

China Insights

Hong Zhou

Towards a Society with Social Protection for All

A Concise History of Social Security
Transformation in Modern China

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Towards a Society with Social Protection for All

A Concise History of Social Security
Transformation in Modern China



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Series Foreword

Since the Opium War, modern China developed through Western-Chinese as come under attack and been bullied for its backwardness; this cultural circumstance has given many Chinese people a psychological inferiority complex, as China has lagged behind other countries technologically, institutionally and culturally. Efforts to change the situation in which Western countries were strong but China was weak and to revitalize China needed to start with cultural criticism and culture renovation. Therefore, the Chinese people turned their eyes to the outside world and learned from Japan, Europe, the USA, and even Soviet Russia. We have always been overwhelmed by stress and anxiety and have had a burning desire to reverse the state of being bullied as a result of underdevelopment, poverty, and weakness and to catch up with and surpass the Western powers. In pursuing the more than one-hundred-year-old dream of building a powerful country and reviving China, we have focused on understanding and learning from others, but seldom, if ever, have others learned from and understood us. This has not greatly changed in the course of modernization since China's reform and opening up in 1978. The translation and introduction of many Western works in the 1980s and 1990s is a very good example. This is the history of the Chinese people's understanding of the relationship between China and the rest of the world since the beginning of modern times.

At the same time, in pursuing the dream of turning China into a powerful country and rejuvenating it through material (technological) criticism, institutional criticism and cultural criticism, the Chinese people have struggled to find a path that would make the country prosperous and the people strong while preventing the country from being ruined and the race from being destroyed. This path first represents a thought, a banner, and a soul. The key issue has been what kind of thought, banner and soul can save the country, making it prosperous and the people strong. For more than one hundred years, the Chinese people have constantly carried out experiments and attempts amidst humiliation, failure and anxiety. They have experienced failure in adopting advanced Western technology and thought on the basis of safeguarding China's feudal system and practicing a constitutional monarchy after the collapse of the Western capitalist political path and a great

setback in worldwide socialism in the early 1990s. The Chinese people ultimately embarked on a path towards a successful revolution with national independence and liberation; in particular, they have adopted a path leading to the socialist modernization of China—a road towards socialism with Chinese characteristics—by combining the theoretical logic of scientific socialism with the historical logic of China’s social development. After more than 30 years of reform and opening up, China’s socialist market economy has rapidly developed; tremendous achievements have been made in economic, political, cultural and social constructions; comprehensive national strength, cultural soft power and international influence have substantially improved; and a great success has been achieved in socialism with Chinese characteristics. Although the latter project has not yet become full-fledged, its systems and institutions have basically taken shape. After more than one hundred years of pursuing dreams, China is rising among the nations of the world with a greater degree of confidence in the path it has chosen, the theory it has adopted and the institutions it has created.

Meanwhile, we should be aware that given the long-standing cognition and cultural psychology of learning from Western countries, we seldom take the initiative in showcasing ourselves—historical China and current China in reality—to the world, though China has emerged as a great world power. Due to a deeply rooted view that “Western countries are strong and China is weak,” developed through Western-Chinese cultural exchanges, Western people and nations seldom have a sense of Chinese history or the current developments in China, let alone an understanding of China’s developmental path and such in-depth issues as the scientificity and effectiveness of China’s theory and institutions or their unique value for and contributions to human civilization. As self-recognition is not displayed, the “China Collapse Theory,” “China Threat Theory,” “China State Capitalism,” and other so-called theories coined by certain people with ulterior motives and differing political views have been widely spread.

During our development, based on “crossing the river by feeling the stones”, we have paid attention to learning from Western countries, understanding the world and learning to know ourselves through Western experience and discourse but have neglected self-recognition and efforts to let others know us. When we strive to become part of the world in a more tolerant and friendly way, we are not objectively, truly understood. Therefore, we should describe the path to the success of socialism with Chinese characteristics, tell Chinese stories, disseminate Chinese experiences, use international expressions to show a real China to the world, and help people around the world realize that the Western manner of modernization is not the endpoint of human historical evolution and that socialism with Chinese characteristics is also a valuable treasure of human thought. This is undoubtedly a very important task for an academic cultural researcher with a sense of justice and responsibility.

In this connection, the Chinese Academy of Social Sciences organized its top-notch experts and scholars and several external experts to write the *China Insights* series. This series not only provides an overview of China’s path, theories and institutions but also objectively describes China’s current development in the

areas of political institutions, human rights, the rule of law, the economic system, finance, social governance, social security, population policies, values, religious faith, ethnic policies, rural issues, urbanization, industrialization, ecology, ancient civilization, literature, art, etc., thus depicting China in a way that helps readers visualize these topics.

We hope that this series will help domestic readers more correctly understand the course of the more than 100 years of China's modernization and more rationally look at current difficulties, enhance the urgency for and national confidence in comprehensively intensifying reform, build a consensus on reform and development and gather strength in this regard, as well as deepen foreign readers' understanding of China, thus fostering a better international environment for China's development.

January 2014

Zhao Jianying

Foreword

People in the twenty-first century could hardly imagine that the social ideal put forward by Karl Marx 130 years ago—From each according to his ability, to each according to his needs, has moved progressive youths and revolutionaries of China and other countries so much in the past century that they were devoted to transforming the old society and building the new one.

Did they succeed? If they did, how did they achieve it, through vigorous or mild social reforms? And what are the lessons we can learn from this process?

Following the ideal of “from each according to his ability, to each according to his needs,” people working for social progress and justice have tried numerous institutional innovation and policy reforms. This book will introduce how have they achieved the social security for all step by step in order to protect laborers’ rights and interests.

Acknowledgements

To write a book about development history of social security, that is, to tell how China's social security system was established and how it developed, is my "avocation dream" for so many years. This dream cannot be realized without encouragement and support from my friends and colleagues inside and outside of this field. And here, I would like to particularly thank Tian Xiaobao, former director of China Institute of Labor and Social Security, for his sincere encouragement and great support, which are necessary for me.

I worked with Tian Xiaobao from mid-1980s, when people forged ahead with reforms and ideals, when people were in pursuit of genuine knowledge. That era brought up a generation that worked selflessly for a richer and fairer China. At that time, I made efforts to introduce social security experience of other countries to China, by translating relevant documents for a professor delegation of the Heller School, Brandies University, who visited China. While Mr. Tian, working for the Ministry of Labor, was responsible for receiving and contacting foreign visitors, including professors from the Heller School. Since then, I helped Mr. Tian to organize training programs abroad for his China Association for Labor Studies, and thus promoted the spread of social security knowledge. Since I came back China to work, I have also been invited to participate in discussions and researches in China Institute of Labor and Social Security. Through the above experiences, I have some understanding about China's reform on social security system. Last year, when I no longer worked as director of Institute of European Studies of Chinese Academy of Social Sciences, I expressed my wish to write a book, which was applauded by Mr. Tian. He not only provided enormous relevant documents, contacted Ms. Wang Jianlun, former Vice Minister of Human Resources and Social Security, but also read our book, pointed out highlights and problems, and even edited it earnestly. Although Mr. Tian declined to the authorship, he is still worth it for his great support.

Hereby, I also would like to thank Ms. Zhang Jun for her involvement. To help me pursue my "avocation," she put aside her work and fully supported me for months. In this book, I was responsible for choosing topics, designing and writing

the whole book, while Zhang Jun collected most documents, and also provided first drafts for the forth section of Chap. 2, third section of Chap. 3, and second and fifth sections of Chap. 4. I would like to thank Minister Wang Jianlun, whose speech at Zhejiang University first inspired me to write this book, and she spent a lot of time in sharing with us her involvement in social security reform in China. I would like to thank Mr. Wan Jianwu from the CCCPC Party Literature Research Office and Mr. XiongHou from Scientific Research Management Bureau of Chinese Academy of Social Sciences for providing me relevant documents and data. And I would like to thank Cui Hongzhi from Rural Development Institute of Chinese Academy of Social Sciences for his precious suggestions.

As this book will be published, I cannot help to missing and appreciating professors and friends working for social security. I believe we, who dedicated our youth to reform and improve China's social security system, are so lucky, as we have experienced, witnessed, and contributed to an exceptional social reform!

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Chapter 1

Take Realizing Social Insurance as a Guiding Aim: 1921–1949

In 1948, one year before the New China was founded, the capital of the Kuomintang government, Nanjing, already had a population of 13.57 million, but the industrial basis there was weak. It only had 38 bureaucratic capital enterprises, 888 middle- and small-sized private enterprises and 22,387 industrial workers. Among them over 8000 worked for the textile industry,¹ others mainly for light industry, such as brewery, printing house, lighting plant, hardware manufacturing, and furniture plant. But due to wars and corruption, these industries always run below capacity or even shut down. Only few officials and teaching staffs could enjoy special old-age and medical benefits, borne by the national treasury, provincial treasury, or municipal education budget. And few industrial workers could also participate in compulsory old-age insurance. But as China was undergoing wars and instabilities, even the above benefits could not be really realized.² In most part of China, it was common to see laborers and especially a large quantity of the unemployed, vagrants and victims of natural disasters and wars live a hard life with displacement, hunger and coldness.

A fairer, better, and more reasonable society is the symbol of a clean government, and also a pursuit of Chinese Communists who aimed at overthrowing Kuomintang regime and founding the New China. This pursuit was proposed with inspiration of Labor Movements in European developed countries in the early twentieth century, and also experience of Bolshevik Party in the Soviet Union that took power. It firstly manifested as protecting laborers' basic rights.

Since established in 1921, the Communist Party of China always took representing interests of the working class and people as its political program and drafted guiding documents to protect their interests, such as *Outline of Labor Law* (1922), *Resolutions on Economic Struggles* (1925), *Resolutions on Industrial Workers' Economic Struggles* (1927), *Resolutions on Handicraftsmen's Economic Struggles* (1927), and *Resolutions on Female and Child Laborer Issue* (1927). Through these

¹Compilation Committee of Nanjing Chorography (1999, p. 29).

²*Ibid.*, pp. 476–481.

documents, the CPC advocated to protect women's rights by maternity leave,³ implement social insurance system, and provide relief for occupational injury, disease, unemployment, and old age. The party also called for "establishing labor insurance which is borne by employees or national treasury."⁴ Later, it proposed to "establish a labor social insurance (targeting unemployment, old age, and disease) that will be borne by the capital and the government." Although at that time, China's industrial base was very weak and industrial workers only accounted for a small scale, the CPC clearly pointed out that to establish the social insurance system was a guideline for protecting laborers' rights and interests.

Once this demand was proposed, it became a weapon for organizing laborers to fight for their own interests. Local trade unions organized laborers to make clear and concrete claims for social insurance. For example, in August, 1922, Nanjing–Hankou railway workers went on strike and requested that "any laborer who got injured in work should be paid during his illness"; in September, 1922, miners went on strike and requested that "mining department should pay workers during their legal holidays, sick leave, marriage leave and funeral leave," and that "any laborer who becomes disabled due to an injury in work, should be taken care by Railroad and Mining Bureaus for his whole life and should be paid monthly according to other workers' salary." In April, 1925, over 10,000 workers in Japanese textile companies in Qingdao went on strike, asking salary and medical fees for injured workers and pensions equal to one-year salary for dead workers' relatives. From July to October, 1927, the CPC led 47 strikes, among which 7 were for benefits for sick or injured laborers.⁵ After cruel suppressions, workers became more active in the CPC's political and armed struggles against Kuomintang. While the Kuomintang government, aside from suppressing Communist members, was forced to pass some labor protection and social insurance regulations, which were, unfortunately, not implemented seriously.

Protecting laborers' rights and interests was proposed by the CPC, and also served as CPC's one major program of political action in Liberated Areas (Base Areas). In order to protect laborers' rights and interests, the CPC on one hand effectively organized production to provide economic guarantee for the War of Resistance against Japan and the War of Liberation, on the other hand, should follow its principle of "ensuring workers to be masters of the country," and implement its claim on protecting workers. In less developed Liberated Areas, this was a challenge for governance, and also a social practice. This experiment was an institutional competition for Kuomintang regime, and a governing practice for the CPC.

The biggest challenge was to seek economic benefits for workers, gain their political support, and at the same time still guarantee economic resources for the armed struggle. In such situation, a free supply system was adopted as the basic

³Historical Documents of Trade Unions in China (1958); Quoted in Yan (1987, p. 289).

⁴Documents of China Laboring Congresses (1957, p. 17); Quoted in Yan (1987, pp. 289–290).

⁵Yan (1987, p. 292).

security system in Liberated Areas. Although influenced by socialist movements in Western developed countries, this system was different from the social insurance system in the West. As early as in Jiangxi Base Area, the Chinese Soviet Republic government already promulgated the Labor Law (1931), stipulating that a social insurance system should be implemented in Base Areas. Employers should provide an insurance equal to 10–15% of the salary for living subsidies and health costs for employees and their dependents under such circumstances as childbearing, old age, illness, death, injury, and disability. In 1933, the CSR state chairman Mao Zedong signed the new Labor Law of the Chinese Soviet Republic, stipulating that:

Social insurance is applicable to any employee no matter in state-owned companies, cooperatives, private companies or family workshops, and despite of his job nature, working age and wage form.

Apart from wages, employers should pay 5–20% of the total wage as social insurance funds to the Social Insurance Bureau. The ratio should be stipulated by the Central Labor Ministry, and insurance costs should not be levied from insured employees or deducted from their wage.⁶

But as a result of the Long March and the loss of Jiangxi Base Area, this social insurance system was not implemented. Arriving at Northern Shaanxi after the Long March, the Chinese Red Army successively promulgated *Provisional Norms on Collective Contract of Factories in Border Regions* (1940) and *Provisional Regulations on Labor Protection in Border Regions* (1941). According to local economic conditions, the CPC also enacted other regulations to protect laborers and improve their livelihood in other Base Areas including Jin-Sui Border Region, Jin-Ji-Lu-Yu Border Region and Jin-Cha-Ji Border Region. These regulations pointed out that implementing social insurance system aimed at increasing production during wartime, protecting workers' benefits and motivating laborers to work hard. Many pragmatic measures were taken, such as a half pay for people on 2 months' sick leave; one third for 3 months' sick leave; and salary suspension for sick leave of more than 3 months. As economic resources were very limited in base areas and during wartimes, standards and level of labor benefits were accordingly low. Different border regions formulated different policies based on their own situations, and some even added that labor and capital could consult benefits with each other.

The above practices served as precious experience for the CPC in economic and social administration after taking power. In 1945, Mao Zedong delivered the report *On Coalition Government* on the 7th National Congress of the CPC, and drew a blueprint for the new governance:

The policy of adjusting the interests of labor and capital will be adopted under the new-democratic state system. On the one hand, it will protect the interests of the workers, institute an eight- to ten- hour working day according to circumstances, provide suitable

⁶Compilation of Labor Legislation in China (1980); Quoted in Yan (1987, pp. 294–295).

unemployment relief and social insurance and safeguard trade union rights; on the other hand, it will guarantee legitimate profits to properly managed state, private and cooperative enterprises—so that both the public and the private sectors and both labor and capital will work together to develop industrial production.⁷

After winning the War of Resistance against Japan, Mao Zedong further discussed guiding principles for national economy in our new-democratic state and still emphasized the balance between protecting laborers and developing economy, “A sharp distinction should also be made between the correct policy of developing production, promoting economic prosperity, giving consideration to both public and private interests and benefiting both labor and capital, and the one-sided and narrow-minded policy of ‘relief’, which purports to uphold the workers’ welfare but in fact damages industry and commerce and impairs the cause of the people’s revolution.”⁸

After North and Northeast China were liberated, it was put forward on the 1948 National Laboring Congress that “Labor insurance system can be established in cities where factories are abundant or where condition permits.”⁹ After this congress, the *Provisional Regulations on Labor Insurance for State-owned Enterprises in Northeast China during Wartime* (hereinafter *Northeast Regulations*) were promulgated to stipulate concrete rules for occupational injury, medical care, sick leave and pensions for dependents of deceased laborers. These regulations benefited 796,000 workers in 420 factories and mines in Northeast China, and were the first try of the social security system in a large scale in China. With the War of Liberation moving toward south, newly liberated regions also referred to the *Northeast Regulations* to implement local security insurance and to 1951, a unified insurance regulation was adopted nationwide.

⁷On Coalition Government (1967).

⁸On the Policy Concerning Industry and Commerce (1967, p. 1180).

⁹Documents of China Laboring Congresses (1957, p. 412); Quoted in Yan (1987, p. 299).

Chapter 2

Employment and Social Security Under the Planned Economy: 1949–1978

2.1 Origin of the Employment Security

2.1.1 *The Original Ruling Purpose to Protect Laborers and First Systematic Experiments*

On October 1, 1949, the People's Republic of China was declared to be founded. After 18-year-long fights, the CPC finally won the state power and began to realize its promise of seeking benefits for laborers, workers, and peasants, but it was not easy.

