting laid-off workers through reducing the number of laid-off workers with the same situation (different graduation time from the center), creating

are from the public website of Ministry of Labor and Social Security, accessed on 20 January 2009 at http://www.molss.gov.cn/gbzwxx/2005-12/14/content_98013.htm; numbers of workers registered in REC for different years are from the same website at http://www.molss.gov.cn/gbzwxx/2005-12/14/content_98017.htm

²²⁵ Lee and Warner, 2004.

reemployment opportunities, and allowing a transition time as long as five years to weaken mobilization incentives and organization potentials.

When the layoff was no longer a shock but a part of the life, welfare policies towards these laid-off workers changed accordingly. Reemployment centers have been gradually phased out since 2003. After that, workers were no longer registered in the reemployment center when laid off. Instead, they were offered a severance package, which was calculated by a certain base amount multiplied by the years they had worked in the enterprises. Workers themselves were responsible for paying the premiums for pension and medical insurance for themselves. Reemployment services were offered to laid-off workers by relevant government agencies such as local Departments of Labor and Social Security. The privileges enjoyed by laid-off workers in reemployment centers were no longer available after 2003.

The preferential policies towards the laid-off workers have been gradually moving away from continued entitlements to social insurances, which was embodied in and realized through such institutional arrangement as reemployment center. After serving its task of giving the laid-off workers “a much-needed spell of cognitive and psychological re-orientation,”²²⁶ the reemployment center has given way to a standard practice in dealing with unemployment in a market economy.

Therefore, for the first two groups, namely, the retired and the early retired, guaranteed pensions fulfill the social contract between the state and SOE workers under the command economy. This group of workers has the longest work history with the enterprise and would be considered a group the most entitled to the benefits promised under the social contract. In reality, “contentious pensioners” are the most vocal in getting their rights fulfilled. Their protests have the most support from public

²²⁶ Chan, Ngok, and Phillip, 2008;

opinion.²²⁷ Not coincidentally, guarantee for pensioners to get their pension in full and on time is one of the top priorities of the government. Besides, the fact that pension is the only program that has had three years of consecutive rise of benefits also shows the importance the government has attached to this group of old SOE workers. Recent studies also prove the redistributive bias toward this special group.²²⁸

For the rest of the group (those below 46), they enjoyed a series of preferential reemployment policies, such as job-training and micro-credit loans, to help them to be reemployed. These policies benefit especially those relatively young (the group with age below 35) to locate a new job.

As a relieving strategy, basic subsistence allowances and unemployment insurance benefits provide as much as five years' benefits to maintain basic livelihood for those who cannot locate a job. If they continue to fail to locate a job, the last resort would be to claim *dibao*. These arrangements were especially effective in a society that has a culture of "rebellious only when cornered". Besides, the span of five years simply makes the organization of mobilization more difficult.

Meanwhile, the institutional arrangement such as reemployment centers divides the number of the laid-off workers, contains them through work units, and reduces the pressure of the workers that might otherwise impose on the society.

In sum, decades of welfare reform have seen the withdrawal of the state from the direct funding of welfare provision. It has reinforced the liberal ideology of individual responsibilities in a market economy. The massive layoffs happened in a time when such liberal ideology started to take hold. The strong state intervention in guaranteeing the subsistence living of the laid-off workers and other concurrent welfare intervention have provided workers with a safety net, have offered the laid-off

²²⁷ Hurst and O'Brien, 2002.

²²⁸ Gao, 2006.

workers different alternatives and have addressed their different age-related concerns. Lacking in common interests, a common fate, and a common target of blame for what they have lost, the SOE workers' protests inevitably result in isolated cases, and fail to further mobilize. As such, the isolated protests have been unable to produce the cascade effects because there is no core initial group that would come from among the downsized SOE workers.

Conclusion

This Chapter addresses the puzzle of why the retrenched welfare provision was able to pacify laid-off worker in the late 1990s. Through decomposing welfare reform, it explores the consequences of such timings in welfare reform: the timing between the retrenchment of welfare benefits available to the SOE workers and the actual increase of their welfare benefits due to the SOE autonomy in profit distribution at the first stage of welfare reform, and that between the retrenchment of jobs and job-related welfare benefits and the strong state intervention in labor policies and welfare policies at the second stage of welfare reform.

The timing of welfare reform further impacts workers' target of blame for the failure of welfare provision and the public attitude towards the workers' protest. Moreover, the first stage of welfare reform, characteristic of increased individual responsibilities, prepares SOE workers as well as the public to embrace the market ideology.

Thus, weakened socialist social contract, the state retreat in welfare provision, and reinforced market ideology at the first stage of the welfare reform interact strongly with the interventionist state policies and the resulting sympathetic public

attitude towards the state at the second stage of the welfare reform to affect the workers' action after massive layoffs.

In a nutshell, the reinforced market ideology, the difficulty in targeting the blame for their losses, the internal fragmentation resulting from the age-related welfare policies, and the lacking in strong public support combine to have prevented laid-off workers from mobilizing at a large scale.

Chapter 4 Welfare Reform and Workers' Mobilization in Chengdu

Introduction

The study has centered on the development of welfare as a social policy in China's economic transformation, its political logic and intended purposes. Chapter 2 details the development trajectories of seven welfare programs and chapter 3 delineates the linkage between welfare policies and the laid-off workers' pacification and mechanisms by which the former affects the latter. Both chapters analyze the interaction between welfare programs and worker's mobilization through the perspective of the state's policy response. How SOE workers and the public perceive and react to these policies will affect profoundly the intended policy results. Besides, the claimed variables of workers' target of blame and the public support for the state and its economic policies need empirical evidences. The argument of this study would not be established without evaluating SOE workers' perceptions on economic and welfare policies, their perceptions on entitlements, and their calculations of gains and losses in mobilization.

The purpose of this chapter is to evaluate the impacts of these welfare policies on the mobilization power of the laid-off workers from the perspectives of welfare recipients. Using both interviews and questionnaire data collected in Chengdu, Sichuan Province to test the identified variables in this study, the chapter will show how welfare policies have shaped the choice of action by laid-off workers.

Four factors --- perceived legitimacy to protest, subsistence payments received by the laidoff, public support, and government strategies to prevent and cope with laid-off workers' protests will be explored to explain workers' protest patterns. This chapter proposes a four tier model and examines how welfare policies have interacted

at each level with the explanatory variables to affect the workers' choice of whether to protest or to protest further.

At the level of workers, their recognition for the achievements of economic reform despite their own economic woes has weakened workers' perceived legitimacy to protest. The overall improvement of living standards has further weakened workers' perceived legitimacy and determination to protest further.

At the enterprise level, individual enterprises' compensate packages and the degree to which central policies are implemented have a great bearing on the potential of workers' mobilization.

At the state level, age-related reform and compensation policies have fragmented the working class along age lines. A repertoire of coping strategies, such as prolongation, intimidation, evasion, and concession has further weakened the workers' mobilization power.

At the society level, the dominant public attitude towards the workers' protest is sympathetic but not supportive, which has deprived the social base essential for the sustained protests by laid-off workers.

This chapter will first introduce the methodology and data collection in Chengdu. It will then report and analyze the data collected. It will delineate the protest pattern and then examine its formation from the above-mentioned four levels.

Data

The empirical data for this chapter include information from interviews and questionnaire-based surveys. Twenty interviews were conducted by myself between 2007 and 2008, While Fifty valid questionnaires were collected from a survey designed and administered by myself. Workers interviewed are diverse: old (over 46),

middle-aged (35 to 46) and young (below 35); male and female; employees of state-owned enterprises and of collective enterprises; employees of large size (above 5000 employees), medium size (between 1000 and 5000 employees), and small size (below 1000) enterprises.

Both interviews and surveys were collected in Chengdu. The reasons to select Chengdu are three-folded. First, Chengdu is the capital city of Sichuan, the biggest province and the largest industrial center in western China. It had a high percentage of state enterprises. As in any other old industrial cities across the country, Chengdu had to grapple with the large number of layoffs resulting from the economic restructure in the 1990s.

Chengdu has a population of over ten million people, almost double the size of Nan Chong, the second largest city in the province. Its industrial output accounted for 21.85 billion Yuan in the year of 2004 alone, almost 5 times more than Mianyang, the city with the second largest industrial output.²²⁹ Among the 56 state-level Economic and Technology Development Zones in China, one is located in Chengdu. The size of Chengdu's industrial sector and its paramount importance in Sichuan economy is incomparable by any other cities in the province. Thus, Chengdu is fully representative of the province's industrial structure and industrial importance.

Second, as a native of Sichuan, it is easier for me to have the trust of my interviewees and ask questions as sensitive as income, perceptions on economic reform, welfare reform, layoffs, and protests. Trust is important in this case to guarantee the access to the interviewees, and especially the quality of the data.

Third, though central guidelines on welfare policies have ruled out disparate welfare policies in a country as large as China, narrowing the data collection in one

²²⁹ *Sichuan Statistical Yearbook*, 2005.

locality can further minimize the intervening effects of nuanced implementation of state welfare policies across the country on the subjects' perceptions and consequently their choice of action.

A question relevant to this study is whether or not people from Chengdu are more obedient or laid-back, and therefore more likely to be pacified. The answer is negative. Though Chengdu is a well-known fertile land and people tend to have a leisurely lifestyle, the culture of rebellion is deep-rooted, especially when one's rights and interests are infringed upon. Historically, Sichuan has been known for civilian uprisings caused by official oppression. Protests by laid-off workers were not uncommon here in the 1990s. The riots in Hanyuan, Sichuan, where villagers dissatisfied with the compensation they had received for land use had challenged the police, was one example of the Sichuanese people challenging the authority. Therefore, the lack of mass mobilizations by the laid off workers in a province where there is a presence of a large number of laid-off workers and there is a culture of rebellion makes Chengdu, Sichuan a good case study to test the hypothesis central in this study: the impacts of welfare policies.

Methodology

My interviews and questionnaires centered on four clusters of questions: 1. general information about the interviewees, including their age, education level, income, perceived social status; 2. welfare benefits provided to the interviewees, including housing, pension, healthcare unemployment insurance, reemployment services, and reemployment results; 3. workers' protests, including layoff time, whether they protested, if yes, the protest form, protest demands, and effectiveness of protests; 4. economic reform, including the type and size of their former enterprises,

reform strategy, their views on the reform, views on the layoff, expectation on the government, and alternatives before or after laid-off.

The use of Questionnaires is an effective way to yield quick statistics needed for the research. But it might fail to record detailed answers to the interview questions and tends to simplify an otherwise complex issue. Interviews proved to be a valuable supplement to the questionnaire due to their interactive nature. They provided more detailed information needed for the analysis. This chapter will combine both methodologies to conduct the research.

Given the small size of opinion data, this chapter is not ambitious enough to test the correlation between welfare policies and the variables tested. However, its findings and observations could provide insights into understanding protest patterns by laid-off workers and contribute to their explanations. The small size of my sample is compensated by the depth of questions and answers.

Characteristics of Protests

Willingness to Protest

Contrary to the conventional view that protests in an authoritarian country are unusual, my investigation finds that laid-off workers were not reluctant to protest and voice their concerns. Among 45 valid answers, 29 admitted to having taken different ways to protest their layoff, as opposed to 16 negative answers.

Unwillingness to challenge Authority

Economic rights vs. political rights

However, congruent with the findings of current studies, workers' protests stop

at demanding economic rights instead of political rights.²³⁰ In other words, laid-off workers were not reluctant to protest, but they protested not to reverse the decision of the layoff, let alone to reverse the course of economic reform. The majority of the protests in my investigations targeted at getting better severance packages. Only in two cases did protesters ask for the reversion of the layoff decision and the reassignment to a new job. The rest of the protests all aimed at increasing severance fees without any exception.

Intriguingly, my investigations do find that the deepest grievance that laid-off workers have is over layoff itself. Even though they may view the underlying reasons differently, the majority of interviewed laid-off workers (32 interviewees as opposed to 12) consider the layoff unfair. 16 interviewees consider the layoff as one of the inevitable consequences of economic reform while 16 interviewees regard it as the result of the corruption of the enterprise management. Another 4 interviewees attribute it to the inability of the management to lead the enterprise to thrive in a market economy. 5 interviewees admit to having never thought about it. Considering layoffs extremely unfair but not seeking to redress it through already staged protests is puzzling. There are two possible explanations: either because workers feel “guilty” in leading to the decision of layoff or because they feel helpless in reversing the decision of layoff.

Contrary to the official discourses that workers should blame themselves for not having the necessary skills and education to compete in a market economy, only two interviewees blame themselves for that. The rest tend to dismiss skills and education as the main reasons for their being laid off. It is typical among the laid off workers to claim that their layoff is just a bad luck. One interviewee said that “my

²³⁰ See Cai (2006), p85-6; Keven J. O'Brien and Lianjiang Li. 2006. *Rightful Resistance in Rural China*. New York: Cambridge University Press; and Lee (2007);

sister has the same high-school diploma as I do. Just because she happens to work in a government office, she earns much more than I do.”²³¹ Another interviewee makes the similar comment that “Workers just do whatever the manager asks them to do. Profitability of an enterprise is the business of the management. We have the same skills, why could we make money in the past and not now? Why can other workers having the same skills as I do still make good money in other enterprises and I have to be laid off? This simply is not the workers’ fault.”²³² Thus, even though the Chinese media and the government may tend to blame workers’ low level of competitiveness in a market, the laid-off workers simply dismiss that rhetoric. They see it as something imposed on them either because of economic reform or the inability and even corruption of enterprise managers. Such a sense of unfairness and injustice is pervasive among the workers.

One interviewee worked in a medium sized enterprise of 2000 staff. She simply does not believe that her enterprise went bankruptcy due to insolvency. She claimed it was just a way for the management to appropriate state assets. She argued that the fixed assets owned by the enterprise were still generating rents at the point of bankruptcy. “The rents are enough for the workers’ wages. Even though it could be only several hundreds Yuan, it is better than having no job. The management has planned the bankrupt because they do not care about us. They sell the enterprise at a low price to their business partner who has been renting the premises of our enterprise as a warehouse in the past few years. They themselves of course will be offered a job of high salary in the new enterprise. Who knows how much kickbacks they have earned from selling the enterprise.”²³³

Obviously, as the data of this study show, workers never blame themselves for

²³¹ Interview 1, 22 October 2008.

²³² Interview 6, 31 October 2008.

²³³ Interview 1, 22 October 2008.

layoffs. Then, the unanswered follow-up questions would be why workers did not stage stronger protests despite their sense of unfairness. Why did workers' protests tend not to last long, let alone on a large scale, if they did protest? What prospects did workers have for the protests they had staged?

Mild protests

Besides, the protests were framed in a way not to challenge authority in words or in behavior. Extreme forms of protest were avoided.

Intensity of the protests is measured in this chapter by the level at which workers lodged their protests, and forms of protests. Five levels are identified: 1. no direct target. Workers either held the protest gathering in front of their enterprises or within the premise of their enterprises to vent their frustration; 2. negotiating or pressuring the immediate management; 3. presenting the issue to the relevant supervising government offices; 4. asking for the arbitration of the local government; 5. seeking the intervention of the central government.

