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| <b>Title</b>       | <b>Dismantling the "iron rice bowl:" welfare reforms in the People's Republic of China</b> |
| <b>Author(s)</b>   | <b>Leung, JCB</b>  |
| <b>Citation</b>    | <b>Journal Of Social Policy, 1994, v. 23 n. 3, p. 341-361</b>                              |
| <b>Issued Date</b> | <b>1994</b>  |
| <b>URL</b>         | <b><a href="http://hdl.handle.net/10722/43489">http://hdl.handle.net/10722/43489</a></b>   |
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## Dismantling the 'Iron Rice Bowl': Welfare Reforms in the People's Republic of China\*

JOE C. B. LEUNG†

### ABSTRACT

In common with most countries in the world, China is facing an increasing demand for welfare. The free-market economic reforms of the last decade have dramatically transformed social policy in China, which is gradually retreating from an egalitarian and collective approach and moving towards a pluralistic and 'residual' orientation. Now, widening income inequalities are accepted as both necessary and inevitable.

### INTRODUCTION

The question of how China, with a fifth of the world's population, avowedly and apparently unswervingly a state socialist society, responds to welfare needs and relieves human distress, is of growing interest to social policy analysts around the world. In China, welfare development is affected by three interacting factors; historical legacies, socialist ideology and the process of economic modernisation. The traditional Chinese welfare model centred on the family and kinship-based relationships. People looked to these informal networks for assistance in times of difficulty. With a limited civil service, the major responsibility of the state was to maintain a harmonious and stable environment. Only in times of natural disasters would the state distribute relief assistance in order to demonstrate the paternalistic concern of the emperors towards their people.

When the Chinese Communist Party (CCP) came to power in 1949, Mao Zedong tried to introduce a socialist system which was partly rooted in traditional Chinese culture and partly reflected influences

\* I am grateful to Professor Alan Walker, University of Sheffield for his helpful comments and encouragement.

† Lecturer, Department of Social Work and Social Administration, University of Hong Kong.

from the Soviet Union. The cherished egalitarian and collective values created a basic welfare system described as the 'iron rice bowl'. Since 1978, rapid industrialisation and development of the free-market economy together with the concomitant prosperity have brought about a transformation of the demographic, economic and employment structure. In consequence, a broad range of looming social problems and unmet social needs have emerged. With high priority given to economic growth, the CCP denounced the 'iron rice bowl' system of welfare as an impediment to improvement in work incentives, efficiency and productivity. Under the slogan of 'dismantling the iron rice bowl', major welfare 'reforms' were introduced in the 1980s. This article serves to describe the transformation process and delineate the trends of welfare development.

#### THE IRON RICE BOWL BEFORE 1978

Shortly after the inception of the People's Republic of China in 1949, the country had to face a variety of social problems left behind by the previous government. These included poverty, malnutrition, prostitution, venereal diseases, gambling, begging, crime, the low status of women, drug addiction and unemployment. For example, the number of unemployed people reached 4.7 million, or 60 per cent of the employee population at that time (*Beijing Review*, 4–10 Nov. 1991, p. 8). Ideological education and participation in productive labour were prescribed as effective means of rehabilitating people with these 'problems' (Meng and Wang, 1986, pp. 293–5). Thereafter, the mention of social problems in China was regarded as an attack on, or a denial of, the superiority of the socialist system. It was believed that social problems could no longer exist in a socialist society where private property had been abolished, class conflict and exploitation were absent, and the common people were masters of the means of production. In addition, to cut itself off from Western influences, Western social science education and research projects in universities were disbanded and welfare programmes operated by missionaries were nationalised.

Meanwhile, the Labour Insurance Law (mainly based on the Leninist model) was promulgated in 1951 even though China was still at a very low level of economic and industrial development. In 1949 industrial production only accounted for 17 per cent of the GNP (Contemporary China Workers' Wage, Welfare and Social Insurance Editorial Committee, 1987, p. 3). The Labour Insurance Law reflected the intention of the Chinese government to solicit the

support of urban employees for the communist regime and its nationalisation programme during a period of nation building and economic recovery. Introduced for the first time in Chinese history, the social security programme represented an unprecedented statutory commitment and intervention in social welfare.

From then onwards, welfare, in its decentralised form, was based on each individual work unit. Functioning as a self-sufficient 'small society' or 'mini-welfare state', the state-owned enterprises (SOE) provided comprehensive, non-contributory, and from-cradle-to-grave welfare services to their employees. The system included a social security programme, various allowances, and personal and collective welfare services. Social security included benefits for sickness, maternity, work injury, invalidity and death, and old age (pensions). Not only comprehensive in coverage, the benefit rates offered were considered rather generous (Chow, 1988). Allowances included subsidies on rent, food, transportation, bathing and haircuts, fuel, single child benefits, sanitation and visits to family members living in other parts of the country, etc. Collective welfare services included nurseries, kindergartens, staff quarters, primary and secondary schools, clinics, hospitals, recreational club houses, libraries, cinemas, canteens, etc. Personal welfare services included mediating in family disputes, promoting family planning, counselling delinquents and assisting poverty-stricken households. It is noteworthy that occupational welfare covered only employees of the SOE, who constituted about 10 per cent of the economically active population during the mid-1950s (State Statistical Bureau (SSB), 1990, p. 113).

