3 Issues and options for social security reform in China

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It is widely realized that China is approaching a development stage where social security is playing a more important role than ever before in terms of stimulating economic growth, equalizing income distribution, alleviating poverty and maintaining social stability.\(^1\) It is also recognized that the current social security system needs to be reformed in order to meet the challenges resulting from the transition of the system from one which protected the minority group of urban workers in the formal sector to one which protects all citizens (CDRF, 2009). There is, however, considerable debate as to what kind of social security system can be applied in China, given the large differences between urban and rural areas in terms of income level, employment structure, fiscal capability of local governments, and provision of social services (Zhao et al., 2006). The issues become more complicated when one takes into consideration what type of social protection is suitable for millions of rural migrant workers who have low incomes, high job and location mobility and unstable employment (Zheng, 2008).

Like many other developing countries, China has been striving to make its economy grow as fast as possible. From 1978 to 2008, GDP grew at nearly 10 percent while household income in urban and rural areas grew at 8 percent. These are both incomparable. By the end of 2008, GDP per capita reached US$3,100, raising China to the status of a low- to middle-income country. While China has made remarkable progress in economic growth, its progress in social development, particularly the reconstruction of a social security and welfare system is still lagging. The transition of the social security system is still in progress and the present system contains many flaws. As the private sector and self-employment—which have become the largest employers of informal workers—have grown rapidly, the majority of the workers are not covered by the system. In addition, rural migrant workers, mostly employed in the informal sector in urban areas, are also left out of the system.

Although China has significantly reduced poverty, the country has not been as successful in narrowing income inequality which is now much wider than it was at the beginning of the economic reforms. The Gini coefficient for the whole country is currently estimated at around 0.47,\(^2\) compared to 0.30 in the early 1980s (Adelmen and Sunding, 1987). The Gini coefficient in rural China rose from 0.26 in 1980 to 0.38 in 2007 (see Figure 3.1), while the poverty rate
declined from 30 percent to 3 percent. Since the mid-1990s, urban poverty has constituted a new phenomenon due to the increase in laid-off workers and consequently a widening income inequality as a result of the restructuring of state-owned enterprises (SOEs). The Gini coefficient in urban China surged from 0.16 in 1978 to 0.36 in 2007.

Though the poverty rate has declined over the past three decades, poverty still remains a serious social problem. It is well known that “official poverty” has been under-reported. The actual poverty incidence is certainly higher than the officially published figures (World Bank, 2009a). While official statistics indicate that the poor numbered less than 15 million in rural areas in 2007, the number of individuals receiving income allowance from the Di Bao programme (the minimum living standard guarantee scheme) approached 43 million. According to a World Bank estimate, the rural poverty rate would rise to over 10 percent if the 2-dollars-a-day poverty line was applied (ibid.).

In addition, the huge flow of rural migrant workers into cities exerts great pressure on employment for local urban workers. Unemployment is a huge challenge for the regional governments. The situation has been made worse by the global financial crisis, which impacted negatively on export growth and consequently, on employment.

Consumption as a proportion of GDP has decreased constantly since the mid-1990s, partly due to a decline in the share of labor income, and partly due to a fall in the average propensity to consume, resulting from

![Figure 3.1](image-url) Changes in income inequality in urban and rural China, 1978–2007
Sources: Zhang et al. (2008).
uncertainties relating to expenditures on healthcare, education and housing. This is especially true for those in the population not covered by the social security system. To negate the impact of the global financial crisis, local governments have tried hard to stimulate domestic demand since the second half of 2008. The measures taken are focused on increasing investment rather than stimulating consumption. It is believed that expanding the coverage of social security and raising the protection level will help stimulate household consumption.

Social instability has become a major concern for the Chinese government since the number of social incidents and riots has escalated rapidly. According to the 2005 Blue Book of China’s Society, the number of social conflicts increased from 10,000 in 1993 to 60,000 in 2003 (Ru et al., 2005). It is also reported that social conflicts have intensified since 2008.

Building a comprehensive and fair social security system is one option, but not the only wise option for the government in the 12th Five-Year Programme. There is a general consensus among Chinese scholars on this, though debates are rife concerning the different approaches to a new system.

Social and economic challenges facing China

Widening income inequality

China was an egalitarian society 30 years ago and has experienced a sharp increase in income inequality since the beginning of the 1980s. As a developing country, China has implemented separate and urban-biased economic and social policies for urban and rural areas, resulting in large differences between urban and rural households in terms of income level, accessibility of public services and human development (Riskin et al., 2001; Gustafsson et al., 2008). As indicated in Figure 3.2, the income ratio of the urban household income per capita to the rural household income per capita rose from 1.8 times in 1996 to 3.3 times in 2007 in nominal terms.

Large-scale poverty

Whichever poverty measures are used, it is apparent that the number of poor has decreased by over 90 percent since the end of the 1970s (see Figure 3.3). However, when a different poverty line is adopted, a different figure is obtained. Poverty incidence is very sensitive to upward adjustment of the poverty line, especially if it involves a large proportion of low-income people with the income adjusted slightly higher than the official poverty line. In 2008, the government began to adjust the official line upwards by 43 percent for rural areas. As a result, the number of people defined as “poor” increased by over 200 percent.³

However, the new official poverty line is still believed to underestimate reality because it approximates to US$1 per person per day as suggested by
China’s urban–rural income gap between 1978 and 2007

Figure 3.3 Poverty incidence of rural population based on official lines
Source: China Statistical Yearbook, various years.
the World Bank. If the official line is raised to US$2 per person per day, the poverty rate doubles, meaning that in 2008, the rural poor population would have been around 100 million (Figure 3.4) (World Bank, 2009a).

**High unemployment pressure**

It is difficult to obtain an accurate estimate of the unemployment rate for a developing country like China which has millions of rural surplus laborers, rural–urban migrant workers and informal sector workers. Even in urban areas, the government has never published re-employment rates comparable to the international benchmark. The government simply publishes an annual registered unemployment rate for urban areas. By definition, the unemployed are people who are registered in labor offices, covered by unemployment insurance and seeking employment services from governments. This implies that most rural–urban migrant workers and those in the informal sector are unlikely to be registered. Therefore, the official registered unemployment rate has been considerably underestimated (Figures 3.5 and 3.6). Some studies state that the underestimation is around 2–5 percent, depending on the timing and whether or not rural migrant workers are included.

