



CONSTRUCTING A SOCIAL WELFARE SYSTEM FOR ALL IN CHINA

China Development Research Foundation



中国发展研究基金会
China Development Research
Foundation



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First published 2012
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN

Simultaneously published in the USA and Canada
by Routledge
711 Third Avenue, New York, NY 10017

*Routledge is an imprint of the Taylor & Francis Group, an informa
business*

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British Library Cataloguing in Publication Data

A catalogue record for this book is available
from the British Library

Library of Congress Cataloging in Publication Data

A catalogue record for this book has been requested

ISBN: 978-0-415-58470-8 (hbk)

ISBN: 978-0-203-83126-7 (ebk)

Typeset in Times New Roman
by RefineCatch Limited, Bungay, Suffolk



Printed and bound in Great Britain by the MPG Books Group

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The China Development Research Foundation is one of the leading economic think tanks in China, where many of the details of China's economic reform have been formulated. Its work and publications therefore provide great insights into what the Chinese themselves think about economic reform and how it should develop. This book sets out the general objectives, principles and framework of a proposed new social welfare system for China, putting forward relevant policy recommendations. It provides a comprehensive overview of China's current welfare services, including retirement pensions, education, health, employment, housing and social security payments, and goes on to cost the proposed new social welfare system and assess the government's capacity for implementing it. It shows how the new system will, within an integrated framework, provide comprehensive welfare for all, including rural and urban citizens, migrant workers and disadvantaged groups such as the rural and urban poor. It also shows how the new system will aim to balance economic and social development whilst maintaining China's high economic growth rate, increasing domestic demand and promoting economic restructuring.

China Development Research Foundation (CDRF) is a civic, nationwide non-profit organization founded on the initiative of the Development Research Center (DRC) of the State Council. The mission of the Foundation is to advance good governance and public policy to promote economic development and social progress in China.

Team members

Advisor:

Wang Mengkui Former President, Development Research Center of the State Council of China; Chairman, China Development Research Foundation

Project Coordinator:

Lu Mai Secretary General and Research Fellow, China Development Research Foundation

Project Director:

Tang Min Deputy Secretary General, China Development Research Foundation

Authors of the Master Report:

He Ping Director-General, Institute of Social Insurance, Ministry of Human Resources and Social Security

Li Shi Professor, School of Economics and Business, Beijing Normal University

Wang Yanzhong Director-General, Research Center for Labor and Social Security, Chinese Academy of Social Sciences

Authors of the Background Reports:

Kong Jingyuan Director-General, Department of Economic System Reform, National Development and Reform Commission of the State Council

Wang Zhenyao Director-General, Department of Relief and Rehabilitation, Ministry of Civil Affairs

Jia Kang Director-General, Research Institute for Fiscal Science, Ministry of Finance

Zheng Bingwen Director-General, Institute of Latin American Studies, Chinese Academy of Social Sciences

Zhang Li Director-General, National Center for Education Development,
Ministry of Education

Zhang Zhenzhong Director, China National Health Economics Institute,
Ministry of Health

Ren Xingzhou Director, Institute of Market Economy Research, Development
Research Center of the State Council

Mo Rong Deputy Director, Institute of Labor Sciences, Ministry of Human
Resources and Social Security

Liu Minquan Professor, School of Economics, Peking University

Gong Sen Senior Research Fellow, Social Development Research Department,
Development Research Center of the State Council

Tian Xiaohong Research Fellow, Institute of Politics, Chinese Academy of
Social Sciences

Wu Huazhang Director, Office of Health Development and Policy Studies,
China National Health Economics Institute, Ministry of Health

Yu Jiantuo Research Fellow, Center for Human and Economic Development
Studies, Peking University

Zhang Shifei Associate Research Fellow, Institute of Sociology, Chinese
Academy of Social Sciences

Wang Min Associate Research Fellow, Research Institute for Fiscal Science,
Ministry of Finance

Luo Chuliang Associate Professor, School of Economics and Business, Beijing
Normal University

Wang Xiufeng Assistant Researcher, Department of Information Studies, China
National Health Economics Institute, Ministry of Health

Project Officer:

Du Zhixin Program Director, China Development Research Foundation

Preface

Establishing the goal of building a ‘moderately prosperous’ society marks a new era in China’s socioeconomic development. This goal also puts improving our social welfare systems squarely on the agenda. Social welfare systems are an important component of China’s current stage of systems-building; they are necessary for coordinated and sustainable socioeconomic progress.