Right after Liberation, China just stopped suffering from long-term wars. Not only did the economy lag behind, but also materials, even necessities like coal, food, and cotton were severely scarce. Kuomintang Government issued excess currency, leading to a hyperinflation. And immoral merchants cornered the market, leading to soaring prices. What was worse, the traffic was almost completely ruined. In 1949, total unemployment in cities reached 4 million and war victims in rural areas reached 40 million. The most urgent task for the CPC was to restore production, stabilize price, guarantee supply, and improve people's livelihood.

To rebuild China with a weak economic foundation, especially when immoral merchants bid up prices, the Central Government first worked on the labor system. It abolished the "labor-contractor system" in factories, mines, portorage, and building industries, eliminated some gangers' excessive, irrational salaries and benefits, and decided to calculate salaries based on goods such as food and other living necessities. Thus, fluctuating prices could no longer impact workers' life because salaries also changed according to the market. For example, for workers in Beijing, their salaries were calculated according to the level before Liberation and converted into a certain quantity of millet which would be converted back into currency according to the list price of state-owned companies on the payday. In Tianjin, salaries were calculated with maze flour. Later, more necessities were used, such as wheat, cooking oil, salt, homespun, coal, and rice. In this way, laborers

were assured of necessities even in case of great price fluctuations, and the market was gradually stabilized. But obviously, to implement a risk-shared social insurance system through levying tax became impossible. So this distribution method was just an expedient, and the CPC would realize its promise for laborers in a more fixed way.

The first document to realize this promise is the *Common Program of the Chinese People's Political Consultative Conference* (hereinafter "Common Program") passed on the First Plenary Session of CPPCC on September 29, 1949. The Common Program, working as a Provisional Constitution, proclaimed the establishment of the People's Republic of China, and stipulated New China's state system as well as form of government. Most important, it confirmed that the state power was based on the alliance of workers and peasants, led by the working class and was of the people's democratic united front composed of the Chinese working class, peasantry, petty bourgeoisie, national bourgeoisie, and other patriotic democratic elements.

Protecting laborers' benefits was the ruling basis for the new government. The Common Program clearly pointed out that the People's Republic of China must protect the economic interests of workers, peasants, the petty bourgeoisie and the national bourgeoisie, and protect women to enjoy equal rights with men. It also stipulated that "an eight to ten-hour day shall be enforced," "minimum wages shall be fixed" and "inspection of industries and mines shall be carried out." Article 32 proposed, "labor insurance shall be gradually established," which was a promise the CPC had always insisted on since its establishment. In order to implement the Common Program, the Government Administration Council entrusted relevant labor departments with the task of summarizing the CPC's practice in Liberated Areas as well as Base Areas and learning from experience in other countries to draw up the *Labor Insurance Regulations of the People's Republic of China (Draft)* in 1950. The government publicized this draft to the whole society and sought suggestions. On the day of publication, newspapers were immediately sold out and people of all classes actively participated in the discussion. Later after amendment, the *Labor Insurance Regulations of the People's Republic of China* (hereinafter *Labor Insurance Regulations*) were passed on the Council's 73rd meeting on February 23, 1951,¹ stipulating insurance benefits for laborers and their dependents under such circumstances as illness, childbearing, old age, injury, and death.

In terms of laborer protection, the Regulations showed essential differences between old and new state powers, and consolidated the new power's legitimacy. The slogan "Socialism is great. No need to worry about childbearing, old age, illness or death thanks to the labor insurance." became very popular. Li Lisan, then Minister of Labor wrote on *People's Daily*:

Workers all over country applauded the labor insurance system. Although there are many difficulties to overcome: our national finance and economy have just begun to improve, and the Korean War is ongoing, we still implement the labor insurance and offer subsidies,

¹Labor Insurance Regulations of the People's Republic of China (1951b).

indemnities and relief in order to solve problems including childbearing, old age, illness, death, injury and disability from which workers suffered the most. It is obvious that the government is highly concerned about workers' sufferings and problems. In discussions, some workers said, "Factories only focus on young people who are vigorous enough to work while old workers are always laid off. We have never imagined to get pensions after retirement." Some talked about their own experience, "My father, working for a railroad, died from an accident. At that time, we even couldn't afford a coffin for him. My mother with me went to the railroad bureau, kowtowed and begged for compensation, but only got some pieces of wood, without any indemnity." A woman said, "I worked for five years and was fired for four times because of childbearing. Now I can have an eight-week-long maternity leave with payment, and even birth allowances. I really cannot believe it." Thus naturally, after comparing life in the past with benefits of the *Labor Insurance Regulations*, laborers would shout, "Long live the government! Chairman Mao is our savior." This response illustrated the great political significance of the *Labor Insurance Regulations*.²

In early documents, labor insurance and social insurance were always confused. In the New China, the Common Program provided a clear definition of the "labor insurance system," which was different from the "social insurance system" generally used in industrialized countries. Beneficiaries of the "labor insurance" in the *Regulations* were specific workers, mainly those in key industries, not including peasants, handicraftsmen, merchants, and other workers. They represented just a very small part of workers. As Article 2 of the *Labor Insurance Regulations* stipulated

Their application shall be limited to the following enterprises for the time being:

- (1) State-operated, joint state-private, private and cooperative factories, mines and their subsidiary units and business management organizations, each of which employs more than 100 workers and staff members.
- (2) Each railway, shipping or postal and telecommunication enterprise and its subsidiary units.³

Even in Shanghai, the largest industrial city at that time, only 14% enterprises employed more than 100 workers and staff members. Thus, the *Labor Insurance Regulations* covered neither rural population nor many urban residents.

In the draft, banking industry was covered by the labor insurance but in the final version, banks, government agencies, and education institutions were all excluded. On December 10, 1950, when the draft was publicized, the former vice-president of All China Federation of Trade Unions (ACFTU) Zhu Xuefan said in the training class for labor insurance officials in Tianjin ACFTU Official School:

The essence of our *Labor Insurance Regulations* is to protect laborers all over China, which is already clearly pointed out in the first Article. Article 1 stipulates that these Regulations are formulated for the purpose of protecting the health of paid laborers and easing special difficulties in their livelihood.⁴

²Li (1951).

³Labor Insurance Regulations of the People's Republic of China (1951a).

⁴The Labor Insurance System of the New China—Remarks of Zhu (1953).

According to calculation, at that time, there were 15–20 million laborers in China.⁵ In 1952, urban residents only accounted for 12.46% of the total population, paid laborers were even lower. Thus, although the labor insurance was applicable to all laborers, the coverage was still very small compared with China's total population.

After 3 years' economic recovery to the end of 1952, China's gross value of industrial and agricultural output increased by 77.5% compared with 1949, 145% for industrial output and 48.5% for agriculture. People's livelihood began to be improved, with an average growth of 70% for salaries. But our economic foundation was still weak, individual economy (mainly small-scale peasant economy) represented 71.8% of national income, while state-owned economy was only less than 20%. That is why labor insurance could not be implemented in a full-scale.

With further economic recovery, labor insurance coverage gradually expanded. In 1953, the Government Administration Council amended the *Labor Insurance Regulations* to improve benefits and cover more people, including staff in state-owned construction companies and construction units of factories, mines, and transportation enterprises. Later around 1956 when socialist transformation of handicrafts and private commerce was almost completed, the government extended labor insurance to all state-owned companies. Some large collective enterprises in good economic conditions also implemented or referred to the Labor Insurance Regulations and improved retirees' benefits. People who enjoyed the labor insurance were mainly nonagricultural population in cities, which according to statistics in 1957, only accounted for 15.39%⁶ of the total population. And among these urban residents, many still had no access to the labor insurance.⁷ Therefore, although insurance coverage was expanded, beneficiaries were still the minority.

In the book *Wage, Welfare and Social Insurance for Contemporary Chinese Employees*, three important reasons were given to explain why in early days of the New China, we chose such social security system: (1) Limited government financial resources could not afford a large system that covered all enterprises, so the government had no choice but to enable part of workers to enjoy benefits first and then expand insurance coverage when the country got richer. (2) At the initial stage, the new government lacked experience, so it needed to accumulate experience through pilot programs and then spread successful models. (3) Enterprises with more than 100 workers and staff members were more stable in employment and operation, and were able to pay insurance premiums regularly. While for small companies, to pay a fixed amount of insurance costs at fixed time was difficult, so this system was not suitable for them.⁸ In conclusion, the small coverage of our first labor insurance was

⁵Ibid.

⁶Central Archive of Chinese Academy of Social Sciences (2011).

⁷According to statistics in 1958, among urban residents at an age of between 16–61, only 60.87% were employed.

⁸Yan (1987, pp. 302–305).

decided by financial resources, national development requirement, and labor organization.

Above explanations clearly illustrate major issues to which the new government paid attention when planning the New China's social security system. Limited coverage of the labor insurance is determined by realistic conditions instead of political will. Among the three explanations given in the *Wage, Welfare and Social Insurance for Contemporary Chinese Employees*, the first two are from the perspective of the country, illustrating that the new socialist country should take improving people's welfare as its governing goal, but at the same time, it should also prudently choose appropriate method and occasion to achieve its basic goal of protecting and serving people. Thus, it had no other choice but only pragmatic idea and method for governing. The third explanation points out that the social security system should be established in accordance with the law of development, namely, the social security should be linked with employment, and rights should be linked with responsibilities. Although neither documents nor explanations concretely illustrated connection between employment and labor insurance, it is obvious that without regular insurance payment, social insurance could hardly cover all people or laborers due to limited financial resources in our country. Minister Li Lisan further pointed out that, in such financial conditions, the government could hardly fulfill its commitment to provide protection over laborers.

Li Lisan's Opinion on the Coverage of *Labor Insurance Regulations*.⁹

Article 1 in the draft stipulates that the Labor Insurance Regulations are applicable to all paid laborers. However, current economic conditions and our lack of experience decide that we could only try out in key enterprises first, namely, to try from factories and mines with more than 100 workers and staff members and some industrial sectors with national administration and sound industrial trade unions, because in such factories with sound administration system and trade unions, labor insurance is easier to implement and manage. Although these factories are less than those with fewer employees, they have more workers. For example in Shanghai, among 16 industries, there are 5315 factories and 415,596 workers, factories with over 100 employers only account for 14%, but their workers account for over 80% (333,400 people). What's more, the draft also stipulates that with regard to the labor insurance of the enterprise beyond the limits of Article 2, the administration or capital of each enterprise and its grassroots trade union committee shall consult with each other and enter into a collective contract to stipulate it on the principles of these Regulations and in accordance with the actual conditions of the enterprise. We know workers in small factories live a more difficult life and thus need more protection, but these scattered and disorderly factories can hardly be organized in short time to implement labor insurance. When insurance system functions well in big factories, experience is accumulated and trade unions are established in small factories, we could spread this system to small factories and

⁹Li (1951).

enterprises. Staff in government organs, educational institutions, and other organs who are not included in the Article II also badly need the labor insurance, but since the current national financial resources are limited, and the state needs to concentrate resources on the urgent task of national defense construction, they could not enjoy the insurance for the moment, when the economic condition turns better in the future, the insurance coverage will be gradually expanded. This approach is also in line with the Article 32 of the Common Program which stipulated the progressive introduction of the labor insurance system. In addition, the Article II in the draft included bank employees in the labor insurance, but after careful study, we thought we should mainly focus on industrial, mining and transport enterprises currently, because employees in these enterprises assume more heavy work but get lower wages, so their need for labor insurance is more urgent. That is why we eliminate banks in the final version. Bank workers please wait for some time, and when the labor insurance is widely spread in the future, they can also enjoy the insurance benefits together with staff of trade companies, tax authorities, and other organs.

The labor insurance stipulated in the Regulations was different from the social insurance system or social security system implemented in Western countries in terms of content and enforcement method. Take the payment of labor insurance funds as an example, according to the *Labor Insurance Regulations*, all the payment shall be borne by the administration or capital of each enterprise which practices labor insurance.

Relevant Regulations On The Collection And Maintenance Of Labor Insurance Funds Stipulated In The 1951 *Labor Insurance Regulations*.¹⁰

Article 7. All the labor insurance payment stipulated in these Regulations shall be borne by the administration or capital of each enterprise which practices labor insurance, part of them be directly paid by the administration or capital of the enterprise and the other part to be handed over by the administration or capital to the trade union organization for disposal as labor insurance funds.

Article 8. The administration or capital each enterprise which practices labor insurance accordance with these Regulations shall, by the month, pay the amount which is equivalent to 3% of the total of the wages of all the workers and staff members of the enterprise for use as labor insurance funds. These labor insurance funds shall not be deducted from the wages of the workers and staff members nor be separately collected from them.

Li Lisan believes that one party is chosen to totally bear the labor insurance obligations mainly due to the leaders' understanding on socialism.

The draft stipulates that all the labor insurance payment shall be borne by the administration or capital of each enterprise which practices labor insurance and laborer shall pay nothing. This method is totally different from that in capitalist countries, where according to the "risk sharing" capitalist principle, all or most insurance payment is borne by employers. Thus, labor insurance is actually an exploitation of the working class, which can be proved in the United States.

¹⁰Labor Insurance Regulations of The People's Republic of China (1951b).

The draft stipulates that the labor insurance payment shall be divided into two parts. One part shall be directly paid by the administration or capital of the enterprise and the other part, which is equivalent to 3% of the total of the wages of all the workers and staff members of the enterprise, shall be handed over by the administration or capital to the trade union organization for disposal as labor insurance funds. This method urges the administration or capital of enterprises to pay attention to labor protection. As the amount of medical costs, sick leave, injury leave, and wages during these leaves is connected with sanitary and safety conditions, if these expenses shall be directly paid by enterprises, in order to cut such expenses, they will definitely care about laborers' health and improve sanitary and safety conditions. And thus trade unions could be helped to reduce the illness and injuries of employees.

Among the labor insurance funds, 70% shall be used for laborers' insurance benefits, and 30% shall be deposited as general labor insurance funds for the All China Federation of Trade Unions to organize collective labor insurance. Based on experience in Northeast China, collective labor insurance played an important role in preventing death caused by disease and encouraging workers' passion on production. However, collective labor insurance always costs so much that not all enterprises could afford it, thus it needs the All China Federation of Trade Unions to concentrate resources to organize.¹¹

Apart from relieving laborers' burden and reflecting their position as master of the country, the government decided to only ask one party to assume social insurance responsibilities also because at that time, national budget was limited, organization of trade unions was not good enough, and the society did not have the awareness of balancing rights and responsibilities. But this small-scale and early labor insurance system was just an experiment rather than the CPC's governing goal. According to Li Lisan, the *Labor Insurance Regulations* were just the first step toward the socialist social insurance. Thus the 1951 *Labor Insurance Regulations* were provisional, as Zhu Xuefan said "As we just begin to implement labor insurance and the War of Liberation hasn't ended yet, we cannot realize a full coverage. But our labor insurance system will continually develop and expand. As even today's system already reflects a big progress compared with the provisional regulation in Northeast China, for the coverage has been expanded to private sector."¹²

2.1.2 Industrialization and Modernization as National Missions

For leaders of early New China, protecting laborers is closely connected with recovering and developing economy, and realizing industrialization and

¹¹Li (1951).

¹²The Labor Insurance System of the New China—Remarks of Zhu (1953).

modernization. The Common Program drew a beautiful blueprint of future social development for hundreds of millions of Chinese people, but to realize it still needs feasible method and appropriate transition. From October 1949 when the PRC was founded to the end of 1952, it was the period of recovering national economy, called the preparatory stage for socialist economic construction. In this stage, all policies should match with general goals of the stage.

From the end of 1949 to early 1950, the new government continually curbed four large-scale inflations, and gradually unified financial power. In March 1950, the Government Administration Council issued *Decisions on Unifying National Financial and Economic Work*, pooled most national revenue to the central government, and thus guaranteed national spending, achieved fiscal balance and currency withdrawal, stabilized prices, unified management on cash flow and material distribution and adjusted demand and supply all over the country.

With unified fiscal and economic policies, production soon recovered. First was traffic and transportation. Just in 1949, railways of 8300 km and 2715 bridges were repaired. In 1950, almost all railways were open, roads, water ways, and airlines were also restored. In rural areas, land reform was carried out to enhance cooperation on agricultural production. In June 1950, the central government promulgated the *Land Reform Law of the People's Republic of China* to help peasants restore production and encourage construction of water conservancy projects through loan, prices, and investment. In industrial sector, the government launched democratic reforms, abolished the labor-contractor system, innovated production technologies and working method, promoted industrial innovation, and enhanced the output. Under the target of restoring production, the output of state-operated industry reached an average annual increase of 57%, and its share in industrial output increased from 26.3% in 1949 to 41.5% in 1952.