**Increasing labor mobility**

Like other developing countries, China is now still a labor-surplus economy with a large proportion of its labor force engaged in farming activities though...
the urbanization process has accelerated since the mid-1990s. The latest statistics indicate there were 480 million laborers in rural areas in 2007, accounting for 62 percent of the total number of laborers in China (China Statistical Abstract 2008, p. 43). Nearly half were mobile, employed either in rural industry or in urban areas. The number of rural–urban migrant workers has been increasing and reached more than 130 million in 2006, as shown in Figure 3.7. Based on experiences in developed countries, the process of rural–urban migration in China will likely continue for the next two decades.\(^4\) The majority of these workers are less-educated, unskilled, highly mobile, low-income earners not covered by social security (Deng and Li, 2008; Li, 2008). As migrant workers are registered in rural areas, they are generally at a

\(\text{Figure 3.5} \) Number of urban unemployed people in China, 1978–2008 (millions)
Source: China Statistical Yearbook, various years.

\(\text{Figure 3.6} \) Urban registered unemployment rate in China, 1978–2008 (%)
Source: China Statistical Yearbook, various years.
disadvantage in the urban labor market in terms of employment opportunities, salary payment and accessibility to social security and public services.

Declining consumption propensity

Since the 1990s, China has experienced declining consumption as a percentage of GDP. As can be seen in Figure 3.8, total consumption as a percentage of GDP declined from 67 percent in 1981 to 49 percent in 2007. The decline was largely due to the fall in the share of household consumption. At the same time, the share of household consumption in GDP decreased by 17 percent while the share of government consumption stayed in the range of 13–16 percent.

Data from the annual household survey conducted by the National Bureau of Statistics also indicates that the household saving rates have been increasing since the early 1990s in both the urban and rural areas. Figure 3.9 shows that the household saving rate increased sharply from 10 percent in the mid-1980s to 27 percent in 2007 in urban China, while in rural China, a stunning rise occurred in the 1990s.

The decrease in the propensity to consume and the increase in household savings have had a negative impact on macroeconomic growth, which is increasingly dependent on export growth. Major reasons for the decline in consumption are the emerging economic uncertainties and transition of the social security system. Households feel the impact of rising unemployment, and higher payments for
social security and public services such as healthcare and education. To deal with these uncertainties, they have been increasing their savings.

**Rising social conflict**

Social unrest is recognized as a major problem that can trigger social instability in China. According to diverse sources, the numbers of incidences of social unrest have increased over the past decade. For example, citing Chinese Communist Party sources, Lum (2006) indicates that social unrest grew by nearly 50 percent from 2004 to 2005 and that there were 87,000 cases of “public order disturbances,” including protests, demonstrations, picketing and group petitioning, in 2005 compared to 74,000 in 2004. Although there are no reliable official statistics on the latest situation, it is expected that social unrest may now be even worse in some regions (Peng, 2009).

**Strategic objectives of social security**

It is important for China—a developing country and a transition economy—to establish a desirable social security system to deal with its economic and social challenges. A well-functioning social security as well as a social welfare system is essential to achieve the overall objectives of providing insurance, poverty relief and income redistribution. Social security is expected to play an important role in stimulating domestic demand by reducing the saving rates of households, particularly for low- to middle-income groups, and maintaining social stability.

![Figure 3.8 Changes in consumption as a percentage of GDP in China](source)
The six objectives of social security

The objectives of social security, widely recognized by economists and sociologists, with applications particularly focused on China, can be summarized as follows (Barr, 2001; Barr and Diamond, 2008):

1. **Insurance.** Social security has two major components—social insurance and social assistance—including social relief and financial support for specific population groups such as the aged and children. Social insurance is frequently referred to as social transfer programmes that deal with risks: the risk of unemployment, healthcare expenses and inadequate income support during retirement (Feldstein, 2005). For China, social security has a very important role in reducing risks, especially those resulting from uncertainties related to the transition process of an economy in terms of employment, income mobility, and healthcare. The unemployment insurance, minimum income guarantee programme and medical insurance
provide good examples of coverage in these aspects. Social insurance differs from private insurance in that it is mandatory and requires more intervention and obligation by governments, which may lead to disincentive effects on job-seeking and inefficient use of medical resources. It is crucial to design a desirable social security system to provide an optimal combination of insurance and incentives. While most countries, either developed or developing, are seeking solutions with their own specific conditions, China is no exception (Feldstein, 2005; Barr and Diamond, 2008).

2 Poverty relief. Without social security and social support, it is difficult for the poor to rise out of poverty. As modern poverty theory explains, poverty by nature easily generates poverty and even more poverty when low-income people fall into a poverty trap (Bowles et al., 2006). In circumstances where public services are lacking, poverty and illiteracy and/or illness form a vicious circle. Knight et al. (2010) provide strong evidence showing that children from low-income households in rural China have higher drop-out rates in compulsory education than those from better-off households, and they have fewer opportunities to secure decent jobs and non-agricultural employment with higher compensation when they enter the labor market. The poverty structure has shown significant changes over the past decade. One is the increase in the proportion of rural population falling into poverty due to illness and disability, reflecting inadequate access to medical insurance and services in rural China. The Minimum Living Standard Guarantee (MLSG) scheme has been quite successful in alleviating poverty in urban China since its widespread implementation in 2000, but it plays a limited role in narrowing income inequality (Li and Yang, 2009). Drawing on experience from the MLSG scheme in urban areas, the government started to implement the same scheme in 2007 in rural areas, where the income level of households who qualified as recipients is much lower compared to that in urban areas. Believed to be a more effective measure of poverty reduction in China, the MLSG scheme is also a supplementary measure to the traditional measure—through supporting economic development in the poor regions—of alleviating poverty.5

3 Income redistribution. Social security’s function is income redistribution, but it is still debatable whether income redistribution should be a priority objective in designing a social security system (Feldstein, 2005). Theoretically, social security has direct and indirect redistributive effects in society. The direct effects may not be so obvious and explicit, but the indirect effects cannot be ignored. A pension system such as pay-as-you-go (PAYG) has little effect on income redistribution in urban China since pensions are closely indexed to the previous wage of recipients, but there is no doubt that PAYG has an indirect effect on intergenerational distribution of income. The indirect effects become more significant in an aging population. Medical insurance and compulsory education have even greater indirect effects on income distribution in the long term. Equal opportunities in access to education are crucial in narrowing income inequality.
within cohorts and generations. Over the past decade, rising returns to education have played an increasingly important role in widening wage inequality in urban China, but a significantly unequal educational attainment among urban employees also contributes to wage disparity (Li, 2008). Social security and welfare, such as an income allowance programme and free or subsidized education, have at the same time generally positive effects on income redistribution, from which the low-income population will benefit more.