Expenditure on these welfare programmes was all included under the operational cost of each individual enterprise and the SOE were not responsible for their profits or losses. In a sense it was the state which indirectly financed all the welfare programmes in the enterprises. Furthermore, as the social security programme was neither financed by individual contribution nor direct government taxation, it did not function as an insurance programme. Social security benefits were considered more as a form of social wage rather than as a redistributive programme, pooling economic risks across the population<sup>1</sup>. In effect, occupational welfare became individual-enterprise-centred welfare.

Under the government policy of 'high employment, high welfare, and low wages', welfare benefits were often distributed indiscriminately to employees as a means of supplementing the policy of low wages (Walder, 1989, p. 243). During the 25 years from 1952 to

1977, the average monetary wages of employees increased by only 1 per cent (China Statistical Information and Consultancy Service Centre, 1990, p. 453).

Employment was centrally controlled by the Personnel and Labour Departments which assigned all prospective employees, including graduates fresh from schools and colleges, as well as veterans, to different work units. Work units were not given the authority to recruit or dismiss workers and graduates from schools did not have the freedom to choose their jobs. As employment was life-long, the labour system in fact guaranteed employment security. Therefore unemployment and labour mobility were uncommon. In order to further reduce unemployment, the government sent 20 million redundant urban employees in the early 1960s, and 17 million urban young people during the Cultural Revolution, to the rural areas for jobs (*People's Daily*, 19 Aug. 1992, p. 5). The unemployment rate in urban areas dropped from 13.2 per cent in 1952 to 5.9 per cent in 1957 and 76.7 per cent of the jobs created were found in SOEs (Zhu, 1991).

Above all, the system of 'dingti' (replacement) enabled the children of retiring employees to take up their parents' jobs in the work units. This system was only abolished in 1986. Thus, it was not unusual to find relatives employed together in the same work unit (Jian, 1991, p. 38). Politically speaking, the high dependency of employees on their work units for livelihood and life chances meant that they were totally susceptible to the influence and control of the enterprise cadres, in other words, the state/party. Apparently, ordinary workers in SOE were satisfied with the security network provided in return for the promise of conformity and loyalty to the Communist regime. Thus occupational welfare can be regarded as a political asset for the Communist Party which promises social stability and legitimacy (Leung, 1992).

In the rural areas, where over 80 per cent of the population live, the basic welfare framework was the three-tier structure of commune-brigade-production team, which provided remedial and means-tested assistance to the destitute. The Communist government in 1965 began to encourage the economic co-operatives to provide care for single elderly and disabled people who could no longer work and had no other source of income. From this commitment came, the 'Five-Guarantee System' which was established in the commune system in 1958 and provided care for childless aged peasants, including food, clothing, housing, medical care, and burial expenses. The system

was financed by the collective income of each individual commune/brigade. In addition, there was a simple contributory medical insurance scheme. As Ahmad and Hussain note, the commune system provided rural households with an 'iron rice bowl' of secure livelihood (1990, p. 266).

In essence, social welfare in China was centred on the workplace. Whether a factory in an urban area, or a commune in the countryside, it was the collective work unit which integrated political, economic and welfare functions, providing each member with employment, income protection and other social services. While there were substantial differences between rural and urban welfare, the basic policy within each collective was largely egalitarian and attempted to minimise differences in wages, welfare and employment. Through administrative allocation, a basic security network, the 'iron rice bowl' was established.

While the right to welfare was not based on legal entitlement, the moral obligations and the patron-client relationship of the collectives ensured the paternal protection of members in times of difficulty. As such, the model of collective-centred welfare was similar to the traditional pattern of the extended family or clan, bearing total responsibility for all the social and economic needs of its members. Controlling these collectives through central planning at the macrolevel, the state provided subsidies to cover losses made by the enterprises, or to raise the price of agricultural products from the communes. In addition, the state provide urban residents with subsidies for daily necessities such as food and fuel. In so doing, even though the wages of urban residents were kept at a low level, they could still enjoy a stable living standard. Over the past four decades, these state financial subsidies took up approximately 20 per cent of the state expenditure (China Statistical Information and Consultancy Service Centre, 1990, p. 413).

At the individual level, the state ensured that every citizen belonged to a collective through the mechanism of a household registration system which limited rural-urban migration and a job assignment system which controlled worker recruitment and mobility. Finally, another role for the state was to respond to the failure of the collectives through a remedial welfare programme. The Ministry of Civil Affairs and its departments operated an array of remedial social welfare programmes mainly for the 'three no's' (those with no family, no source of income and no working capacity). Since no person, in principle, can in fact be outside the jurisdiction of the collectives, it is

assumed that the need for such remedial state provisions would be limited.