Labor protection was the key to restore economy. After liberation, the new government's labor department immediately set about solving unemployment problems left over from the old China and took measures on employment promotion and unemployment relief. In May 1950, the labor department issued the *Regulations on Registration of Unemployed Technicians* to establish employment agencies; and in July, it issued the *Provisional Regulations on Relief for Unemployed Laborers*. Local governments started to register the unemployed in cities and took measures to cut unemployed population year by year, including recommending jobs and providing relief to extremely poor people. As for staff in bureaucratic capital enterprises before the Liberation as well as military and administrative personnel left behind by Kuomintang, their jobs were arranged by the government. According to the chorography of Nanjing, the original capital of KMT, after reorganization, 1/5 people were laid off, and the rest were professions and were arranged appropriately.¹³ The traditional working pattern was also reformed to practice workers' leadership. "Our experience is to involve cadres into

¹³Compilation Committee of Nanjing Chorography (1999, p. 59).

production and workers into enterprise management and reform the management system. Cadres' power is delegated to teams and trade union teams and administrative teams are combined with each other... relationship between cadres and workers are closer, for example workers call cadres as master rather than director. Such system will become richer if combined with the workers congress system."¹⁴

In 1952, the Government Administration Council officially issued the *Decisions on Employment* and the *Regulations on Managing Unemployed Workers* based on local practices.¹⁵ At the same time, as students trained in colleges, polytechnical colleges, and technician training schools in the New China graduated and were seeking jobs, the government introduced a "job assignment" policy according to talent needs in economic construction.

However, although production and employment recovered, China was still an agricultural country that lagged far behind developed and even many other developing countries in industrial levels. Moreover, foreign threats still existed, like the U.S. supported the Kuomintang's ruling in Taiwan island, implemented economic blockade and embargo against China, and expanded invasion to North Korean, international security thus faced great challenges.

Under such severe international situation and with economic and industrial levels lagging behind, China chose strategies and systems that gave priority to develop the industry, especially heavy industry. The CPC's promise to protect laborers' rights was also realized with "Industry First" Strategy.

In early 1950s, decision-makers of the CPC and elites of China reached a consensus that underdeveloped industry was the root cause for all territory loss, people's sufferings and misery in modern China. Although China had a long history and brilliant civilization, it failed to catch up with the world in industrialization and modernization. "Lagging behind leaves one vulnerable to attacks," is a lesson that we learned at the expense of blood. Chairman Mao commented that "What are we able to produce now? We can produce tables, chairs, teapots, teacups, grains, flour, paper, but not a car, an airplane, a tank, or even a tractor." Thus since the New China was established, to develop industry, enrich our country, enforce military power, and resist foreign invasion are the most urgent tasks, as the *Common Program* declared "It must develop the people's economy of New Democracy and steadily transform the country from an agricultural into an industrial one." The CPC's policies and lines, including the First Five-Year Plan, mainly focused on developing industry, especially the heavy industry. After the War of Independence, the CPC shifted its strategic priority to industrialization, which was frequently emphasized in important documents. The first Constitution of the People's Republic of China (1954) even stressed industrialization as the fundamental task, for the Preamble stipulated

¹⁴Edited by the China Contemporary History Research Center of East China Normal University (2012, p. 92).

¹⁵Edited by the Ministry of Labor and Social Security (2007, pp. 3–4).

During the transition the fundamental task of the state is, step by step, to bring about the socialist industrialization of the country and, step by step, to accomplish the socialist transformation of agriculture, handicrafts and capitalist industry and commerce.

The First Five-Year Plan (1953–1957) also centered on realizing socialist industrialization and its major tasks were

Concentrate main resources on developing heavy industry and laying foundation for industrialization and modernization of national defense; develop communication and transportation, light industry, agriculture and commerce; and cultivate talents.

The First Five-Year Plan also set several goals, such as the total industrial output value increased by 14.7% annually, the total agricultural output value by 4.3%, infrastructure investment reached 42.74 billion RMB, steel output reached 4.12 million tons, and grain output reached 190 million tons.¹⁶

The First Five-Year Plan showed people's and the ruling party's strong will to construct China into a socialist industrialized country. But in order to achieve targets of the First Five-Year Plan in short time with such a weak industrial base and limited resources, the government must concentrate on manpower, financial, and material resources and effectively allocate them. This method was also shown in the 1954 Constitution which stipulated "optimal development for the state-owned economy," because this sort of economy serves as a leading power in the national economy and also the material basis for Socialist transformation. According to the First Five-Year Plan, the way to develop the state-owned economy first is to concentrate on 156 big projects with the assistance of the Soviet Union, focus on 694 big and middle-sized projects, and give priority to develop the heavy industry, thus China could build a preliminary basis for socialist industrialization.

The First Five-Year Plan was elaborated according to China's own situation and strength. It focused on industrial development, but also gave priority to improve people's livelihood. To implement the First Five-Year Plan, China on the one hand promoted rapid development for industrialization; on the other hand adopted flexible policies in diverse sectors of the economy, and thus struck a balance between the heavy industry and other sectors. In order to develop the heavy industry with limited resources, the government decided to control procurement and distribution of materials like grains, cotton, and oil, and adopted the free-supply system for labor remuneration. Owing to pressure from the international environment in 1950s, successful socialist practice in Soviet Union and also China's own will were to realize industrialization rapidly; China inclined to develop the heavy industry first at its early stage.

Rapid industrial development spurred the employment in industrial sector. In 1958, the Party put forward its general line as "to build socialism by exerting our utmost efforts, and pressing ahead consistently to achieve greater, faster, better and more economic results." Since then, all the steel industry, the heavy industry, and industrial production expanded enormously, infrastructure projects increased

¹⁶The First Five-Year Plan, <http://baike.sogou.com/v7627477.htm#paral>.

rapidly and thus created huge job opportunities. At that time, unemployment totally disappeared, graduates were directly allocated to industrial and mining factories through a “centralized labor allocation system” and even with rural labor force, labor demand in industrial sectors could not be satisfied. Thus women were also encouraged to leave home to participate in social employment.

2.2 The Labor Insurance Adapted to “Industry First” Strategy (1950–1955)

On February 26, 1951, the *Labor Insurance Regulations of the People’s Republic of China* were promulgated. These New China’s first regulations that aimed at protecting laborers’ rights, stipulated insurance benefits for laborers and their dependents under such circumstances as illness, childbearing, old age, injury, and death. With the Regulations, laborers were guaranteed to get pensions when they are old, receive medical care when they are ill or injured, and have paid maternity leave when they are pregnant. But as what has been mentioned above, the insurance benefits were tied to employment instead of being applicable to the whole society. Only enterprises with more than 100 workers and staff members were under coverage. At that time, China only had 12 million industrial workers, a very small proportion of the 500 million populations.

2.2.1 Three Different Urban Insurance Systems

Besides low coverage rate, the Labor Insurance Regulations of 1951 also stipulated two different insurance patterns for different enterprises: one is the national labor insurance system; the other is the collective contract system. According to the *Rules For The Implementation of Labor Insurance Regulations of People’s Republic of China* (hereinafter *Rules For the Implementation of Labor Insurance Regulations*), which were issued on March 26, 1951, as to enterprises that were not covered by labor insurance, administration or capital of each enterprise and its grassroots trade union committee shall consult with each other and enter into a collective contract to stipulate insurance coverage and standards, and all insurance payment shall be borne by the capital of the enterprise. In early 1950s, the New China needed to be rebuilt with limited financial resources. At the same time, planned economy had not been established yet, and diverse forms of ownership still existed. To implement collective contracts could thus mobilize various resources and provide necessary insurance for laborers. However, such division led to the coexistence of two different labor insurance systems with different insurance levels. Even though joint state-private ownership and comprehensive public ownership were realized later, and planned economy was consolidated, such differences did not disappear until “Cultural Revolution,” due to low production level and living standard.

Clauses Concerning Collective Contract in the *Rules for the Implementation of Labor Insurance Regulations* issued on March 26, 1951.¹⁷

With regard to the labor insurance of the enterprise beyond the limits of Clauses (1) and (2) of Article 5, the administration or capital of each enterprise and its grassroots trade union committee shall consult with each other and enter into a collective contract which shall be submitted to the labor administrative department after conclusion. The collective contract should be made on the following principles:

- (1) The coverage of labor insurance shall be stipulated according to the enterprise's economic condition and laborers' needs
- (2) The benefits of labor insurance shall not exceed the standards stipulated in the Labor Insurance Regulations.
- (3) All insurance payment shall be borne by the administration or capital of the enterprise.

The insurance benefits stipulated in the *Labor Insurance Regulations* and collective contracts are different. According to the *Rules for Implementation*, a collective contract cannot include standards that are higher than those set forth in the Regulations. Thus, insurance scope and level in collective contracts are far behind those in the Regulations. In 1956, when state-owned enterprises were covered in the national labor insurance system, benefits for their employees were greatly improved. The following report from *People's Daily* revealed such changes.

Eight-hour Working System Will Be Applied to State-owned Enterprises, Over 35,000 Beijing Employees Begin to Enjoy Labor Insurance Benefits.¹⁸

From today, the Labor Insurance Regulations are applicable to state-owned enterprises in Beijing, and over 35,000 employees receive corresponding benefits. According to current wage level, the state will allocate 600,000 RMB insurance funds every year to ease laborers' difficulties caused by childbearing, old age, illness, death, injuries, and disabilities. With government subsidies for health and medicine, welfare and entertainment taken into consideration, the state should pay over 3.5 million RMB every year.

In the past few years, the collective contract system carried out in state-owned enterprises has improved laborers' living standards to some extent, but as funds and benefits were limited, many laborers still face difficulties in their livelihood, especially those who have several kids and need to pay all medical fees for their dependents, suffered from more economic challenges.

But from now on, their dependents may receive free medical treatment, and refunding proportion of their medicine costs will increase from 40 to 50%. Besides, administrative leadership and trade unions of state-owned commerce in Beijing also

¹⁷The Rules For The Implementation of Labor Insurance Regulations of People's Republic of China, *People's Daily*, March 26, 1951.

¹⁸Eight-hour Working System Will Be Applied to State-owned Enterprises, Over 35,000 Employees Begin to Enjoy Labor Insurance Benefits, *People's Daily*, July 4, 1956.

decided to help workers to clear their debts caused by feeding families, treating illness, and fostering too many kids. For example, Beijing Vegetable Company has already paid over 20,000 RMB for its employees.

From this report, big differences between the insurance level in collective contracts and that in the Regulations could be discovered. Especially the fact that “administrative leadership and trade unions of state-owned commerce in Beijing” paid debts for employees shows that for enterprises using collective contracts, insurance funds were mainly borne by the administration or capital of the enterprises, while for those covered by national labor insurance system, government authorities became the contributor of last resort. When deficits appeared, government authorities would use financial allocation to strike a balance. Thus in condition of economic slowdown, the national labor insurance system was more reliable than collective contract system.

The Labor Insurance Regulations are more standard, and may provide better benefits. On one hand, this is because the state took priority to develop heavy industry, and wanted to use favorable benefits to retain and reward talents that were in badly need. On the other hand, the Regulations were mainly applicable to state-owned enterprises, which could provide stable jobs, pay insurance contribution on time, and have good administration leadership and trade unions to implement labor insurance.

In addition to the Labor Insurance Regulations for enterprises, the state also issued regulations step-by-step to establish another insurance system for staff in government agencies, democratic parties, mass organizations, and public institutions. On December 11, 1950, the *Provisional Regulations on Praise and Pensions for Injured and Dead Revolutionary Army men* were issued to stipulate treatment for injury and death; on June 27, 1952, the *Instructions on Implementing Free Medical Care for Staff in Government Agencies, Democratic Parties, Mass Organizations, and Public Institutions* to stipulate medical insurance for government staffs; on September 12, 1952, the *Provisional Regulations on Treatment for Government Staff in Their Illness* to stipulate benefits during sickness; on April 26, 1955, the *Notice on Maternity Leave for Female Staff* to stipulate childbearing insurance benefits; on September 17, 1955, the *Notice on Medical Care for Children of State Organ Personnel* to stipulate medical benefits; on December 29, 1955, the *Provisional Regulations on Retirement of State Organ Personnel* to stipulate old-age pensions; and at the same day, the *Provisional Regulations on Resignation of State Organ Personnel* to stipulate benefits after resignation. These regulations stipulated insurance benefits for government staffs. All insurance funds were allocated by the state: (1) Funds for medical service were allocated by the state to Department of Health for use; (2) Expenditure for other benefits was disbursed from administrative and operating expenses.¹⁹

In summary, funding source for the above three labor insurance systems is as follows: (1) Insurance funds for government staffs are borne by government

¹⁹Yan (1987, pp. 310–313).

finance. (2) In terms of enterprises covered by the Labor Insurance Regulations, mainly large- and middle-sized state-owned enterprises that were established after joint state-private ownership and comprehensive public ownership had been realized; insurance funds are borne by enterprises themselves. But in fact, all deficits were covered by government finance. (3) In terms of enterprises covered by collective contract system, mainly middle- and small-sized enterprises, or those below county level in administration relationship, their insurance funds came from operating revenues of enterprises and also very limited government support.

2.2.2 Dual Security System Between Urban and Rural Areas

As the economy quickly recovered, coverage of the *Labor Insurance Regulations* also expanded. Until the end of 1952, 3861 companies implemented the *Regulations* with 3.02 million employees covered. If we take their dependents into consideration, about 10 million people were benefited.²⁰ On March 26, 1953, the Labor Ministry promulgated the *Rules for the Implementation of Labor Insurance Regulations* and according to anticipated economic recovery and acceleration of economic construction, decided to expand coverage of the *Regulations* and raise benefit standards.

On January 3, 1953, The Government Administration Council passed and promulgated the Decisions on Amendments of the *Labor Insurance Regulations of the People's Republic of China*.²¹

As our national economy has recovered and large-scale economic construction will be launched, we should correspondingly expand coverage of the *Labor Insurance Regulations* and raise benefit standards. But considering that the Korean War has not ended yet, and economic construction still needs a large quantity of money, we can only focus on issues relating to people's basic interests. And benefits of the working class and all people cannot be improved until production develops. Thus, we cannot over expand the coverage nor raise standards.

Until the end of March, 1953, the coverage of the *Regulations* gradually expanded to over 4400 companies, 39% larger than the coverage in 1952. In 1955, the National Bureau of Statistics promulgated *Provisional Regulations on the Composition of Gross Payroll*, applicable to companies, state organs, and public utilities. In 1956, the Labor Insurance Regulations was extended to more industries such as commerce, trade, food, finance, oil, civil aviation, geology, aquaculture, supply and marketing cooperatives, and state-owned farms. This extension was realized in two ways. First, the coverage of labor insurance was expanded as enterprises that used to implement the collective contract system converted to the

²⁰Li (1952), Yan (1987, p. 305).

²¹Yan (1987, pp. 306–607).

national labor insurance system. Second, we should implement the collective contract system in joint state-private enterprises.²² Until the end of 1956, the national labor insurance system covered 16 million employees, 4 times more than the beneficiaries in 1953, and the collective contract system covered 7 million employees, 10 times more than in 1953. Thus in total, there are 94% of employees in state-owned enterprises, joint enterprises, and private enterprises.²³ However again, as China was still at the beginning of industrialization, the beneficiaries only accounted for 2.6% of China’s 615 million population, and less than 20% of urban residents.

One reason for the small coverage of labor insurance is that China was still an agricultural society. Among the 615 million population (figure of 1955), over 500 million (86.5% of the total population) were in rural areas, living on farming and agricultural products. And among the 80 million urban residents, very few people were industrial workers, together with employees of public institutions and government agencies, they only accounted for less than 20% of urban population. Thus at the early stage of the New China, most Chinese people were still engaged in peasant economy, depending on land, while few people lived on wages, even fewer on stable wages. This situation led to a totally different social security system in China from those in developed countries, and even some socialist countries with relative high level of industrialization, such as the Soviet Union and East European countries. At that time, China’s top priority was creating jobs, enlarging income sources for workers, ensuring their stable income, rather than immediately establishing the social insurance system.

Since mid-1950s, following the Soviet Union, Chinese government began to establish a planned economy system while promoting industrialization. But given the big development gap between the two countries, China adopted different approaches in rural and urban areas to implement the planned economy: collectivization was enforced in rural areas. And the land reform implemented in Liberated Areas by the CPC was continued in rural areas, which further promoted the collective economy. In collective system, farmers’ income is material objects instead of cash. The economic condition (barter system) and systematic condition (collective economy) determined that the social security system in rural areas would mainly focus on mutual assistance by providing farmers with materials and services, and it was totally different and separated from security systems in cities, especially those in industrial enterprises. In 1957, Premier Zhou Enlai particularly

²²110 Thousand Employees of Joint Ventures Enjoyed Labor Insurance in Shanghai, *People’s Daily*, p. 5, September 3, 1957. According to this report, in Shanghai, more than 110,000 employees of joint ventures of commerce, grain, and export began to enjoy benefits of collective labor contracts, including wages during the sick leave, maternity leave and for those who are injured during work, and also subsidies for people who become disabled, sick, or dead due to work.