‘Reform and opening up’ over the past three decades has brought about miraculous economic growth, a moderately prosperous standard of living, and significant improvements in social welfare, particularly the widely recognized achievements in poverty reduction. However, China is still a developing country. In terms of social welfare, it is still at a low level, with inconsistent development and pronounced disparities between urban and rural, and among various regions. Improving social welfare systems and increasing welfare benefits for urban and rural residents in proportion to our economic growth is imperative if we want to address socioeconomic imbalances and narrow the urban–rural and regional gaps. They are essential in our efforts to build a stronger and more prosperous socialist country. Indeed they are crucial to realizing the mission of modernization.

This work presents the substantive conclusions of research organized by the China Development Research Foundation (CDRF). Like two previous annual reports published by the Foundation, namely *Development with Equity* and *Eliminating Poverty through Development in China*, this report focuses on key issues in socioeconomic development. As the title indicates, this report is about building a developmental social welfare system that provides China’s people with universal access. ‘Universal access’ indicates that the system is meant to cover both urban and rural residents. ‘Developmental’ means that the process is incremental and needs to facilitate, and in turn be promoted by, economic growth. This report proposes general goals in constructing such a system at the current stage and maps out a basic framework. It elaborates on key contents of the system, including pensions, medical and health care, education, employment, housing, minimum living allowances and social welfare for special groups, and it provides policy recommendations accordingly. Social welfare could well incorporate a broader range of subjects, but we regard these as the most basic and most important. China is trying hard to raise domestic demand right now, and to increase the ratio of its consumption in GDP. Issues raised by the report in this regard are crucial policy considerations.

A philosophy and practice of 'social welfare' has long been a part of China's cultural makeup, but in its modern sense this 'social welfare' program comes as a response to social problems associated with industrialization and a market economy. The positive as well as negative aspects of other social welfare policies and systems in the world have provided us with very useful material to use as reference. In the three decades before China's introduction of 'reform and opening up' policies, as well as in the most recent three decades, unremitting efforts have been made to improve social welfare and these too have provided us with invaluable experience. The proposals and policy recommendations in this report start from the standpoint of China's current situation, and take into consideration both these domestic and international contributions. It should be noted that this report also makes preliminary estimates of the public financial support that will be necessary for the social welfare systems that are discussed. The estimates are based on the principle that social welfare must match the economic development and financial resources available to a country, and must not only facilitate a balance between economic and social development but must help sustain that development. The estimates made in this report rely on the assumption of continued economic growth, and also on reform of and improvements in our public finance and taxation systems.

A great amount of social-welfare research has been done in recent years in China. Little of it is of a comprehensive nature. The comprehensive, systematic, and empirical analyses and policy recommendations in this report should make a considerable contribution to the goal of improving our China's social welfare system and policies.

Wang Mengkui
Former President of Development Research Center
of the State Council
Chairman of the Board of Trustees of China Development
Research Foundation
February 18, 2009

Foreword

It is great that *Constructing a Social Welfare System for All in China* has now been published in English. This book reviews the evolvement of China's social welfare system and discusses in depth the key challenges for Chinese endeavor to restructure the current system. The book proposes to establish a welfare system which brings benefits to all social groups, adapts to China's social and economic context, and lays a solid foundation for China's economic growth in the long term.

Apparently, China today is experiencing critical transition of its development policy. If we conclude economic growth was China's core task of development policy during the first two decades of reform and opening up, China has shifted its priority to social development during the past decade, as well as the coming one. This adjustment is in essence a long-term, lasting and fundamental effort, which thus exerts far-reaching effect. Since the Chinese version of *Constructing a Social Welfare System for All in China* was released in April 2009, China has made remarkable achievement in strengthening her social welfare system, which covers the following major areas.