The forms of protests include: 1. appeal or petition, including the traditional way of letter writing to or visiting the supervising government offices; 2. demanding a dialogue with enterprise management, supervising government offices or local governments; 3. blockage of public traffic or roads leading to official buildings, holding sit-ins in front of government buildings, or assembling in public space or in front of government buildings, 4. demonstration marches, etc.

The higher level at which workers lodge their protest, the higher intensity their protest is of. Similarly, the more social disruption a protest creates, the higher its intensity. Therefore, addressing the issue directly to the local government or the central government or/and adopting such ways of protests as blocking the traffic,

demonstration, or sit-in in public areas are considered stronger protests than venting frustration among workers themselves, holding dialogues with their own management or petition by writing letters.

My data shows that workers tend to petition to their supervising government departments, followed by appealing to the local government about their grievances. Workers feel that appealing to the higher level of authority would pressure their immediate management to come up with a better deal and have their issues addressed more quickly. However, they do not think the local government or the central government should be directly responsible for their economic plight. When asked why they did not go to the government for solution, interviewees replied the same way “it will not help. It is none of the business of the government if your own enterprise has no money.” Or “it is useless to go to government. The enterprise has been contracted. How can the government help you?” The previous chapter has illustrated how workers’ target of blame has shifted due to decentralization in the course of economic and welfare reform. Therefore, a middle ground was found between the local government and the immediate SOE management. Since enterprises were supervised by the relevant government departments, these government departments or offices became the main channel for receiving workers’ petition or protests. For example, workers in the textile industry may go to the Bureau of Light Industry and workers in the electronic industry may go to Department of Electronic Industry.

The mild and traditional protest form of appeal or petition (*xing fang*), meaning visiting and writing complaining letter to the government) was more often adopted by the workers. According to Chengdu Statistical Yearbook (1996 to 2002), visits to the Chengdu Municipal government office increased from 5,312 people in 1996 to 48,865 in 2002 and grievance letters addressed to it increased from 453 in

1996 to 187,677 in 2002. Even though there is no breakdown of these figures, workers' welfare and enterprise restructuring (*zhi gong fu li, qi ye gai zhi*) were listed as one of the main contributors to the substantial increases. Petition is followed by dialogues with supervising government offices. Only when dialogues were not effective or satisfactory to the workers, would workers go to the local government and adopt more intensive protest measures. In other words, the local government was not the main channel of complaint and protest.

In a nutshell, the characteristics of protests in Chengdu reflect the general pattern of protests in China: not small in number but mild, economic in nature, and abating over the years. It poses a very interesting research question: why did grievant workers only stage mild protests and tend not to protest long?

Workers' perceived legitimacy and Protests

This section will examine how perceived legitimacy by workers affects the workers' choice of action. There are two sources of legitimacy: the degree of injustice and the sense of entitlement. The following two sections will examine workers' different responses to injustice at the macro level and that at the micro level. It will also explore the relationship between workers' sense of entitlement and their choice of action.

Indifference to the injustice at the macro level and its explanation

The stronger sense of injustice workers have, the more strongly they would protest. However, my data shows that workers tend to react to injustice at the micro level instead of reacting to injustice at the macro level. Injustice at the micro level is defined as monetary interests, such as severance packages or welfare contributions by

their enterprises, while injustice at the macro level is defined as the structural factors that have led to the workers' layoff but may have no direct monetary implications for the workers, such as policies of economic reform.

Workers' feeling towards economic reform is mixed. Although workers recognized that the layoff was one of the main consequences of the broader economic reform²³⁴, they did not consequently oppose economic reform itself or the CCP, the main advocator of economic reform. Instead, they are more likely to acknowledge the achievements of economic reform even though they did not consider themselves as its beneficiaries. Instead, my data shows that the management of enterprises, public servants, businessmen, other professionals, and even farmers are generally considered as main beneficiaries of economic reform by the workers.²³⁵ Considering themselves as the main victims of economic reform, workers are surprisingly and uncharacteristically supportive of economic reform in which they have been victimized. "After all, life is better than before" always concludes the conversation.

Blecher (2002) argues that the inability of the Chinese worker to identify the blame target is due to the hegemony of the market and the market ideology. This study argues that the workers' difficulty in targeting their blame at the state or the CCP results from their overall positive view on economic reform. They tend to blame their losses on enterprise management.

In my interviews, workers who agreed that their living had improved to a certain degree compared with pre-reform era were twice more than those who held

²³⁴ More than half of the interviewees recognized the economic reform as the main reason for layoff in enterprises.

²³⁵ Out of 58 valid interview answers, 28 interviewees think the enterprise management as the main beneficiary of the economic reform; 35 consider public servants as a biggest beneficiary group; 12 consider those working in the public institutions, such as hospital and schools, as the main beneficiaries, and 15 consider the businessmen as the main beneficiaries.

that workers' life had worsened off as a whole.²³⁶ This is contradictory to the argument about the general deterioration of workers' economic situation.²³⁷ This contradiction could be explained by the small data of this study and the resulting data bias.

However, the disposable income per capita in Sichuan province has increased from CNY 3297.24 in 1994 to CNY 7709.83 in 2004, which has more than doubled within ten years.²³⁸ Even with adjustment for inflation, the general improvement of living standard is not deniable in China. Two scenarios may render such general increase irrelevant. First, it could be that living standards for laid-off workers as a social group have dropped despite increases across the society. As a poll conducted by the Chengdu Municipal Union in 2002 shows, laid off workers consists of 40 per cent of the poverty population in Chengdu. Second, the growing income inequalities between the rich and the poor may result in an increased average income while incomes of the poor stagnate or even drop.

In either situation, the number of those whose income has stagnated or even dropped over the ten years is small. As far as the laid-off workers are concerned, it may only limit to those "zero employment families", in which both husband and wife have lost jobs, and the "40-50" group, namely, the laid-off workers between 40 and 50 years old who are neither eligible for retirement benefits nor able to relocate a job easily. Either way the number of such group is limited even among laid-off workers.

Thus, even though the laid-off workers may be a big component group of the

²³⁶ Out of 63 valid answers, 12 gave a positive answer that their life had improved due to the economic reform. 12 recognized that some workers' life had improved while some had worsened off. 22 stated that majority of workers' life had improved while only minority of workers' living standard had dropped. Only 10 workers gave a definitely negative answer saying that the workers' life worsened off and another 7 interviewees thought that majority's life had worsened off while only small number of workers' life bettered off over the economic reform.

²³⁷ Among others, see Tang, 2007; Liu and Wu, 2006.

²³⁸ Sichuan Statistics Year Book, 2008, accessible at <http://www.sc.stats.gov.cn/nj/NjWin.asp>.

new urban poor,²³⁹ an absolute losing group among the laid-off workers is relatively small. The overall living standard of workers has improved. The findings of this study show that the absolute drop of income due to the layoff was not as serious as it is assumed. 40 valid answers were collected regarding the income comparison before and after the layoff, among which 11 interviewee's income has increased, 14 maintained almost the same, and 15 has dropped. In this small data set, about 30 per cent of the laid-off workers' income maintained at least the same as before, and another 30 per cent in fact has improved in their income generation.

Similarly, more than half of the workers interviewed did not report hardships in managing their lives (14 positive answers to the question of whether they have any hardships in managing their lives versus 27 negative answers, with another 12 interviewees feeling a little bit difficult).

However, interviewed workers' perception of their social status after the layoff is rather pessimistic. 28 interviewees answered that they belonged to the lowest social stratus, 18 the lower middle class, 12 the middle class, and 3 above the middle. To a certain degree, workers' pessimistic view over their social status reflects both the fading economic dominance of the state sector in the overall national economy and the consequent losses of privileges SOE workers ever enjoyed in the socialist era, including their exclusive entitlements to welfare benefits.

Diverse job opportunities in a market economy did help the laid-off workers to ease the shock brought by the layoff. The majority of the laid-off workers (38 out of 47 interviewees) had a job, part-time or full-time after their layoff. It may take them different lengths of time to find a job, which vary from several months to more than two years. But the majority of them finally did. Most often, the jobs that the laid-off

²³⁹ One fourth of dibao claimants are the laid-off workers. However, this group's incentive, perceived legitimacy, and capability to mobilize deserve a closer look.

workers managed to locate were in the tertiary industry, such as housekeeping (*jiazhen fuwu*), janitorial services, retail, self-employment in small businesses, treading passenger tricycles, or warehouse keeping, etc. Seldom did they find any technical work or earn a well-paid salary. Some of them only worked part-time in order to get some extra income to subsidize their daily expenses. Some did part-time jobs in order to receive the pension and medical insurance covered by employers. The jobs in the informal sector have helped to ease laid-off workers' financial difficulties to a certain degree. However, insecurity of these jobs did add to workers' feeling of loss.

Thus, absolute deprivation was not the case in most interviewees. Only a few expressed that the past was better. More often, they would stress that it was better because it was a more egalitarian society.

For those who had skills to fare better in the market, they did not hesitate to try their luck in the market economy in full confidence. For them, the layoff provided an opportunity to give up what they might not have made up their mind to quit. They described the job in the state enterprises as *jile*, a chicken bone, which refers to something not good but having some perks to keep you staying with it. One interviewee explained that "I would have only got a pay of less than 800 RMB at most if I had stayed in the enterprise. The enterprise would not get better than that. I would rather put pressure on myself (*bei shui yi zhan*). Maybe I could do better. Now I am selling life insurance. I have made more money and have had more work experience. If I had stayed in the enterprise, I would never have achieved this. Now my dream is to travel abroad when I have saved enough money. I am encouraging my son to acquire knowledge in different fields as well. My experience tells me that Knowledge

is money.”²⁴⁰

Similarly, another interviewee was lamenting that in the peak time of SOEs, the SOEs in the industrial area where her enterprise was located had to alternate their work hours so that the heavy traffic could be alleviated. But she simply did not want to go back to that type of life again. She explained: “that life maybe could give you more sense of security. But everyday you went there, doing the same thing, knowing your life would not have any changes for your whole life. The salary is just enough for living and you know for sure that this would not improve too much. At least, I know now what I have earned is what my skills are worth.”²⁴¹

For the average laid-off workers who had no skill or higher education, the layoff was a reality that they had to face. As one interview put it, “the first one year was the most difficult. I could not accept the fact that I had lost my job. I had worked in this medium-sized department store for over twenty years and was let go suddenly, only given a severance package of less than 30,000 RMB, out of which I had to pay about 2000 RMB for my pension each year for another 8 years. But life had to go on. I had no luxury of sitting in remorse for the past. I still have a son at school age who needs my support. My husband’s salary was far from enough. I struggled to fight back my feeling of humiliation and started to look for job. I did housekeeping for several families. In 2008 I started to claim my pension and now I am doing housekeeping only for one family. Looking back, I felt the life was ok, not that bad.” When asked whether she wanted to go back to before, she gave a flat no without hesitation. “Even though life before was easier, not as stressful as it is now, it was also not was rewarding as it is now. You simply have more choices now, no matter whether it is in

²⁴⁰ Interview 14, 3 November 2008.

²⁴¹ Interview 2, 23 November 2008.

terms of job or entertainment.”²⁴²

The cases of interviewees whose income did drop need closer scrutiny. One interviewee claimed that her income dropped almost half compared with before. It turned out that she had worked in a large-sized SOE which was still profit-making. In order to implement the central policy of “reducing redundancy to improve efficiency”, the enterprise laid off about 100 people among a staff of 9000 in 2003. The laid-off were either approaching retirement age or had poor performance. In her case, since she was already 45 years old, she was asked to wait for retirement (*tui yang*). But the compensation package was not bad. The enterprise continued to buy her pension and healthcare insurance. She has about a regular wage of CNY 700 per month after being placed to wait for retirement until she can claim pension in five years. Since the enterprise provides very good benefits to its employees, her income is certainly much lower than before.²⁴³

However, for interviewees whose enterprises were running deficits, their income differences were not as steep as those whose enterprises were profit making. For example, one interviewee from a bankrupt enterprise had been getting only 133RMB since 1995 before the enterprise was finally approved to file bankruptcy in 2003. In another words, he had already started to struggle for his subsistence even before he became officially laid off. For him, layoff was a blessing. “Before layoff, everyone was nervous about the future (*ren xin huang huang*). Now it turned out life was not as difficult as it was imagined. Nothing is worse than having only 133 RMB a month. Many of us had already found another a job or a part-time job before the official layoff. Things are always better than before”²⁴⁴

In sum, this research finds that layoff did not result in a precipitous drop of

²⁴² Interview 5, 29 October 2008.

²⁴³ Interview 10, 10 November 2008.

²⁴⁴ Interview 6, 31 October 2008.

living conditions or standards among the laid-off workers interviewed. This may partly result from the workers' being able to relocate a job after the layoff. Even though the interviewees know that their layoff is due to economic restructuring and feel that their life is more stressful compared with that in the pre-economic reform era, they do not want to go back to the time of 'eating from big pot'.

Different personal experiences in the economic reform have brought about totally different perceptions on economic reform and therefore have exerted different impacts on the workers. Blecher (2002) concludes that Chinese workers have a great deal of trouble determining who or what was responsible for the change that had negative bearings on them²⁴⁵. This study finds it more perplexing that workers went beyond their self-interests and gave credit to policies which they had not benefited from or had not benefited as much as the other social groups.

The possible explanations for the paradox are the general recognition of achievements of economic reform among workers. Especially most SOE workers have gone through ups and downs of economic reform in connection with their individual gains and losses. Until the end of 1980s most SOEs had been still making benefits and their workers had been benefiting materially. It is only in the late 1990s, workers started to loss out together with their enterprises. But workers' financial losses are not necessarily absolute if it is households instead of individuals that are taken into consideration. Besides, the contract responsibility system practiced in economic reform for over two decades has, to the largest degree, separated the state from administration and consequent responsibilities for the profitability of SOEs. The prevalence of market ideology, which has been nurtured and reinforced in the course of over 20 years of economic reform, made it really hard for workers to flatly

²⁴⁵ Blecher (2002) uses the theory of market hegemony to explain workers' incapability of blame targeting.

deny the reform simply because of their layoffs. This paradox is vividly captured in the interviews. On the one hand, workers consider the layoff unfair and they know one of the causes for layoff is economic reform. On the other hand, they do not want to reverse the reform because they simply do not want to return to the pre-reform society. What have compounded the problem are opportunities available to workers and their families to prosper in a market economy.

Theoretical implication

Relative deprivation explains why relative losses may trigger a stronger reaction than absolute losses. According to this theory, social movements arise when people feel deprived of what they perceive as their 'fair share'²⁴⁶. In one of the first formal definitions of relative deprivation, Runciman (1966) noted that there are four preconditions of relative deprivation²⁴⁷ (of object X by person A):

- A does not have X
- A knows of other persons that have X
- A wants to have X
- A believes obtaining X is realistic

It is argued that relative deprivation is as important as absolute deprivation to cause social unrest, why is it that this has not been the case in China? This following section will explain it from the perspective of perceived legitimacy, which is influenced by state strategies, economic reform, and public sympathy.