4 Consumption smoothing. Social security in the form of a pension system has the obvious function of consumption smoothing—also called the piggy bank function—for individuals in the long term. Chinese households, particularly low-income households in rural areas, frequently experience income fluctuations due to unemployment, volatility of product prices, disease outbreaks and natural disasters. Income fluctuation is one of the major causes of rural population falling into transient poverty (Whalley and Yue, 2009). It is not surprising that income fluctuation inevitably leads to household consumption fluctuation. Therefore, social security, such as unemployment insurance, medical insurance and income support programmes like the MLSG, have a strong impact on household consumption smoothing, especially in low-income households.

5 Consumption stimulation. This objective is particularly important for countries like China with a continuing decline in the propensity to consume in the long term. The global financial crisis hit China’s export sector seriously. Chinese economists and sociologists then appealed to the government to expand spending more on social security and public services in order to reduce consumers’ risks and uncertainties and raise their propensity to consume (Cai and Du, 2009). Although there is no strong evidence showing that inadequate social security is a major cause of the decline in consumption in China, some attitudinal surveys indicate that saving for education, future medical needs and housing purchases are the primary reasons why people save.

6 Social stabilizer. From China’s perspective, this is integral to social security. Many studies indicate that crime and social conflict are strongly correlated with unemployment, income inequality and poverty (Fajnzylber et al., 2002a, 2002b). The correlation increases in countries which have no or inadequate social programmes to protect the poor and unemployed. To reduce social conflicts and create a more stable society, it is important for China to expand and strengthen the current system of social security. This will help build a harmonious economic and social environment for the implementation of the 12th Five-Year Plan.

The role of the government in social security

How governments in developed countries, and especially in welfare states, should contribute to social security has been an ongoing debate for a long
time. There seems to be no single uniform rule applied to all countries (Feldstein, 2005). In China’s case, the government should play an increasingly important role in the provision of social security. This does not mean that the government should take full responsibility. There should be a clear division of labor between the government and the market in the provision of public services. Households and individuals are also major financial contributors to funding security programmes.

The strategic objectives of China’s social security in the coming decades and their relationship with overall development objectives should be clarified. A desirable system should encapsulate the following three basic principles. First, there should be complete coverage for all groups—the young and old, rural and urban residents, workers in the formal and informal sectors, the employed and unemployed. Second, there should be portability of benefits, which means a personal contribution to social security programmes; and qualifications should be portable with job mobility and migration across regions. Third, sustainability of coverage, that is, the standard of social security should not be maintained at a level beyond government fiscal capability, but should be raised incrementally with economic growth. It is widely accepted that expenditures on social protection in China are much lower compared to other countries, and even most developing countries (CDRF, 2009).

Elements of the social security system in China: problems and reform

The Minimum Living Standard Guarantee (MLSG)

Current situation and problems

The MLSG scheme was introduced in the late 1990s, but its implementation has expanded rapidly in urban areas from 2001 and in rural areas since 2005. The number of people supported by the MLSG since 2000 is shown in Table 3.1. In 2000, only 4 million of the urban population received support from the MLSG, but this figure increased to almost 12 million in 2001 and 21 million in 2002. Since 2003, the number of urban residents receiving income allowance has been maintained at around 22 to 24 million. The increase accelerated over the subsequent years, as indicated in Table 3.1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>4.0</td>
<td>3.0</td>
</tr>
<tr>
<td>2001</td>
<td>11.7</td>
<td>3.0</td>
</tr>
<tr>
<td>2002</td>
<td>20.6</td>
<td>4.1</td>
</tr>
<tr>
<td>2003</td>
<td>22.5</td>
<td>3.7</td>
</tr>
<tr>
<td>2004</td>
<td>22.1</td>
<td>4.9</td>
</tr>
<tr>
<td>2005</td>
<td>22.3</td>
<td>8.3</td>
</tr>
<tr>
<td>2006</td>
<td>22.4</td>
<td>15.9</td>
</tr>
<tr>
<td>2007</td>
<td>22.7</td>
<td>35.7</td>
</tr>
<tr>
<td>2008</td>
<td>23.3</td>
<td>43.1</td>
</tr>
</tbody>
</table>

In 2008, of the urban residents receiving income allowance, 3.5 percent were formally employed, 16.3 percent were informally employed, 13.6 percent were aged people, 24.3 percent were registered unemployed, 17.2 percent were unregistered unemployed, 15.3 percent were students and 9.8 percent were other children. The average threshold level was 205 yuan and the average income received was 144 yuan per person per month in urban China in 2008, an increase of 13 percent and 40 percent, respectively, compared to that in 2007.

The programme currently covers all the population institutionally, but criteria for urban and rural residents are different and vary from one region to another. Although the number of rural residents supported by the MLSG exceeded the number of urban residents, the threshold level for rural residents to qualify as recipients and the average income received by rural residents are much lower than their urban counterparts. In 2008, the average threshold level for rural residents was 82 yuan and the average income each person received was 50 yuan per month.

Another problem is that the programme excludes certain population groups such as migrant households and college graduates. Since the programme is implemented by city or county governments, residents without local hukou (household registration) are not eligible for the programme.

**Debates and policy options**

Policy debates for the urban programme include whether rural–urban migrants should be covered and whether the differences in protection level across cities should be based on living costs rather than the financial ability of the government. Policy debates for the rural programme are concerned with the extremely low welfare standards and the wide differences in coverage and protection levels across regions. Some scholars believe that the programme should be more comprehensive, aimed at the most needy, and should be implemented with employment promotion measures that encourage the unemployed to return to the labor market quickly (Jiang, 2009; Xu and Zhang, 2009).

One of the notable problems of the MLSG in urban areas—which is not widely discussed and not deemed a problem by some scholars—is the exclusion of rural–urban migrant households from the scheme. The argument is that the programme is likely to generate a moral hazard for rural–urban migrants. Where the income of rural households is very much lower, the programme would induce rural people to move to urban areas if they qualify as MLSG recipients. It is, however, more critical to provide employment services, such as job training than to provide income allowance to rural migrants in urban areas (Lin, 2006).

The aim of the MLSG is to reduce poverty in urban and rural areas, but households which are considered marginally less poor are more likely to be ignored by the programme in less developed areas since the threshold level is set below the poverty line in these areas due to insufficient government revenue.
Also hotly debated is whether college students should be covered by the MLSG. Given that scholarships and education loan coverage are limited, the programme should target students from poor households who can barely maintain their basic living standards (Liu et al., 2009).

How to maintain the credentials of the programme in the long term? It should be adjusted frequently with considerations for changes in consumer prices and economic growth. For example, the threshold level should be indexed to consumer prices and should rise with household income growth. It should also be adjusted with changes in the minimum wage and unemployment benefits (Song and Guo, 2008).