1. Old-age Security. The State Council launched the *Guidance to Establish Pilot Programs of New Rural Old-age Insurance* in September 2009, deciding to conduct pilots of farmers' social old-age insurance in 10% of Chinese county-level administrations, while planning to expand the pilot areas to universally cover all the eligible rural residents by 2020. In September 2009, the State Council also announced the *Tentative Measures for Transferring and Continuing the Basic Old-age Insurance of Urban Enterprises Employees*, which means that old-age insurance programs for urban workers, including migrant workers, are portable across different provinces. In addition, all the provinces had established a unified basic old-age insurance fund system on a province-wide basis by the end of 2009, which helps to mitigate risks on a broader scale and realize effective fund allocation.

2. Health Security. The Chinese government keeps increasing the standard of subsidy for the new rural cooperative medical insurance, from 100 *yuan* per person per year in 2009 to 200 *yuan* per person per year in 2011. By the end of 2010, the new rural cooperative medical system covered 96.3% of Chinese farmers, or 835 million people. As for urban residents, the government promoted

the system of basic medical insurance, which focuses on the medical service of unemployed urban residents, particularly junior and high school students, children, seniors and the disabled.

3. Education Security. In June 2010, the Ministry of Education released the *Guidelines of the National Program for Medium- and Long-Term Educational Reform and Development (2010–2020)* and spelt out the goal of education development by 2020. To be specific, the popularization rate of one-year preschool education reaches 95%; the gross enrollment rate of high school reaches 90%; the students of secondary and higher vocational education amounts to 38.3 million; extended education of employees reaches 350 million person-time. In addition, this *Guideline* clarified the institutional arrangement to forge ahead with the balanced development of nine-year compulsory education between rural and urban areas, increase the national budget for education and secure the equitable access to education for children of migrant workers.

4. Housing Security. In June 2009, the Ministry of Housing and Urban–Rural Development jointly launched the *Planning for Guaranteeing Low-Rent Housing (2009–2010)* with other ministries and defined its target of basically solving the housing problem of the current 7.47 million low-income urban families by 2011 and further improving the low-rent housing system. Therefore, 900 billion *yuan* will be put in place for this purpose. China will build an additional 36 million subsidized housing by 2015, increasing its coverage to 20%.

5. Adjusting the Rural Poverty Line. By the end of 2010, the Chinese government decided to adjust the rural poverty line and increase it from 1196 *yuan* person/year in 2008 to 1500 *yuan* person/year so that the poverty alleviation policies can benefit more people as low-incomes.

6. Labor Market Policy. Chinese local governments increased the minimum wage one after another from 2010. By March 2011, around 30 provinces have raised the standard of the minimum enterprise salary, most of which see an increase of around 10% while some even see 25%.

7. Enacting the Social Insurance Law. The Eleventh National People's Congress passed the Social Insurance Law in October 2010. It witnesses China's active effort to integrate its social welfare systems. It is the first time that China confirms the basic framework of a social insurance system, as well as portability of old-age insurance, and medical insurance in the form of legislation. This law also proposes the target of 'national coordinated' basic old-age insurance for the first time, making it a milestone in the history of Chinese social welfare system.

Except for the above-mentioned fundamental systems, China further launched the *Regulation on the Relief of Natural Disasters*, modified the *Regulation on Work Injury Insurance*, improved the budgeting and supervising system for the social insurance fund, and intensified financial input for social welfare in the second half of 2009.

In the newly-released Twelfth Five-Year Development Plan (2011–2015), the Chinese government is to establish a social welfare system fully covering both

rural and urban areas by the end of 2015. The top priority is defined as filling the holes of systems and reducing segmentation of different institutions, such as advancing the reform of the old-age insurance program for public institutions, and constructing the work injury insurance system which combines prevention, compensation and rehabilitation of work injury. Based on these efforts, China will gradually expand the coverage of the social security system during the Twelfth Five-Year Plan, increase the social security level and narrow down the welfare gap between rural and urban areas as well as across different regions and groups.