²³Yan (1987, p. 307).

explained how to balance urban–rural relations and workers’ and farmers’ life in the *Report on Laborers’ Salaries and Welfare* on the Third Plenary Session of Eighth Central Committee.²⁴

New China’s special development stage and its industrialization policy determined different employment, salary, and welfare systems in rural and urban areas, and thus caused rural–urban dualism in China. Although between rural and urban areas existed flexible employment and labor flows, due to the First Five-Year Plan’s over emphasis on industry, especially heavy industry, agricultural production lagged far behind industrial production. The fast development of industry showed that China’s socialism has a system advantage in economic development, but also enlarged urban–rural gaps. Totally different security systems formed a barrier that blocked free flows of service and people. Rural residents were protected by collective economy, while urban residents enjoyed different protections according to their employment. Thus a “social security dualism” appeared, and was described by French famous philosopher Sartre who was invited to China in September 1955:

Farmers in many regions still live in a way like 1000 years ago. But now you decide to bridge this 1000-year gap in just 50 years, to thoroughly change your economic system, social structure and even your language, it is really a great undertaking. In Paris, we learn about and imagine it by reading your books and reports. But to understand this great course, we should come here in person. I visited big factories in Northeast, but also passed by countryside on my way back. In the same day, I visited blast furnaces in Anshan, but also bungalows in the countryside nearby where farming is still by hand. Every day, every sight, shows at the same time the China in the past and in the future. So only right here, can we understand that your current situation was composed of a great and vivid contradiction.²⁵

2.3 Labor Insurance System in Embryo (1955–1966)

Since mid-1950s, China has gradually established a social security system whose main body was labor insurance. However, this system still needed to be improved, because it was little “socialized,” just covering part of urban residents and other nonfarm payrolls, and the insurance coverage, benefits, and reliability were all different for different institutions, departments, industries, and enterprises. As to individuals, the benefits they could enjoy were not decided by their hard work, but the regions they live (whether in urban areas or not) and their jobs; therefore, under this system, people in different regions or different enterprises, enjoyed totally different benefits. In the course of improving the social security system, there were many contradictions, twists, and turns.

²⁴Yan (1987, p. 314).

²⁵Sartre (1955).

2.3.1 *Changing System of Labor Insurance: Fast Expansion and Unified Standards*

The social security framework was established in two aspects: first is to set payment standards for the labor insurance; second is to rapidly establish or duplicate the labor insurance system in various industries. These two trends developed in the same time, but standard setting lagged behind systematic development.

At first, the *Labor Insurance Regulations* were promoted very fast, and people believed that insurance benefits would improve employment stability, working passion and skills, and vice versa. In some factories, the labor insurance and its benefits indeed gave workers a sense of “mastership” and also thanks to patriotism labor competitions, the patriotic pledge movement and the campaign to increase production and practice economy, labor productivity was obviously increased in a short time. At the later stage of the First Five-Year Plan, the socialist transformation on the private ownership of the means of production was almost accomplished, thus the socialist economy represented a far bigger proportion in the national economy, and its share increased sharply. In 1952, the state-owned economy represented 19% of the national revenue, while in 1957, it went to 33%; the proportion of cooperative economy increased from 1.5 to 56% and public-private economy from 0.7 to 8%; while the proportion of private economy decreased from 71.8 to 3% and capitalist economy from 7% to less than 1%. Thanks to the vigorous Socialist Transformation and increase in labor productivity, coverage of the *Labor Insurance Regulations* expanded rapidly and benefits were obviously improved. Minister of Labor Li Lisan said on the First National Conference for General Directors of Labor Bureau “Not only did laborers need the *Labor Insurance Regulations*, but also administrators of public enterprises and progressive capitalists of private enterprises need these regulations as well. And in order to enhance laborers’ working passion and promote production, we need to promulgate such regulations even more.”²⁶ Therefore, the CPC considered the establishment of the labor insurance system as “a long-term national policy which should be constantly implemented.” On the Third Plenary Session of the Eighth CPC Central Committee, Premier Zhou Enlai particularly delivered the *Report on Issue about Labor Wages and Benefits*, and called for “gradually implementation of the labor insurance with the basis of industrial development.”²⁷

When elaborating standards and norms, China referred to the Soviet Union in all aspects. At that time, as industrial production just recovered, there was not national norm for products or manufacturing process. And standards for implementing the *Labor Insurance Regulations* were different in different enterprises. The Chinese government learned from the Soviet Union in terms of standards for industrial design, procurement, technical operations, technical training, production safety,

²⁶Yan (1987, p. 305).

²⁷Yan (1987, p. 314).

factory sanitation, machine maintenance and labor rules, and also learned standards for wage, insurance, and relevant benefits. It put forward a slogan as “Approaching Soviet standards within two years.”²⁸ However, our practice later proved that standard setting should be a long-term endeavor which could not be accomplished in merely one or two years.

In 1958, the NPC Standing Committee amended and passed the *Provisional Regulations on Retirement of State Organ Personnel*, the *State Council’s Rules for the Implementing the Provisional Regulations on Retirement of Workers and Employees (Draft)*, and the *Rules For The Implementation of Labor Insurance Regulations of People’s Republic of China*, to make laws and regulations more coordinated. Thus the state unified resignation plans in enterprises and government agencies, loosened requirements, enhanced resignation benefits, and also improved the healthcare system, stipulating that registration fee and tonics for treating occupational diseases shall be borne by patients themselves. In addition, the state also adjusted benefits for maternity leave, diseases, injuries, and apprentices, formulating regulations on insurance payment in another place, setting standards for apprenticeship length and living allowances for apprentices in state-run, joint, cooperative-run and private enterprises, making rules for sick, injury and maternity leaves, and asking enterprises’ medical units, administration, trade unions, human resources departments, and technical security departments to establish medical appraisal committees to assess work-related injuries and work capacity, approve and issue certificates for sick or injury leave over 15 days, supervise working conditions, and manage work resumption, convalescence, and job transfer. However, it was proved that, although these regulations were formulated in detail, without institutional restriction, they could not be implemented well.

2.3.2 *Gaps and Differences in Standards*

In enterprises which implemented the *Labor Insurance Regulations*, wages and benefits were decided by all members of the Party branch. Trade Unions were responsible for working out schemes and sending them to Party branch meetings for discussion, concerning wage, retirement, and other benefits such as housing arrangements and plans, canteen, kindergarten and night schools, medical costs, working schedule for pregnant employees, qualification of beneficiaries, rewards, marriage leave, and funeral leave. An enterprise was just like a society which should provide various social services. Of course, these schemes were not put forward at will, but formulated in accordance with the *Labor Insurance Regulations*.

Collection of Folk Historical Data of Contemporary China has meeting minutes and other historical materials of some companies’ Party branches. These documents

²⁸Edited by the China Contemporary History Research Center of East China Normal University (2012, pp. 26–27).

show that an enterprise, just like an amplified family or a shrunk society, not only organized production, decided distribution, and provided insurance, but also initiated collective welfare undertakings. For example, since female employees increased rapidly (from 0.6 million in 1949 to 43 million in 1984, 38% of total employees), enterprises established canteen, kindergarten, nursery, even barber-shop, public baths, and other facilities to reduce female workers' household drudgery and increase their employment rate. These nonprofitable, nontaxable welfare projects opened their accounting books and struck the balance of payments. Sometimes subsidies were needed and disbursed from companies' management costs or operating expenses. The reason why enterprises provided such benefits so actively is that the 1951 *Labor Insurance Regulations* had relevant stipulation. For example, Regulations stipulated that enterprises should actively build kindergarten, nursery, and nursing room. Construction was invested by the state and enterprises, and current expenditure was disbursed from companies' welfare funds, operating fees, and administrative fees. Training expenses were disbursed from education and healthcare expenditure, wages and welfare were from wage funds and welfare funds. Even residential housing for employees was welfare projects, as rents were nominal, investment in construction would not be paid back.²⁹

Thus we can say that relevant grassroots organizations (mainly the CPC personnel departments and trade unions) did their best to implement the *Labor Insurance Regulations*. Party branches in enterprises not only did political and publicity work, but also studied issues concerning production, distribution, and social life. For example, Party branches might convene meetings to discuss causes of poor quality and high costs of products, fix output quotas, formulate regulations for technical operations, study the way to enhance safety awareness in production, and talk about how to improve employees' life, prevent diseases and enhance material and culture living standards.³⁰

As enterprises implemented labor insurance all by themselves, it was difficult to ensure unified social benefit standards. In some companies, labor productivity was raised obviously, while other companies failed to adapt organization and human resources to new changes. For example, after implementation of the labor insurance, female employees could enjoy more benefits (such as maternity leave, breast feeding benefits) but nobody was assigned to take over their work, thus although benefit standards were raised, production plans could not be finished.³¹ Some managers followed rules and regulations strictly, while other provided as many benefits as possible to employees on the ground of incarnating workers' "mastership."

At the end of 1950s, gaps and differences appeared in labor insurance practice, some workers enjoyed while others suffered. On September 28, 1957, *People's*

²⁹Edited by the China Contemporary History Research Center of East China Normal University (2012, pp. 23–24).

³⁰Edited by the China Contemporary History Research Center of East China Normal University (2012, pp. 54, 56–57).

³¹Edited by the China Contemporary History Research Center of East China Normal University (2012, pp. 32–33).

Daily published a letter from “Jing Li” who criticized unduly benefits of Shijingshan District Power Plant of Beijing. This letter showed that although the *Labor Insurance Regulations* set benefit standards, companies still had large space during implementation.

Jing Li “Why social benefit standards in my factory are so high?”³²

Medical care in my factory far surpasses what is stipulated in the *Labor Insurance Regulations*. Of course there are some reasons and considerations, but on April 21, 1956, the Ministry of Power Industry and the National Committee of Electricity Trade Union issued a joint notice, stipulating that “as to the medical care of dependants, registration fee, examination fee, laboratory test fee and treatment fee are disbursed from administration expenses, operation fee and medicine expense are half disbursed from administration expenses, all other costs shall be paid by individual themselves.” Almost all companies and factories implement this notice instead of my factory. If dependants go to our health station, they could pay nothing, and if they go to specially contracted hospitals in Beijing, half of whatever expenses (including medical fees, costly medicine expenses and inpatient board fee) could be disbursed from administration expenses. Thus just for medical care, the state will pay 20,000 yuan more every year. In addition, the free medical care also increased workload for medical staff and caused medicine waste. When this notice was issued, our factory director asked the infirmary and wage department to discuss with the labor insurance director of the trade union, but our trade union chairman Mr. Zheng Guotai said “Before the new *Labor Insurance Regulations*, we should add new schemes beneficial to workers, while the original regulations which are inconsistent with the latest notice, should be kept rather than be eliminated...”

After this letter was published on *People’s Daily*, Shijingshan District Power Plant immediately took rectification measures. However, these measures were not recognized by its superior authorities. Thus on February 8, 1958, *People’s Daily* published another article to criticize the Ministry of Power Industry.

After hot and widely spread discussions among employees, Shijingshan District Power Plant successfully eliminated unreasonable social benefits. On December 30, 1957, *People’s Daily* published this experience and aroused great attention. However, it is regrettable that relevant superior authorities are indifferent to this practice. Neither Beijing Power Administration nor the Ministry of Power Industry sent staff to or asked the power plant to summarize experiences, not to mention organizing other enterprises to learn from Shingjingshan District Power Plant.³³

Obviously, competent authorities always considered themselves as interest representatives and would like to offer as many benefits as possible to employees instead of thinking about the whole situation. The Party clearly criticized this trend

³²Li (1957).

³³The Ministry of Power Industry is Indifferent to Shijingshan District Power Plant’s Great Practice of Relying on Workers to Reform Unreasonable System Which was Already Spread Nationwide, *People’s Daily*, p. 5, February 8, 1958.

through *People's Daily*. The article expressed that increasing social benefits could not reflect raising status of workers. Shijingshan District Power Plant's practice of organizing employees to debate on unreasonable social benefits instead really incarnated workers' mastership. As a superior authority, the Ministry of Power Industry failed to give appropriate support. *People's Daily* reported that similar situation also occurred in the Beijing Power Administration. Officials of the Administration thought that other companies could not work like Shijingshan District Power Plant to organize debates among employees and implement the *Labor Insurance Regulations* so strictly. The Administration even irresponsibly issued a supplemental provision which allowed workers to claim reimbursement for all medical expenses, no matter common drugs or costly ones. *People's Daily* commented that stipulations issued by the Beijing Power Administration and the Ministry of Power Industry were so loose that they went against the spirits of the *Labor Insurance Regulations*.

After the Regulations were issued, departments used "local regulations" or "supplemental provisions" to set their own social benefit standards in the enterprises they governed. Thus, the labor insurance system developed farther and farther away from realizing social insurance objectives. In the planned economy, gaps and differences of social benefit standards lied in different regions and industries, and even enterprises of the same region but different industries, or the different industry but different regions.

Up to the eve of the "Cultural Revolution," China's labor insurance system was basically established. Its feature, summarized by the General Office of the Ministry of Labor, was that it consisted of three systems: the national labor insurance system, the collective contract system, and the labor insurance system for staff in government agencies and public institutions. The *Labor Insurance Regulations* and the *Provisional Regulations on Retirement of State Organ Personnel* had different stipulations on retirement treatment, leading a trend of comparing with each other for higher benefits. This unfavorable trend influenced cost reduction, labor flow, and social solidarity.

The General Office of the Ministry of Labor: Problems of the Current Labor Insurance System.³⁴

The current labor insurance system in our country consists of three parts. First is the *Labor Insurance Regulations* implemented in enterprises with over 100 workers and staff members. Second is the collective contract system implemented in enterprises with less than 100 employees. Third is the labor insurance system for government agencies and public institutions (such as sick leave, casual leave, retirement treatment, resignation treatment and free medical care). Although the

³⁴*The General Office of the Ministry of Labor: Problems of the Current Labor Insurance System* (October 28, 1965), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 610–611, 2011.

above three kinds of labor insurance systems stipulated different benefits, they are all important for solving and relieving employees' difficulties caused by child-bearing, old age, illness, death, injury and disabilities.

Labor departments recognized problems caused by the coexistence of different systems. First, benefits in the *Labor Insurance Regulations* were generally better than those stipulated in collective contracts and also better or sometimes worse than those for staff in government agencies and public institutions. Standard difference always had impacts on job transfer and production enthusiasm. Second, labor insurance was in the charge of both the Department of the Interior and the Ministry of Labor, this multi-administration led to ambiguity of responsibilities.³⁵ Policies were always changed by various departments, employees were divided into different groups for different social benefits and the administration system was complex and full of contradictions. It was with these problems that China's social security system was established.

Reform in labor system further widened gaps between different benefit standards. According to relevant documents, under the flexible "dual-employment" system which allowed people to engage in both agricultural and industrial production, benefit standards for contract workers, temporary workers, and seasonal workers were set by enterprises themselves.³⁶ What's more, newly established enterprises and newly recruited employees should be covered by a new system rather than the *Labor Insurance Regulations*, which would definitely cause differences in benefit standards.

2.3.3 *Reform in Labor System and Adjustment in Labor Insurance System*

(1) A Flexible Labor System: Social Security For Temporary Workers And "People Engaged In Both Agricultural And Industrial Production"

During the "Great Leap" in 1958, so many industrial projects were started that urban labor force increased rapidly. A large number of rural labor force and urban unemployed labor force (such as women) began to work in state-owned enterprises.

³⁵See Footnote 34.

³⁶Provisional Regulations of the State Council on Temporary Workers in State-owned Enterprises (October 14, 1962), and Provisional Regulations of the State Council on Improving the Employment and Management of Temporary Workers (March 1965), quoted in Central Archive of Chinese Academy of Social Sciences: *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, China Financial and Economic Publishing House, pp. 119–122, 2011.

At the end of 1958, employees of state-owned enterprises, joint enterprises, public institutions, and government agencies reached 45.32 million, an increase of 20.82 million compared to 1957. Among the new employees, 16.61 million were recruited from urban society, and 11.04 million were from rural areas, and over 11 million were recruited to work in county enterprises. This big increase caused a lot of problems including low productivity, wage cost, and supply of market commodities and impeded the progress of important industrial projects.³⁷ Thus in 1959, an objective of cutting down 8 million employees was put forward. The target was mainly temporary workers, contract workers and apprentices from rural areas, layoff of newly recruited urban employees was limited to guarantee urban employment, and skilled workers were generally transferred rather than fired.³⁸

At the same time, the government began to promote the temporary employment system and the “dual-employment” system to guarantee enough labor force for industrial development. Recruited laborers generally were not skilled ones and mainly worked in commune-run companies and seasonal companies, or did simple physical labor in some large- and middle-sized companies.³⁹ These workers were neither covered by the *Labor Insurance Regulations* to enjoy benefits in enterprises with more than 100 employees, nor covered by the collective contract insurance. Their benefit standard was even lower.

In 1956, former Minister of Labor Mr. Ma Wenrui explained why the “dual-employment” system was carried out:

The reason why we implement the “dual-employment” system is that, the current labor system has some problems and needs reforms. ... one problem is that most employees... about 90%, are under fixed terms. Is it good? Most people think it has a shortage – waste. Production is not always balanced; sometimes enterprises need many workers, sometimes a few. When enterprises do not need so many workers, they still have to pay surplus labor force, maybe hundreds, thousands or tens of thousands of workers, who are under fixed

³⁷*Report of Party Branches of the State Planning Commission and the Ministry of Labor on Salary Level in 1958 and Opinion on Salary Arrangement in 1959* (June 5, 1959), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, p. 34, 2011.

³⁸*Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, p. 35, 2011.