Under Mao Zedong, China attained a high level of social development, particularly in public health, education and social welfare which in fact far exceeded the achievements of other countries with similar levels of economic development).

#### MARKET REFORMS AND WIDENING INCOME INEQUALITIES

The official line of the Third Plenum of the Central Committee of the 11th CCP Congress held in 1978 advocated emphasis on economic construction, replacing the previous priority of class struggle and political movement. The cliché of 'reform' replaced 'revolution' in directing all economic and social policy. Even though plagued by political cleavages and obscure economic direction, subsequent economic reforms have incorporated the concept of the 'market' into the orthodox socialist approach which is based on centralised planning and allocation. The 'socialist market economy', which was adopted at the 14th Party Congress in 1992 is, therefore, a pluralistic economy, with the individual family as the production unit in the rural areas and a mixture of state-owned, collectively-owned and privately-owned enterprises, individual entrepreneurs and joint ventures with foreign investments.

The official theory underlying the national development policy is the 'primary stage of socialism'. According to this theory the socialist revolution in 1949 was not a genuine working-class revolution as envisaged by Marx. China at that time was basically an agrarian society with a limited working class and an under-developed economy. Being at a primary stage of socialism, the theory suggests a flexible, pragmatic and non-ideological line of development which includes the promotion of a pluralistic market economy and the use of material incentives to reward performance.

Indeed, the shift towards economic primacy has not only dislocated some of the basic social structures and values in China, but also confronted some of the Maoist conceptions of social policy. Now the egalitarian and need-based security network, 'the iron rice bowl' created during the Maoist period, is considered an impediment to market reform. In denouncing the phenomenon of 'everyone eating from the same big pot', it is argued that the basis of the distribution of reward should be based on labour effort, supplemented by other means of distribution such as ownership of land and capital. The motto is: 'More labour more benefit; less labour less benefit; and no labour no benefit.' Furthermore, inequalities in terms of 'differences in pay should be

widened so as to encourage individual enthusiasm and speed up the development of production', and the major policy is 'to allow some people to become wealthy first, as part of the goal of common prosperity' (*Beijing Review*, 15-21 Aug. 1988, p. 4, 15-21 Apr. 1991, p. v). Therefore, inequalities are accepted as necessary and inevitable during the 'primary stage of socialism'.

On the other hand, a popular theory espoused by the academic reformers in China is 'neo-authoritarianism'. This theory is developed from the experiences of the 'Four Little Dragons' in Asia: namely Taiwan, South Korea, Hong Kong and Singapore. It is believed that a successful economic market system is compatible with an authoritarian yet paternal political order (Johnson, 1985; Sautman, 1992). Built on the traditional Chinese culture of Confucianism, the theory contends that the Chinese people are more prepared to accept an absolute and authoritarian state: a strong state providing a stable environment and the necessary infrastructure for the operation of the market accounts for the successful modernisation of Chinese societies in East Asia. In fact, both Singapore and Hong Kong have been openly identified as learning models for China by Deng Xiaoping (*South China Morning Post*, 8 May, 22 July 1992). The political upheavals and economic chaos in Russia and East European countries after the collapse of communism also seem to convince the CCP that economic reforms should precede political democratisation.

Accordingly, it is believed that active state intervention in welfare creates dependency and stifles work incentives, thereby, in Chinese eyes, leading to the current fiscal and economic crises of Western governments. On the other hand, authoritarian and strong state action is regarded as essential to provide a stable environment for the operation of the free market. Following these directions, welfare policy becomes a vital mechanism to mitigate conflicts created by rapid modernising social changes, high economic growth and market-oriented reforms.

Under this policy, inequalities in incomes and living standards between the rural and urban areas, between geographical regions (the coastal areas and the hinterland) and between employees in different economic sectors are widening (Zhao and Li, 1992). For example, the ratio between the annual per capita income in the cities and in the rural areas dropped from 3.47:1 in 1957 to 1.24:1 in 1978, then increased slightly to 1.83:1 in 1983, and further to 2.31:1 in 1992 (China Working Group on Income Distribution of Urban and Rural Residents, 1991; *Beijing Review*, 8-14 Mar. 1993, p. 39). Wages and



welfare benefits are also reported to be higher in joint ventures than in SOEs (*Economic Management*, 2, 1993).

If the annual per capita net income of 300 yuan<sup>2</sup> is used as the poverty line in rural areas, 9.2 per cent of the rural population (80 million people) were found to be living in subsistence poverty in 1991 (Ministry of Agriculture, 1992, pp. 378–81). This is acknowledged as an achievement because 125 million people were living in poverty in 1985 (*People's Daily*, 12 Oct. 1993, p. 1). (The poverty line at that time was 200 yuan.) In urban areas, if the annual per capita net income of 600 yuan is used as the poverty line, 5 per cent of the urban population (20 million people) in 1992 were poverty-stricken (*South China Morning Post*, 20 Oct. 1993, p. 9). Since the use of poverty line as a measurement is still arbitrary, it is difficult to determine the impact of economic reforms on the extent of poverty in China. In any case, poverty in the context of widening income inequalities is still a substantial social problem. In 1992, the number of households in poverty – relying on government assistance – reached 7 million (Jiang *et al.*, 1993, p. 97).