The Chinese government believes that improving the social welfare system not only means all the citizens share the fruits of reform and development, but also boosts Chinese economic restructuring and enables long-term and steady economic growth. A better social welfare system is regarded as an effective tool to narrow down the gap of income distribution, enlarge domestic demand (particularly consumption demand), and address the internal and external economic imbalance.

In fact, the development of the social welfare system is also the requirement of Chinese citizens. During the first two decades of China's reform and opening up, China suffered from a relatively low income level and low living standard, so economic rights was put at the top of the people's requirement, such as the rights for property, employment and market access. However, this has changed during the past decade and will continue to do so in the years to come. In the face of the remarkable Chinese economic growth and increasing social income, Chinese people will focus more and more on their social rights about education, health, pension, employment and housing. If the Chinese government is able to face up to such changing appeals, share common views with its citizens and maintain benign interaction with them, it is expected that China will be able to sustain its rapid economic development.

Although China's social welfare system is faced with several crucial challenges for further development, such as converging different social welfare systems caused by massive rural-urban migration, as well as the problem of financial sustainability caused by expanding coverage and rising welfare standards, we have every reason to be grateful for China's remarkable progress in improving the social welfare system over the past decade, particularly the last five years. China's achievement in evolving the social welfare system is as impressive as the economic growth, while the former is no less significant than the latter.

The readers of this book may find that many concepts and policy recommendations proposed exactly conform to the development of China's social welfare system over the past two years. There are many reasons for such a seemingly coincidence. Firstly, the authors of this report are all leading experts in this area from government departments and research institutes. They are quite familiar with the latest policies for social welfare and fully aware of their development trends. Some of them are even engaged in drafting these important government policies. Secondly, this report depicts the panorama of how China's social welfare system developed over the past decade, and records the thoughts, debate and consensus of Chinese and foreign academic and political circles in this regard. In

this sense, although the Chinese social welfare system has made considerable progress since this report was launched, its analysis of the status quo and challenges for the system, and its policy recommendation about principles, priority and orientations of restructuring the welfare system, are far from out of date.

I sincerely hope the English version of *Constructing a Developmental Social Welfare System for All* can help those foreign friends who care about Chinese development to have a more thorough and fundamental understanding of China. Such an understanding entails not only Chinese achievements over the past decades but her challenges, difficulties and options, so that they can contribute their wisdom for China to cope with these challenges. We also believe that as a large country undergoing fast-paced transition, China's challenges, options, experience and lessons are highly relevant for other countries, particularly developing countries.



LU Mai

Secretary General

China Development Research Foundation

April 12, 2011

Acknowledgements

After more than a year of hard work, we present this volume: *Constructing a Social Welfare System for All in China*. Three decades of reform and opening up have brought massive changes to China's people—to their economy, their society, their way of life. In the course of these changes, economic and social structures are undergoing profound adjustment. This report, commissioned by CDRF, proposes to establish a 'universal-access developmental social welfare system' as a strategic initiative to meet future social and economic challenges. Moreover, it argues that such a system is critical to meeting our goals of 'maintaining growth, expanding domestic demand, making structural adjustments, and improving people's well-being'.

The smooth completion of this report would have been impossible without the dedication of the entire team and the generous support of numerous experts and entities. He Ping, Director-General of the Institute of Social Insurance of the Ministry of Human Resources and Social Security, Li Shi, Professor at the School of Economics and Business at Beijing Normal University, and Wang Yanzhong, Director-General of the Research Center for Labor and Social Security of the Chinese Academy of Social Sciences, took on the task of writing the main parts of the report. The report benefits greatly from their rich theoretical knowledge and profound understanding of China's policies and practices. In the course of creating the framework for the report, and discussing and drafting it, these three built a solid foundation for its final form. Wang Mengkui, Former President of the Development Research Center of the State Council of China and Chairman of the Board of Trustees of CDRF, provided constructive criticism and detailed advice after reviewing the draft three times. This greatly improved the final results. Tang Min, Deputy Secretary General of CDRF, helped compose and revise many chapters.