³⁹*Request for Instruction of Sichuan Provincial Committee to the Central Government on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (April 25, 1958), *Report of the Party Branch of the Labor Ministry to the Central Government on the Way to Promote the Dual-Employment System* (December 29, 1958), *Opinions of the Ministry of Labor on Promoting the Dual-Employment System* (September 18, 1964), *Speech of Minister Ma Wenrui on the Meeting for Sharing Experience of the Pilot Dual-Employment System* (September 22, 1965), *Survey Report of the Labor System Investigation Group of the Ministry of Light Industry on the Dual-Employment System* (October 30, 1964), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 97–113, 2011.

terms. ... the stagnation of labor force leads to long-term employment of many old, weak and disabled workers, who represent 3, 5 or even 8% of the whole employees. It causes waste and also does harm to labor force protection. But with the “dual-employment” system, or temporary employment system, there will not be so many old, weak and disabled workers. Another waste is that the more employees under fixed terms are recruited, the more dependents there will be, and the more apartments and other welfare facilities should be constructed and invested. Thus in conclusion, current labor system has caused huge waste and cannot meet the requirement of building socialism in a greater, faster, better, and more economical way.⁴⁰

In order to adapt to flexible labor systems, some state-owned enterprises began to implement the temporary employment system, under which casual workers were not covered by the *Labor Insurance Regulations*, and their benefits were “determined by local stipulations.”⁴¹

Social Insurance for Workers under the “Dual-Employment” System.⁴²

Workers under the “dual-employment” system are not covered by the *Labor Insurance Regulations*. In the case of injury caused while on duty, the enterprise shall bare all medical expenses and wages shall be paid as usual during the medical treatment. In the case of disability caused while on duty, if the worker completely lose his ability to work, pensions shall be paid in accordance with the *Labor Insurance Regulations*; if the worker’s working ability is partially impaired, the enterprise shall, after discussion, pay subsidies to the commune or the production team to receive the worker. In the case of death while on duty, the enterprise shall provide funeral expenses and pay pensions to the worker’s directly related family member(s) in accordance with the *Labor Insurance Regulations*. In the case of illness or injury while off duty, if the medical treatment is continued for less than 3 months, the enterprise shall provide free medical service and pay 50% of the worker’s wages during the sick leave. If the worker gets a chronic disease, the enterprise shall pay a certain amount of medical subsidies and send him back to the commune or production team.

⁴⁰*Speech of Minister Ma Wenrui on the Meeting for Sharing Experience of the Pilot Dual-Employment System* (September 22, 1965), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, p. 107, 2011.

⁴¹Provisional Regulations of the State Council on Temporary Workers in State-owned Enterprises (October 14, 1962), and Provisional Regulations of the State Council on Improving the Employment and Management of Temporary Workers (March 1965), quoted in Central Archive of Chinese Academy of Social Sciences: *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, China Financial and Economic Publishing House, pp. 119–122, 2011.

⁴²*Opinions of the Ministry of Labor on Promoting the Dual-Employment System* (September 18, 1964), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, p. 106, 2011.

Implementing layoff measures, the “dual-employment” system and the temporary employment system transformed the rigid labor system into a more flexible one, concentrated the country’s limited resources to national key project, and thus guaranteed stable development for big industrial enterprises and better social security for technical workers. But certainly, such labor system strengthened “rural-urban dualism.” Since rural labor force had less and less access to cities and the industrial sector, they experienced a widening social security gap compared to urban employees. Peasants were not covered by the social security system, workers under the “dual-employment system” could only enjoy a few necessary job-related benefits and their dependents could not enjoy any. Medical care for these workers was also limited, if they get chronic diseases, little help shall they obtain from enterprises. The reason for taking such unfair measures was that the original labor insurance system had already gone beyond China’s economic capacity.

(2) Reform In The Labor Insurance System

Not only were benefit standards of the “dual-employment” system lowered, since the “Great Leap” in 1958, reforms were also taken to lower standards of the national labor insurance system,⁴³ from the following three aspects:

First, we should lower healthcare standards, mainly through adjusting wages paid for injury caused while on duty and wages paid during sick leave. According to the *1953 Labor Insurance Regulations*, the length of sick leave shall not be limited, and during sick leave, workers shall be paid 100% of their wages. But since 1958, it was stipulated that sick leave shall not be longer than 6 months and workers shall be paid 50–90% of wages according to the length of their standing in enterprises. If the sick leave is longer than 6 months, workers shall be paid 40–60%⁴⁴ of wages according to the length of their standing in enterprises until they are retired, resigned, or dead.⁴⁵ This reform aimed at reducing medical

⁴³*Amendment and Supplementary Regulations of the State Council on the Labor Insurance Benefits of Workers and Staff of Enterprises* (February 28, 1958), *Amendment and Supplementary Regulations of the State Council on the Labor Insurance Regulations (Draft)* (November 7, 1961), *Explanation of the Party Branch of the Labor Ministry on the Amendment of Provisional Regulations on the Labor Insurance Benefits of Workers and Staff of Enterprises* (June 14, 1962), *Opinions of the Ministry of Labor, the Department of the Interior and the All China Federation of Trade Union on Amending the Labor Insurance Regulations (Draft)* (November 21, 1964), and *The General Office of the Ministry of Labor: Problems of the Current Labor Insurance System* (October 28, 1965), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 597–611, 2011.

⁴⁴Increased to 50–70% since 1964.

⁴⁵*Amendment and Supplementary Regulations of the State Council on the Labor Insurance Benefits of Workers and Staff of Enterprises* (February 28, 1958), and *Opinions of the Ministry of Labor, the Department of the Interior and the All China Federation of Trade Union on Amending the Labor Insurance Regulations (Draft)* (November 21, 1964), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*,

expenses,⁴⁶ and also controlling “malingering,” but stipulations that enterprises shall bare medical expenses were not changed.

Instructions of the Ministry of Labor on Lowering Labor Insurance Benefits for An Injury or Disease Caused While Off duty⁴⁷

For example, for workers whose successive length of service surpasses 8 years (10 years for staff in government agencies), if their sick leave is within 6 months, they shall be paid all of their wages. Such regulation is indeed too loose to motivate production; and as about 10 years has already passed since Liberation, most employees’ successive service length is longer than 8 years, thus the original regulation would increase burden on the state and could not reflect special care for old staff and workers.

Second, we should reduce benefits, mainly medical service for employees’ dependents. The *Labor Insurance Regulations* stipulate that if a directly related family member supported by a worker or a staff member becomes ill, he shall be given free treatment at the clinic, hospital or special hospital of the enterprise and the enterprise shall bear half of operation fees and ordinary medicine expenses. If a directly related family member supported by a government staff becomes ill and his illness cause hardship, the staff shall be given subsidies. In 1958, free medical service for employees’ dependents was once totally eliminated, only those who met real difficulties could apply for subsidies. Then in 1964, free medical service was recovered but in a new way: according to the number of employees, certain amount of money was allocated to enterprises for providing medical subsidies to dependents of employees.⁴⁸

(Footnote 45 continued)

edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 597–611, 2011.

⁴⁶According to the investigation conducted by the General Office of the Ministry of Labor in 1964 on 207 employers in Liaoning, Beijing, and other 10 provinces and cities, on average, everyone withdrew RMB 3.3 medical subsidies every month, and spent RMB 4.1, and over-expenditure of 25%. Enterprises above the county level withdrew more medical subsidies, and also because of the stricter management, their over-expenditure rate is from 15–45%, among which, the figure of heavy industry enterprises is the lowest. Enterprises at or below the country level have a low withdraw rate, but their over-expenditure rate reaches 58%, even several times more. Serious Over-Expenditure Problem of Medical Subsidies in Enterprises (September 16, 1964), in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 688–689, 2011.

⁴⁷*The General Office of the Ministry of Labor: Problems of the Current Labor Insurance System* (October 28, 1965).

⁴⁸*Amendment and Supplementary Regulations of the State Council on the Labor Insurance Benefits of Workers and Staff of Enterprises* (February 28, 1958), and *Opinions of the Ministry of Labor, the Department of the Interior and the All China Federation of Trade Union on Amending the Labor Insurance Regulations (Draft)* (November 21, 1964), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 597–611, 2011.

Third, after the “One-child policy” was implemented, childbearing subsidies for female workers or staff members or spouses of male workers or staff members were canceled. It was stipulated that contraception operation fees for employees and their spouses were eliminated, and during the period of post operation recovery, wages shall be paid as usual.⁴⁹

(3) “New Regulations for New Factories” and “New Systems for New Staff”

In addition to reforming the original labor insurance system, the reform of “new regulations for new factories and new systems for new staff” was also carried out since 1958.⁵⁰

In 1958, when a great number of large projects were launched, the Central Government discovered shortages of the labor system and the labor insurance system, and thus put forward stricter requirements for new enterprises. First, enterprises were divided into two categories according to their scale and the administrative level of their competent authorities: enterprises below county level (including county, town and village-run ones) and enterprises above county level (including state, province-run enterprises and several county enterprises). Those below county level had close and direct relations with agricultural production and peasants. They were small and many were engaged in seasonal production, thus enterprises below county level should grope for systems suitable for rural conditions and features rather than implement the *Labor Insurance Regulations*. Enterprises above county level should not implement the original systems either, but use reformed labor insurance.

New enterprises could formulate new labor insurance regulations according to realities. The welfare systems that were proved improper in old enterprises should not be established in new enterprises. Labor insurance was only applicable to employees under fixed terms; as to contract workers, they would gain additional wages, and would not get subsidies for childbearing, old age, illness or death, except in the case of diseases and injuries caused

⁴⁹*Opinions of the Ministry of Labor, the Department of the Interior and the All China Federation of Trade Union on Amending the Labor Insurance Regulations (Draft)* (November 21, 1964), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 597–611, 2011.

⁵⁰*The Central Government's Reply to the Request for Instruction of Sichuan Provincial Committee on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (June 25, 1958), *Request for Instruction of Sichuan Provincial Committee to the Central Government on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (April 25, 1958), *Provisional Regulations of Sichuan Province on the Salary and Labor Insurance Issues of the Industrial Enterprises below the County Level* (May, 1958), *Request for Instruction of Hebei Provincial Committee to the Central Government on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (August 11, 1958), *Outline of the Ministry of Labor on the Meeting for Sharing Experience of the Pilot Dual-Employment System* (September 20, 1965), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 371–382, 2011.

while on duty. In short, the labor system and the labor insurance system in new enterprises must follow the principle of “being greater, faster, better and more economical”, “building the country and enterprises with diligence and thrift”, must be in favor of production and solidarity, and must be easy to apply.⁵¹

According to the above document, in new enterprises above county level, most staff should be contract workers who did simple or physical work, and a few are employees under fixed terms who are skilled workers. To divide enterprises into two levels and workers into two categories in fact still aimed at promoting industrialization. On one hand, this method could guarantee resource supply for key industries and large- and middle-sized enterprises; on the other hand, it could provide skilled workers with better labor insurance.

Enterprises below county level generally did not implement the *Labor Insurance Regulations*, and beneficial standards for their workers were lower than those for employees under fixed terms in big factories. Sichuan Province stipulated “Enterprises below county level, not like state-run enterprises, shall not implement the *Labor Insurance Regulations*. Issues concerning illness, death, injury and disability shall be settled in contracts between the enterprise, the commune and the worker. In the case of illness, death, injury or disability caused while off duty, all expenses shall be borne by employees.”⁵² Enterprises in Hebei Province did not implement the *Labor Insurance Regulations* either, and benefit standards differed a lot.

The Labor Insurance System in Enterprises below County Level in Hebei Province in 1958.⁵³

Currently old enterprises keep the original labor insurance system, but all newly built enterprises of county, town, and commune level do not follow original regulations. There is not any formal system or unified standard for social benefits.

⁵¹*The Central Government's Reply to the Request for Instruction of Sichuan Provincial Committee on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (June 25, 1958), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 371–382, 2011.

⁵²*Provisional Regulations of Sichuan Province on the Salary and Labor Insurance Issues of the Industrial Enterprises below the County Level* (May, 1958), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 371–382, 2011.

⁵³*Request for Instruction of Hebei Provincial Committee to the Central Government on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (August 11, 1958), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Wage, Welfare and Social Insurance for Contemporary Chinese Employees, China Social Sciences Press, pp. 371–382, 2011.

In county and town enterprises, if a worker under fixed terms gets sick or injured while on duty, all medical expenses shall be borne by enterprises and the wages shall be paid as usual. But for contract workers in the same case, some shall get 100% of their wages, some only 50%. In commune enterprises, only medical expenses shall be paid. If a worker gets sick or injured while off duty, county and town enterprises shall pay 100, 50% or none of medical expenses and wages, and provide subsidies in the case of hardship. In commune enterprises, workers shall bear medical expenses themselves, and shall not gain any work point during medical treatment.

Workers who become disabled or dead due to work will be paid disability allowance, funeral subsidies and household pension; but their amount different from enterprises' average wages of 1–4, 3–6, and 1–12 months.

During the maternity leave, wages and treatment for female workers are also different. Some enterprises provide the same wages some provide nothing and some pay a part, or offer subsidies to those in difficulties.

What's more, even under the above-mentioned three labor insurance systems, benefits for enterprise employees and government staff were different. Treatment for wars, pensions, disabilities, injuries, and death were separately stipulated. Regarding medical services, the government did not choose the medical insurance system but the socialized medicine system which was implemented in Base Areas. After the Liberation, as resources were limited, free medical care was only carried out among employees. But with the 1951 Labor Insurance Regulations and establishment of the retirement system in 1955, free medical care gradually expanded. Pension expenses and welfare expenses were borne by enterprises' administration fees or operation expenses, but the free medical funds were paid and allocated by the state to the Ministry of Health for coordination.

Such standard difference hindered labor force flow which was summarized as "not favorable for job transfer" by the Ministry of Labor. In order to improve this situation, the government initially tried social pooling, such as pension pooling in some industries: in 1966 the Second Ministry of Light Industry and the All China Handicraft General Cooperative issued the *Provisional Regulations on Pension Pooling for Employees or Commune Members of Collective Enterprises of the Light Industry or Handicraft Industry* and the *Provisional Regulations on Treatment for Employees or Commune Members of Collective Enterprises of the Light Industry or Handicraft Industry*, stipulating that pensions shall be raised by the municipal or county government, retirees shall get 40–65% of their wages every month, and resigned employees would get a lump-sum subsidy of 1–20 months' wages.⁵⁴ The social pooling facilitated labor flow within industries, but obstructed labor flow between industries.

The welfare barrier the most difficult to cross was between industry and agriculture. Industrial modernization, agricultural collectivization and relevant measures accelerated the creation of the barrier and enforced social dualism. The socialized

⁵⁴Yan (1987, p. 322).

medicine system was not applicable to rural areas, thus some rural collective organizations tried cooperative medical care, also called socialized medical funding. In November 1959, the National Health Work Conference was held in Jishan County, Shanxi Province. On the conference, people applauded some rural practices, such as medical mutual aids, and raising money to establish health centers, and also exchanged ideas on “collective healthcare,” “cooperative healthcare” and “socialized medical funding.” During the “Cultural Revolution” when a large number of rusticated youth were sent to rural areas, rural collective medical practices experienced very fast development.

Differences in labor insurance and benefits between industry and agriculture expanded rural–urban gaps, but also turned rural areas into a place for relieving the stress caused by industrialization. After the “Great Leap” in late 1950s, urban labor supply was in surplus, but the labor insurance at that time did not deal with unemployment. In 1960, the central government put forward policies of “making great efforts to develop agriculture and grain production” to reduce urban population, downsize enterprises, and send labor force to rural areas. Urban unemployment increased consequently. In order to solve economic problems, reduce urban population pressure and lay off old, weak, and disabled employees. In 1960s, the government issued arrangement regulations, stipulating that some employees shall retire early and those who could not rely on their family, shall gain 40% of original wages every month paid by Civil Affairs Departments. Employees who voluntarily moved to countryside would gain production subsidies or resignation subsidy, resettlement subsidy, transportation and lodging fees, and also food allowance during trip, these expenses shall be borne by the employees’ original enterprises. To help those who resettled in rural areas draw subsidies and allowances, and to simplify mailing procedures and reduce mistakes, in 1960, the All China Federation of Trade Unions issued the *Trial Measures on Payment of Long-term Labor Insurance Benefits in Other Places*,⁵⁵ stipulating that employees could apply for drawing allowances in areas they resettled in. Some collective enterprises in towns and enterprises using collective contracts also followed this method to evacuate surplus labor force. Thus without a social insurance system like in Western countries, China’s large rural areas became a place for relieving the stress caused by industrialization. Between countryside and cities, population flow model was not flexible or diversified. Apart from enlistment, the only way for rural residents to become urban citizens was entering colleges and universities through the education system or being assigned to urban enterprises or institutions. While moving from urban to rural areas was more voluntary, with support and subsidies from the government and enterprises, some people chose to give up their jobs and engage in farming in countryside. And in 1960s during the “Cultural Revolution,” a large number of citizens moved to rural areas. In 1966, enterprises halted production to participate in revolution and following the slogan “With hands to work, we will not stay idle in cities,” many high school students responded Chairman Mao’s call to go

⁵⁵Yan (1987, p. 320).

to the countryside, work in agrarian areas, and receive reeducation from the peasantry. Thus, millions of young labor force was shifted to rural areas.