Furthermore, there are over 52 million people with different forms of disability; of these, some 70 per cent are illiterate and only 6 per cent of disabled children are able to attend school. Among those of working capacity, 50 per cent in the cities and 40 per cent in the rural areas are unemployed (about 2 million people). With the introduction of market reforms, disabled people find it increasingly difficult to get regular employment (*Ming Pao*, 27 Sept. 1993, p. 14).

In short, welfare demand in China is tremendous and escalating. Yet the economic reforms of the 1980s have restructured and to some extent dismantled the basic welfare system of protection in China. People now find that either their emerging needs cannot be satisfactorily met or welfare services are inaccessible to them. Even though the Chinese Constitution has recognised some essential rights of citizens including the right to welfare, individual rights are subsumed under the interests of the state and the country. People in need are not expected to demand services from the government and it is up to a benevolent government to decide who deserves care according to the criteria of merit and contribution. Besides being a gift from a benevolent state, welfare entitlements have to be earned.

It is noteworthy that China is ranked as one of the poorest nations in the world. The GNP per capita was only \$US 370 in 1991. Yet great strides have been made in social development. In life expectancy

(69.5 years), mortality rate (6.7 per 1,000 population), infant mortality rate (31 per 1,000 population), literacy (69 per cent), heat intake per day (2,634 calories) and protein intake per day (62.8 grams), China has already attained the level of the middle-income nation group (World Bank, 1991). A social development report produced by the United Nations in 1991 ranked China at 82nd among 160 countries (*Outlook Weekly*, 28 June 1993, p. 5).

#### WELFARE REFORMS

In support of its free-market reforms, China is committed to certain changes in its social welfare system. The following sections describe the four major areas of welfare reform in China, namely, occupational welfare, rural social security, civil affairs and community services.

##### *Occupational welfare*

For more than three decades after the establishment of the People's Republic of China, government commitment to occupational welfare was unanimously conceived as a superior feature of socialism and was never challenged or even in doubt. Problems with the social security system only began to be recognised by the government in the early 1980s. This was due mainly to a staggering rise in welfare expenditure. The insurance and welfare funds soared from 7.8 billion yuan in 1978 (13.7 per cent of the total wage bill) to 109.5 billion yuan in 1991 (33 per cent of the total wage bill) (SSB, 1992, p. 756).

The increase was particularly attributed to the rise in the number of people retiring from work. The number of retirees grew from 3.1 million in 1978 to 24.3 million in 1991 and the ratio of employees to retirees decreased from 30:1 to 6:1 over the same period (SSB, 1992, p. 760). This is only an average figure. The ratio in fact can vary from 90:1 in some young enterprises to 2:1 in some old enterprises (*Beijing Review*, 2–8 Sept., 1991, p. 20). Consequently, expenditure on retirees rose from 1.7 billion yuan in 1978 to 55.4 billion yuan in 1991 (SSB, 1992, p. 759). Far worse, it is estimated that, by the year 2000, the number of retirees will reach 40 million, representing 17 per cent of the employee population and expenditure on retirees will amount to 150 billion yuan (*Outlook Weekly*, 30 Mar. 1992, p. 12).

Not being a flat-rate benefit, pensions are calculated on the basis of the standard wage. On average, pensions in 1990 were 60 per cent of the standard wage (*Beijing Review*, 4–10, Nov. 1991, p. 20). Given

that the standard wage is about half the monetary income of an employee, the pensions received are usually inadequate to maintain a similar standard of living to that enjoyed before retirement.

A mounting though uneven pressure on individual work units to pay for the welfare fund is perceived as a threat to the government effort to increase productivity and reduce losses. Despite massive credits for the state sector, over one third of the SOEs are reported to be running at a loss, and industrial growth is fuelled largely by foreign joint ventures and rural industries (*South China Morning Post*, 28 June 1993, p. 15).

To share the risk, the government encouraged work units to participate in joint funding of the retirement scheme (pension pools) in 1985. The funds are usually managed by the profit-oriented People's Insurance Companies, but some are managed by the insurance companies of the local labour bureaux. Operated on a pay-as-you-go basis, contributions from the enterprises are calculated on the basis of the total expenditure on pensions each year. At the end of 1992, about 58 per cent of the employee population were included in the scheme (*Beijing Review*, 8-14 Mar. 1993, p. 40). Participation in the funding pools is still voluntary, reflecting the reluctance of the government to assume overall responsibility through legislation in the management of the funds. Furthermore, since most of these funds are organised at the county and city level, the level of funding is still too low to achieve the purpose of pooling risks.