The field of social welfare touches on many disciplines, and this report also benefits from interdisciplinary perspectives. To provide a solid scientific basis for the analysis and ensure the feasibility of policy recommendations, CDRF asked scholars from universities and government-affiliated research institutes as well as policymakers to write twelve background reports. Much of the data, analyses and recommendations of these background studies is incorporated in the main part of the report. These background reports and their authors are: *Welfare Systems and*

Practices in Foreign Countries by Zheng Bingwen, *A Comparative Study of International Social Welfare Systems* by Liu Minquan and Yu Jiantuo, *Minimum Living Allowances in China's New Social Welfare System* by Wang Zhenyao and Tian Xiaohong, *China's Old-age Security System* by Kong Jingyuan, *Public Education Service in China's New Social Welfare System* by Zhang Li, *Healthcare Security in China's New Social Welfare System* by Zhang Zhenzhong, Wu Huazhang and Wang Xiufeng, *Job Promotion, Job Assistance and Unemployment Protection Systems* by Mo Rong, *Housing Security in China's New Social Welfare System* by Ren Xingzhou, *Social Welfare Systems for Special Groups* by Zhang Shifei, *Fund-raising and Public Funding for Social Welfare* by Jia Kang and Wang Min, *The Management Framework of China's Social Welfare System* by Gong Sen, and *Analysis of Urban and Rural Welfare* by Li Shi and Luo Chuliang. Our gratitude also goes to Du Zhixin who provided a report on the research team's investigation in Europe. All authors of the background reports also participated in discussions at various stages in the writing of this report, and offered valuable suggestions.

During the research and writing process, many other experts also participated in discussions and offered constructive criticism, including Lu Xueyi, Yu Xiaoqing, Zheng Jingping, Fan Gang, Han Jun, Bai Chong'en, Li Daokui, Cai Fang, Li Peilin, Wang Chenguang, Wang Xiaolu, Gao Shiji, Chen Huai, Du Yang, Wang Sangui, Bai Nansheng, Liu Jitong, Li Xuejing, Xiong Yuegen, Wang Ming and Wang Xiaozhuo. Appreciation should also go to the National Bureau of Statistics of China and the Public Finance Scientific Research Institute of the Ministry of Finance, for their generous support in providing data and research analysis. This made our estimates of the total public funding needed to establish such a system possible, as well as our estimates of the State's actual public finance capability. To draw on the experience of European countries and America in building and reforming social welfare systems, the research group made a trip in May 2008 to Europe, and carried on in-depth discussions with European counterparts. The Denmark-based Copenhagen Business School very kindly made arrangements for the study tour and seminars. Ove K. Pedersen, Sven Blondal, John Campbell, Søren Kaj Andersen, Ole Beier Sørensen, Bent Greve and other scholars offered their comments and expertise on European practices. In September 2008, the CDRF convened a video conference on social security and public funding with the International Labor Organization. M. Cichon, J. Woodall, A. Hu, Florence Bonnet, E. Saint-Pierre Guilbault and Zhu Changyou shared their ideas on the report's framework and contents.

The CDRF has undertaken all the work of organizing this report. Under the leadership of Tang Min, CDRF officials involved in the project include Du Zhixin, Feng Mingliang and Du Jing, who not only undertook specific projects, but also collected and compiled necessary materials, provided research assistance, and edited drafts when the report was being finalized. In addition, Ke Yilan, Chen Xiaolong, Yang Junxiong, Hu Ziqiang, Gao Guoqing and Zhang Yan were most helpful in a great variety of ways.

In order to facilitate ongoing research for the annual Development Reports, the CDRF established a China Development Fund. The Starr Foundation and Vodafone provided very generous support for this Fund in 2008. Germany's GTZ sponsored

part of the research and publication costs of this current report, and the Ford Foundation funded the preparatory work.

On behalf of the CDRF, I would like to take this opportunity to express my heartfelt gratitude to all members of the research team and to other entities and persons who contributed to this report's successful completion.