²⁴⁶ Jerry D. Rose. 1982. *Outbreaks, the Sociology of Collective Behavior*. New York: New York Free Press.

²⁴⁷ Walter Garrison Runciman. 1966. *Relative deprivation and social justice : a study of attitudes to social inequality in twentieth-century England*. Berkeley: University of California Press.

Reaction to micro-level injustice

Compared with workers' perplexing indifference to injustices at the systemic level, workers reacted more strongly to the injustice at the micro level. Such micro-level injustice has two sources.

First, comparison of remuneration provided by one's enterprise with that by any other equivalent enterprises will produce a feeling of injustice among workers, especially when the others had paid their laid-off employees higher severance allowances or provided a better severance package, workers would feel they should have been entitled to the same.

A case in point is the perceived unfair severance package, which would usually result in workers' protests. This was especially true when the enterprise still had the financial capacity, as perceived by workers, to pay what the workers had demanded. Therefore, protests were more likely to break out in bigger and financially stronger enterprises. Similarly, comparing with enterprises that would go bankrupt or be sold, enterprises experiencing reorganization, alliance, or merger were more likely to face protests from their workers, and workers' demands were more likely to be granted, given the higher compensation capabilities of these enterprises.

Two protests in my interviews succeeded in pressuring the improvement of the yearly base fee, one from CNY 1000 to CNY 1200 per year²⁴⁸ and the other from CNY 900 to CNY 1300.²⁴⁹ Both are the large size of SOEs with staff of over 10,000. Yearly base fees multiplied by work years make up the total severance fee, one of the main components of a severance package. Workers in a bankrupt enterprise made the same demand but to no avail.

Second, corruption and perceived unfair distribution of wealth between

²⁴⁸ Interview 8, 18 February 2008.

²⁴⁹ interview 9, 19 February 2008.

management and workers is another source of injustice. Workers felt that the economic plight of their enterprises resulted from the blatant corruption or mismanagement of enterprise managers. However, management benefited economically from the situation while workers had to suffer. In such cases, workers strongly felt they had every right to ask for the intervention of the local government to redress the situation. As a matter of fact, corruption was regarded by workers as an equally important factor as economic reform in causing the massive layoff in the 1990s.²⁵⁰

However, compared with reactions to the perceived unfair severance package, reactions to perceived corruption are more complex. Only when workers feel that losses brought by corruption are tangible and directly affect their incomes, will they take action to protest it. Besides, claims based on corruption are harder to be honored than demands of raising severance payment. One interviewee told me about her and her colleagues' experience of trying to expose the corruption of the management.²⁵¹ In response to their protest to the supervising government office, an auditing team was sent to evaluate the economic status of their enterprise. The report from the auditing team did not support workers' claim. Unable to provide evidences, workers had to drop their claim. Meanwhile, the audit report from an authority agency weakened the workers' determination to uphold their claim.

This tendency of reacting to injustices at the micro level instead of macro level could be both because of workers' overall support for economic reform policies, and because of their weak power to challenge the authorities as demonstrated in the above-mentioned case.

²⁵⁰ 16 interviewees considered the layoff as one of the inevitable consequences of economic reform while 16 attributed it to the corruption of the enterprise management.

²⁵¹ Interview 1, 22 October 2008.

Entitlement and protests

Finally, the legacy of entitlement from the socialist era has a great bearing on workers' feeling of legitimacy, therefore their choice of action. The stronger the sense of entitlement enshrined in the socialist social contract, the stronger the protest would be. The role of the sense of entitlement was demonstrated in workers' demands for better severance packages.

The sense of entitlement that the state is responsibility for providing life-long employment and attending welfare benefits, as embodied in the social contract of the socialist era, is no longer held as strongly as before among workers. Market ideology has diluted the sense of such entitlement. However, the mentality of such entitlement has persisted and is taking the form of workers' expectation for compensation after layoff.

The typical answer from laid-off workers with such a mentality was that "I deserve a better compensation since I have worked for the enterprise for dozens of years. My youth was given to the enterprise. Now I am getting old and do not have an edge to compete in the market with the younger generation. I should be compensated."²⁵²

By the same token, compared with elder workers, younger workers had less incentive to protest or protest further because of a weaker sense of entitlement. When protesting, they would feel less legitimacy to do so. In an eye-witnessed case that I will detail in the following part, the de facto organizer of the protest, a man in his late thirties, kept telling me that the sit-in on the street could evolve into a more serious blockage of one of the main traffic arteries if the government did not grant their demands. Trying to distinguish himself from the elder protesters, he repetitively

²⁵² Interview 9, 19 Feb 2007.

claimed that “I am trying to persuade them (older workers) not to take that extreme method (blocking the main traffic route). But if their issues remain unresolved, I could not guarantee that the elder workers would not block the road.”²⁵³ The fact that young workers preferred to protest in the name of older workers itself reflected such socially recognized entitlement of older workers.

In another case, an enterprise has an extra income of CYN 4 million for renting its premises to a lighting business, in addition to its normal business revenues. The managers of the enterprises all benefited from the rental. The workers did not know exactly how much managers’ annual incomes were, but they did see that the managers bought new houses and new cars while arrears were made to the workers’ salaries in the excuse that the enterprise was in red. Since the enterprise was small and there were only a few workers with permanent contracts, those workers with short-term contracts did not feel the same sense of entitlement as those with permanent contracts. Nor did they have much bargaining power given that their contract could be revoked anytime. Thus, the number of workers who dare to protest became much smaller than it should have been.²⁵⁴

Since severance payment is one of the important factors that may trigger workers’ protests, reform measures of each enterprise do matter. Usually, those experiencing merge, alliance, or reorganization could offer better severance packages than those going bankrupt. Similarly, financially stable enterprises could afford higher severance payment. Besides, the number of layoffs also differed from enterprise to enterprise. Thus, the enterprise with small number of layoffs usually could afford better severance package as opposed to those with bigger number of layoffs. Therefore, different severance package gave workers different incentives as to what

²⁵³ Observation of a protest on 13 November 2008.

²⁵⁴ Interview 15, 6 November 2008.

action to take when laid off. In this sense, workunits, which have offered different severance packages, further contain the mobilization potentials of laid-off workers.²⁵⁵

For example, a large-sized state enterprise, which was still profitable, laid off 100 workers. The workers were given rather inviting compensation packages: 70 per cent of their original wage. The enterprise would continue to pay for their pension and healthcare contributions till their official retirement age.²⁵⁶ In contrast, laid-off workers from a bankrupt enterprise did not have any wage and the enterprise only paid 60 per cent of the workers' pension and healthcare contributions. The workers were supposed to earn their own living in addition to paying for themselves another 40 per cent of pension and healthcare contributions.²⁵⁷

Therefore, despite being generally labeled as one social group, laid-off workers are different in the background and details related to their layoffs, and thus different in their choices of action.

My interviews find that the workers in the bankrupt enterprises were less motivated to protest. Bankruptcy is a long evolving process. The enterprise must have been insolvent for a long time before it finally gets approval for bankruptcy. Over the years workers have to find ways to make their own living. Therefore, they are more psychologically prepared for the final disbanding of the enterprise.

One interviewee said that his enterprise had been insolvent since 1995. Employees were encouraged to look for other means of livelihood (*zi mou chu lu*). The salary before the official bankruptcy in 2001 was merely CYN 133. When they were offered the severance allowance with a yearly base fee of CYN 900, workers complained and held a dialogue with the enterprise's supervising bureau for higher

²⁵⁵ See Lulu Li and Yanjie Bian, eds. 2008. *Zhidu zhuanxing yu zhidu fengceng* (Institution Transition and Social Stratification). Beijing: People's University Press for details on how workunits affect workers' collective action.

²⁵⁶ Interview 8, 8, November 2008.

²⁵⁷ Interview 4, 28 October 2008.

yearly base fee, but there was barely any strong opposition from them when their demand was declined in the light of the financial incapability of the enterprise. Workers simply felt that their protests would not go anywhere. “The enterprise simply had no money. Otherwise, we would not go bankrupt.” When asked about his current life, one worker joked that life would not be worse than the time when one only had CYN 133 a month.²⁵⁸

Between 1996 and 2000, the peak time of layoff in Chengdu, 63 enterprises went bankrupt and another 62 enterprises were reorganized, in which around 200,000 workers were laid off.²⁵⁹ Almost half of the workers did not feel any strong legitimacy or motivation to protest and another half of workers would have different motives depending on their severance packages offered by individual enterprises. It is thus not difficult to understand the pattern of abated protests by laid-off workers in Chengdu.

Public sympathy

Public sympathy is an important factor in catalyzing a social movement.²⁶⁰ However, public opinion in China towards laid-off workers and their contentious action was sympathetic but not supportive. Laid-off workers and the general public have divergent views over causes for layoffs, different expectations for the government, and the way the workers should defend their legitimate rights (*wei quan*). Finally, their shared detest for the socialist past and the general acceptance that layoff is a necessary ill in the market transition have weakened social support for workers. This lack of the social conditions for a social movement in China distinguishes China

²⁵⁸ Interview 6, 31 Oct 2008.

²⁵⁹ Chengdu Statistical Yearbook, 2001, p.138.

²⁶⁰ Kuran (1991), Lohmann (1994), Karlins and Petersen (1993) delineate how the public sympathy provided the soil to nurture a social movement that finally led to the regime change in USSR and the eastern European countries.

from any other eastern European countries in the early 1990s.

Causes of layoffs & expectations about the government

Out of 44 valid answers by laidoff workers surveyed, regarding the question of the fairness of layoffs, 32 believed that their layoff was unfair. Even though the government tends to blame laid-off workers' low skills and low education for their difficulty in relocating a job, the workers themselves do not agree. Rather, they considered layoffs as one of the consequences of the overall profit-losses of the state enterprises, for which mismanagement and corruption were blamed as the culprit.²⁶¹ Understandably, they feel they should not be the ones to pay the price for mismanagement or even corruption and the government's subsequent failure in redressing manager misconducts. As one interviewee said "whether workers are from profit-making enterprises or profit-losing enterprises, they are only workers. The profitability of an enterprise relies on the management." To be laid-off is, in other words, just a bad draw of luck instead of one's poor capabilities.

Consequently, out of 44 interviewees, 37 believe that the government should be responsible for laid-off workers' economic plight. When asked whether the government has done enough to help laid-off workers, 23 answer that the government did not do enough and another 10 answer it was far from enough, as opposed to 7 who answer yes. When asked which areas they expect the government to do more, 29 interviewees hope the government could create more job opportunities, 10 hope the government could raise unemployment benefits. Maybe due to the overall ineffectiveness of the official reemployment project, only 6 interviewees hope that the government could increase reemployment training. Another 5 interviewees hope that

²⁶¹ Out of 41 valid answers regarding the causes for the layoff, 5 have never thought about it. Among the rest of 36 interviewed laid-off workers, 16 consider it as the result of corruption and 4 think it is the result of the mismanagement. Another 16 attribute it to the economic reform in general. Only 2 interviewees blame the layoff on their capability.

government could reduce the age at which male workers may be eligible to enjoy pension from 60 to 55 or lower. Therefore, there is a widespread perceived injustice among laid-off workers. They usually have high expectations on the government and think the government has not done enough to help them. Such perceived injustice, high expectation, and disillusion in reality have fueled the workers' anger and prompted their initial contentious action.

However, the general public unusually did not take the same stand as workers in this regard. The apparent lack of higher education and modern skills characteristic of this particular social group feed the government's line of the story. Moreover, workers' reluctance to lose their vested interests in the former socialist economy and to terminate their employment relations with state owned enterprises is regarded by the government as an extra obstacle for workers to quickly adapt to market competition.

The general public accepted this rhetoric, contrary to their usual skepticism towards official statements. When asked about whether government has done enough to help the laid-off workers, two types of answers are typical. The first type is liberal in nature, to the effect that the government has done its share by providing the basic social security programs. As one interviewee put it, "social security programs are supposed to only provide basic living support. If you want a better life than just subsistence, you should work harder and more smartly. Now there are plenty of opportunities. The government should not raise lazy bums. The society should not go back to the era of "eating from the big pot."²⁶²

While acknowledging the problems that might have weakened the effectiveness of the government's policies, such as asymmetric information or the

²⁶² Interview 14, 3 November 2008.

poor implementation of policies, the second type of answers affirms the government's efforts in helping workers. One interviewee says "(institutional) preparations were not enough while carrying out economic reform. The necessary welfare system was not in place, which took heavy tolls on the low income groups including the laid-off workers. But the welfare system has been improving. Three key social insurance programs (pension, UI, and medical insurance) have been strengthened. A lot of welfare jobs (*gong yi xing gang wei*) have been created to help those in need. Reemployment guidance has also been provided. Although the government has some responsibilities, an individual should take his responsibilities to improve his skills and change his mentality as well. In the 1990s, reemployment was not as difficult as it is now. Missing the reemployment opportunities, laid-off workers should blame themselves instead of the government."²⁶³

Interestingly, there exists a divergence to the same questions between answers from my interviews and answers from questionnaires, both from laid-off workers themselves. The answers obtained through interviews tend to give more credits to the government's programs in helping laid-off workers. This could be explained as the workers' reluctance to openly discuss their grievances. Possible explanations for the reluctance are: fear for reprisals by governments, having grievances but did not feel strong legitimacy to ask to redress the grievances, or feel this kind of views is marginal in the society.

But no matter whichever explanation is, if a candid discussion is not even easy, it would be hard to imagine these workers would rise to uphold their views and rights. Such compromise and reluctance to challenge the authority could be best illustrated by the way one laid-off worker comforted herself: "my situation is not the worst

²⁶³ Interview 16, 4 November 2008.

comparing with the poorer, if not with the wealthy (*bi shang bu zu, bu xia you yu*). At least, the pension benefits have been raised for three consecutive years, which shows the government at least has taken us into consideration. I will reach the age eligible for pension soon. Then life will be better and more secure.”²⁶⁴

Therefore, the general public did not share laid-off workers’ views over the causes for layoffs, nor their expectations of the government’s role in alleviating the difficulties created by layoffs. Even though workers might feel injustices, which might have triggered their initial protests, some of them are reluctant to uphold their demands. The government’s ex post facto responses through a series of active welfare programs have further diluted public support for workers and even co-opted some laid-off workers. Obviously, the social conditions essential for perceived injustices among the workers to be translated into a subsequent action have been missing in contemporary China.

Attitudes towards protests

The general public has showed understanding and sympathies towards the protests by the laid-off workers. Particularly, in the Chinese culture where the legal system is just taking shape, people believe in the strategy of trouble-making as an effective way to draw the authority’s attention and have their problems resolved. A very vivid metaphor that only a crying baby will get fed (*bu lao de hai zi mei nai chi*) is a best illustration of such thinking. A protest is considered as one of the strategies to fight for workers’ rights. Whenever people hear about or see a protest, a general comment is always made that there must be some wrong-doings involved. Otherwise workers would not protest. A protest is also considered as a way to vent the frustration

²⁶⁴ Interview 1, 22 October 2008.

of “losers”.