It is critical for China to narrow the regional differences in terms of threshold level and coverage of the programme. The differences arise mainly from the varying financial capacity of local governments. To raise the threshold level and coverage in less developed areas, it is crucial for the central government to take more financial responsibility by transferring more funds to less developed areas (Zhao, 2008).

Given the fact that the threshold level in some areas is underestimated, even below the poverty line, not all of the poor households are supported by the programme. To solve this problem, which happens in some cities and counties with financial difficulty, local governments should increase the threshold level in order to support and include households that previously did not qualify for the programme because their household income just scraped above the old threshold level. For instance, Anshan city in Liaoning Province started to provide special support to households with an income within 20 percent above the threshold from 2009. The special support includes subsidies for employment, education, training, healthcare, food, heating, etc.

Basic healthcare: financing and delivery

Current situation and problems

Since the mid-1990s, China has tried to work out a more efficient and economic healthcare system. In 1998, the State Council issued The Resolution on Establishing the System of Basic Medical Insurance for Workers in Urban Areas, drawing on the experience of earlier local pilot reforms, which indicated the need to introduce a national system of medical insurance. Currently, there are three types of medical insurance schemes. The first is the Worker Basic Medical Insurance (WBMI) scheme, which was transformed from public healthcare implemented under the old planned system, covering urban workers and retirees. The second is the Urban Residents Basic Medical Insurance (URBMI) scheme for urban residents who are not covered by the first insurance type, including children, students and aged seniors without employment history. The third is the New Rural Cooperative Medical Insurance (NRCMI) scheme, covering only rural people.
The key challenges facing the current healthcare system are incomplete coverage of medical insurance, low funding from the government, high fees required from patients for medical services and unbalanced regional allocation of medical resources (CDRF, 2009). By the end of 2008, nearly 150 million urban workers plus 50 million retired people had joined the WBMI scheme, and 118 million urban residents and 815 million rural residents have joined the URBMI and NRCMI schemes, respectively. However, the coverage for the WBMI, URBMI and NRCMI schemes was 99 percent, 60 percent and 85 percent, respectively.

A more serious problem with the NRCMI scheme is its low reimbursement ratio, which is below 50 percent in most rural areas. Given the rising medical costs in recent years, it is reported that most low-income rural families cannot afford medical services, even though they are covered by the NRCMI.

**Debates and policy options**

The debates center on the following two interrelated issues: Who should be the financial contributors: the government, enterprises or individuals? Should market mechanisms be introduced into medical service delivery? If the government finances healthcare through taxation, it will be inevitable that the service options will be provided mainly by public hospitals. There would be a very limited role for the market mechanisms (like the British model). Another argument prevails that medical insurance, either public or commercial, should be a priority option and public hospitals should be privatized (similar to the American model).

For rural migrant workers, the question is, what kind of medical insurance will be beneficial to them? Zheng (2008) and Du (2009) proposed a further classification for migrant workers: long-term migrant workers who settle in a city to be covered by the WBMI; short-term or seasonal migrant workers to be covered by the NRCMI; and highly mobile migrant workers to be covered by special arrangements, for which an ideal solution is difficult to find because the current system is not transferable across regions. You Chun suggested that coverage for high mobility migrant workers should be provided by commercial medical insurance that is subsidized by the government (You, 2009).

Encouraging migrant workers to join the WBMI scheme is a problem as the high contribution to be paid by the individual makes it unaffordable for low-income workers (Luo, 2008; Du, 2009). The WBMI requires that workers and their firms contribute 8 percent of the total wage to WBMI: 2 percent coming from the worker’s contribution and 6 percent from the firm.

In Shenzhen, one of China’s largest cities, the majority of the urban workers are rural migrants. To attract more migrant workers to participate in the medical insurance scheme, the city initiated new forms of medical insurance suitable for migrants. Meanwhile, the range of medical services covered and reimbursed by the insurance plan was expanded and the permitted reimbursement ratio was increased by more than 10 percent. As a result, over 70
percent of the migrant workers participated in the medical insurance scheme by the end of 2008, a much higher figure than the national average.

**A national integrated healthcare system**

Most areas have adopted a healthcare system that encompasses the three medical insurance scheme types, namely, the WBMI, URBMI and NRCMI, but some cities have tried to create new systems. Yuhang in Zhejiang Province and Zhuhai in Guangdong Province, have merged the URBMI with NRCMI schemes into one system, whereas Dongguan in Guangdong Province merged the three types of medical insurance schemes into one system.

How medical services should be delivered to the population is still hotly debated in China. Now public hospitals are a dominant player in the medical service sector, accounting for over 90 percent of all healthcare institutions. Since the 1990s, the local governments have reduced subsidies to public hospitals, which must earn the major part of their revenues from patients and the WBMI scheme. Some hospitals receive subsidies from the governments, which are only 10 percent of their total revenue. To sustain business and operations, the hospitals raise medical fees and coerce patients into paying for expensive medication and unnecessary diagnostic tests. As a result, medical costs have reached an unaffordable level for ordinary households. On one hand, high medical costs mean high contributions to medical insurance from workers and firms. On the other, it deprives households of medical services, particularly rural households that are not covered by medical insurance. These problems have led to heated debates on how best to deliver medical services to individuals, and whether public hospitals should be subsidized by governments directly or compete with each other for patients.

Opinion is divided into two schools of thought. One camp is in favor of market mechanisms in the medical service industry. Hospitals, whether public or private, should create strong incentives to provide economic and efficient medical services to patients. The best way to achieve this is to tie and link the salaries of medical staff to their performance, and offer incentives to hospitals to operate more efficiently. This is just one side of the coin. The other side is to limit medical demand by cost-sharing whereby a portion of the medical cost would be borne by patients themselves. For this, the framework of medical services would be consistent with demand and supply. For employees, payment contributions come from three parties: the government, firms, and individuals. For non-employees (such as children and the unemployed, etc.), payment contributions come from the government and individuals. Individuals buy medical insurance from insurance companies, which pay hospitals for the medical services rendered to individuals. As commercial agents, insurance companies have an incentive to propose that hospitals lower medical costs and overcome the problem of the abuse of medical services. Insurance companies can be state-owned, therefore the government is justified in regulating their business behavior.
The other camp is in favor of free provision of medical services by the government. The government instead of the market should play a more important role in financing and delivering medical services (Li, 2006). The more extreme argument is that the government should give full financial support to public hospitals, which are required to provide free medical services to patients. In this system, government funding comes from taxation and medical insurance is unnecessary since the government is a “large medical insurance company.” There are two problems envisaged in this model. The first is how to make public hospitals operate more economically and efficiently. The second is to solve the “free rider” problem associated with patients.