In short, before the “Cultural Revolution” broke out in 1966, China already established a comprehensive social security system. But between urban and rural areas, different industries, enterprises, or communes were big differences and gaps, which reflected labor market segmentation and the state’s “industry first” and “cities first” development strategies. The “urban-rural dualism” was determined by China’s economic conditions back then, but it was also a national development strategy. Due to the “urban-rural dualism,” different policies of different regions or industries would restrict labor flow. On one hand, these policies were made to guarantee the implementation of social insurance policies in the same region or industry. On the other hand, they were determined by development realities in the same sphere.

2.4 The “Cultural Revolution” and the Labor Insurance “Borne by Institutions”

The “Cultural Revolution” had a profound and destructive impact on the development of labor insurance and social security systems. As production suspended, labor force stopped flowing from agriculture to industry. The education system which could provide new labor force was brought to a halt, and “schools were closed and students went to revolutions.” Factories organized workers to seize power or participate in revolutions instead of production. Administrators that had been responsible for forming labor insurance systems before the “Cultural Revolution” was smashed, trade unions were asked to stop functioning, and the Department of the Interior was canceled. What was worse, historical data were lost, insurance benefit documents became incomplete, and systems and procedures turned disordered.

With the chaos occurred during the “Cultural Revolution” in February 1969, China’s Treasury issued *Opinions on the System Reform of Financial Work in State-Run Enterprises (Draft)*, asking that “all state-run enterprises shall stop withdrawing labor insurance funds,” and “wages and other labor insurance expenses for retirees and long-term patients shall be borne by non-operating disbursement of enterprises.”⁵⁶ In other words, since trade unions had stopped working, labor insurance obligations were all borne by enterprises themselves. Labor insurance lost its function of balancing distribution and in fact became business insurance, institution insurance, and employment insurance.

As labor insurance policies were always changed by different departments, some enterprises stopped retirement and resignation procedures. According to statistics after the “Cultural Revolution” in 1978, over 2 million enterprise employees and

⁵⁶Yan (1987, p. 323), The Ministry of Labor and Social Security Editing (2007, p. 14)

0.6 million government staff did not retire after retirement age. And relevant stipulations had not been amended for 20 years since 1958.

As insurance benefits should be all borne by enterprises, those with many retirees, such as enterprises of the textile industry and other light industries, would be overloaded with large insurance expenses, while on the contrary, start-up companies almost did not have such burden. Imbalance in social benefit expenses led to unfair social responsibilities between different industries, enterprises, and regions, which further damaged normal production and competitions. Due to high welfare costs, some enterprises could not afford production and investment, thus the textile industry and other traditional competitive industries were hurt too much to operate well. For workers, the “Cultural Revolution” directly caused lower benefit standards and the loss of some security functions.

In this disordered period, the state used its limited resources to protect government agencies and large- and middle-sized state-owned enterprises. The labor insurance in these institutions was directly borne by the government, or otherwise, they were supported indirectly through preferential supplies. Staff in these institutions could enjoy all benefits stipulated in the *Labor Insurance Regulations*, but in enterprises under collective ownership or below county level, employees could not get equal pay—their wages were less than in state-owned enterprises. Besides, as insurance expenses were determined by conditions of enterprises, welfare was always not good and could not be realized in reality.

The “Cultural Revolution” impeded China’s development toward a social security system covering all people, and the labor insurance became less and less “social,” and was turned into the “enterprise insurance.” The coverage of labor insurance shrank, and the level dropped. As enterprises shouldered social responsibilities in an unequal way, employment in different enterprises was divided into various grades and ranks, even in the same region or industry. Employees with “inferior” insurance benefits were discriminated unduly and this phenomena existed until the reform and opening up in 1970s.

Employees in Collective Enterprises Became “Inferior” after the “Cultural Revolution”.⁵⁷

In Shanghai, it is often heard that young people in production teams were discriminated. Recently, I have heard a case which made me feel indignant. A couple of lovers both worked in production teams and would like to get married after being in love for 3 years. However the girl’s parents were against the marriage and obstructed it in many ways. They first threatened their daughter that if she does not cut off contact with her boyfriend, they will not allow her to take over their jobs. Then they even closed the girl in home, cursed her and beat her. When the parents still failed to change the girl’s mind, they made unreasonable demands for the boy, such as an apartment of 50 m², a set of new furniture, 1400 yuan cash, etc. They

⁵⁷Zhu (1979).

even asked the boy to enter a university or a state-owned enterprise. At last, the girl had no other choice but stealing the hukou booklet to register marriage.

For a long time, about 200,000 young workers in production teams could not get attention or care from the society. Discrimination for them has already become a very bad phenomenon. Politically, these young people have few opportunities to take part in important activities or to be awarded as outstanding staff; in life, their wages and benefit standards were low; and conditions for labor production and learning technologies were far behind conditions in state-run enterprises. Thus young workers in production are considered inferior and without good future. As a result, some young workers could not get married even in their thirties and sighed “as my wage is less than my age, when can I get married and have a child.” Many young workers feel great invisible stress.

2.5 Establishment of Labor Insurance

When the New China was founded, agriculture, industry, and all other sectors lagged far behind and the state needed to be rebuilt. Thus with such a weak economic basis and disordered economic condition, it was difficult for the CPC to fulfill the social security commitment that it made at the early stage to workers and our people. But stick to its strong political will, the ruling party started with rectifying economic orders and protecting laborers’ rights, considered backward economy and the heavy industry-first strategy, and then began to establish the labor insurance system industry by industry, level-by-level, step-by-step, and region-by-region. Just within 2 or 3 years, the system’s initial form was accomplished. Then as economy developed, the coverage of labor insurance gradually expanded, and a primary social security system consisting of the *Labor Insurance Regulations*, *Collective Labor Insurance Contract*, and *Labor Insurance in Government Agencies and Public Institutions* was formed. In rural areas, with the support of collective economy, the government also began to exploring the best security method for laborers engaged in agricultural production.

In terms of systematic arrangement of labor insurance, the government took full consideration of employment modes, social demands, and ability to pay. China’s labor insurance system was different from systems in Western countries. First, labor insurance was paid by enterprises not by individuals, while beneficiaries were employees, thus “social redistribution” and “shared risks for social members” played a very small role in labor insurance. Second, the *Labor Insurance Regulations* were mainly implemented in large- and middle-sized state-owned enterprises, where insurance expenses were deducted before income settlement or turning over profits to the state. 70% of the labor insurance funds were retained in enterprises to pay beneficiaries, just like under a pay-as-you-go pension scheme and the insurance expenses could be considered as operating costs or labor costs. Third, the labor insurance was mainly paid by the administration of every enterprise, thus it was not a social insurance. Although 30% of the labor insurance funds were used

to balance distribution, the coverage and operation mode determined that the labor insurance was closed related to employment, and even could be considered as an “employer-provided insurance.” This operation mode was also used in the *Collective Labor Insurance Contract* and the *Labor Insurance for Government Agencies and Public Institutions*. Except the *Collective Labor Insurance Contract*, all other labor insurances were in fact paid by the state.

Due to the imbalance between economic development and institutional development, during the 30 years from 1949 to the end of the “Cultural Revolution,” great differences in social security appeared between urban and rural areas. What’s more, even in urban areas, there were gaps in system and benefit standards between the *Labor Insurance Regulations*, the *Labor Insurance for Government Agencies and Public Institutions*, and the *Collective Labor Insurance Contract*. The first two systems were supported by national finance and thus these labor insurances were more formal and benefits were better. However, as the labor insurance was implemented by enterprises and institutions, which were independent with each other, benefit standards could not be unified. And under the “dual-employment system,” the labor insurance for contract workers, casual workers, and seasonal workers were stipulated locally; systematic guarantee could not be ensured.

The first establishment of the labor insurance system played an active role in policies of “retaining talents,” “encouraging talents,” and “protecting laborers” in large- and middle-sized state-owned enterprises. But gaps and differences in labor insurance systems also hindered reasonable labor flow, which was the worst during the “Cultural Revolution.” In that period, the labor insurance was more and more “borne by enterprises,” which not only increased burden for enterprises and harmed economic development, but also caused social inequality.

Chapter 3

From “Enterprise Insurance” to Social Insurance

The 1980s, from reform and opening up to 1991, was a special period in China’s history. It was a period of rapid development, a period of institutional transformation, and a period of innovation. In this period, reform or construction for the social security system did not achieve great progress, but the state followed the laws of economic development and social transformation, changed understanding, launched pilot programs, summed up experience, broke traditional employment barriers, and gradually promoted social security reforms. At that time, both economic reform and social security reform were like “crossing the river while groping for stepping stones.”

In December 22, 1978, the *Communique of the Third Plenary Session of the Eleventh CPC Central Committee* (hereinafter referred to as “Communique”) was passed and issued, and became an epochal political document in contemporary China. It addressed certain historical questions left over from an earlier period, discussed achievements and mistakes made by some important leaders, and declared to shift the emphasis of our Party’s work and the attention of the people of the whole country to socialist modernization. Although the Communique did not explained in detail how to establish the social security system, it put forward the objective of realizing four modernizations and greatly enhancing productivity, and stressed that China was at the “primary stage of socialism” and needed to implement the principle of “to each according to his work.” The Communique also pointed out that to achieve the above objective required diverse changes in those aspects of the relations of production and the superstructure not in harmony with productivity growth, and required changes in all methods of management, actions, and thinking which stood in the way of such socialist modernization. In this document, such changes were referred to as “a profound and extensive revolution,”¹ and later development in China proved that such changed were indeed a revolution.

¹The Communique of the Third Plenary Session of the Eleventh CPC Central Committee passed on December 22, 1978.

This revolution would inevitably affect social security and triggered reforms in social security system and mechanism. The starting point and driving force came from reforms in enterprises and employment patterns, which were first put forward as “supporting reforms... for state-owned enterprises reform.” Thus in 1980s, social security reforms were always “to enhance the vitality of enterprises which was the key part of the economic reform. No matter what service did social security need to provide for enhancing enterprises’ vitality, relevant reform measures would be taken and thus social security reforms were used to ensure the smooth progress of the economic reform.”²

3.1 China in 1980s: Transformation of Employment Patterns

3.1.1 Rely on Enterprises to Solve Employment Problems Left Over from the “Cultural Revolution”

The “Great Proletarian Cultural Revolution” ended in October 1976, but it left “unprecedented” problems, and many were urgent in the field of labor and employment. For example, when the “Cultural Revolution” ended, more than 2 million enterprise employees over the retirement age, and more than 600,000 old or weak personnel in state organs and public institutions had not applied for retirement procedures because relevant administrative offices stopped working during the “Cultural Revolution”. And in this period, also many cadres suffered from undue strikes and unfair treatment. Thus one important task after the “Cultural Revolution” was to implement generous policies for these cadres, such as raising standards of retirement benefits according to their service length in revolutions and standardizing the retirement system.

In May 1978, the State Council Circular No. 104 issued the *State Council Temporary Measures on Workers’ Retirement and Resignation* and the *State Council Temporary Measures on Providing for Old, Weak, Sick, and Handicapped Cadres* which were passed on the Second Meeting of the Fifth NPC Standing Committee, on May 24. These measures had many changes compared with the *Provisional Regulations on Retirement of Workers and Employees* issued on February 9, 1958 and the *State Council’s Rules for Implementing the Provisional Regulations on Retirement of Workers and Employees* issued on April 23, 1958. The main change was to unify retirement requirements and benefit standards in the *Labor Insurance Regulations* and the *Provisional Regulations on Retirement of State Organ Personnel* and to loosen requirements for leaving the post to rest. Benefits used to be applicable only for revolutionaries before the Ten Year’s Civil War, would also be enjoyed people who joined the revolution before the end of

²Edited by the Ministry of Labor and Social Security (2007, p. 691).

September 1949. Pensions increased from 40–60% of original wages to 60–80%. For the employees who had already worked before October 1949 when the New China was founded, their pensions were raised to 80% of their original wages, while those who worked after the founding of the New China, their pensions were adjusted to 60–75%. Standards for sick leave benefits, death pensions, and living subsidies were also improved, and thus a stable system was gradually formed.

The “No. 104 Circular” aimed at solving problems of the pension system destroyed during the “Cultural Revolution” and also fulfilling the government’s commitment to social protection. At that time, although the reform and opening-up policy is in the offing, no matter production organization or social organization still kept strong characteristics of the planned economy era. Enterprises were not only basic production units, but also grassroots social units. It was through enterprises that the “No. 104 Circular” was implemented. Consequently, problems appeared during the implementation would do harm to enterprises’ business and greatly increase their social burden.

Since the “Cultural Revolution” had damaged industrial production, factories and mines had limited ability to absorb new labor force. At the same time, a large number of rusticated youth returned to cities from the countryside, the pressure on urban employed was further increased. Therefore, the “No. 104 Circular” provided a “privilege”, stipulating that employees who lost capacity to work due to illness and who were engaged in special tasks could retire early and they could be “replaced” by their children. On one hand, this method could address early retirement issues for sick and handicapped employees; on the other hand, it might reduce employment pressures. However, as stable pensions and employment for children strongly attracted employees, and enterprises also preferred to recruit young workers earlier, people took advantage of this policy loophole, pretended sick to go through “replacement” procedures. A wave of early retirement occurred in a short time.³ With the “replacement” trend, a large number of old skilled workers applied for early retirement, but as the employees’ children did not possess same abilities, enterprises lacked technical strength and also suffered from pension expenses. At that time, workers who had skills and children to replace rushed to retire early, while those without skill or children to replace still remained at their post even beyond the age of retirement. This situation could be summarized as “retirees were not old, not sick, while the old, the sick didn’t retire.” Among the 200,000 retirees in one province, over 70% retired for “fake sick”. For example, in a city, 28 state-run barbershops closed down, because over one hundred hairdressers retired “because of illness” and started their own business. While those who still worked in state-run barbershops, actually earn money for “retirees, children who took over post of their parents, workers in long-term sick leave, and finally themselves.”⁴

³Xia (2009a).

⁴Xia (2008c). This article records an interview with Li Xiusheng, former director of the Social Insurance and Welfare Department of Henan Labor Bureau; Li Jiaji, former deputy director of the Social Insurance and Welfare Department of Henan Labor Bureau; and Mao Fengjun, former researcher of the Social Insurance and Welfare Department of Henan Labor Bureau.

The retirement wave caused a nationwide surge in the number of retirees. In 1978, the number of retired workers nationwide was 3.14 million; in 1980, this figured soared to 8.16 million; and in 1984 it nearly doubled to reach over 14 million, among which more than 10 million were in state-owned enterprises. Retired workers represented 12.3% of the total active workers, and their pensions reached 10 billion yuan, an increase of more than 9 billion yuan compared to 1978. Among these pensions, state-owned enterprises paid over 8 billion, accounting for 10% of the total wages.⁵ In addition, as during the “Cultural Revolution”, the ACFTU (All China Federation of Trade Unions) lost its function of pooling pensions set forth in the *Labor Insurance Regulations*, labor insurance responsibilities were shouldered only by enterprises. The labor insurance thus turned into “enterprise insurance”, borne by enterprises’ business expenditure of the year. One can imagine that the new retirees brought a heavy pension burden to enterprises. And due to such burden, production development was seriously damaged in some old enterprises.

3.1.2 Enterprises’ Overloaded or Underloaded Pension Burden Forced the Pension System to Be Reformed

Pension burden on enterprises became increasingly unbalanced. In some old enterprises, pension expenditure accounted for 30–40% of total wages,⁶ or even surpassed profits. For example, the Chengdu Transport and Stevedoring Company in Sichuan Province had about 4000 active workers and retirees, respectively. Since 1978, this company has earned a lot, but after paying pensions, profit turned into “loss” and the company could only rely on subsidies from the Municipal Transportation Department, which impacted production development of the enterprise and the Transportation Department, and also active workers’ interests. In sharp contrast, emerging industries and enterprises had few pension burdens, such as the Shaanxi TV Tube Factory, having only 15 retirees among its 6000 employees.⁷ Unbalance and unreasonable retirement burden made it difficult to run the competitive mechanism and mobilize enterprise vitality. It even directly threatened survival and development of China’s traditional industries (such as the textile industry).

Besides unbalanced social burdens, the industry-first strategy also affected enterprises’ development. The country’s human, financial, and material resources were concentrated on large and middle-sized state-owned enterprises to ensure their development, which made these enterprises, suffer from the most and strictest administrative intervention under the planned economy. These enterprises, in which

⁵Xia (2008b) and Fu (1985).

⁶Fu (1985).

⁷Fu (1985).

the “big pot” distribution system prevailed the most, lacked vitality the most. They were “multiple functional”, not only engaged in production but also providing social services like canteen, nursery, barbershop, etc. Issues concerning employees’ childbearing, old age, illness, and death were all responsibilities for enterprises to shoulder. Once a worker entered a state-owned company, he and even his future generations would get a “job for life”, thus the labor flow basically stagnated.