However, people are less sympathetic and tolerant if a protest goes too far. One interviewee was a worker herself in a SOE. Fully understanding the living condition of the laid-off workers, she showed understanding for the protests of workers and agreed that a protest was one of the ways to have workers’ voice heard. However, she disagreed with such means as blocking traffic or holding demonstrations, which would disrupt traffic and normal social life. When asked what the workers should do, she generally commented that they should resort to laws or other official channels. She thought that the government had done its part to help workers.²⁶⁵

A similar view was shared by ordinary citizens. Admitting that workers are the victims of economic reform, they think there are reasons for that. Even causes for layoffs, people tend to think the other way around. The fact that skilled workers can locate another job easily is telling another story.

Typical is the view of a faculty member in a local college whom I interviewed. She is sympathetic with laid-off workers. However, after witnessing one of the protests by workers in a busiest commercial area, she strongly disagrees with their way of protest. “If they have problems, they should go to the relevant government offices directly instead of making other people’s life more difficult.” Most important, she blamed the workers for failing to relocate a job. “Even migrant workers from the countryside, who don’t have better skills or connections in a city, can find a job, (the laid-off workers should be able to find a job as well so long as they are willing to).” She thinks that the government has already taken different measures to help laid-off workers out. “The government has tried its best to help the laid-off workers. The

²⁶⁵ Interview 14, 3 November 2008.

Reemployment project and programs to help “Zero Employment families”²⁶⁶ are examples of the efforts made by the government. Laid-off workers should change their mentality not to be picky in looking for a job.” Finally, she insists that workers should resort to the normal protest channels, such as writing petitions letters, or legal means, to resolve their issues instead of simply taking to the street.

Thus, public attitudes towards workers’ protests are sympathetic but not supportive. Most importantly, public attitude towards the government and its policies, whether it is economic reform or policies to help laid-off workers, are positive and supportive. An official opinion poll presents its poll results as such: among 5,830 staff in Chengdu (2750 are workers and 3080 are cadres, technicians and teachers), 43.50 per cent of interviewees gives credit to the achievements of economic reform, 32.92 per cent understand that layoffs are a necessary step to reform the state sector, and 68.08 per cent have expressed satisfaction about measures implemented by the municipal government to help laid-off workers, such as “*Song Wen Nuan Gong Cheng*” (“Warmth Sending Project”, one of the government projects to provide material support to laid-off workers in extreme financial difficulties. For example, Chengdu Municipal Union launched a so-called 2112 project in 2002, which aimed at providing CNY 2 million worth of financial support to laid-off workers in financial hardship, providing 10,000 jobs to laid-off workers, working with other government offices to help another 10,000 laid-off workers to be reemployed, and assisting 20,000 eligible laid-off workers to apply and obtain *dibao*, the minimum subsistence allowance).²⁶⁷

The reason why protests by workers in the eastern European countries in the

²⁶⁶ “Zero Employment Families” refers to families in which both husband and wife are both laid-off. There is a policy to specifically help this type of family to have, at least, one job.

²⁶⁷ Chengdu Federation of Work Unions. “2002 Nian Chengdu Shi Zhi Gong Si Xiang Zhuan Kuang Diao Cha Bao Gao,” (*Opinion Poll on staff in State Work Units of Chengdu City in 2002*), accessible at <http://www.cdzgh.com/html/detail.asp?ID=113&ClassID=022401&ZL=0>, (30 May 2009).

early 1990s could reach the tipping point to generate a wide social movement is the sympathy, support, and defection to support the protests from even the state apparatus.²⁶⁸ All these conditions are lacking in the Chinese case. Under such circumstances, it would be very difficult for the workers' protests to sustain.

The State's strategies

As a special product of the Chinese economic transition from a planned economy to a market economy, massive layoffs by state enterprises are not the results of a single policy, nor phenomena of a particular year. Rather, it is cumulative over a more than ten-year period. Despite the size of layoffs, their cumulative nature and diverse causes are themselves big obstacles for collective actions by laid-off workers.

In the course of layoffs, a repertoire of state strategies has worked to further fragment the already loosely connected working class. Providing market opportunities for the young, promising welfare guarantees for the old, and offering favorable compensation policies when implementing layoffs, in addition to a combination of prolongation, intimidation, evasion, and concession when handling protests, are the strategies that have worked to fragment laid-off workers.

Economic reform policies and layoff

Three main policies of economic restructuring have affected the ups and downs of layoffs in the decade since 1993, when layoffs were recognized officially. Due to the increase of managerial power and the promulgation of *Interim Law of Bankruptcy* in 1994, layoffs saw their first surge in the mid-1990s. As a result of the policy of "grasping large sized enterprises and letting go the small and medium sized

²⁶⁸ Kuran (1991), Lohmann (1994), Karlins and Petersen (1993).

enterprises” in 1997 and enterprises’ corresponding efforts in shaking off redundancy, layoffs became system wide and the number of layoffs soared. With the deepening of SOE reform, the reform focus shifted to the ownership system since 2000. Cao (2007) recorded eight ways to carry out the reform of the ownership system, including sale of enterprises in their entirety, issuance of floating shares, a shareholding cooperative system, whereby employees would buy shares in their own enterprises, a manager holding system (*jingyingzhe konggu*), demerge or sale by split shares, “lease and then sale” (*xianzu houshou*), using promissory share and buyout (*qigu maiduan*), and filing bankruptcy.²⁶⁹ In Chengdu, the four-word phrase of “closing, terminating production, merging, and changing product lines” (*guan ting bing zhuan*) best summarizes the reforms undergoing in state enterprises.

Breaking down the layoff statistics over the years, it shows that the state sector in Chengdu has retrenched 68,809 employees from 1994 to 1996, cut 149,918 jobs from 1997 to 1999, and cut another 139,638 jobs from 2000 to 2004.²⁷⁰ The layoff reached its peak at the second stage of the SOE reform (1997 to 1999). This coincides with findings from other studies that protests by the laid-off workers were the most severe in 1990s.²⁷¹

Without going into details of reform measures at individual enterprises, my study divides enterprises into two general categories: those going bankrupt (closed or stopped production) and those undergoing other reforms (reorganization or merging). The two types of enterprises are different in their potentials in generating protests by laid-off workers, workers’ possible protest demands, and the government’s preventive

²⁶⁹ For details and explanations of each reform measure, see Cao Siyuan. “Chapter 8. The Ownership System Reform of State-Owned Enterprises,” *Chinese Law and Government* 40: 6, (Nov-Dec 2007): 59-71.

²⁷⁰ These numbers are calculated by using the employee numbers in the state sector from 1994 to 2004 in *Chengdu Statistics Yearbook*, 2006, p.55.

²⁷¹ See Cai, 2006, p45; Du and Guo, 2006.

policies.

For enterprises facing bankruptcy, all employees would lose their jobs regardless of age, sex, with skills or without skills. How to provide a feasible severance package acceptable to laid-off workers is one of the issues squarely faced by those enterprises. For enterprises not threatened by bankruptcy, the decision on whom to lay off and how to compensate these workers without arousing strong opposition from them is a thorny task.

Theorists of social movements suggests a typology of five types of resources essential for social mobilization: material (money and physical capital), moral (solidarity, support for the movement's goals), social-organizational (organizational strategies, social networks, bloc recruitment); human (volunteers, staff, leaders), and cultural (prior activist experience, understanding of the issues, collective action know-how).²⁷²

Judging by the resources available to the two types of enterprises, workers in the bankrupt enterprises have less potential for mobilization than those in the other enterprises. Most often, the long-standing profit-losses of an enterprise has already forced the most capable and talented out of the factory and thus deprived the enterprise of potential leaders essential in collective action. Meanwhile, long-standing losses in benefits and the resulting poor benefits available to the staff have forced workers in the bankrupt enterprises to find alternative ways to maintain subsistence long before bankruptcy. If the majority of enterprise workers have part-time or even full-time jobs outside of the enterprise, the organizational potential of the enterprise as a mobilization unit has already been greatly compromised. Diverse individual situations and alternatives available to them further impaired the already weak

²⁷² Edwards, Bob and John D. McCarthy, "Resources and Social Movement Mobilization". in David A. Snow, Sarah A. Soule, and Hanspeter Kriesi, eds. 2004. *The Blackwell Companion to Social Movements*. Oxford: Blackwell. pp. 116–52.

solidarity among workers. Workers would also have less expectation on their enterprise for any material compensation due to perceived financial difficulties of the enterprise.

Financial difficulties, alternative job opportunities, and the drain of the most capable also exist in non-bankruptcy enterprises, but to a much lesser degrees. Accordingly, different strategies were applied when dealing with the enterprises going bankruptcy and those not.

In Chengdu, 132 enterprises claimed bankruptcy between 1996 and 2004, 62 enterprises were merged between 1996 and 2000, and another 69 enterprises changed their ownership system between 2001 and 2004.²⁷³ The SOE employees have dropped from 1,217,480 in 1994 to 757,038 in 2004.²⁷⁴ About 446,442 enterprise employees in Chengdu have been retrenched over the ten years of the SOE reform (1994 to 2004). The following section will examine the dynamics of layoffs in both bankrupt enterprises and non-bankrupt enterprises.

Bankrupt enterprises

The government's policies towards bankrupt enterprises are a combination of carrots and sticks. On the one hand, it is fully aware of workers' discontent and their disruptive potentials. Therefore, the economic rights of workers in bankrupt enterprises were fully recognized and protected. It was clearly stated in the *Interim Bankruptcy Law* in 1994 that the arrears of salaries of employees and the severance pay of employees would be given priority over any other debts of an enterprise if the enterprise has to liquidate its assets to pay off its debts. Therefore, each insolvent enterprise filing for bankruptcy has to include a proposal about how to secure

²⁷³ *Chengdu Statistical Year Book*, 2001, p138; 2004, p.134.

²⁷⁴ *Chengdu Statistical Year Book*, 2006, p.55.

severance payment for their employees. According to central policies, a bankrupt enterprise has to pay off the arrears of their employees' salaries using the money obtained from liquidation of its assets, buy their employees pension and healthcare plans based on its financial capabilities, and pay their employees a lump sum severance fees. The proposal will have to be discussed with elected employee representatives and be agreed upon before the enterprise enters into bankruptcy proceedings.

This policy has a strong political purpose. The priority of workers' economic rights over the rights of other creditors has long been debated.²⁷⁵ Since its first promulgation in 1994, the *Interim Bankruptcy Law* has not been officially presented to the Standing Committee of the People's Congress for approval until 2004. After two years of heated debate on the compensating order after liquidating the assets of a bankrupt enterprise, the *Bankruptcy Law* was finally adopted by the Standing Committee on 27 August 2006 and took effect on 1 June 2007. The new law is a compromise. It stipulates that enterprises having filed bankruptcy before the *Bankruptcy Law* should have to pay off the employees' salaries and benefits first and then the other creditors, and enterprises going bankrupt after the effective date should pay off any other creditors prior to the employees.²⁷⁶ The adoption of the *Bankruptcy Law* marks that there will not be any favorable policies to SOE employees when SOEs file bankruptcy in the future.

However, a big leeway in the implementation of this policy is left to bankrupt enterprises. Pension and healthcare plans and severance payments are all subject to financial capabilities of bankrupt enterprises after liquidations. In some cases, workers

²⁷⁵ Xinxin Wang, "Lun Zhigong Zhaiquan Zai Pochan Qingchang Zhong de Youxian Shunxu Wenti" (*On the Sequence of Offsetting Employees' debts in Bankrupt Enterprises*), available at <http://www.lunwentianxia.com/product.free.7583666.1/>, accessed on 20 July 2009.

²⁷⁶ "Qi Ye Po Chan Zhi Gong Bu Zai You Xian Qing Chang" (Employees of Bankrupt Enterprises Will no Longer be Given Priority to be Paid Off), 28 August 2006, accessed on 8 May 2009, <http://www.mie168.com/job/2006-08/173429.htm>

could not get full or any pension or healthcare plan contributions paid by their enterprises. Severance payments are also low compared with non-bankruptcy enterprises.

In the bankruptcy-related cases, if protests were staged by workers, the government's stance was rather firm and intolerable. The principle is that the government will not officially hold any dialogues with the workers in these enterprises, let alone attend to their demands. The courts were also instructed not to accept any law suits of this kind, in case some workers might want to use legal means to fight for their rights. Workers were either kicked around the different government offices or told directly that there would not be any use in protesting further because the government should not be responsible for an enterprise's bankruptcy. Among 22 bankruptcy cases, 14 reported that protests were of no use regardless of the forms of protests or the level to which the protests were addressed. The lack of political will to enforce the well-designed policies of protecting the rights of employees in bankrupt enterprises makes these policies more a political gesture than a real effort. The government's strong position in dealing with protests by workers in bankrupt enterprises partly results from workers' reluctance to stage strong and prolonged protests due to their weak political and economic power.

When seeing no immediate results, workers usually tend to drop their protests. Two reasons --- not being able to afford a long-term protest financially and time wise and the lack of solidarity when faced with a possible futile protest - are responsible for the laid-off workers not to protest further.

The argument by the government seems to be accepted by workers. One interviewee said that "the government should increase the benefits of unemployment insurance. The severance package was decided by the sale of an enterprise's assets,

and the amount of compensation depends on an individual enterprise's own situation. The government had little control. Layoffs may have negative consequences on society. But if you dare to make any disruption to the social order, you may risk being arrested. Now everything has passed."²⁷⁷ Being firm, knowing to whom it should be firm, and knowing when and how to be firm, the Chinese government very tactically put workers from bankruptcy enterprises under control.

A combination of intimidation, prolongation, and concession is a common strategy employed by the local government in dealing with worker petitioners. It is well demonstrated in Mr. Qi's story below.

When laid off in 1998, Mr. Qi had been working in the small state enterprise for 23 years. He earned about 700 RMB before the layoff. After the layoff he had no any other monetary compensation except for the 60 per cent of pension contribution paid by his former enterprise for the next 15 years. He himself would be responsible for paying for the remainder of the pension contributions and for earning his own living. Not being able to find a job, Mr. Qi led dozens of workers to hold a dialogue with the local government. After several futile dialogues with the government office and threatened of being accused of disrupting public order, other workers all quit, believing the protests were of no use. Being unable to relocate a job, Mr. Qi returned to the government to reiterate his demand, which was very simple: a wage-earning job. During the following four years, Mr. Qi had never stopped reiterating his demand (*fan ying qing kuang*) even after he found a part-time job as a warehouse keeper. His method was also very simple: talking to the person in charge, sitting in his office to exert pressure (*ruan mo ying pao*). When his former enterprise reopened in 1992 because of an unexpected investment from the government, Qi became the only one

²⁷⁷ Interview 18, 4 November 2008.

reemployed from the previous staff.²⁷⁸

Mr. Qi's story demonstrates the strategies by both sides of protests. The government usually adopts the initial strategy of prolongation, delay, ball-kicking, and intimidation. Concession may be made occasionally if workers are not threatening social order and there is possibility to resolve the issue through the government's intervention. Qi sought to have the government reassign him a job for four years and finally succeeded. On the side of workers, most often they would drop their protests in the face of the government's strategy of prolongation, as Qi's co-workers did. Availability of alternatives and fear for reprisals has combined to prevent workers from protesting further. However, Mr. Qi's story shows that a marathon protest has the probability of winning in the end. But it also shows that workers who will resort to this type of measures are rare. Only when they really have no any other alternatives, might they do so. Thus, Qi's story should be an exception rather than a norm.