The government has not made any final decision on the future direction of healthcare system reforms while pilot reforms are being conducted in several areas. However, all parties have reached a consensus that China needs a strong healthcare system at the community level, and that this should be the main responsibility of the local governments. Therefore, at the beginning of 2009, the State Council issued two documents concerning further medical insurance reforms: “Suggestions on Deepening Reform of the Medical System,” and “Implementation Programmes of Deepening Reform of the Medical System in 2009–11.” The three target goals for 2012 are: (1) basic medical insurance coverage for all residents in both urban and rural areas; (2) significant improvement in accessibility and quality of medical services; and (3) substantial reduction in the financial burden for citizens receiving medical services.10 To achieve the goals, four proposed measures, to be implemented in the next three years are: (1) coverage of basic medical insurance for urban and rural residents is to be raised to over 90 percent; (2) the contribution to the NRBMI (from both individuals and governments) is to be increased to 120 yuan per person, a considerable rise compared to 30 yuan in 2005; (3) a medical system at the community level is to be established; and (4) public hospitals are to be reformed.

Basic education

Current situation and problems

Over the past ten years, China has implemented a nine-year compulsory education programme. By now, all children in rural and urban areas should be receiving at least nine years of school education without paying any tuition fees. However, an acute problem with compulsory education is the significantly large disparity in the quality of education between urban and rural areas, and between regions (CDRF, 2009). Unlike children in cities, children in rural areas have little chance of receiving a pre-school education due to the shortage of kindergartens.

Due to lower quality of teaching and the lack of teaching facilities, compulsory education in rural areas is not as good as that in urban areas.
contrast is even more strikingly stark between remote rural villages and mega-cities. The central government has recognized and mitigated the problem by increasing financial resources given to rural areas and the western region to improve the quality of education in these areas. It will, however, take time to overcome the problem.

Low-middle school graduates from rural areas, due to the low-quality education that they have received, have no competitive advantage in labor markets when they move into cities. They typically are employed as unskilled workers by small firms with low pay and are more mobile across cities and jobs. They are also more likely to remain in the low-income category throughout their lives.

**Debates and policy options**

Now that the nine-year compulsory education programme has been realized, China should turn its focus to basic education. Perhaps it should either initiate a more ambitious programme, that is, a 12-year compulsory education programme as most developed countries did some years ago, or concentrate on improving the quality of the present compulsory education programme, especially in rural areas.

Debates on policy for basic education revolve around issues about whether compulsory education should be extended to 12 years and whether more resources should be channelled to improve the quality of the current nine-year compulsory education. The bigger issue is how to improve the quality of compulsory education in rural areas, which is much lower than that in urban areas. The following policy options are proposed for the next five years. First, there is no doubt that rural primary and secondary education needs more financial support from the governments at all levels. In poor areas, financial support from the central government is crucial. Second, to improve the quality of rural education, it is crucial to attract more qualified teachers to teach in primary and secondary schools in poor and remote areas. Given the oversupply of college graduates resulting from the rapid expansion of higher education since 1999, the central government may consider initiating a special programme to encourage college graduates to teach in primary and secondary schools in rural areas.

Education of migrant children is another issue sparking policy debates. There are millions of rural-migrant children of school age living in cities, but most have difficulty gaining admission to public schools and have to go to private schools. The conditions in these schools are extremely unsatisfactory. Most teachers are unqualified, classrooms are unsafe and the quality of education is much lower than in urban public schools. Some of these schools are regarded as illegal by local governments, but they play an important role in providing education to migrant children. The current Chinese education system stipulates that local governments should take the main responsibility for financing the compulsory education of the local children in their
communities, but for migrant children the local governments find no incentive to do so. As the central government has not implemented any nationwide policy concerning compulsory education for migrant children, local governments are concerned about more migrant children moving into their areas if the central government decides to implement a policy allowing migrant children to study in public schools. It is a huge dilemma for city governments. The central government also faces a dilemma since any change in the education system in favor of the migrant children in the cities would cause an influx of rural children into the cities.

The attitude that city governments adopt towards providing compulsory education for migrant children is understandable, but the consequences of their policy are unacceptable. Most migrant children will be disadvantaged and edged out in the urban labor market, thus generating inter-generational immobility among migrants in urban areas. To solve the problem, city governments must provide migrant children with a public education, the same education that local urban children are entitled to. To coordinate policy implementation across cities, the central government should create a uniform nationwide curriculum. Meanwhile, the central government and provincial governments should increase and transfer funding to cities which face difficulties in expanding their educational capacity to migrant children.

In most parts of China, children enter primary schools at age 6 or 7 years and the the enrollment rate is almost 100 percent in urban and rural areas. However, not all have the chance of a place in kindergarten. Some estimates indicate that about 30 percent of 5-year-old children in urban areas do not attend kindergarten and the percentage in rural areas is even higher. Therefore, the Chinese government should consider ensuring that all children receive at least one year of pre-school education. To encourage parents to send their children to kindergarten, local governments should give subsidies to either parents or to kindergartens. In more affluent areas, there is the option for governments to provide free pre-school education for all children.

Junior-middle school graduates face difficulty in finding employment and are disadvantaged in terms of salary. What they learn in schools is often not what employers require and does not enhance their employability. A way to solve the problem is to provide skill-training to these junior-middle school graduates which could last six months to a year, and should be free or highly subsidized. In 2008, about five million junior-middle school graduates left school and entered the labor market.

**Higher education**

**Current situation and problems**

Tertiary education in China has expanded rapidly in the past decade. College student enrollment has increased from 1.1 million in 1998 to 6.3 million in 2009, at an annual growth rate of 17.2 percent (China Statistical Yearbook...
2008, p. 415). The gross enrollment rate in tertiary education reached 23 percent in 2009. The central and the local governments have at the same time increased their budgets for tertiary education. Spending by governments increased at 15.5 percent annually from 1998 to 2006 (ibid., p. 430).

However, with the rapid expansion of tertiary education, many problems have surfaced. The Chinese higher education system has maintained the typical features of the Soviet-style education system, mixed with the legacy of the Chinese economic planning system introduced in the 1950s. The problems in the higher education system have been widely criticized following Premier Wen Jiabao’s question in 2006, “Why can’t our education system foster great academic masters?”

The criticisms can be summarized as follows:

- **Chinese universities lack creativity, motivation and mechanisms for innovation.** Even though evidence shows that the publication of academic papers by Chinese scholars has increased considerably over the past decade with higher research funding, still very few papers appear in top journals. The fundamental reason is that innovation and innovation-related research are not given enough attention by Chinese universities and the governments (Wang, 2009).