Under the planned economy, collective enterprises were also subject to administrative intervention. For example, collective enterprises did not implement the principle of “to each according to his work”; their wage, welfare, and labor insurance standards should be set with “reference” to state-owned enterprises, but lower. Without national financial support, collective enterprises operated based on market competition, using independent accounting and self-sustaining methods, and avoided the “big pot” distribution system. Although they were competitive and run in a flexible way, they still could not follow the principle of distribution according to work. *People’s Daily* then organized investigation on collective enterprises and discovered: at the starting up stage, nobody cared about these enterprises, while when they began to gain profits, they were constrained by various administrative interventions.

People’s Daily Criticized Administrative Intervention on Enterprises’ Independent Management⁸

Comrade Liu Yingjie, the branch secretary of Beijing Beixinqiao First Garment Factory, has worked in collective enterprises since 1958. She said with deep feelings: street businesses were always started by housewives and other idle labor in society. At the initial stage, earnings were too low to “distribute”, and nobody cared about us; later when we improved production, earnings and profits increased, and relevant authorities began to intervene and oblige us to implement a distribution regulation: income of collective enterprise workers must be lower than that of state-owned enterprise workers, and their monthly average wages shall not exceed 35 yuan. Over the past decade, this principle just like “chains” hooped all employees in collective enterprises. Currently, not only our wage, welfare, and labor insurance standards are lower than those in state-owned enterprises, but also our grain ration is fewer. People who work more could not gain more, sometimes even gain less. Beijing Xuanwu Foundry is a collective factory. During the Beijing’s recent adjustment, 200 workers of this factory were transferred to Beijing state-owned Machinery Repair Shop. Workers in these two different workshops, were all second-level workers and did the same job; however, those in the collective factory earned 35.5 yuan monthly, while those in the state-owned one 41.5 yuan. Beijing Xuanwu Chain Factory, also a collective factory, has 200 workers. The average wage is 38 yuan every month, but among the workers, about 20 were transferred from state-owned enterprises, whose average wage is over 50 yuan every month. The phenomenon that “laborers of collective enterprises worked in

⁸ Wu (1979).

state-owned ones” and “laborers of state-owned enterprises worked in collective ones” is very common. Workers of the same level, under the same condition, do the same job, cannot can same earnings. Consequently, the masses have a lot of complaints about such unreasonable difference.

The enterprise’s survival and development directly affected its employees’ welfare and insurance benefits. Due to losses, some companies could not pay pensions to retirees or reimburse medical expenses; some retirees had no choice but to set up stalls, sell old clothes, even beg in streets or even jump into a river to commit suicide, thus caused increasingly serious social problems.⁹ Mao Fengjun, researcher of the Social Insurance and Welfare Department of Henan Provincial Labor Bureau recalled that in the first half of 1982, some retirees in Henan Province began to stir up troubles, which were described as “smoke from fires”. At that time, there was “smoke” nationwide.

SOE workers might fail to get their pensions due to the poor performance of enterprises, while collective enterprises almost did not implement the retirement system. In collective enterprises, pensions were always one-off payment of 200–400 yuan, while in SOEs, average monthly pension was 60–70 yuan. Thus collective enterprise workers gained no other premiums than the lump sum equivalent to SOE workers’ pensions of a half year.¹⁰ The enterprises that could pay off pensions were those that operated well. Actually many enterprises even could not afford such pensions so that they did not deal with retirement applications and just asked workers continue to work. Thus a large part of workers in collective enterprises were beyond retirement age. In Nanchong, Sichuan Province, where the pilot reform on collective enterprise pension system was implemented, 16 workers at age 17–82 could not retire from street enterprises. Without guaranteed old-age insurance, many young people preferred to stay at home rather than to work in collective enterprise. At that time, there was a popular saying “One would rather work in a bad state-owned enterprise than work in a good collective enterprise.”¹¹ Problems of the old-age insurance became an important factor that restricted development of the collective economy.

To build a society where “the old can be taken care of and the sick can be treated” is the ideal social system for New China’s founders, and also the ideal system in Chinese ancient civilization. However, with pension risks in reality, how could the ruling party solve relevant problems and through which system could the party fulfill its commitment to laborers?

At the early stage of reform and opening up, the method of “crossing the river while groping for stepping stones” actually focused on “groping for stones” means to investigate real conditions and problems in depth. Since China is a vast country and between regions are big differences, researches should be conducted separately. For example, from January 4 to 8, 1982, the Insurance and Welfare Department of

⁹Xia (2008b).

¹⁰Xia (2009a).

¹¹Xia (2008a).

the National Labor Bureau hosted a regional social insurance symposium in Chongqing, covering Yunnan, Guizhou, Sichuan Provinces, Chengdu and Chongqing. This symposium focused on two topics: (1) studying pension reform in collective enterprises; (2) studying the pooling of SOE pensions. The above two topics were important parts of the social security reform in 1980s. Although reform contents and methods were different in these two aspects, they both aimed at turning the “institution paid” labor insurance into a socialized one.

3.1.3 “Market-Driven Employment” Is the Breakthrough for Establishing Social Security System

When China began to implement the reform and opening-up policy, the labor insurance “borne by institutions” gradually turned into a socialized system, while at the same time, the employment system tended to be driven by the market. In order to adapt to the new employment system, collective enterprises skipped labor insurance reform and directly joined the social security system.

1. Diversified Employment Patterns Promoted Reforms of the Social Security System

Before reform and opening up, the government’s policies mainly required collective enterprises to “refer to” the labor insurance standards of state-owned enterprises. The Ministry of Light Industry, the Ministry of Finance and the National Labor Bureau in 1977, the Ministry of Transport in 1978, and again the Ministry of Finance and the National Labor Bureau in 1978 issued regulations stipulating that collective enterprises shall provide labor insurance benefits according to standards of local state-owned enterprises. “Referring to SOEs” already became a usual practice. Till 1980 when foreign capital began to enter China and joint ventures appeared, the State Council still required these enterprises to refer to SOEs when paying labor insurance.¹² As enterprises were different in performance and ability to pay, there was not a mechanism that obliged “strict reference”, thus labor insurance could not be comprehensively implemented in reality.

Apart from ensuring laborers’ rights, the original mechanism could not solve employment problems either. After the “Cultural Revolution”, factories and mines which were seriously affected did not fully resume production yet, while at the same time a large number of rusticated youth returned to cities, and some urban employees who had resettled in rural areas also came back; together with urban unemployed, they constituted a huge group of idle labor force which caused big pressure on urban employment. With the “centralized labor allocation” approach,

¹²The State Council: *Provisions on Labor Management in Chinese-Foreign Equity Joint Ventures*, July 1980.

the government did not have the ability to arrange jobs for so many people in such short time; enterprises did not have autonomy; workers lacked rights to choose their own career; and social resources could not be mobilized.

Finding ways to arrange jobs for tens of thousands of the unemployed became an important part of China’s social transformation. The state must solve employment problems and at the same time also address issues concerning laborers’ social security rights. The key was employment diversification.

On the Third Plenary Session of the 11th Central Committee, the CPC decided to allow and encourage the coexistence of diverse sectors of economy with the public sector remaining dominant. On one hand, the state would attract a large amount of foreign investment to set up business and recruit Chinese workers; on the other hand, it supported the development of urban collective enterprises. Besides the “centralized labor allocation” for fresh graduates, the state also promoted market-driven employment. In order to solve employment problems by developing different economic sectors, in January 1979, the Central Government called upon that “employment pattern should be diversified and local governments should develop the collective ownership of agriculture, forestry, animal husbandry, fishery and handicraft industries, and also collective commercial centers, labor service companies and public utilities.”¹³

In order to develop collective enterprises and enable them to provide more job opportunities, the government took some supportive measures including tax concession for collective enterprises.¹⁴ Furthermore, the government reduced administrative interventions, strengthened self-management and self-financing of collective enterprises, and particularly eliminated regulations on employment and income distribution. The government also used taxation to reduce enterprises’ expenses on social welfare, and also enhanced welfare and benefits for collective employees. For example, in the past, retirement pensions, resignation pensions, medical fees, and other welfare benefits for employees in handicraft and transportation industries used to be partially paid before taxation, but now they were all paid before taxation. While such benefits for employees in collective shops used to be paid after taxation, but now they are paid before taxation.

The above reform constituted in 1980 a so-called employment principal of “three combination”, namely, “under the nation’s overall planning and guidance, the new employment principal combined three patters: finding jobs through labor departments, by starting up collective enterprises, and by individuals themselves.”¹⁵

¹³Compilation Committee of Nanjing Chorography (1999, p. 68).

¹⁴Urban collective enterprises that were established for educated youth were exempted from income tax for 1 year since operation. After 1 year, the enterprises still having difficulties could enjoy other tax preference. In rural areas, collective factories and production teams that were established for educated youth, no matter old or new, were exempted from income tax, industrial and commercial taxes from 1979 to 1985. And since 1979, the additional tax levied on cooperative shops was also eliminated.

¹⁵Compilation Committee of Nanjing Chorography (1999, p. 68).

History proved that it was the “three combination” employment principal that triggered a series of reforms and innovation on labor and social security system. First, to mobilize multiple resources to promote employment created development opportunities for collective enterprises. Various small private and collective economic entities sprang up, employees’ income surged, and labor flow appeared between enterprises. Till 1984, labor force could flow freely between enterprises of any size and thus economic vitality was further released.

How to provide employees with social security benefits under market-driven employment is a new issue. The labor insurance system going with the unitary employment pattern could not adapt to economic and social development. Fu Huazhong, former director of the Insurance and Welfare Department of the National Labor Bureau, recalled

At the early stage of reform and opening up, our labor insurance system had some problems. First, insurances concerning childbearing, old age, illness, death, injury and disability were all stipulated in one comprehensive regulation which was inflexible. Enterprises with good economic conditions fully implemented the *Labor Insurance Regulations*, providing all insurances with good benefits; while enterprises with bad economic conditions could not implement the regulations and did not provide any insurance benefit. Second, during past decades, the insurance coverage was always too small as the insurance was only applicable to state-owned enterprises and big collective enterprises. Third, beneficiaries did not bear insurance expenses which were not good for increasing income, reducing expenditure and culturing people’s awareness of self-insurance. Fourth, the calculation approach was too simple. For example, it was stipulated that according to employees’ service length, the old age pension should be 60%, 70% or 75% of their wages at the time when they retired. The old age pension was calculated based on the standard wage which did not change and was not connected with actual wages. As the old age pension was paid without regard to neither price changes nor retirees’ burden of dependents, it could not guarantee employees’ life after retirement.¹⁶

When people hotly debated on the issue that “development is of overriding importance,” not much attention was attached to the social security. Zhou Xiujie, former director of the Insurance Department of Sichuan Province Labor Bureau, recalled

At that time, there was a widespread jingle: tasks concerning wages were the most important, then the deployment, and insurance benefits were the last. Every time when we had a meeting, it was always people responsible for wages spoke first, then those who were responsible for job transferring, and at last, we only had little time to talk about the insurance work. And people often urged us to hurry up or summarize in a few words, thus nothing could be explained or discussed in detail.¹⁷

Besides little emphasize, China also lacked basic knowledge and unified understanding on insurance benefits. Fu Huazhong said

At the early stage of reform and opening up, there were so many questions concerning the social insurance, for example, what is insurance? Is labor insurance in our country a social

¹⁶Xia (2008b).

¹⁷Xia (2008a).

insurance? Do we need to reform the current system? How to reform it? Could we replace the social insurance by increasing wages or enhancing benefits and relief funds? Is personal insurance a social insurance? The above issues aroused hot debates and people’s opinions differed a lot.¹⁸

Thus, according to economic and social conditions, and demands and challenges caused by reforms, in 1982, the competent authority—Insurance and Welfare Department of the National Labor Bureau—drafted the *Initial Ideas on the Situation and Reform of the Social Insurance System*, putting forward that “the social insurance shall be able to promote production and guarantee employees’ life; insurance expenses shall be borne by three parties and coordinated; old-age pensions, health care and insurance benefits for injured and handicapped shall be improved.” According to the plan, reforms would be started from contract workers in emerging enterprises and the pooling and coordination of the original system. This plan also put forward that “the national unified planning would be realized in 1986, insurance would be spread to rural areas in 2000; and special social insurance agencies would be established for socialized management.”¹⁹ However, this plan lacked social consensus and political support, as Fu Huazhong recalled

During the whole 1980s, it was extraordinary difficult to promote social insurance reform. As there wasn’t any relevant “red tape”, we could only try to mobilize local governments to launch pilot reforms, while local governments also could only rely on persuasion to promote social insurance reform. It was really difficult. And it was also abnormal that there wasn’t any law stipulating the implementation of the statutory social insurance.²⁰

The social insurance reform first started from local pilot programs. As different regions had different conditions, problems occurred in the programs were also different. Major resistance against establishing the pension pooling system came from powerful state-owned enterprises, while it was much easier to promote reforms in emerging non-state-owned enterprises, because they had not enjoyed this system before. As to SOEs, to reform the original labor insurance under the planned economy, would impact some people’s interests, the more vested interests were touched, the more resistance there would be, and the more difficult reforms would be.

2. Reforms on the Employment System and the Social Security System: An Example of Shenzhen

The phenomenon that employment drove social security reforms was very common in Shenzhen special economic zone. When the special economic zone was established in Shenzhen, it chose the export-oriented economic model with “foreign capital as major construction funds, foreign-invested enterprises as main body, market as the major tool to regulate economic activities, and exportation as the main method to selling products.” The traditional employment system, distribution

¹⁸Xia (2008b).

¹⁹Ibid.

²⁰Xia (2008b).

system, and labor insurance system could no longer work well in the market-oriented economic zone, and this problem became more and more serious. And the end of 1980, the municipal government of Shenzhen decided to try out the labor contract system in Zhuyuan Hotel and Youyi Restaurant, which made a breakthrough for future reforms on the labor and social security system.

Zhang Wenchao, First Director of Shenzhen Labor Bureau Talked About the Employment System Reform in Shenzhen²¹

When Zhuyuan Hotel was opened, its business was not bad. However, as the hotel did not use standardization management, the service quality was unsatisfying, and thus guests decreased. Only after a few months, business languished.

The lack of autonomy in the use of personnel impacted the hotel's development; Liu Tianjiu (Hong Kong investor) did not have much confidence and thus would like to terminate the contract. This case triggered the employment system reform in Shenzhen.

Knowing that Liu Tianjiu wanted to terminate the contract, Director of Guangdong Labor Bureau, Cheng Li, and head of the Wage and Welfare Department, Zhang Wenchao, specially went to Shenzhen to investigate and found it was necessary to reform the employment system.

How to reform the employment system? Liu Tianjiu proposed to break the "iron rice bowl." He said "Under the 'iron rice bowl' system, needed employees can't be recruited, while needless employees don't leave, thus it's very hard for enterprises to develop." He suggested eliminating the permanent employment system and implementing the labor contract system which enabled enterprises to hire qualified employees and "fire" incompetent ones. "Dismissal" is very common nowadays, but it was totally new in mainland China at that time. To get some new ideas, in 1980, Zhang Wenchao paid a special visit to Hong Kong to investigate the local employment system, and felt "indeed inspired a lot."

The research group took Liu Tianjiu's advice and immediately reported to Shenzhen municipal leaders. The municipal government agreed to break the "iron rice bowl" and tried out the labor contract system. In October 1980, Zhuyuan Hotel took the initiative to implement the labor contract system and became the first company that "fired" 6 employees. In November, Lai Li, staff of Zhuyuan Hotel, signed the first labor contract as a contract worker in mainland China. Zhuyuan Hotel was thus the first employer that signed the labor contract in Shenzhen and also in mainland China after reform and opening up. Zeng Hongwen, editorial board member of the *Annals of Labor and Social Security in Shenzhen*, commented "The appearance of the labor contract, was just like explosion of an atomic bomb."

The employment system reform led to inevitable reforms on the social security system. After the "iron rice bowl" was broken, social security problems emerged, and thus Shenzhen reformed the original labor insurance system which required

²¹Liu and Zang (2008e).

enterprises to bear expenses of “childbearing, old age, illness and death” of all employees into a new social insurance system which combined the social mutual aid with the individual account.

“To break the ‘iron rice bowl’ and the ‘big pot’ distribution system, we must comprehensively reform the wage system, the employment system and the social insurance system.” Zhang Wenchao, the first director of Shenzhen Labor Bureau, recalled that “social insurance reforms were more complicated than wage system reforms.” In 1980, Zhang Wenchao posed a realistic question in a seminar with Liu Tianjiu and other Hong Kong businessmen: we can choose the labor contract system rather than the permanent employment system, but how to guarantee employees’ social security? What about their life after retirement? “Liu Tianjiu said that enterprises could pay money, but the government should establish a department to calculate and unify the contribution rates, and also kept the funds. New employees could pay fewer endowment insurance premiums while old ones pay more. When employees get retired, this department paid them old-age pensions.” This suggestion was agreed by Zhang Wenchao and participants from Hong Kong.