Apart from pensions, medical care is the second largest item of expenditure on occupational welfare. It is reported that the state only provides 14 per cent of the total medical expenditure in hospitals, while the rest has to come from fees (*Ming Pao*, 22 Jan. 1992). Medical expenses for employees increased dramatically from 3.2 billion yuan in 1978 to 19 billion yuan in 1991. Not surprisingly, the system of free medical treatment for employees is under criticism. An official Chinese newspaper reported:

Free medical treatment, a system started 39 years ago in China to serve government and enterprise employees, must undergo reform because it has reached an impasse. The situation now is such that many enterprises are virtually unable to reimburse all medical costs incurred by their employees and many non-business state institutions have run into debt. (Quoted from *South China Morning Post*, 26 July 1991, p. 10)

To facilitate the economic reforms, the government promulgated a series of regulations on dismissal, recruitment, the contract-worker system and bankruptcy in 1986. The government endorses these

principles: economic enterprises that are not profit-making should declare bankruptcy; employees with inadequate performance should be dismissed; and new recruits should be employed on contract rather than on a permanent basis. Based on cautious experiments since 1982 in selected provinces, it is expected that the 'labour-contract system' will facilitate labour mobility and work incentives. In contrast to permanent employees, contract employees, together with their employing work units, are required to make monthly contributions to a trust fund. The individual worker contributes 3 per cent of his/her standard wage while the work unit gives 15 per cent of the total payroll to a trust fund which is to pay for the pensions. By 1992, the number of workers employed on a contract basis had reached 25 million, accounting for 16 per cent of the employee population (*Beijing Review*, 8-14 Mar. 1993, p. 40). It is predicted that the figure will reach 50 per cent by the year 2000 and rise further to 95 per cent by 2010 (*Ming Pao*, 21 June 1992). At the transitional stage, the present labour system accepts a mixture of different labour categories with obvious differences in status and welfare. These labour categories in SOEs include permanent, contract and temporary employees.

Since then, layoffs due to redundancy, bankruptcy of the work units, and termination of contracts, have in principle been possible. Since unemployment in socialist China entails immense political risks, a concomitant unemployment insurance scheme was implemented at the same time. The scheme, organised by labour service companies at the level of the cities and towns, is financed by contributions (1 per cent of the total payrolls) from the enterprises to a common trust fund. The fund provides assistance to employees who become unemployed because of redundancy, dismissal or termination of contract. By 1992 some 71 million employees had participated in the scheme, representing about 50 per cent of the employee population (Jiang *et al.*, 1993, p. 93). In 1990 expenditure by the fund amounted to only one quarter of the total revenue and only 7 per cent of the expenditure was allocated for direct cash payment to the unemployed (State Planning Commission, 1993).

According to the regulations, an unemployed person with more than five years of working experience can obtain 60-75 per cent of his/her salary for a year, and then 50 per cent of the salary for another year. Those with less than five years of working experience can obtain only one year of assistance. As the standard wage is about half of the total monetary wage of an employee, unemployment bene-

fit (which is only 60 to 75 per cent of the standard wage) in fact constitutes only a third of the normal working income of an employee. Furthermore, not only does an unemployed person lose his/her salary but also all job-related benefits and subsidies, which include housing, medical care and education for children. Therefore, insofar as social services are still linked primarily to jobs, the mechanism of unemployment insurance is still deficient as a protection for the unemployed.

The heavy reliance of employees on their work units for the satisfaction of economic and social needs means that bankruptcy and dismissal embodies high political risks and is, therefore, difficult to put into practice. Even though the number of enterprises losing money is on the rise and the government is determined to support the practice of declaring bankruptcy, enterprises that declare bankruptcy are still unusual, left alone dismissal of employees (*Beijing Review*, 17-23 Aug. 1992, p. 9).

Between 1991 and 2000, the number of new entrants into the labour market each year will reach 20 million, not to mention the existing surplus labour force of 200 million in the rural areas and 20 million in the SOEs (Shen and Pan, 1991, pp. 33-5). Before 1978, most of the new jobs created by the government were in SOE. Among the 7.7 million new jobs in 1991, less than half were in SOE. The official unemployment rate in 1991 was only 2.3 per cent (SSB, 1992, p. 100). But it is evidently an underestimation since the figure refers to registered new entrants to the labour market in the cities only. In short, the Chinese government has partially abandoned its commitment to full employment and the strategy of job creation through administrative procedures.

Occupational welfare has been identified as a scapegoat for low productivity in SOE (World Bank, 1985, 1989). In order to support market reforms, recommendations from the government reiterate the need to introduce employee contributions in retirement and medical insurance schemes; to extend these insurance schemes to cover employees in other economic sectors (SOE employees account for 70 per cent of the employee population); and also to allow local governments to have the discretion to carry out welfare reforms (*Beijing Review*, 18 Feb.-3 March, 1991, p. 21). To be sure, there is a definite move away from a Leninist model of full state and employer responsibility in welfare to a model more resembling those of the industrialised nations of the West. However, the major difficulty is the apparent reluctance of the state, already plagued by continuous budget deficits,

to assume a more definite financial commitment to the social security programme.