- **There is strong intervention from the government in the internal activities of universities.** Due to the control and regulations in the teaching and administrative activities, there is very limited room for universities to exercise their autonomy in student enrollment, faculty and staff recruitment, as well as setting the academic curriculum and disciplines (Ruan and Hu, 2009).

- **There is a lack of good governance structure within universities** (Yang, 2009). The current administrative structure in Chinese universities is a system of the “president’s responsibility under the Party Committee’s leadership.” A serious flaw in this system is that there is no clear division between the tasks of the university’s president and the Party Secretary. In most cases, Party Secretaries are more powerful than presidents, though presidents are also in the Party Committee. Presidents are appointed by the Ministry of Education or local governments instead of being appointed via recommendation and election by professors within universities. This puts presidents in an awkward position as they must report to and be accountable to the higher-level governments, and less accountable to their university colleagues. Although the 1995 Education Law stipulated that Chinese universities should draft a university charter specifying their responsibilities and accountability, none have actually taken the initiative towards better governance (Yang, 2009; Zhu, 2009).

- **Professors and teaching staff have little autonomy in administrative and academic matters within universities,** even in choosing curriculum and textbooks. They have little role in decision-making processes. Some universities have a professor committee, which is supposed to be a decision-making organization within colleges and universities, but in reality the
roles of the committee are very limited (Zhu, 2009). As a result, professors have little incentive to work hard and perform well.

- There is no innovation-based evaluation system to gauge the performance of Chinese universities. The current evaluations are conducted by the Ministry of Education or local governments and they emphasize quantitative indicators such as the number of students, teaching staff, published papers, organized academic meetings, ongoing and completed research projects, etc. The assessment pays little attention to activities and outcomes associated with innovation. Thus allocation of financial and human resources are misleadingly channeled into activities and projects that have little or no breakthrough potential and innovativeness. In addition, the promotion benchmarks for teaching staff in most Chinese universities are based on seniority and publication quantity, whereas key criteria based on meritocracy such as creative research and new ideas are often ignored.

- There are many restrictions on the development of private universities. The majority of the higher education institutions are public universities. There is, therefore, no political and social environment for private universities to thrive. The governments impose too much red tape for private higher-education institutions to obtain any form of approval.

- The supply of university graduates cannot meet market demand due to the outdated curricula which are not oriented towards industry. As a result, the employment rate of college graduates within the first year of graduation has been declining (MACOS, 2009). The employment rate of the college graduates within the first year of graduation was slightly above 85 percent in 2008 due partly to the impact of the global financial crisis and partly due to the demand/supply mismatch of college graduates in the labor market (ibid., p. 7). Thus, over 750,000 or nearly 15 percent of the new college graduates were unemployed. Of the college graduates who were employed in their first year of graduation in 2008, nearly one-third found jobs that were unrelated to their field of study (Li and Wang, 2009).

Debates and policy options

The Chinese economy has reached a stage where growth is increasingly dependent on the improvement of product quality and efficiency of enterprises. Innovation will play a critical role at this stage. Chinese universities should thus take responsibility for the promotion of innovation. To meet this challenge, the following reforms are needed for Chinese tertiary education:

- Set up effective mechanisms to encourage innovation and creative research. Financial resources from the governments or from other sources should be allocated to innovative research, especially projects that emphasize originality and cutting-edge ideas. Researchers should be provided with sufficient funds for their innovative work and be sufficiently rewarded for their contribution to academic and technology innovation.
- Reduce intervention from governments in internal affairs of universities. It is crucial for universities to be independent academically and administratively if they are expected to establish themselves as institutions known for innovativeness. The governments must understand that too much intervention in universities leads to inefficiency and low productivity.
- Establish an appropriate governance structure within universities, including re-organizing leadership of the Party in higher education. Under the current political system, the leadership of the Party in universities and education is de facto, and calling for withdrawal of Party leadership is absolutely unacceptable. However, there is still some room for redefining the role of the Party leadership in higher education by reorganizing the Party committees in universities (Yang, 2009).
- Give more autonomy to professors by designing and reorganizing the professor committee in universities and colleges. The committee should be one of the major decision-makers in the allocation of human and financial resources within universities. Committee members should be elected by professors and teaching staff and take primary responsibility for their votes.
- Set up an authorized and innovation-guided evaluation system for the performance of universities. The system should be independent from government, political intervention and interest groups. The evaluation outcome should become one of the bases for governments to allocate research funds among universities.
- Provide special and preferential policies for the development of private higher education institutions, apart from the implementation of a comprehensive set of regulations that would not discriminate against private providers of higher education. The policies should include simple legal registration and approval procedures for private universities, tax reductions or tax exemptions for donations and charitable contributions to private higher education institutions, and removal of barriers to obtain credit.
- It is important to give greater autonomy to universities in terms of student enrollment. The current national college entrance exams can be considered one method—but not the only method—for universities to enroll new students. Universities should be given the freedom to determine the best admissions system and requirements, and to organize and determine the form of entrance examinations so that students with potential and creativity are identified and enrolled.
- Reform the academic curriculum in order to equip college graduates with professional knowledge and skills to better meet employer expectations (Ren, 2009). A World Bank project on skills development in Guangdong Province stresses that a good balance has to be achieved between hardware, which includes facilities and equipment for education, and software, which encompasses curriculum, instructional materials and trained qualified teachers (World Bank, 2009b). This emphasis can be applied to Chinese universities and colleges. Transforming the learning environment from
one that is teacher-centered to one that is learner-centered is necessary. The learner-centered approach trains and equips students with skills such as problem-solving, teamwork and communications that are much sought after by employers.

Housing security

Current situation and problems

Like all other countries in the world, China faces challenges in providing decent housing to low-income groups. Since the launch of housing reforms in the 1990s, most public housing has been privatized through apartment sales to tenants. Surveys have shown that the percentage of urban households living in public housing decreased from over 80 percent to less than 20 percent from 1988 to 2002. Along with housing privatization, the commercial property market has also developed rapidly. In 2008, total revenues from the housing and real estate industry accounted for over 5 percent of national GDP, becoming one of the major driving forces of the country’s rapid economic growth. However, the growth of housing and real estate has resulted in unexpectedly high housing prices, especially in large cities. Local governments stopped giving housing subsidies to urban households since the late 1990s, as a stimulus for housing market development. As a result, the low-income households, together with millions of rural migrant households, cannot afford to buy their apartments. With skyrocketing housing prices, even middle-income households in cities face difficulties in affording larger and better apartments through the housing market. To some extent, the housing market has become a speculation playground for the rich and affluent.