Non-bankrupt enterprises

For non-bankrupt enterprises, having a proper way to make arrangements (*an zhi*) for the workers to be laid-off is an indispensable component of a policy package in reforming state enterprises in Chengdu. For example, at the same time the *Decision on Quickening the Reform of Small State Enterprises*²⁷⁹ was made by the Chengdu Municipal Commission and the Chengdu Municipal Government in 1996, the second annex to the document details the ways to make arrangements for the staff of small state enterprises. It states that compensation fees for the laid-off of enterprises carrying out ownership reforms or reorganization should be calculated by an employee's work years multiplying a base fee, which could be up to three times

²⁷⁸ Interview 4, 28 Oct 2008.

²⁷⁹ Cheng Wei Fa (1996) No.11 Document.

of the city's average salary in the previous year. Workers from enterprises being sold or merged should be taken over by the purchasing enterprises. The city document also encourages workers to be self-employed, whose compensation fees should be equal to those laid off. For those waiting for retirement (*tui yang*), their pension contributions should continue to be paid by both enterprises and workers according to a certain percentage.

In reality, enterprises may differ in compensation fees, the percentage they contribute to their staff's pension and other social insurance programs, and the monthly allowances to those waiting for retirement. But all non-bankrupt enterprises have to implement these policies according to their own financial situations. Within non-bankrupt enterprises, this policy itself has divided laid-off workers from enterprises with stronger financial capability and a smaller number of layoffs, and those from enterprises with weaker financial capability and a bigger number of layoffs.

Within non-bankrupt enterprises, fragmentation along age lines is also observable. A method of so-called *yidaoqie* (age is the sole determinant in layoff decisions) was practiced in many non-bankrupt enterprises. Young workers (below 35 years old) are often kept in the enterprise or are offered an option to stay or to leave. Middle-aged workers (between 35 and 45) and older workers (above 45 years old) are often the target of layoff. The specific age is determined by individual enterprises. For example, one interviewee said that his enterprise, which was undergoing reorganization, decided to keep all the labor force below 35 years of age,²⁸⁰ while another one stated that his enterprise kept all those below the 35, laid off all between 35 and 45, and provided early retirement for those above 45.²⁸¹

²⁸⁰ Interview 8, 18 February 2007.

²⁸¹ Interview 7, 18 February 2007.

This pattern was validated by the data acquired through questionnaires. Among 21 valid answers²⁸² from young laid-off workers, 14 are from bankrupt enterprises (66%) while only 7 are from non-bankrupt enterprises (34%). By contrast, among 14 valid answers from the middle-aged group, only 4 are from the bankrupt enterprises (28%) while the number of those from non-bankrupt enterprises increased to 10 (72%). Among the 19 answers from the old age group, 10 are from bankrupt enterprises (52%). Among the 9 from non-bankrupt enterprises, 6 of them have the early-retirement option (67%). Therefore, the data demonstrates that workers below 35 are less likely to be laid off than those between 35 and 45. Those above 45 are more likely to be offered the option of early retirement.

In the case study to be detailed in the following section, the enterprise in question was first reorganized and moved to the suburb. Half of the remaining employees are below the age of 35. This group of incumbent employees enjoyed the benefits of using their compensation fees to buy the shares of their enterprise when it went public. As beneficiaries of such a policy, they were certainly not among those who were motivated to protest.

Without younger and often the skilled workers, the mobilization potential of workers from non-bankrupt enterprises has been compromised due to the absence of the most active and energetic group. The potential for the middle-aged group and the older age group to unite and mobilize depends on the promises of welfare packages made by the government. As will be discussed in the following section, among three key social insurance programs, pension is the one that has received the most policy attention. It has successfully co-opted one of the three age groups that are regarded as the most legitimate to protest due to the tradition of entitlements entailed in the

²⁸² The validity is defined as information on both age and reform type is offered in one questionnaire. Some questionnaire contains only either of the information is not used since it could not indicate the relationship between the age and reform type of an enterprise.

socialist social contract.

In short, When the market ideology has penetrated and deeply rooted in people's mind, when decades of decentralization has reinforced the welfare as well as financial responsibility of individual enterprises for their employees, when perceived legitimacy to mobilize boils down to the remnant legacy of socialist social contract, and when welfare is promised as a component of a severance package in layoff, the most likely reason for workers to wage a protest and to sustain such protest is not the losses of financial benefits brought about by the layoff per se but the failure of promised welfare provision in the layoff package.

Impact of Welfare Provision to the Laid Off

In addition to generally improved living standard, sympathetic but unsupportive public views, and strategies at both the state and enterprise level, welfare benefits available to the laid-off greatly affects laid-off workers' protest behavior through its dynamic interactions with each above-examined explanatory variable.

One of the legacies of the socialist welfare system for the living standard of laid-off workers is the provision of housing. The majority of my interviewees have an apartment allocated by their former enterprises. During housing reform, they were offered an opportunity to pay only a nominal price to their enterprises to purchase the apartment. In China, no property tax is levied once a house/apartment becomes private. Not having to pay any expenses for housing is one of the reasons why laid-off workers can maintain their living standard after layoffs. In certain cases, the residence even became an extra source of income for laid-off workers. One interviewee told me that her younger brother was allocated a very shabby studio before his layoff by the

enterprise. Because of urban development, he was relocated to a suburban area and received in return a fair amount of compensation from the developer.²⁸³

Among the three key social insurance programs: pension, healthcare, and the unemployment insurance, the government has attached the greatest importance to pension. Except for 5 interviewees who claim that they have no pensions at all, the rest of 65 interviewees all have pension plans, the majority of which have been jointly contributed by both enterprises and individuals. Among 26 interviewees aged above 45 years old, all 15 available answers are positive in regard to the question of whether their pension benefits are enough for maintaining a living.

As demonstrated in the previous chapter, early retirement is an important measure by the government to pacify laid-off workers. Among the interviewees, it is quite common that they are contented with being eligible for claiming pension benefits. It even became common in social gatherings among laid-off workers to ask “how many years do you have to go before claiming pension benefits?”²⁸⁴ Those who have started to claim benefits are very contented while those who still have several years to go are full of envy. Pension has become another guarantee reminiscent of the socialist past. After all, pension benefits have been raised three times in recent years. Quite a few answers from my interviewees about their expected role of the government express the hope the government should reduce the age of retirement for male workers from the current 60 to 55 or even 50 years of age. When comparing the current pension system with that in the pre-welfare reform era, over half of the interviewees claim that the current one is more secure compared with the pre-reform one.

If the majority of retirees or early retirees, who are the most vocal and usually

²⁸³ Interview 2, 23 October 2008.

²⁸⁴ Interview 1, 22 October 2008.

deemed most legitimate for entitlements, are satisfied with what they have been offered, how much the rest of the laid-off group can mobilize is thus questionable. There are a few cases where workers and their families have been impoverished because of the illness of workers or direct family members, but such cases are very limited in number. The mobilization power and potential of this particular group are much smaller than laid-off workers as a whole.

In fact, of 24 available answers from my interviewees regarding the question of protest demands, only two respondents stated that they had asked for jobs or to stay in their former enterprise. The other 22 only asked for increased severance allowances. Failure by enterprises to contribute to pension and healthcare plans is one of the triggers for workers to protest. In the following case, one of the reasons for the workers to take to the street was their worry that their pension and healthcare plans would not be guaranteed if their former enterprise was to be sold to a private owner. This is also true in localities other than Chengdu. A widespread report on the internet about how laid-off workers in Zijiang City had protested through petitioning, going to the court, blocking the main roads to their former enterprise, was all in an effort to pressure management to keep their promises to continue to buy healthcare plans for laid-off workers in favorable terms as stipulated in national policies.²⁸⁵

Among the welfare measures targeting laid-off workers (housing, pension, healthcare, unemployment insurance, reemployment project), this study finds that the UI is not as popular as pension and healthcare plan. Not all the enterprises which bought the latter two also bought the UI. Only 19 interviewees reported that they had unemployment insurance. Some of the interviewees were not even aware of the

²⁸⁵ “Yuan Zijiang Nong Yao Chang 1821 Ming Po Chan Qi Ye Zhi Gong de Wei Quan Jing Li” (The Process of how 1821 Employees from the bankrupt former Zijiang Fertilizer Manufacturer sought to maintain their rights), accessed on May 29 2009 at <http://www.wyzxsx.com/Article/Class22/200904/78527.html>.

existence of such an insurance, let alone claim benefits. Besides, the UI did not provide much support to laid-off workers as it was meant to. Only 6 out of 19 who claim to have the UI actually have claimed UI benefits. The number of laid-off workers who otherwise might have been helped by the UI was further reduced by the rule that the workers from bankrupt enterprises or workers who had claimed the lump sum severance fees from their enterprises would not be eligible for any UI benefits.

To the question on reemployment, none of the 16 interviewees who were reemployed had obtained their jobs through the government's reemployment services. Instead, personal connections and job interviews were the major avenues for laid-off workers to achieve reemployment, which was consistent with the findings of many studies.²⁸⁶

The low effectiveness and efficiency of the state reemployment project could be explained by its intended purpose. As discussed in detail in Chapter II, the reemployment center is a transitional institution, which has served a political purpose of maintaining social stability by preventing the release of such a big number of laid-off workers into the market and by providing them with a transition stage. Its role in providing reemployment services was marginalized instead.

In summary, welfare measures, more specifically, pension, healthcare, and UI, are actively integrated into the compensation package offered to laid-off workers. Those measures work as a moral gesture to win workers' support as well as an effective tool to provide workers a basic safety net and to alleviate their grievances. Pension, as one of the programs attracted most policy attention, has delivered the highest amount of benefits. It has effectively guaranteed the livelihood of retirees. It also works as a comfort to those about to receive it. The appeasing of the most vocal

²⁸⁶ See Donghui Gu. 2004. *Zhi Chi Yu Hui Ying: She Hui Gong Zuo Shi Ye Zhong de Xia Gang Zhi Gong Yan Jiu* (Support and Response: Research on the Laid-off Workers from the Perspective of Social Work). Beijing: Social Science Literature Publishing House.

and the most legitimate group among the laid-off has not only reduced the number of the laid-off workers but also weakened moral justification for the mobilization of laid-off workers.

Case study: An eye-witnessed account of a worker protest in Chengdu

Cause: interplay of perceived injustice and sense of entitlement

How workers' perceived injustices and a sense of entitlement affect their ensuing protest is well demonstrated in an eye-witnessed protest by workers of a medium-sized SOE. The SOE was built from scratch in the 1950s and developed into a medium sized state owned enterprise with a staff of over two thousand. Despite its moderate size, the SOE was the top one of its kind in the country and the only one in southwestern China. Due to the advanced technology employed in the factory, it was engaged in several top national construction projects since 1950s. In 1980s the second generation of management took over the leadership of the enterprise. Since then, the enterprise has gradually lost its edge in the market due to complex factors. Its profits have kept sliding. In 2000, amid the national economic reform aiming at establishing a modern corporate system among SOEs, the enterprise converted its ownership from a state owned enterprise to a listed corporation.

More than half of its workers, mostly above 35, were laid off in the process. Following central guidelines, the SOE allocated CNY 7,515,125 as settlement fees for its laid-off workers, CYN 1,966,072 to pay the social insurance fees (pension and medical insurance) for both the laid-off and the retirees, and CYN 190,000 as miscellaneous fees in the transformation.²⁸⁷ The laid-off workers were supposed to

²⁸⁷ I got these figures from one of the settlement papers showed to me by one of the protesting workers.

get a lump sum of compensation, which was calculated by the yearly base fee CYN 695 multiplied by a worker's years of employment.

However, workers claimed that they had never received the full severance payments. Instead, only CYN 200 living allowance was provided. Laid-off workers remained acquiescent on the calculation that they could maintain the employing relationship with the enterprise. When the enterprise changed its ownership, it allowed its current staff to convert their otherwise settlement fees into shares of the enterprise. The management even got thousands more of bonus shares, which the workers considered as extremely unfair. Their argument was that the enterprise had been the best of its type until the 1980s, and the incumbent management had been responsible for its losses since the 1980s. They refused to accept the excuse of the management that their business losses were due to multiple factors, including intensive market competition and their institution disadvantages as a state owned enterprise. Laidoff workers added that if market competition had been so fierce, the enterprise manager would not have invested to build a private company of the same type in another province. They also suspect that management had embezzled the funds of the enterprise to his own company. Quite a few retirees were the first group of worker who participated in the physical construction of the enterprise in the 1950s. They thus felt a strong injustice that the "builders" of the enterprise were not rewarded in any monetary terms while its "spoilers" benefited enormously.

The conflict was intensified by another development. In 2006 the company sold its 66,939.86 square meters of urban premises and re-built itself in the suburban area at a much cheaper price, a legitimate practice under the general reform strategy of so-called *ten long huan niao* (literally trading cages for birds, meaning selling the land in the urban area at higher price to rebuild and redevelop in suburban area) in

Chengdu. The premises were sold to a real estate developer at an appraised price of CYN 51 million. Not long after that the developer resold the premises to another business in Hong Kong at CYN 780 million. Viewing the big difference between the two prices, workers strongly suspected the management of taking bribery from the real estate developer and manipulating the appraised price of the premises. To make things worse, the management again sold the newly built enterprise to a private company in 2008. Worrying that their pension and medical insurance promised by the original enterprise will no longer be guaranteed by an “irrelevant” private company, and furious that they did not benefit at all from the sale of the premises, the laid off workers took to the street after appealing to the government to no avail.