Lu Mai
Secretary-General of China Development Research Foundation
February 20, 2009

Executive summary

Setting up a social welfare system that fits the context of China and its stage of development is key to ensuring the fairness of our socioeconomic development. It is also vital if we want to take a scientific approach to economic development. Since the 16th National Congress of the Chinese Communist Party, the Chinese government has increased its overall investment in social welfare systems, and its call for more creative approaches has led to significant progress. In order to improve our institutions and build a well-regulated and sustainable social welfare system for all, CDRF set up a research team to work on this topic. The research findings and policy recommendations of the resulting report, *China Development Report 2008/09: Constructing a Developmental Social Welfare System for All* are summarized below.

1. Definition of ‘developmental social welfare system’, and purpose of this report

Aimed at China as it will be in 2020, this report introduces a new concept in social welfare systems. It incorporates two main innovations. First, it emphasizes universal access to the system. Second, it highlights the ‘development-oriented’ features of the system.

‘Universal access’ is one of the most significant manifestations of ‘fairness’ or ‘equity’ in the social welfare system envisioned for China in the future. The most prominent feature of the system is full coverage of 1.3 billion Chinese people, including in particular the vast number of rural residents. ‘Full coverage’ incorporates three layers of significant changes. First, it requires formulating new rules and regulations for social groups that are not yet covered by any social security system. For example, this includes pension insurance systems for farmers and rural migrant workers, and old-age security and basic medical services for the unemployed urban elderly. Second, it requires expanding the coverage of existing institutional arrangements so that more social groups can benefit. These include urban and rural employees of small and medium-size enterprises, and people who are partially or ‘flexibly’ employed and self-employed. This means eliminating various barriers that currently prevent these people from being covered by the social security system, and it means lowering contribution rates as necessary to adapt to their financial capacity. Third, it requires gradually improving the standard of social

welfare and improving its degree of fairness, so that all citizens can maintain a normal life and enjoy adequate public services. In doing these three things, it will be necessary to set up mechanisms that allow adjustments in the level of social welfare provided, depending onto the degree of inflation and on changes in people's income and government revenues. The objective is to ensure that all people across the country share in the benefits of socioeconomic development.

'Development-oriented' implies that the system is human-oriented, that it is China-specific and gradual in execution, and that it is strategic in its objectives. First, it emphasizes the need to put people at the center of the new welfare system, and to stress and promote the notion of 'comprehensive development' of the people. This implies including 'upstream' intervention in the system, such as the development of health, education, and employment assistance. Second, the term implies opting for a process of gradual development, rather than precipitously trying to accomplish everything at once, and also rather than simply transposing or copying the models and methods of western welfare states. We must realistically take into account our government funding capacity at different stages of the process, our demographic structures, income levels, degree of marketization, differences in regional development, our duality between treatment of urban and rural residents, level of urbanization, labor mobility, diversifying employment and the traditional Confucian aspects of our culture. In opting for 'gradual development', we must make sure that the system matches the different stages of China's socioeconomic development. Third, our social welfare policy should be formulated with an eye to mid- and long-term development, that is, it should have a strategic perspective. We must strengthen the 'social investment' capacities of our system and gradually transform a model that emphasized 'compensation' into one that emphasizes the mutual reinforcement of economic development and social welfare.

2. Basic principles of the developmental social welfare system

Basic principles underlying the policies advocated in this report include the following.

a. A firm resolve to make sure that fairness or 'equity' is tied to 'efficiency', with 'equity' as the primary consideration. The main goals of the system include: enabling all citizens to enjoy social welfare, reducing the polarization that has occurred in the process of industrialization, and promoting social equity and stability. Universal access to social welfare should be realized. The system aims gradually to eliminate inequalities related to the household registration, gender, occupation, status and other forms of 'identity' discrimination. In particular, children from poor families should be provided with equal access to education and other developmental opportunities in order to prevent ongoing perpetuation of poverty from generation to generation. While emphasizing 'equity', the system also takes into consideration 'efficiencies', and the ability to maintain dynamic economic development, so that it can assure sustainable economic growth in the long run.

b. A firm resolve to assure the sustainability of the system by making sure it is geared to our ongoing stages of economic development and our country's financing