The problem is very clear: high housing prices drive low-income households out of the housing market and rule out any possibility of them improving their housing situation. One solution is to reduce housing prices to an affordable level. Even though this solution is technically and economically feasible, it cannot be implemented politically: the local governments would strongly oppose this measure because their revenue from land sales would decline with falling housing prices. The second solution requires the governments to take responsibility for providing low-rent or low-price housing for low-income households, even for middle-income households.

Debates and policy options

There are three alternative solutions to the housing problem of low-income groups in urban China (CDRF, 2009):

1. Subsidized-price housing (*Jingji shiyong fang* or JSF) is restricted to low- and middle-income households. Housing is sold at prices lower than...
market prices to households that qualify as the most needy and with an income below the threshold level set by local governments. The local governments’ contribution is to provide free land to estate developers and to set housing prices. However, the subsidized housing prices in large cities such as Beijing, Shanghai and Shenzhen have been rising with market prices to a level that is beyond the affordability of the low-income group.

2 Rent-subsidized public housing (Lianzu fang or LZF) caters only to poor households, not migrant households. This programme has not attracted much attention from city governments because city governments need to spend more resources, both financially and in terms of land, to provide LZF rather than JSF, and the costs of managing and maintaining LZF are relatively higher.

3 Housing cash subsidy (Zhufang xianjin butie or ZXB) provides cash relief to households which have already bought housing or rented apartments in the market. This programme is not widely implemented and is in the pilot stage in developed areas.

Currently, most cities are implementing both JSF and LZF programmes at the same time, though the two are not “balanced.” There are debates suggesting either JSF or LZF should become a priority housing policy for city governments. Some scholars, on the other hand, strongly argue for the abolishment of JSF based on the following rationale: first, the JSF programme is not justified on fairness. For example, one qualifying criterion for a JSF buyer is his/her current income instead of permanent income. This is a possible scenario whereby some buyers are not really categorized as low-income if their past income records are taken into account. To qualify for and own a JSF apartment means a lifetime benefit. Second, the programme would encourage corruption. Due to the large profit gain involved in huge price differences between commercial housing and JSF, rent-seeking activities are common in the allocation of JSF. This argument augurs well for the LZF programme—whose merits are morally acceptable—to be considered a priority in urban housing policy in the future.

There is still a strong voice in favor of the JSF programme because it is, first, more acceptable to city governments and can be quickly implemented, and second, the programme helps meet the housing needs of middle-income households.

Another housing policy debate is how to provide housing for migrant households in cities. Currently, most rural migrants live in factory dormitories, temporary dormitories on construction sites, or in the basements of high-rise buildings in city communities or in suburban areas. Several case studies indicate that the housing conditions of rural migrants are worse than their urban counterparts, and even worse than those of rural people left behind in their hometown (Li, 2008). Since rural migrants are low-income earners, they have no financial ability to buy apartments in the property market, and cannot even afford housing from the JSF. The only solution is permit them to be entitled...
to access to the LZF programme. Some cities recently initiated several pilot projects to provide LZF for rural migrant households.

The housing accumulation fund (Zhufang Gongjijin), a scheme which lacks fairness, should undergo reform. The current arrangement is that employees in the formal sector, such as civil servants and SOE workers, hold individual accounts for the housing accumulation fund. It is stipulated that both employee and employer should contribute 10 percent of his/her wage to the account, which has a very similar approach to the housing subsidy, but with a regressively distributional function factored in. That means higher-income earners obtain higher subsidies from this programme. There are two reform options for Zhufang Gongjijin. One is to completely abolish it, terminating payment of housing subsidies to these relatively higher wage earners. Second, if the programme name is to be maintained, it can be transformed into a scheme specifically for low- and middle-income employees who urgently need to improve their housing conditions.

Unemployment insurance and employment assistance

Current situation and problems

China is a developing country with large numbers of surplus labor in the rural areas. As its red-hot economy undergoes a transition, large numbers of workers are being laid off from state-owned enterprises. Therefore, China must deal with the challenges of unemployment in urban areas and underemployment in rural areas. Ironically, the official unemployment rates are not as high as expected and are believed to be overestimated. Nevertheless, the government is certainly aware of the unemployment pressures. One of the major motivations for the governments’ desire to maintain high economic growth is to increase employment and alleviate unemployment pressures. After 10 years of rapid economic growth, the problems of unemployment and underemployment are not as serious now as they were in the late 1990s, when large numbers of workers were laid off from state-owned and urban collective enterprises. However, the recent global financial crisis no doubt intensified the problems as many export-oriented, labor-intensive enterprises closed down in the coastal areas.

Unemployment pressures cannot be significantly mitigated over the next five years. One reason is that about 25 million middle-school and college graduates are expected to enter the labor market each year from 2011 to 2015. This was due to a baby boom in the late 1990s. First, it is important to reform and improve the efficiency of the current unemployment insurance system and coverage. Second, it is even more imperative to encourage firms to create new employment opportunities and motivate graduates to actively search for new jobs. To deal with unemployment, it is widely recognized that state institutions, rather than private insurance, should play a more significant role. As Nicholas Barr points out, even in developed countries, what seems
more important is how to design an unemployment insurance plan which
provides genuine protection and serves as an incentive for the unemployed to
look for jobs (Barr, 2003). In China, the issue of protection is currently more
important than the issue of incentive.

A major problem with China’s unemployment insurance system is that only
workers in the urban formal sector are covered. In 2008, the number of urban
workers accessing unemployment insurance reached 124 million, but that was
only 41 percent of the total number of urban employees. At the same time,
the number of rural migrant workers covered by unemployment insurance
was 15.5 million, accounting for less than 12 percent of the total number of
rural migrant workers in urban areas.\textsuperscript{12} This implies that the majority of
workers in informal sectors, such as rural migrant workers and workers in
small private firms, are not covered by the current unemployment insurance
system. Expanding the coverage of unemployment insurance should be a
priority in the 12th Five-Year Programme.

\textbf{Debates and policy options}

Among the many policy debates generated in this issue include questions
revolving around whether migrant workers and workers in the informal sector
should be covered by unemployment insurance, and whether they should be
covered by the current system or whether an alternative system that is more
suitable for them. The Chinese governments at all levels have reached a con-
senus that migrant workers should not be ignored in the unemployment
insurance system.\textsuperscript{13} However, there has been no agreement as yet on how to
provide a system for migrant workers. Since migrant workers typically move
frequently between jobs, employers and cities, it is obvious that the current
insurance system is unsuitable for them. One option proposed in the 2009
Annual Development Report is that the unemployment insurance system for
migrant workers be transferable between cities and provinces. The govern-
ments should be a major contributor to the system and the contribution from
migrant workers should be as low as possible or at least affordable.