They had two requests. First, they asked the private company to guarantee their pension and healthcare. Second, they sought to have a share from the selling of the premises. In support of their requests they gave three reasons. First, they think they deserve better severance benefits now that the enterprise can afford, especially now that all the current employees were offered enterprise shares as bonuses. Second, they argue that all the laid-off workers and retirees had contributed to the development of the enterprise since its establishment in the 1950s. The fact that the enterprise can be sold at its current price is partly due to the contribution of the older workers. Therefore, they deserve some compensation. Finally, the laid-off workers learned that the land of the premises was auctioned in a Hong Kong real estate market and was sold for a much higher price. Suspicion arose that the premises might have been initially sold at an unreasonably lower price due to covert dealings between the management and the buyer. Together, these reasons made the workers take to the street. They chose a crossroad of heavy traffic and held sit-ins with petition placards

telling their side of the story.²⁸⁸

Reaction of by-standers

The sitting-in took place in a busy intersection. A lot of passers-by stopped to read the petition placards and to listen to the story of the protesting workers. One passer-by's reaction is illustrative. He stopped to chat with the protesting workers and asked in detail about what the management had done to the workers. From the conversation, I learned that he was from another big state enterprise. He compared the compensation package that his enterprise had offered with the protesting workers' and agreed that the latter's severance payment was too low and the management was too cold-hearted not to pay in full the workers' pension and healthcare contributions. However, he did not feel there would be any good prospect for the workers' protest when he learned that the workers did receive some nominal severance payments. He observed that "there is no reason to protest further then because accepting the severance payment simply means you have agreed to the terms and conditions at the moment of the layoff. You have severed your ties with the former enterprise. Then even if they sell off the whole enterprise, you are not entitled to a penny of it." It is impossible to fathom what effects his comments may have had on the protesting workers. But at least, we know the workers, no matter how much they feel they are entitled to, do not have the full sympathy, let alone support, from other citizens, or even fellow workers from other enterprises.

According to a legal professional I interviewed, the protest had no moral or legal merit.²⁸⁹ First, he argues that the value appropriation of the land is understandable. The workers cannot use today's price to judge whether the land was

²⁸⁸ An eye-witnessed sit-in on 13 Nov 2008.

²⁸⁹ Interview on 14 November 2008.

undervalued when it was sold. Second, the workers do not really have to worry about their pension and healthcare. The enterprise was sold to another entity, which implies this entity also inherits the debts and obligations of the former. If the new enterprise really fails to pay their pension and healthcare contributions in the future, the workers can resort to relevant laws and regulations to maintain their legal rights. Agreeing with the passing-by worker's view cited earlier, he thinks the workers have no ground to protest.

Evasive attitude of the government

The workers became frustrated and furious over the government's inaction to their protest. They said they had been to the municipal government to try to have a dialogue with the mayor. They also tried the Chengdu Municipal Development and Reform Commission. But every time they went to these offices, they were told the official in charge was not in office. When they pressed when the official would come back to the office, they were either ignored or told that he was on a business trip and no one knew when he would be back. Obviously, these were just excuses. The protesting workers also tried to hire a lawyer but were told that the court would not take any case related to the ownership reform. The frustrated workers talked about going to Beijing to "make things bigger". But they did not have any plan of how and when to do it.

Indignant but helpless protesters

The protesting workers grew indignant. Some said the evasive attitude by the government was typically a mutual cover-up among officials (*guan guan xiang hu*). The organizer was reluctant to stage a stronger protest. Suspecting that I might have a

possible connection with the government, he kept telling me that if the sit-in could not attract due attention of local officials, he could not stop the indignant older workers from blocking the traffic and create more trouble. The workers were very cautious of telling me any personal information or contact information, I could not track down what happened later. But obviously the workers were reluctant to take extreme forms of protest. At least, the organizer was wary of consequences of doing so.

This case is indicative of one of many protests that are happening in China everyday. A Strong sense of injustice resulting from unequal distribution of wealth in the course of the enterprise reform prompts the workers to protest. Welfare, as an important component of workers' compensation package, could either pacify workers or intensify the conflicts. The government takes the role of policy making but leaves the implementation to individual enterprises. The general strategy to deal with the protests in unfair or insufficient implementation of compensation policies is prolongation and evasion. Who would win in the game depends on the will, time, and energy of the protesters.

Conclusion

The interview data are collected regarding the actual living standard of the laid-off workers, perceptions of both laid-off workers and the public on the layoff and its causes, the expectation on the government, and the welfare and its impacts on the workers. The data collected in Chengdu reflects the general protest pattern of laid-off workers throughout the country. Protests tend to be short-term and mild in form. They concentrate on economic rights instead of political rights. Increasing severance payments and better welfare benefits remain the main focus of such protests. It seems

that the layoff is well-accepted by people, including workers themselves, more than it is usually assumed.

A multi-level analysis is conducted. At the individual level, perceived injustice and legitimacy to protest determine the intensity and length of protests. Indignation over mismanagement, corruption, and perceived injustices prompted laid-off workers' initial protests. However, their mixed feelings about the economic reform, robust job market and individual opportunities in a thriving market economy, and overall economic improvements have combined to weaken workers' determination to sustain their protests.

At the social level, the general public's attitude towards the laid-off workers' protests is more sympathetic than supportive. Unusually, the public sides with the government in blaming the workers' low skills and education for their unfortunate fate instead of asking how the layoff was created in the first place. The assumption that layoffs are a necessary part of economic reform has been well accepted by the general public, including even the laid-off workers themselves.

At the state level, a set of state strategies have been implemented. The function of these strategies is a de facto fragmentation of the working class as a whole. These strategies include a biased provision of job opportunity to the young when enterprises undergo restructuring, compensation and guarantees for basic safety nets through welfare provision to the old, divergent treatment of protests by workers from bankrupt enterprises and non-bankrupt enterprises, and the combination of prolongation, intimidation, and concession when dealing with protesters.

The data presented in the chapter has further demonstrated that the welfare programs under study (housing, pension, healthcare, and the UI) have contributed to maintaining the living standard of the laid-off workers. Pension and healthcare have

effectively appeased older workers, the group having strongest sense of entitlement and the recognized legitimacy to protest.

Chapter 5 Conclusion

How could a fourth largest country in terms of GDP in the world, which has undergone such profound economic restructuring since its integration into the world economy in 1978, has maintained a relatively smooth economic transition, despite massive layoffs in its state sector in the late 1990s? The privilege status that SOE workers had ever enjoyed and later lost in the course of economic reform makes it even more intriguing why this once powerful social group, which had helped to push the CCP to the center of power in China, would accept its loss, both financial and social, so peacefully.

Though many studies have tried to tackle this puzzle from various angles, the most overly stated government strategy of welfare policies is left under-addressed. Despite the clear government statements in China's reform policies on the importance of welfare system towards economic reform and social stability, few studies have so far done thorough analyses of relationships between the two and have approached the puzzle from the angle of China's welfare reform since 1980s, particularly the welfare policies it implemented in the late 1990s. My study sets out to argue that an evolving social security system has been instrumental in containing displaced workers' discontent in China's reform era. It has demonstrated how successive welfare program, covering from pension to *dibao*, have accompanied corresponding successive stages of economic reform.

This study thus contributes to the literature by demonstrating the significance of China's welfare policies and social impacts of its development in mitigating the disruptive effects of radical economic restructuring on social stability. There have

been rich studies on either China's contentious politics or China's welfare development. Studies on China's contentious politics try to explain workers' pacification from deficiencies of organizations and leadership for mobilization, sequences of economic reform with the state sector being the last one to be reformed, and the containment of the *danwei* system on mobilization potentials in China, while studies on China's welfare developments focus on the momentums and paths of development of China's welfare regime. Some studies do give credits to welfare policies as an important component of an integrated state strategy in maintaining social stability. Critical evaluations have also been done on a certain welfare program, including its impacts on maintaining social stability.²⁹⁰ No study has so far done a systematic evaluation of all of China's welfare programs – seven in all, namely housing, five social insurance programs, and social assistance program and their developments since economic reform, and how these developments have affected the working class' mobilization power in the wake of radical downsizing in the state sector in the late 1990s.

The special contribution of this study is its attempt to bridge research on both contentious politics in China and China's welfare development. There are as yet no detailed analyses focusing on China's welfare development with potential social instability as a driving force on the one hand, and welfare provision as a social stabilizer on the other hand, are lacking. This study tries to fill this gap by making both theoretical and empirical contributions in this regard. Empirically, there are major findings.

State Incentives

²⁹⁰ Solinger, 2008, 2005, 2001.

Stability has long been “a principle of overriding importance”²⁹¹ in China’s reform era. It is considered as a prerequisite for reform and development. The three goals of reform, development, and stability are intertwined and mutually affected in China’s process of market transition. How to balance the three is of significant political importance to Chinese authorities. It is directly connected with the CCP’s legitimacy and capacity to stay in power.

Not coincidentally, a functioning social security system, as an important redistributive tool, is given high priority on the agenda of the Chinese government with the deepening of China’s economic reform. The establishment of a socialist market economy was set as China’s ultimate goal of economic restructuring during the 14th Party Congress in 1992. The reform strategy of “grasping the big and letting go the small enterprises” was further adopted during the 15th Party Congress in 1997. “Establishing highly competitive large enterprise groups with trans-regional, inter-trade, cross-ownership and trans-national operations...(while) quickening the pace in relaxing the control over small state-owned enterprises and invigorating them by way of reorganization, association, merger, leasing, contract operation, joint stock partnership or sell-off” resulted in the largest scale of downsizing ever seen in China’s industrial history. Social stability was threatened when thousands of protests were staged by laid-off workers. Under such circumstances, establishing a sound social security system was elevated to an unprecedented height. In various government documents, decrees, and reports, it was clearly stated that “speeding up the establishment of a social security system is a significant condition for smoothly promoting SOE reform.”²⁹² “Deepening reform of the distribution system and

²⁹¹ Report delivered at the 16th National Congress of the Communist Party of China in 2002, p.3

²⁹² Zhonggong Zhongyang Guanyu Guoyou Qiye Gaige he Fazhan Ruogan Zhongda Wenti de Jueding (Central Party’s Decision on A Series of Significant Problems Related to SOE Reform and Development), Zhong Fa (1999) Document No. 16;

establishing a sound social security system” was made one of the policy guidelines for further economic reform of the next five years during the 16th Party Congress in 2002.²⁹³

Failed Mobilization

This study has found that welfare provision has shown to be a valuable independent variable in explaining Chinese workers’ failure to mobilize further in the wake of massive layoffs in the late 1990s, for three reasons. First, given the fact that the CCP came to power largely owing to the support of the Chinese working class, the Chinese workers, as a social group, have the most potential to mobilize. However, against the general trend that “mass incidents” in contemporary China are growing larger in number and bolder in forms, protests by laid-off workers have abated over the years, when they are expected to be a leading force of social contentions. Second, since welfare has constantly been claimed as a tool to maintain social stability in official rhetoric, a detailed study is needed to assess its role in reality. Finally, the development pattern of Chinese welfare, i.e., a paradox between highly piped official discourses and disproportionately low government spending on welfare provision, and shifting policy goals over this country’s welfare development, calls for theoretical explanations. These three factors justify positing welfare as a valuable independent variable to study the contentious politics of the contemporary Chinese working class.

This study does not try to claim that welfare benefits provided to the workers simply bought out workers in the late 1990s. On the contrary, over two decades of welfare reform have ended workers’ exclusive welfare entitlements. Social insurance

²⁹³ Ibid.

programs and *dibao* started to expand to cover more social groups in the non-state and informal sectors. Welfare benefits are no longer the sole responsibilities of the state or enterprises. Benefit entitlements to pension, healthcare, and UI became conditional on contributions, part of which is borne by individuals. Changing from beneficiaries without any obligations, individuals now have to share risks and responsibilities with the state and enterprises. Housing became fully commercialized and dropped from workers' welfare entitlements. Believing welfare should not be generous enough to encourage parasitic behavior, Chinese authorities made *dibao* benefits minimum and residual. Compared with pre-reform era, the reformed welfare system in the late 1990s was characterized by drastic retrenchment in the scope of welfare benefits, increased individual shares in program contributions, and residual benefits of social assistance. Therefore, the welfare benefits alone would not be sufficient to explain laid-off workers' pacification.

Rather, the timing of two decades of welfare reform and its social impacts are the ones that have catalyzed the conditions conducive to the pacification of laid-off workers. Adopting a historical institutional approach, this study traces the evolution of welfare regime in China. It finds that the state strategy of selective welfare intervention, the dominant market ideology at the society level, and the declining power of the state workers combine to account for the failure of mobilization of the Chinese laid-off workers. Welfare reform results from China's economic reform. Its unintended results contributed to the adoption of more radical measures of economic restructuring. It is the interaction between the two that drives China's welfare development forward.

A Market Oriented Approach

Welfare reform in this study is not a static and unitary concept. It covers seven welfare programs and is divided into two stages according to the causes and measures of welfare reform. The time of reform of each welfare program under study was different. Welfare reform at the first stage (1980 to 1996) focused on housing, pension, and healthcare. At this stage welfare reform was mainly triggered by the concerns for increasing incidents of welfare arrears and defaults by loss-making SOEs (such as pension and healthcare), unsustainable financial burden and poor services (such as housing). Therefore, social pooling and the creation of individual accounts were two main features characteristic of pension and healthcare reform at this stage. The former aims at pooling welfare funds previously dispersed among SOEs and sharing risks among enterprises while the latter aims at increasing individual responsibilities and expanding sources of welfare funds. Meanwhile, housing reform pushed to sell welfare housing to individuals. Welfare decentralization, as a result of financial decentralization in the course of economic reform, already diluted the state's direct involvement in the daily administration of welfare provision. The individualist approach exemplified in sharing risks and responsibilities among the state, enterprises, and individuals further reinforced the market ideology in formation. Workers started to internalize the liberal notion that governments should not be responsible for workers' welfare benefits. Instead, welfare benefits were connected with the market performance of one's enterprise. Such perception on welfare responsibilities is crucial in explaining why workers did not direct their anger towards the central and local governments when laid off. Instead, they tend to blame direct managements of enterprises for profit losses and the consequent layoffs in the late 1990s.

Compared with the approach of state withdrawal at the first stage of welfare reform (1980 to 1996), welfare reform at the second stage (1996 to 2004) witnessed

strong state intervention. Administration of welfare programs was recentralized to Ministry of Labor and Social Security (MOLSS), which was created in 1998, and its local branches. Daily administration of welfare program is no longer enterprise-based but socialized. This was especially true with the pension program, whose administration was recentralized in MOLSS from the hands of various government departments and eleven key industries (railway, electric power, etc). Pensions have been distributed through banks or commissions of communities since then. Now Healthcare, UI, maternity, and work injury benefits are all distributed by local Departments of Labor and Social Security while *dibao* benefits are distributed by local Departments of Civil Affairs.

The establishment of a basic social safety net is the focus of reform at this stage. Both UI and the social assistance program *dibao* saw the greatest expansion during this period of time in terms of coverage and benefits distributed. In addition, Basic Subsistence Allowances (BSA) was created to form “three lines of guarantees” together with UI and *dibao* to provide livelihood guarantees to laid-off workers in the late 1990s. Government subsidies on these programs soared. Besides, reemployment centers were mandatory to SOEs that would lay off workers. RECs function as transitional institutions to take charge of affairs related to laid-off workers, such as distributing BSA, reimbursing medical expenses, and making payment of social insurance contributions.