Despite the fact that industrial workers are still in theory regarded as being in control of society and their work units, market reforms have, in reality, turned labour effort into a commodity based on contracts and exchanges. In this context, the CCP is urgently required to redefine ideologically and legally the relationship between the state and the SOE, and between the management of the SOE and the employees. Rising labour disputes and unrest in the form of strikes, go-slows, rallies, petitions to local governments and sit-ins are seen as some of the responses of the state employees towards the economic reforms (*South China Morning Post*, 30 Aug. 1991, 21 Apr. 1992, 30 May 1992, 29 July 1992). Not surprisingly, the *People's Daily* has reiterated that the maintenance and guarantee of social stability is paramount during the process of economic reforms which attempt to dismantle the 'iron rice bowl' (29 Apr. 1992). Finally, given the abiding importance of occupational welfare to the maintenance of political stability and legitimacy of the CCP, the 'iron rice bowls' will remain largely intact and irreversible.

If the crude measure of welfare effort is taken to be social security expenditure as a percentage of GNP, the commitment of the Chinese government in this field is comparatively low. In 1987, social security expenditure was only 2.16 per cent of the GNP, whereas the percentages in Hungary and Yugoslavia were 15.4 per cent and 10.3 per cent respectively. Likewise, social security expenditure in China was 12.67 per cent of the total payroll, whereas it was 40 to 50 per cent in those two socialist countries in Eastern Europe (World Bank, 1989, p. 31).

### *Rural social security*

With the decollectivisation movement following the disbandment of the commune system in 1983, the household became the basic economic unit of production. This reform to a large extent weakened the collective capacity of mutual help and aggravated the problem of income inequalities in rural areas (Leung, 1990a). Now the individual family has to bear the brunt of responsibility for protection against contingencies and, as a result, has become more vulnerable to the risk of any loss of income due to a diminution of its labour force and/or damage from natural disasters. As an illustration, on the eve of decollectivisation in 1979, 80 per cent of the production brigades had some form of cooperative medical insurance scheme which

covered about 85 per cent of the rural population (World Bank, 1984). Now these schemes are in complete disarray.

Apart from the promotion of small experiments in contributory retirement insurance schemes in the rural areas by the Ministry of Civil Affairs, there is very little universal policy governing and directing welfare development in rural China. The Minister of Civil Affairs described the problems of these experiments:

The social security system in our country does not have the top-down mechanism of legislative control. The experiments and the types of work that we are doing are primarily based on self-protection at the grassroots and community level. (*Social Security Bulletin*, 15 Apr. 1988)

An official statement of the Ministry of Civil Affairs summarises the remedial role of the government: 'Rely on the masses and the collectives, tide over disasters through production, mutual help, and support while receiving necessary aid and support from the state.' (Ministry of Civil Affairs, 1986, p. 25).

The minister of Civil Affairs notes three different government strategies to develop social security provisions in the rural areas (Cui, 1989, pp. 166-1):

- (a) In more affluent areas, villagers are encouraged to participate in contributory insurance schemes to protect themselves against contingencies of old age and natural calamities.
- (b) Areas which have achieved a minimum level of livelihood are encouraged to make contributions to mutual aid funds which can provide assistance to poverty-stricken households, aged and disabled people.
- (c) In poverty-stricken areas, direct government efforts are needed to overcome subsistence poverty.

In economically better-off areas, funds for welfare programmes such as the Five-Guarantee System and the relief work for ex-servicemen and poverty-stricken households can potentially come from the profits of the industries of the collectives and welfare factories and from individual donations. Yet in most rural areas, the basic source of help is self-protection, mainly through people's own savings and wages, as well as family support. At best, people can participate, if they can afford to pay, in retirement and medical insurance schemes. However, such schemes have not yet been standardised and institutionalised. Only 1 per cent of the villages in China have some form of retirement benefit (*China Society*, 16 Feb., 26 Oct. 1990).

Not surprisingly, a national survey in 1987 showed that 67.5 per cent of elderly people in rural areas were supported financially by their children, 26.2 per cent by paid work, 5 per cent by their spouses and the remaining 1.3 per cent by relatives or government/collectives (*Beijing Review*, 14–20 Nov. 1988, pp. 22–4). Partly due to a draconian single-child family policy, average family size in the rural areas dropped from 5.74 persons in 1978 to 5.01 in 1987 (*Beijing Review*, 25–27 Nov. 1988, p. 27). Therefore, social security for the elderly is expected to become a more critical issue in the near future.

Finally, regarding the future development of retirement insurance in rural areas, the Ministry of Civil Affairs has put up a number of recommendations (*China Civil Affairs*, 6, 1992, pp. 12–13). These include:

- (a) Rural residents should not have a pension system similar to employees in cities.
- (b) The notion of retirement should not be strictly enforced in the rural areas; peasants should be encouraged to continue working after reaching the official retirement age for city employees.
- (c) The insurance scheme should be primarily based on individual contributions supplemented by assistance from the collectives and supported by state policies.
- (d) Self-reliance and family care should be emphasised.
- (e) The state should not be a provider of resources.
- (f) The level of protection should be basic and minimal.
- (g) Regional variations in provision are acceptable.