College graduates are now more and more likely to become unemployed. It
has become a social and even a political problem. Debates arise over whether
unemployed graduates should be covered by unemployment insurance, and
who should be the main financial contributors to the insurance, etc.

Provision of various training programmes is part of the employment assis-
tance, targeting different population groups. An example is the Sunshine
Project for migrant workers. However, there are questions about the effec-
tiveness of training projects and the role that the government can play in
assisting the unemployed and job-seekers.

The current training programmes for rural migrant workers are generally
short-term, spanning two to three weeks. One such programme is the
so-called urban life guide training, which helps migrant workers accom-
modate to urban life, but may not be very useful in helping them find a job
because what they need most are skills or professional training. Therefore, the governments should provide migrant workers more skills or professional training opportunities.

The Chinese governments may also consider setting up a national information network that provides and disseminates free and instant information for migrant workers on labor demand and supply, job opportunities, wage and social security and labor protection.

**Conclusion**

China has made great achievements in economic growth, but has been lagging behind in terms of social protection and the provision of public services over the past three decades. As a result, China is facing serious social and economic challenges such as widening income inequality, large-scale poverty, high unemployment pressures, increasing labor mobility, declining consumption propensity and increasing incidence of social conflict and unrest.

Studies and experiences from other countries indicate that an ideal social security system encompasses strategic objectives for both economic development and social stability.

The Chinese governments at all levels have recognized the importance and necessity of a new social security system that incorporates wider coverage, higher efficiency and greater sustainability (Zheng, 2008; CDRF, 2009). Moreover, China is now financially capable of providing a system benefitting the entire population instead of focusing exclusively on urban workers in the formal sector. One of the challenges China faces is quickly and impartially transforming the current system into a new system accepted by all parties.

It was a remarkable achievement for China to establish a nationwide poverty relief system, namely the minimum living standard guarantee scheme, which now supports nearly 70 million poor individuals in urban and rural areas, in less than 10 years. Now the system needs to be improved in terms of targeting accuracy, wider coverage and higher threshold levels (poverty lines), particularly in rural areas.

China is making a great effort to reform the current medical system, including financing mechanisms and delivery of medical services. A consensus has been reached for some issues, while others are tabled for debate. It has been agreed that the governments should assume greater responsibility for managing medical insurance systems and commit more financial contributions to them. The government’s medical relief should be given to the poorest people, especially those living in rural areas.

Compulsory education is the responsibility of the government. The problems associated with compulsory education are low educational quality in rural areas, unequal allocation of financial resources in favor of urban schools and scant attention to preschool education. To deal with these problems, it is imperative for the central government to centralize allocation of
financial resources by increasing fund transfer to rural education and education in less developed areas. Moreover, the governments should devise a plan to provide free preschool education to children in order to encourage early development of children’s cognitive ability. In addition, it is proposed that governments look into setting up a free post-school professional training programme of six months to one year duration for middle-school graduates as they are presently having difficulties securing a job in the competitive labor market.

Higher education reform is imperative in China. The main problem with higher education is insufficient incentive for professional staff to develop innovative breakthroughs and ideas. One explanation is the extensive intervention from the governments in the internal affairs of universities (Lu and Zhang, 2007). Therefore, the first step towards higher education reform is to reduce this intervention and interference and accord full autonomy to universities.

Housing problems have been on the rise since the governments withdrew the provision of public housing to urban residents. Given the surging housing prices, a major problem is how to guarantee at least basic housing for low-income households, and even middle-income households in urban areas. The city governments can employ three alternative solutions, namely, JSF, LZF and ZXB, to deal with this problem. Over the long term, the JSF scheme should be gradually phased out and the LZF scheme should be expanded to solve the housing problems of poor urban households.

Unemployment insurance, with the coverage extended to workers in the informal sector and rural migrant workers, plays an integral role in maintaining social stability in China. The insurance offers income support to the unemployed, on one hand, and helps them to find employment or self-employment opportunities, on the other (Barr, 2003). To some extent, employment assistance plays a more important role in helping the jobless and protecting the employed from losing their jobs, especially in developing countries. The provision of a comprehensive information network offering employment information and a skills training programme would be very useful to the unemployed and migrant workers with high job mobility.

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Notes

1 It is important to note that social security has different coverage in different
countries. For instance, the term is specifically related to the old age, survivors and
disability programmes in the USA, while in the UK it is used to refer to all cash
tax transfers, both social insurance and social assistance. The Nordic coun-
tries, however, use the term in a broader sense, covering all measures to combat
social insecurity. This chapter adopts the latter concept.

2 The China Household Income Inequality Project collected data in 2007 and made
a preliminary estimation of the national income inequality. The Gini coefficient
was found to be 0.47.

3 While the previous official line was 836 yuan for rural households in 2008, the new
line was adjusted upwards to 1196 yuan, an increase of 43 percent. At the same
time, the rural poor population increased from less than 13 million to 40 million,
or 207 percent. The new line and the corresponding poor population figure can be
found in the National Bureau of Statistics (NBS) of China (2009).

4 There were around 300 million rural workers engaged in agriculture in 2007,
accounting for 39 percent of the number of total labourers in China as a whole.
Assuming the number of rural workers declines by 1 percent each year, it will take
20 years for it to reach 10 percent of the total workers.

5 For a detailed discussion of the supplementary role of the MLSG scheme in redu-
cing poverty in rural Jiangxi Province, see ‘The rural MLSG and poverty allevia-
tion: the same or supplemental role’. Available at: http://www.fupin.gansu.gov.cn/
zwzx/1181004710d3661.html (accessed 10 June 2007).

6 See discussion summary of ‘Why Chinese love saving’. Available at: http://news.xinhu

7 A pilot program to guarantee minimum living standards started in Shanghai in
1993. The central government issued the State Council’s notice on establishing the
minimum living standard guarantee system for urban residents in the whole of
China in 1997, and in 1999, decrees of urban minimum living standard guarantee,
which then became a nationwide urban relief program.

19/content 1263218.htm (accessed 19 March 2009).

9 A detailed discussion of the argument can be found in Gordon Liu’s seminar,
‘Deepening reform of Medicare system, development as hard justification’
(Liu, 2009).

10 See a report in China Labour and Social Security (a Chinese newspaper) on 23
January 2006.

11 See the speech by Premier Wen Jiabao given at a meeting held on 20 November
2006 with six university presidents, People’s Daily, 28 November 2006.

12 Ministry of Human Resources and Social Security and National Bureau of Statis-
tics (2009).

13 It was reported that the Ministry of Human Resources and Social Security decided
to modify the ‘Unemployment Insurance Decree’ by adding specific clauses
regarding unemployment insurance for migrant workers. See Economic Observer,
19 June 2009.

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