The strong state intervention, to a large degree, alleviated the livelihood difficulties of laid-off workers. Most important, it won the state public sympathies. Despite initial popular sympathies towards laid-off workers, the general public tends to side with governments in blaming workers for their failure to relocate a job after their layoffs. A case in point is blaming laid-off workers for not being liberal enough

to take jobs in the informal sector or being too choosy when looking for jobs. Furthermore, the public's sympathies towards laid-off workers tend to be getting weaker over the years. This study finds that people tend to be more sympathetic with laid-off workers in the late 1990s than in the later period. Two explanations are proposed. First, it could be that people are more accustomed to this social phenomenon and accept it as an inevitable ill in a market transition. Second, the strong government intervention and repeated government rhetoric yielded expected results, that is, winning the public understanding and support.

Finally, the institutionalization of welfare management and administration during this period of time creates legal channels to which welfare-related grievances could be directed and digested. Extreme measures such as taking to the street did not necessarily win more public support. A pattern of "legal authoritarianism" is emerging in reforming China, that is, a pattern of the ubiquitous invocation of the central government's edicts and legal rights to resolve their narrowly defined and usually firm-specific grievances by protesters.²⁹⁴

Obviously, over two decades of welfare reform has first reinforced individualism, strengthened market ideology, and separated the state from direct welfare provision under a command economy. Such changes diverted laid-off workers' target of blame, or simply resulted in workers' difficulty in locating target of blame. Strong intervention at the later stage further helped the state to win the scores in handling layoffs. Prevailing market ideology and public support deprived laid-off workers precious social soil for further mobilization.

Therefore, it would be understandable why layoff-triggered protests are all found to follow the same pattern of initial mobilization, either in mild or in extreme

²⁹⁴ The term of "legal authoritarianism" was borrowed from Lee, 2007, p.238.

forms, and later appeasement. Workers' demands were more economic than political. Demanding resolutions of livelihood difficulties, protesting against arrears of welfare contributions by enterprises, or demanding better severance packages etc constituted majorities of protests by laid-off workers. Once these economic or welfare-related demands are met, laid-off workers tend to give up further mobilization. Such details as what kind of demands and whose demands would be satisfied are constrained by many other conditions as discussed in detail in Chapter 4, but welfare is obviously the strongest trigger for protests. By the same token, welfare is also the most effective tool to allay such protests.

Selective welfare intervention

If market ideology creates an environment conducive to laid-off workers' pacification, welfare benefits would be the catalyst that has the multiplying effect in contributing to workers' appeasement. To a certain degree, how each welfare program is reformed depends on how it is related to protests or potential protests by laid-off workers.

This study finds that laid-off workers' protests are related not only to grievances but also to laid-off workers' perceived legitimacy. Usually, the perceived legitimacy is closely connected with the socialist social contract under a command economy, that is, low wages and no job selection by workers in exchange for a wide range of welfare benefits, particularly old-age benefits. The likelihood of protests by laid-off workers is somehow connected with the years workers have worked in an enterprise. Indignation felt by the elder workers that they could not compete in a market for a job due to their age is well shared and sympathized by the public far more than that for any other age groups among laid-off workers. The longer workers

stayed in an enterprise, the more legitimate they felt for their demands either for compensation or for arranging for another job. No wonder elder workers are the most vocal group in protests and they are usually pushed to the front of protests to obtain more public sympathies.

Such patterns of protests by laid-off workers were well considered in the reconfiguration of welfare arrangements. The socialist social contract under a command economy was respected in every possible way. Among housing and five social insurance programs pension is the one that has received the most government subsidies and has seen the most benefit raises over the years under study. In terms of administration, pension, together with *dibao*, are the only two programs whose distribution is guaranteed by administrative decrees and is connected with local officials' performance evaluation. According to the data of the China House Income Project (CHIP) 1988 and 2002, it finds that old age, either as retirement of household head or more elderly household members, was strongly associated with higher levels of social benefits, mainly reflecting their pension income.²⁹⁵ As an important strategy to co-opt the elder workers, early retirement was offered in the late 1990s to those who had only five years away from official retirement ages. This is against the conventional practice of raising retirement age to alleviate the pressure of ageing population on pension funds by most of the industrial countries. Within less than ten years, the number of retirees in China has jumped from 30.65 million in 1995 to 46.48 million in 2004 (see Form 7). Such a big increase in pension beneficiaries has put tremendous pressure on China's pension funds. However, early retirement has greatly eased the tension that would have otherwise exerted on China's employment system. This study finds that those who have enjoyed the benefit of early retirement and those

²⁹⁵ Gao, 2006, p.27

who are soon going to retire are contented with the arrangement and have no incentives to protest, let alone lead protests.

Equally heavy government subsidies on unemployment insurance (UI) and *dibao* reflect the same logic of state intervention to pacify laid-off workers. However, the results are mixed. Compared with the forceful enforcement of pension, UI is slack in administration in different ways. Some of the laid-off workers either did not realize or even did not know at all that they were entitled to unemployment insurance benefits. Some enterprises were either behind payments or simply did not pay contributions. Besides, some local regulations put very high eligibility requirements on UI benefits and thus exclude many workers from enjoying the benefits. For example, in Chengdu, where the empirical study of this research was done, workers who chose to take severance package were not entitled to UI benefits according to local regulations. Finally, the reemployment project, where a large part of UI funds went, did not fully yield intended results. Majority of interviewees in this study found their jobs not through official reemployment projects but through their personal social connections. Low levels of benefits and various restrictions on benefit eligibilities limited the capacity of unemployment insurance in providing income security to laid-off workers. This concurs with data of what the China Household Income Project 1988 and 2002 shows. The working poor, i.e., the near-bottom income groups, have not only fared poorly in market competition but have also been left behind with respect to social benefits.²⁹⁶

Believing that UI and *dibao* should not be generous enough to encourage dependence on welfare, the Chinese government makes both UI and *dibao* benefits strictly means-tested and at subsistence level. In contrast to the increasing average per

²⁹⁶ Ibid, p.28

capital income, this minimalist approach explains why despite the heavy state intervention in UI and *dibao*, the economic inequality in urban China keeps growing, given laid-off workers were the main social group in urban areas suffering job losses. Despite its limited role in maintaining income levels for laid-off workers, what such strong state intervention has achieved are the basic level of social protection and high scores in discrediting any further demands and protests by laid-off workers. Both are important in discouraging laid-off workers to protest further. In contrast, rich alternatives and opportunities under China's growing market economy played a far greater role in reintegrating laid-off workers in its job market.

Selective state intervention at the second stage of welfare reform is exemplified by the continued state withdrawal in housing and healthcare insurance program. Since both programs are less likely to become framing issues in laid-off workers' protest (laid-off workers were most likely the beneficiaries of welfare housing while effects of healthcare reform are less directly felt), both programs are the only ones that have followed through the original goal of initial welfare reform to achieve state withdrawal. Housing program was fully commercialized in 1998. From then on, enterprises were no longer allowed to build any new housing for their employees. Similarly, the percentage of government spending in total healthcare spending dropped from 36.2 per cent in 1980 to 17.1 percent in 2004. However, this study does find that laid-off workers, especially those having relatively longer work years in an enterprise, were usually the very beneficiaries of welfare housing under the socialist economy. During housing reform, these workers were usually offered to purchase the welfare housing in a highly discounted price. Losing jobs but being able to retreat to welfare housing saved these workers from the nightmare of paying rents or otherwise living on the street. In this sense, housing reform contributed to workers'

pacification in an unintended way.

Finally, this study finds that despite increased responsibilities of individuals, SOE workers do give due credits to the reformed welfare system by acknowledging that the new system does provide more security and predictability to them because of such institutional reconfigurations as recentralized administration, social pooling, and socialized distribution.

Therefore, compared with the state withdrawal from welfare provision witnessed at the first stage of welfare reform (1980 to 1996), the second stage of welfare reform (1996 to 2004) had seen the strong state intervention in providing social protection to laid-off workers, subsidizing related welfare programs, and creating a functioning social safety net. The state intervention was highly selective with a strong policy purpose to preempt protests or the escalation of protests staged by laid-off workers. It played a de facto role in fragmenting workers internally, thus having effectively reduced their potentials for further mobilization.

Political Power and Workers' Acquiescence

Whether a group's demands can be integrated by the prevailing power bloc depends on this group's power struggle with the main bloc.²⁹⁷ China's welfare reform since the 1980s has been centering on breaking exclusive welfare privileges of the Chinese working class. Inevitably China's welfare development since then has been the result of power struggles between the state and SOE workers. It was phased and incremental welfare reform that has influenced the delicate power balance between the state and the Chinese working class in such a way that it enabled the state to contain the protests staged by the bitter laid-off workers in the late 1990s and finally

²⁹⁷ Stanley Aronowitz. 2003. *How Class Works: Power and Social Movement*. New Haven: Yale University Press. p. 39.

to pacify them.

Economic reform in the 1980s was characterized by the implementation of contract responsibility system and dual pricing reform.²⁹⁸ The former saw the increased management autonomy in production and personnel decisions while the latter gave SOEs strong incentives in producing more products to sell in market prices after fulfilling the state's mandatory production plans. These reforms greatly improved the efficiency of the state sector. During this period of time, the state sector had seen higher output, growing exports, rising total factor productivity, and increased innovative effort.²⁹⁹ The output value of industry by the state sector accounted for 75 per cent in 1980 and had remained over 50 per cent throughout the 1980s in comparison with enterprises of other ownerships (See Form 8). SOE workers in 1980s retained its prestigious status as “master of the state” and consequently the strong political power.

However, the dominant status of the state sector was faced with serious challenges. The strategy of opening to the outside world resulted in an unprecedented influx of foreign investment in China. The resultant robust non-state sector mainly composed of foreign, joint, and private ventures not only stimulated China's urban economy but also challenged the dominant status of the state sector. Heavy social burdens strongly distorted market competition putting state enterprises in a much disadvantageous position in its competition with the non-state sector. Impaired competitiveness of state enterprises resulted in profit-losses of SOEs with heavy social burdens. Consequent failure of profit-losing SOEs to maintain their

²⁹⁸ Dual pricing partitioned supplies of industrial goods into plan and market components. Under the dual pricing regime, state enterprises are allowed to transact marginal sales and purchases on markets where prices were decided by the forces of supply and demand. For details, see Gary H. Jefferson and Thomas G. Rawski, “Enterprise reform in Chinese industry,” *Journal of Economic Perspectives* 8, No.2 (Spring 1994): 47-70. p.51

²⁹⁹ Ibid.

employment as well as welfare obligations created looming social tensions in the early 1980s.

Under such circumstances, the initial welfare reform was carried out aiming at alleviating state enterprises of social burdens and creating an optimal and fair environment for market competition. Social pooling was initiated among five insurance programs at various points of time over the period of 1980s to share the risks and responsibilities among participating enterprises. The coverage of main welfare programs, such as pension and healthcare, also witnessed expansion from state enterprises to private and foreign ventures. Individual accounts were also created to share the stakes among the state, enterprises, and individuals. Meanwhile, in order to shed heavy burdens of financing welfare housing, various types of housing reform were carried out to achieve commercialization of housing.

However, despite the obvious policy intention of welfare retrenchment, the impacts of such retrenchment were barely felt by SOE workers because of the legacies of institutional arrangement. Agents for welfare delivery remained to be individual enterprises. In another words, welfare provision remained workunit-based. Financial decentralization, especially the profit-retention arrangement between the government and enterprises, gave SOE management both incentives and autonomy to maintain the same or even higher welfare benefits to their employees. Increasingly high welfare spending by the state sector was demonstrated by the statistical figures for this period of time. Therefore, reform without infringing upon SOE workers' vested interests avoided otherwise the strong opposition from SOE workers. Market force gained precious time to grow stronger in China without the substantial opposition from its then the strongest economic sector.

Nothing would have changed if the state sector had retained its dominant

status in the Chinese economy. However, the rapid development of the non-state sector quickly outpaced that of the state sector. Low efficiency, heavy welfare spending, and fierce market competition greatly impaired SOEs' capability for profitability. The economic situation of the state sector had been deteriorating. The percentage of gross output value by SOEs dropped from 76 per cent in 1980 to 55 per cent in 1990. This number further dropped to merely 34 per cent in 1995 while in the same year the number of SOE employees reached the peak of 109.55 million.³⁰⁰ Low efficiency and low output plus a large number of employees and corresponding high welfare spending precipitated the economic downturn of SOEs in the middle 1990s. Exacerbated by the increasingly fierce competition from the non-state sector, the state sector registered overall profit loss in 1996.

In response to the increasing incidents of failure of profit-losing SOEs to deliver their welfare responsibilities, the management of welfare programs was recentralized. Ministry of Labor and Social Security was created in 1998 to take over the management of welfare insurance programs. Socialized distribution of pension benefits through banks or post offices replaced the practice of distribution through enterprises in 1998. Enterprise-based welfare delivery was finally abolished.

Meanwhile, the state sector, so far sustained by a "soft budget constraint", mainly the policy loans from the state banking system,³⁰¹ became a big obstacle on the way of the further development of the Chinese economy. External liabilities of the state sector rose from 26 per cent of the book value of the state sector (depreciated fix

³⁰⁰ *China Statistical Yearbook*, 1996.

³⁰¹ According to János Kornai, "soft budget constraint" is a common feature of a socialist system. It refers to the situation where fiscal decentralization weakens fiscal discipline. Local authorities may undertake commitments or incur debt obligations that subsequently result in massive central government support, in the form of extraordinary transfers, or bailouts. See Kornai, Janos, "The Soft Budget Constraint," *Kyklos* 39:1 (1986): 3-30; Qian, Yingyi, 1994. "[A Theory of Shortage in Socialist Economies Based on the "Soft Budget Constraint."](#) *American Economic Review* 84:1 (March 1994): 145-56.

capital plus the value of all inventories) in 1979 to 83 per cent in 1994. By 1994, about 60 per cent of bank loans had turned out to be bad or non-performing loans.³⁰² Reform of the state sector became imperative. Consequent radical restructuring measures were adopted in the 15th Party Congress in 1997. The strategy of “grasping the big and letting go the small and medium sized SOEs” resulted in the largest downsizing of the working class in the Chinese industrial history.

Thus, China’s economic reform and welfare reform are intertwined and mutually propelling in their respective development. Over twenty years of economic reform has witnessed the declining importance of the state sector in China’s national economy. The consequent marginalization of SOE workers is simply a reflection of the diminishing economic and political power of this particular social group. How strong they could stay in the wake of layoffs and how far a marginalized group could go in their protests are truly questionable.

As this study finds, the laid-off workers from bankrupt enterprises were less likely to protest in comparison with their peers from non-bankrupt enterprises. The former had less bargaining power since their enterprises had been insolvent long before their official bankruptcies while the latter had more leverages in negotiating severance packages. The fear for the potentially long protests and the availability of financial resources to grant the demands by the protesting workers made non-bankrupt enterprises either offer inviting severance packages or give in to the demands of their laid-off workers.

By the same token, the government strategies in dealing with the protests from both types of state enterprises were also different. Towards protests by bankrupt SOEs, the government was strong in turning down the demands by the workers on the ground

³⁰² Ibid.

that the government should not be held responsible for individual enterprise's profit losses. Towards protests by non-bankrupt SOEs, the government usually played a role of a mediator. Sometimes it even pressed SOEs to grant workers' demands to maintain stability in its sphere.