Because of uneven development, the economic situation in the rural areas has deteriorated in recent years and the real income of peasants has remained stagnant. Furthermore, rural areas have been plagued by the practice of local officials trying to squeeze funds from them in the form of taxes, fines and contributions to public works (Jiang, *et al.*, 1993). The government registered over 170 anti-government disturbances in rural areas in the first six months of 1993 (*South China Morning Post*, 26 June 1993, p. 1).

#### *Civil Affairs department*

Besides the responsibility of providing assistance to poverty-stricken households, the Ministry of Civil Affairs and its departments operate and provide guidance to two main types of welfare service, namely welfare institutions and welfare factories.

Welfare institutions, largely developed by Western missionaries before 1949, were charity organisations which included orphanages,



relief organisations and old people's homes. The Communist government used such institutions mainly for the rehabilitation of beggars, migrants, criminals and prostitutes. By the mid-1950s, these institutions had shifted their focus to provide residential care for the mentally ill, the mentally handicapped, orphans and the single elderly. In 1954, a total of 666 such types of institution was recorded, taking care of 120,000 people (*Social Security Bulletin*, 22 Sept. 1989). In 1991, there were 42,266 institutions providing care to 650,000 residents (SSB, 1992, p. 748). The majority of these institutions are small old people's homes operated by neighbourhood collectives.

Since 1983 these institutions have been opened to people who do not qualify as being one of the 'three no' categories but who do have resources to pay for the service (*China Society*, 22 Feb. 1991). In line with requirements applied to economic enterprises, the concept of the 'responsibility system' has been introduced into the management and finance of these welfare institutions. In delimiting the financial commitment of government, these institutions have to be accountable for their losses and profits.

Developed from the self-salvation production groups for unemployed people in the 1950s, welfare factories provided employment for the physically disabled. According to state regulations promulgated in 1980, if the number of disabled people in an enterprise exceeds 35 per cent of its total working staff, it is exempt from income tax. If the proportion reaches 50 per cent, the exemption extends to industrial and commercial taxes too. The high priority given to their development is signified by their rapid expansion. There were only 1,466 welfare factories in 1981, by 1991 the number had risen dramatically to 43,785, providing employment for 700,000 disabled people. Similar to the welfare institutions, the majority of welfare factories are operated by neighbourhood collectives. Under the policy of reforms, welfare factories are supposed to be independent economic entities, responsible for their own profit and losses. Facing strong competition from other economic enterprises, some 30 per cent of these factories are losing money. Such losses are due to lack of capital, raw material, credits, and transportation support, as well as poor management (*China Society*, 13 Oct. 1992).

The Ministry of Civil Affairs is constrained by the lack of funds allocated by government. Annual state expenditure on civil affairs has never been more than 2 per cent of total government expenditure (*China Society*, 13 Oct. 1992). Despite the fact that lotteries can be regarded as a form of 'gambling' which is ideologically incompatible

with the puritan morality of socialism, the Ministry of Civil Affairs in fact introduced lotteries so as to raise funds for welfare purposes in 1987. In 1992 alone, sales amounted to 1 billion yuan and 30 per cent of the revenue has been devoted to welfare purposes (Jiang *et al.*, 1993, p. 96).

### *Community service*

As mentioned earlier, demographic changes have weakened the capacity of the family to provide care for its members. On the other hand, economic enterprises are facing the need to promote economic efficiency and productivity via reduction of some of their welfare commitment. As the government is reluctant to expand its role in welfare, neighbourhoods have been encouraged since 1987 to fill the service gap.

In 1954, the Chinese government introduced regulations directing the formation of street offices and residents' committees in urban cities. A typical neighbourhood structure consists of a street office for 30,000 to 50,000 residents. The street office, as an agency of the district people's government, is responsible for the management and delivery of urban services which include public security, sanitation, welfare and social services. Under the guidance of each street office are residents' committees, each with approximately 100 to 700 households. With members elected by local residents, these committees are self-managed mass organisations for the promotion of public welfare in neighbourhoods. In the past, these organisations were mainly preoccupied with urban administrative and political duties. Only in the late 1980s were neighbourhoods found to have great potential for developing welfare services for disadvantaged and vulnerable groups. Their welfare functions are emphasised in the revised 'Regulations on the Organisation of Residents' Committees in Urban Areas' in 1989 and the 'Regulations on the Organisation of Village Committees in Rural Areas' in 1987.