Obviously, a game of power was played between SOE workers and the state. When workers have more leverages (i.e. from a profit-making SOEs), the government tends to adopt the strategy of co-option. Higher severance fees, better early retirement benefits, and keeping majority of young workers in restructured enterprises, etc, all serve one purpose, that is, to avoid aggravating conflicts and to appease angry workers. When workers have less bargaining power (i.e. from a profit-losing enterprises), especially when workers themselves seemed to concur with authorities in that government should not be responsible for individual enterprise's profitability, the government usually tends to be much stronger in handling workers' demands and protests.

Understanding the game of power balance played between the state and workers, we would not find it difficult to understand why residual welfare benefits could co-opt laid-off workers. With declining economic and political power, marginalized laid-off workers did not have the luxury of choices but to accept the offers made by the state.

However, the role of welfare provision in quieting laid-off workers should not be slighted simply because of its residual nature. As the case study of this research demonstrates, the Chinese government's selective welfare intervention may not be a sufficient condition but definitely a necessary condition in accounting for the Chinese workers' final pacification in the wake of layoffs in the late 1990s.

In a nut shell, this study finds that welfare reform affects workers' mobilization in multi ways. If welfare reform at the first stage strengthened the market ideology that greatly affected perceptions of both the public and SOE workers, welfare reform at the second stage was geared up to establish a basic social safety net. Selective state intervention in favor of old-age workers appeased otherwise the most vocal and sympathized group among laid-off workers. Despite its minimum nature, social protection provided by the UI, *dibao*, and such interim measures as Reemployment Center and Basic Subsistence Allowance provided laid-off workers a de facto cushion against the shock brought about by layoffs, both financially and psychologically. In the most unintended way, housing reform provided laid-off workers, especially those having long work years in SOEs, affordable housing and a last place to retreat to. Losing or gaining, SOE workers' exclusive welfare entitlements were shattered over China's two decades of welfare reform and economic transition. Faced with apparently the irresistible force of marketization, Chinese workers had no choice but to adapt in a quite involuntary way. Privileges enjoyed by SOE laid-off workers in the late 1990s were the last shine of power commanded by the once "masters of the state". The state strategy of selective welfare intervention fragmented laid-off workers internally along age lines. It effectively diminished the otherwise strong opposition from laid-off workers and pushed the wheel of market transition forward in China.

Epilogue

Welfare intervention successfully smoothed out China's otherwise turmoil market transition in the 1990s and the early 2000s. Is this policy tool only region specific or time specific? New developments since 2004 attest similar policy logics and consequences since then. The emergence of over 130 million migrant workers and landless farmers --- now the new disadvantaged ---is threatening China's process of urbanization and modernization. The international financial turmoil in 2008 is testing the sustainability of China's economy. Welfare, once again, has been again waved as a magic wand to push forward China's restless process of urbanization and moves China forward in a turbulent sea of global financial crisis.

The first new development has been the Chinese government's initiative to accelerate urbanization in order to bridge the long-standing urban-rural divide. Chengdu, as one of the pilot cities of this strategy, will be detailed in its efforts. The second development is the state's responses to the world financial crisis in 2008. Both developments have involved the expansion of social insurances (work injury, healthcare, and old-age insurances) to landless farmers. How China's welfare will develop is yet to be seen. Whether and how the expanded welfare policies may placate the growingly restless and demanding migrant workers will be another interesting research topic. However, the same logic of maintaining social stability while developing economy could be identified in both developments.

Development 1: Welfare and Landless Farmers

Breakthrough in urban-rural divide

The significant urban-rural divide has long existed in China's welfare system. The economic growth since the economic reform in 1978 did not bring more welfare

benefits promised in its constitution to over seven hundred million rural residents. Instead, the once working welfare system, such as cooperative healthcare system built on the basis of agricultural production brigades, collapsed with the breaking down of these brigades due to the implementation of household contract responsibility system in the rural area in 1978. It seems that there will not be any hope for welfare to be expanded to the vast rural area.

New Momentum: New Round of Urbanization

The dire situation remained until 2003. Determined to seriously reduce the developmental gap between the rural and urban areas, the central government adopted a strategy of urban-rural integrative development. Chengdu became one of the pilot cities to implement this strategy. The main tenet of this strategy is to promote rural development through the process of urbanization. In fact, urbanization has been accelerating in cities across China. The average urbanization rate increased from 28 per cent in 1993 to 42 per cent in 2004 throughout China.

Compared with the average urbanization rate of 42 per cent throughout China in 2004, Chengdu's urbanization rate was slightly lower at 39 per cent. Relatively low urbanization rate was blamed for impeding Chengdu's faster and further economic growth. Under such circumstances, Chengdu's 10th Congress of Party Representatives set the goal of achieving 42 per cent of urbanization rate by the year of 2007.

The Integrative Urban-rural Development Strategy (CUDS) in Chengdu has three interrelated components, that is, to achieve the ultimate goal of rural poverty reduction through the promotion of agricultural industrialization and environment improvement. It aims to improve land value in both rural and urban areas through a unified planning and environment improvement. The polluting industries not suitable

to be located in a densely-populated urban area are encouraged to move to the rural area, taking advantage of the lower value of the land in the rural area. Meanwhile, various industrial development gardens are built in the rural area, stimulating the development of local economy. The income from land sales reached CYN 19 billion in 2005, increasing 62 per cent compared with that in 2004. The ultimate goal is to reduce poverty in the rural area through income generation from developing the second and tertiary industries instead of sheer farming incomes. In a word, promoting rural industrialization, urbanization, and marketization is the main thrust of CUDS.

New challenges

One of the consequences of the fast-paced urbanization is the emergence of a large number of landless farmers. In 2004, about 1.07 million *mu*, equivalent to about 176, 277 acres³⁰³ of farm land has been turned for nonagricultural use, where about 320,300 farmers have been involved. This accounts for 12.9 per cent of the total farmers in Chengdu.³⁰⁴ This number is much larger across the country. About 45 million farmers lost their farming land and flocked into cities to make their living. About 120 million farmers are currently working in cities as mobile workers.³⁰⁵

Traditionally, land serves as a natural last resort for farmers' basic living. With their farmland having been sold off to make room for shopping malls, office high-rise

³⁰³ 1 *mu* is equal to 666.7 square meters and 1 US Acre is equal to 4046.873 square meters. Thus, 1 US Acre is equal to 6.07 *mu*. 1.07 million *mu* is equal to 176, 276.77 Acres.

³⁰⁴ Chengdu Municipal Development and Reform Commission. "Chengdu Tuijin Chengxiang Yitihua de Silu he Shijian," (Thinking and practices regarding Rural-urban Cohesive development in Chengdu), *Hongguan Jinji Yanjiu* (Macro-economic Studies), No.9, 2005.

³⁰⁵ He Ping and Wang Zeying. "Tongchou Chengxiang Shehui Baozhang Zhidu Fazhang de Sikao" (Thinking about Unifying the development across rural and urban areas), available at official website of Department of Labor and Social Security, http://www.cnss.cn.xyzx/zjzxwz/200709/t20070912_146490.htm, accessed on 29/01/2009; according to Ariana Eunjung Cha this number is 130 million in 2009. "In China, Despair Mounting Among Migrant Workers," Washington Post Foreign Service, available at www.washingtonpost.com/wp-dyn/content/article/2009103/03/AR_2009030303287.htm/, accessed on 4 March 2009.

and apartment complex, these landless farmers simply could not return to their rural roots for subsistence. Establishing a social safety net for landless farmers' or farmers-turned urban residents' (*nong zhuan fei*) becomes an urgent issue squarely faced with policy-makers. Whether migrant workers can obtain equal treatment as city citizens become such a touchy issue that one scholar observes "if this cannot be solved effectively, migrant workers will remain a very unstable factor."³⁰⁶ Prevention of unexpected risks affects not only the feasibility of achieving fast-rate urbanization but also social stability.

A Spur of Expansion of Social Insurance Programs in Chengdu

As an integrated component of CUDS, provision of social insurances for these landless farmers was put on the agenda of the Chengdu local government. *Interim Measures on Comprehensive Social Insurances for Non-Urban Household Personnel in Chengdu* enacted in March 2003 provided insurance for work injury and inpatient services, and old-age subsidies to eligible farmers.³⁰⁷ This was the first of its kind in China. In 2004, the *Circular on Measures for Social Insurances for Farmer-turned Urban Residents* was also issued. By the end of 2004, about 158,000 farmer-turned urban residents had enrolled in the comprehensive social insurances, covering all who had lost their farming land in the course of urbanization since 1991. There were totally 480,000 farmer-turned urban residents in Chengdu in 2005. Until the end of 2007, a total of 416,800 of them have enrolled in the Comprehensive Social Insurances. *Interim Measures on Farmer Old-age Insurance in Chengdu* was enacted in January 2007.³⁰⁸ About 112,500 farmers had enrolled in old-age insurance by July

³⁰⁶ Ibid, Ariana Eunjung Cha

³⁰⁷ Chengdu feichenzhen huji congye renyuan zhonghe shehui baoxian zhaxing bafa, cheng fu fa (2003) No. 7 Document.

³⁰⁸ "Tongchou chenxiang jiuye shebao, chengduren gongxiang shihui" (Integrating Urban-Rural social

2008, 44,000 of whom had claimed old-age benefits. A total of CYN 235,000,000 pension benefits had been distributed.³⁰⁹ This was the first attempt in providing pension coverage to farmers in the middle and western China.

Different from the trajectory of reform of urban social insurance programs (with the pension being the first, followed by healthcare, UI, and then work injury and maternity), the expansion of social insurances to rural areas in Chengdu put the emphases first on work injury and medical insurances, and then the old-age insurance. There are two reasons for this sequence. First, a legacy of socialist social contracts did not exist prior to rural welfare reform. Individual families assumed the responsibilities for old-age living guarantees. Political power of the rural old was weak. Being outside the state sector, they also lacked the legitimacy of their urban counterparts when appealing to the state for old-age life guarantees. Thus, old-age insurance became the last to be introduced among the social insurances implemented in the rural area.

By contrast, the sheer number of 120 million migrant workers and landless farmers in the cities is a powerful political presence not negligible to the Chinese authority. Since rural migrant workers usually work in the most dangerous industries, such as mining and construction, work injuries and diseases are the biggest risks faced by them. If they were to lose their capabilities to work because of work related accidents or diseases but had no social insurances, they would fully lose their sources of income. Dispossession of farming land exacerbates the problem by depriving them of the last resort to which they could retreat. Such a large number of floating population in cities –without any jobs and income – would become a potentially destabilizing force in cities. Thus, work injury and medical insurances are not only

Insurances and Chengduese enjoy benefits together), *Chengdu wanbao* (Chengdu Evening Newspaper), 10 March 2008.

³⁰⁹ “Chengdu chenxiang yitihua gaige jingru shengshuiqu,” (Chengdu Cohesive Development Reform is deepening), *Zhongguo jingji Shibao* (China Economic Times), 20 March 2008.

important but also urgent due to their stability implications for the society.

However, even though old-age insurance was implemented three years after the Comprehensive Social Insurances, its implementation itself is a breakthrough of the rigid rural-urban divide that has existed in China since 1949. The development momentum comes from the new round of urbanization and modernization in China. China's economic reform, after starting in the rural area in 1978 and then shifting to SOEs in the 1990s, has refocused on its vast rural areas. The Comprehensive Urban-rural Development Strategy is one of the latest reform attempts to promote the rural development through urbanization and industrialization. Its success, to a large degree, hinges on how the Chinese authorities would provide a basic safety net to those farmers who have lost their land and thus their last available means of livelihood.

Development 2: Welfare as a means to stimulate the economic recover

China has relied heavily on exports since its opening to the world economy. The global recession triggered by American real estate bubble in 2008 dealt a sudden blow to the export-led economic growth in China. Coastal China, where manufacturers for exports concentrated, was hurt especially hard. Thousands of workers were laid off due to the reduction of production or bankruptcies of factories. Most of the laid-off are migrant workers. Based on a survey done by the Ministry of Agriculture in 150 villages in 15 provinces, it was estimated that about 20 million jobless migrant workers, or 15.3 per cent of the 130 million migrant workers, returned to the countryside during the Spring Festival in 2009.³¹⁰ The rest may well remain in cities, if not protesting then at least pushing up crime rates. Therefore, the

³¹⁰ "20 Million Jobless Migrant Workers Return Home," *China Daily*, 2 February 2009, available at www.chinadaily.com.cn/China/2009-02/02/content-7438919.htm.

employment and subsistence of migrant workers pose a new problem for the Chinese authority. Urbanization, which has deprived the last means of livelihood for this group of people, has exacerbated the problem. The solution -- to stimulate a speedy recovery of the economy – is thus a tremendous challenge to the Chinese authority.

Under such circumstances, social security is again put on the agenda of governments, not only as a measure to maintain the basic livelihood of jobless migrant workers but also a means to stimulate domestic demands and thus to stimulate economic recovery. The percentage of domestic consumptions in GDP in China dropped from 48.8 per cent in 1991 to 38 per cent in 2005, lagging far behind the world average of 79 per cent at the same period.³¹¹ Sluggish domestic demands are considered as one obstacle for further economic growth in China. A sound social safety net, covering the long excluded rural residents, is recognized as a fundamental way to drive further economic growth. Therefore, as a way to promote development and consolidate the so-called sound development momentum in agriculture and rural areas, the central government has urged state agencies at all levels to map out basic pension insurance measures for rural settings and for migrants workers.

Investment in welfare became part of the stimulus package to stimulate the economic recovery. On top of a CYN 4 trillion (\$ 585 billion) stimulus package announced in November 2008, the Chinese government said in January 2009 that it would spend CYN 580 billion to extend health insurance to more than 90 per cent of citizens over the next three years.³¹² Furthermore, Wu Xiaoling, a former vice governor of the central bank and now a senior legislator, is said to have suggested recently that GDP growth should cease to be used as a measure to evaluate officials’

³¹¹ Bingwen Zhen and Chuanjun Qi, “Shebao Zhidu Mianling Zhongda Zhuanzhe,” (Critical Juncture faced with Social Security System), 22 December 2008, available at http://www.cnss.cn/xyzx/kwz/200812/t20081223_203330.htm

³¹² “A Great Migration into the Unknown,” *Economist*, 29 January 2009. available at http://www.economist.com/displaystory.cfm?story_id=13012736

job performance. Improving “public welfare” should instead be given top priority.³¹³

China’s social welfare system became one of the main items on the agenda at the annual meeting of the National People’s Congress in Beijing attended by over 3000 delegates in March 2009.

The accelerating urbanization in China and the recent global economic recession may pose as another driving force to push forward China’s welfare development and dismantle the rigid urban-rural welfare divide in this country. How the new welfare policies will interact with its new target of migrant workers could be another interesting research topic.

³¹³ Ibid.

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