Neighbourhoods, supported with funds which are mainly derived from the profits of their economic enterprises, can provide some of the basic welfare services including old people's homes, day care centres for disabled children, work therapy stations for the mentally ill, special classes for mentally disabled, welfare factories for physically disabled, family mediation and family life education for families with problems, caring groups (home helps) for the frail elderly and mentally ill, job placement for unemployed, assistance to households in poverty and counselling services for people deemed to be delinquent

(Leung, 1990a, 1990b). This welfare service development has been described as 'welfare networking' (Lu, 1990, p. 306). By the end of 1991 about two-thirds of street offices had developed this form of neighbourhood service and there were altogether 90,000 neighbourhood-based welfare units. Of these, about 24 per cent were services for the elderly, 8 per cent for disabled, and 15 per cent for veterans of the armed services (*China Society*, 13 Oct. 1992).

To be sure, only those more affluent neighbourhoods with a healthy economy can support such networks of welfare services. Far from being standardised, such services are mainly informal in nature. Variations in the quality and quantity of welfare services among different neighbourhoods are, therefore, inevitable.

#### FUTURE DIRECTIONS

Welfare reforms, introduced by the Chinese government in the 1980s, can be conceptualised under the term of 'shi hui hua' (society orientation). It believes that the traditional approach to welfare does not encourage productivity and work incentives and that responsibility for welfare has been too narrowly concentrated on government and the work units. Society orientation signifies the attempt to diversify and extend responsibility and funding sources to other sectors of society. Different sectors of society, including individuals, families, mass organisations and collectives are to be mobilised so as to make concerted efforts to meet welfare needs.

Other sources of income for welfare provision include profits from economic production, fees and individual contributions, lotteries and donations from individuals, enterprises and overseas Chinese. Recent welfare plans and laws have emphasised the shared responsibility of family support and contributions from collectives and individuals. Examples are the Marriage Law (1980), the Chinese Constitution (1982), the Seventh Five-Year Plan (1986-90), China's Five-Year Work Programme for People with Disabilities (1988-92) and the Law on the Protection of Disabled People (1990). The Eighth Five-Year Plan (1991-5) stipulates the need to share the welfare burden in a rational way between the state, the collective and the individual (*Beijing Review*, 18 Feb.-3 Mar. 1991, p. 21). Furthermore, private and profit-making social services in education and medical care have appeared to cater for the needs of the emerging middle class.

In recommending the introduction of contributory retirement insurance schemes in both urban and rural areas, the government emphasises a philosophy of self-protection and self-responsibility. In playing

down the Maoist virtue of self-reliance, China begins to welcome foreign donations and assistance in charity and relief work. But so far only a limited number of international organisations such as World Vision and Oxfam are able to operate regular relief projects in poverty-stricken areas.

In line with the economic policy of allowing regional governments to have more autonomy, the central government encourages localised innovations in welfare provision. Under a policy of welfare pluralism, the term 'social welfare with Chinese characteristics' is becoming less precise. It is more relevant to social welfare with 'Guangdong characteristics', or 'Beijing characteristics', or 'Sichuan characteristics', and so on.

The picture painted in the foregoing shows that social welfare with Chinese characteristics, in a decentralised form, is largely employment and/or neighbourhood-based. It does not rest on a centrally planned, universal and institutionalised system. Therefore, both quality and quantity are largely determined by the economic vitality of the individual enterprise and neighbourhood. Given the delicate balance between rationalising the economy and maintaining political stability, welfare development can only muddle through, with piece-meal, short-term and pragmatic steps, often in the form of limited and localised innovations set up to tackle immediate needs. Instead of talking about a single model and approach, welfare policies are marked by the emergence of multiple and pluralistic solutions to needs.

Undoubtedly the general living standards of the Chinese have improved dramatically in recent years, but the issue of income redistribution is now high on the political agenda. Social inequalities are perceived as a major threat to political stability and a challenge to the legitimacy of the CCP. Social welfare, as a mechanism of income redistribution, will have a new meaning in the formulation of social policy in China.

#### NOTES

- 1 Before 1969, each enterprise had to reserve 3 per cent of the total payroll for the labour insurance fund. While 70 per cent of the fund was devoted to the welfare expenditure of the enterprise, the rest had to be submitted to the All China Federation of Trade Unions which would then redistribute the fund to those enterprises unable to pay their expenses.
- 2 According to the swap market rate in October 1993, one \$US is equivalent to 8.7 yuan.

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FACT

In the 1970s, many of the best of the coastal housing stock of China was sold as luxury flats. The profits were for part of the broader types of property were confiscated, and the types noted that this expropriation away from the law. Thus, the types of household most likely to be affected with adult children to which occurred in. This large scale expropriation led to the loss of a certain part of population. This is a major policy since nearly half of the population were living in coastal housing and the policy was to move the types of the types that will be large numbers of people that would be moving the types of the households reported in. Field work, and special studies which show that people are more willing to sell their flats, and more willing to sell their flats, and also to sell their flats, and the policy was to move the types of the population, a particular kind of population, and a single mother in high the...

When the right to sell the flats... the best... were sold to... the gained work...

...knowledge that the... the DRC... the minister of the DRC...