In January 1982, Shenzhen started to explore reforms on the old-age pension system, implemented social pooling of insurance funds for foreign-invested enterprises, and made a breakthrough to try a socialized insurance system. The municipal Labor Bureau established the Contract Worker Insurance Department, which was the first social insurance agency in China. The department collected the first labor insurance premium from Zhuayuan Hotel, which equaled to 25% of employees’ wages. According to the *Tentative Measures for Labor and Wage Management in Enterprises in Guangdong Special Economic Zones*, enterprises in special economic zones shall pay labor service charges staff and workers, 70% was directly paid to employees as their wages, 5% was kept by enterprises as welfare subsidies, and 25% was turned over to the municipal Labor Bureau as the labor insurance funds for future expenses in old-age pensions and social insurance.²²

Such old-age pension system was initially established and administrated in regions. In 1983, Shenzhen established the Labor Insurance Company of the Municipal Labor Bureau on the basis of the Contract Worker Insurance Department, and the company was classified as a county-level agency. “At that time, the most powerful departments for wages and job transfer were all at the township level, but we rate this insurance agency higher.”²³ This arrangement showed the great importance the government attached to the social insurance work. In the same year, the *Provisional Regulations on the Implementation of the Labor Insurance in Shenzhen* were promulgated, stipulating enterprises of all ownerships shall implement the old-pension system for their contract workers. The pooling of the endowment insurance shortly became a hot issue in China.

²²Compilation Committee of *Annals of Labor and Social Security in Shenzhen: Annals of Labor and Social Security in Shenzhen* (Special Annals of Shenzhen), Haitian Press, p. 278, 2005.

²³Liu and Zang (2008e).

3. The Pooling of the Endowment Insurance and Its Resistance

On the seminar in Chongqing from January 4 to 8, 1982, participants hotly discussed how to reform the old-age pension system. Should the pooling start from state-owned enterprises or collective enterprises? Zhou Xiujie, former head of the Insurance Department of Sichuan Labor Bureau, strongly advocated to reform collective enterprises first. He believed that “state-owned enterprises indeed needed to solve some problems, especially those concerning poor retirement treatment, however, collective enterprises, in particular small ones, generally didn’t implement the old-pension system yet. Thus one is to solve the problem of ‘eating more or less’, while the other is ‘eating something or nothing’.”²⁴

To set up a new system could avoid or reduce constraints and resistances from old systems and parties of vested interests. In addition, collective enterprises were always not in pillar industries of the national economy, thus even if the reform failed, side effects would be limited. Therefore, Chongqing seminar decided to launch reform pilots for the pooling of the endowment insurance in collective enterprises, and each province on the seminar would choose one county, or county-level city, or one district of a city to launch the pilot program.

However, even though the seminar had taken so many issues into consideration, its decision still met various resistances from enterprises, employees, retirees, and also from misunderstandings of the reform from the society. Some scholars and officials considered the social insurance, a social welfare service, as a commercial insurance. Many famous economists participated in debates and supported that the pooling of the endowment insurance should be handled by the People’s Insurance Company. On April 4, 1984, then Premier Minister Zhao Ziyang hosted the working meeting of the Leading Group for Financial and Economic Affairs to discuss issues concerning bonuses without ceiling, social insurance, and welfare. The meeting decided to assign the pension system reform work in collective enterprises to the People’s Insurance Company of China.²⁵

Government Staff Who Experienced the Social Pooling of the Endowment Insurance in 1980s Recalled Reform Resistances²⁶

(According to former researcher of the Social Insurance and Welfare Department of Henan Labor Bureau, Mao Fengjun’s recall) In the first half of 1982, retirees of Kaifeng Second Transportation Company began to make troubles, which we described as “smoke from fires”, and at that time, there was “smoke” nationwide. After such “smoke” occurred in Kaifeng, the Social Insurance and Welfare Department sent the deputy head Ye Zicheng to investigate and I was just doing research in Kaifeng at that time. Ye Zicheng talked with some enterprise representatives on a meeting, and explained the social pooling of old-age pensions. Some poor enterprises like the Second Transportation Company applauded such reform,

²⁴Xia (2008a).

²⁵Xia (2008a, 2009a).

²⁶Xia (2008d).

while enterprises that performed well and had no retirees rejected said “why should we pay contributions to pay pensions for retirees in other companies”? Ye Zicheng was so outspoken that some representatives quarreled with him, and I was there trying to ease the situation.

(According to former director of the Social Insurance and Welfare Department of Henan Labor Bureau, Li Xiusheng’s recall) Wuzhi County and Yanjin County quickly formulated the pooling regulations, but also faced big resistances. I went to Wuzhi County to investigate, and at that time, the “big pot” distribution system was just eliminated, and some enterprise heads asked me that why the government implemented the social pooling which worked like the “big pot” system? And county magistrates opposed with the idea that in the past, if there was no money to pay old-age pensions, enterprises should take the responsibility, but under the social pooling system, this responsibility fell on the shoulder of the government, it was asking for trouble. Therefore, resistances came from all aspects.

When the inland hotly discussed how to realize the social insurance and which agency should be responsible, coastal regions, particularly special economic zones in south China, had already tried out and promoted the socialized old-age pension system. In 1983, the Municipal Government of Shenzhen promulgated the *Provisional Regulations on the Implementation of the Labor Insurance in Shenzhen*, stipulating that the social pooling of the old-age pensions should be implemented for all contract workers.²⁷ In May 1985, Shekou Municipal Labor Bureau issued the *Notice on the Methods of Collecting and Paying Labor Insurance Premiums for Contract Workers Transferring into Special Economic Zones*, stipulating that workers who were transferred from state-owned enterprises into enterprises in special economic zones and who worked as contract workers since January 1985 should pay insurance premiums since the day when they were transferred.²⁸

3.2 Reform, Opening up, and Transformation of Social Security Ideas

At the early stage of reform and opening up, enterprises tried market-driven systems in terms of management and employment. But the predominant view and idea were still going with the planned economy. China lacked basic knowledge about the market economy, and the experience to manage the market, correct market failures, and make up negative impacts that the market might have on the society. In addition, China lacked theories to safeguard social justice and prevent social risks under the planned economy. Without relevant social security theories and practice,

²⁷Compilation Committee of *Annals of Labor and Social Security in Shenzhen: Annals of Labor and Social Security in Shenzhen* (Special Annals of Shenzhen), Haitian Press, p. 102, 2005.

²⁸Compilation Committee of *Annals of Labor and Social Security in Shenzhen: Annals of Labor and Social Security in Shenzhen* (Special Annals of Shenzhen), Haitian Press, p. 278, 2005.

the transition from the planned economy to the market economy could become a disaster to the whole society. Therefore, through reform and opening up and other foreign exchanges, China introduced a large quantity of social security knowledge, theories, approaches, and policies from abroad for policy-makers to learn, and these studies became an important inspiration for China's social reforms.

3.2.1 *Traditional Ideas and Theories of Social Security*

In traditional Chinese thoughts, we have a social ideal described by Confucius in “Da Tong (the Ideal World)” (*Book of Rites*) that “People love not only their own parents; they treat with parental care not only for their children. Provision is made so that the aged may live comfortably until their death, so that the able-bodied (those in the prime of life) may find employment, and so that the young may have the means of growing up. The widowers, widows’ orphans, childless, and those who are disabled by disease are all sufficiently maintained.” We also have a social ideal to develop from a socialist society which is “from each according to his ability and to each according to his work” to a communist society which is “from each according to his ability and to each according to his needs.” Before reform and opening up, people tried to realize the above social ideals through public ownership of the means of production and the planning of social production and distribution. However, as the scale and level of social production lagged far behind social ideals, the ideals could only be realized partially, step by step, industry by industry, and department by department, and the realization was unbalanced and lack of social justice. The market economy worked as a powerful tool to break industrial and regional barriers and inevitably posed a challenge for insurance and welfare policies and ideas that supported the planned economy. Obviously, separated systems in different regions and industries could hardly provide effective social security under the market economy, and thus the reform direction and methods for the social security system were hotly debated.

In China, policy-making, academic researches and business are somewhat linked by the administration. Often competent authorities can contact relevant parties to carry out policy consultation. For example, from November 5 to 12, 1983, the Insurance and Welfare Bureau of the Ministry of Labor and Personnel and the Institute of Labor Science jointly held a national symposium to discuss issues of insurance and welfare. Over 140 professors, scholars, cadres, and staff working for insurance and welfare participated in this conference and submitted 120 articles. The topic was “how to establish and improve a socialist insurance and welfare system with Chinese characteristics,” and the focus of discussion was the nature and role of China's social insurance, the financing and management system of insurance funds, and employee benefits.²⁹ The organizer—China Academy of Labor Science

²⁹Secretariat of China Academy of Labor (1983).

affiliated to the Institute of Labor Science—clarified concepts like “socialization of insurance” and “pooling of insurance funds” in the review:

Since the Third Plenary Session, we have developed various economic sectors and tried out the new labor system, thus the social insurance system should be correspondingly established and improved in order to liberate contract workers and employees of newly established collective enterprises and individual economy from worries behind. At the same time, the original system also needs to be reformed in order to adapt to greater autonomy of state-owned enterprises and the introduction of corporate tax. In the future, the increasing population, labor force, retirees and social insurance expenses will all be new challenges for our labor insurance work. Debates mainly focused on the following issues: should we expand the social insurance to all laborers and realized its socialization? Which insurance system will be implemented for staff under various economic sectors? Will insurance funds be managed by enterprises themselves or through social pooling? Which principle will we follow to set up insurance benefit standards? All the above issues should be studied and solved from the perspective of theories, policies and measures.³⁰

But as the planned economy was just replaced by the market economy, people could not well understand and explain the structural changes happened in the society. In the discussion, confusion abounded. When finishing the minutes, the Secretariat of China Academy of Labor Science found that much time had been spent on discussing the “insurance’s name”, the distribution principle for the social insurance and debating whether the social insurance was a result of “surplus labor” or “necessary labor” and whether the social pooling is an indiscriminate transfer of resources. Most participants agreed that it was necessary to establish the social security system, as the social insurance had the same aim as the labor insurance, namely to “ease laborers’ difficulties caused by childbearing, old age, illness, death, injuries and disabilities, and provide material assistance.”³¹ However, opinions differed a lot in the discussion of the coverage scope, the distribution principle, implementation methods, and other detailed issues.

Whether the social insurance was a result of “surplus labor” or “necessary labor” was the most controversial issue. “Some people believe that the social insurance belongs to ‘necessary labor’ for the following reasons: social insurance funds were made to meet workers’ living needs; in the socialist society, the value of ‘necessary labor’ equals to the cost of labor force reproduction, which includes growth, development, maintenance, aging and death, thus old-age pensions and other pensions, sick leave wages, maternity leave wages, and medical expenses all belong to costs of production and reproduction. Only by acknowledging that the social insurance belongs to ‘necessary labor’, can we theoretically clarify that insurance for laborers should be guaranteed and prevented from any violation. While other people think that the social insurance belongs to ‘surplus labor’. The social insurance funds ‘were established for those who lost the ability to work’, but not for active workers to meet their living needs or to support the labor force reproduction,

³⁰Secretariat of China Academy of Labor (1983).

³¹Secretariat of China Academy of Labor (1983).

thus to provide the social insurance needs workers' 'surplus labor'.³² Obviously, if we insisted that the social insurance belong to "necessary labor", insurance expenses should be deducted from operating cost like in the planned economy, rather than be redistributed on the principle of preventing social risks like in most industrialized countries.

Opinions also differed a lot on the topic of the social insurance's distribution principle. "Some people hold that distribution according to work has a direct effect on labor remuneration, and an indirect effect on the distribution of social insurance funds. Some believe that the social insurance is another approach to realize distribution according to work, while others hold different opinions and think that the social insurance system should follow the social security principle rather than distribution according to work. And some also believe that it depends on specific insurance contents, some kinds of insurance should follow the principle of distribution according to work, while some other should be privileged according to workers' needs."³³ These arguments reflect that at that time, people did not realize that to implement the social insurance needs state power (legislative and administrative powers) to intervene in the market and the society in order to offset and correct market failures. Thus to implement the social insurance, we could not only consider economic issues and totally rely on the market, but also the social redistribution (including intergenerational redistribution) should be taken into consideration. And the social insurance would be definitely a political and social reform.

In contrast with sudden changes in the Soviet Union, reforms in China were gradual, or even quiet. At the early stage of reform and opening up, the competitive mechanism and the market mechanism were introduced in the economic sector to develop economy and improve labor productivity. At the same time, these mechanisms also broke China's traditional social security system whose basis was the urban labor insurance and the rural "five-guarantee system", so that laborers could freely choose their job and participate in market competitions, but they were also exposed to market risks. Therefore, to establish a new social security system was almost certain. But in early 1980s, as people did not know much about the market and the market economy, they did not know in which areas should the market mechanism be established and market regulation be applied, and which method should be used to provide social protection against market risks.

The discussion in 1983 also mentioned the "social pooling of social insurance funds," which was traditionally considered as an indiscriminate transfer of resources. Some people, especially those who think from the standpoint of enterprises with good performance, held that "the social insurance belonged to workers' necessary labor and was affected by the principle of distribution according to work,"³⁴ while the social pooling was just like the "big pot" distribution system, and could not reflect the socialist distribution principle of "to each according to his

³²Secretariat of China Academy of Labor (1983).

³³Secretariat of China Academy of Labor (1983).

³⁴Secretariat of China Academy of Labor (1983).

work.” While others thought that cases of childbearing, old age, illness, death, injuries, and disabilities were quite uneven between enterprises, thus enterprises might lack reliable material guarantee to raise insurance funds. The social pooling was necessary, for it was not an indiscriminate transfer of resources but a social mutual aid, the society should assume such responsibility. But during the calculation of social insurance benefits, the enterprises with good profits and big contributions should be treated differently.³⁵

Such different opinions would certainly lead to controversy concerning the operation. The main controversy centered on how to implement the social pooling. Some people advocated to adopt the “savings accumulation method” which required enterprises to pay insurance premiums monthly for employees; some people thought that besides enterprises’ contribution, individuals also should pay a certain portion of their wages as insurance premiums; this way could make employees care more about the social insurance work and it was favorable to differently calculate insurance benefits, and thus could avoid the “big pot” distribution; some other also proposed that the social insurance should follow the mutual aid principle, and said “the pooling of the social insurance could use the pay-as-you-go method which requires employees to pay a certain portion of wages as insurance premiums according to current needs, and the insurance funds will be used according to real conditions, insurance contents and benefit standards.”³⁶ The last method was in fact a transformation from the labor insurance to socialized insurance.

Diversified opinions and confusion had negative impacts on the formulation of reform strategies. In order to further unify people’s opinion, create a favorable public opinion environment and put forward a more appropriate reform plan; the National Insurance and Welfare Work Conference was held in Zhengzhou (from November 14 to 21) just after the symposium held during November 5 to 12, 1983. Pang Zi, party committee member of the Ministry of Labor and Personnel revealed the confusion of opinions and concepts in his concluding statement. As to the issue whether the reform should be an incremental reform which adopted “old measures for old employees and new measures for the new,” or a comprehensive reform, there was no conclusion, but policy-makers already preferred to the latter one:

In the discussion, we all agree that the insurance and welfare system should be reformed, but when it comes to the reason why the system should be reformed, our views become divergent. Some people think that our current system could operate well, the problem is that we haven’t implemented it well. Thus the reform should mainly focus on establishing a new system for collective enterprises and contract workers that haven’t enjoyed the welfare system before, so that we could adapt to new political and economic situations. While others believe that the current system was indeed not appropriate under current political and economic situations, but what’s more important, this system itself has some shortages, thus it must be reformed. Only in this way, can we establish an appropriate new system.

³⁵Secretariat of China Academy of Labor (1983).

³⁶Secretariat of China Academy of Labor (1983).

As to this issue, we could make more studies, but I prefer to the latter opinion because it's more realistic and could meet the Party Central Committee's requirement of reforming the production relations and the superstructure incompatible with the construction of "four modernizations".³⁷

Another concept that needed to be clarified was the relationship between social insurance and commercial insurance. In the mid-1980s, the social insurance was considered as a commercial insurance, and due to this confusion, the pooling of old-age pensions was once taken over by People's Insurance Company of China, which hindered the progress of the social insurance reform. Until the late 1980s, the academia of social security in China was still trying to clarify the distinction between social insurance and commercial insurance.

In 1988, *Labor Science Of China* Published an Article to Clarify the Distinction Between Social Insurance and Commercial Insurance.³⁸

In recent years, some comrades engaged in theoretical and practical work have always confused social insurance with commercial insurance such as life insurance and household contents insurance. In order to promote the social insurance work, it is necessary to clarify the distinction between them.

Social insurance, an important part of social security, is a system established by the country to offer material assistance to citizens or laborers who cannot work due to disability or other reasons.

Social insurance is socialized, mandatory, and it is a kind of mutual assistance and welfare. Social insurance is socialized because, on the one hand, it is developed by the government and managed by specific institutions, so that it embodies the government's social insurance policies; on the other hand, the range of insurance beneficiaries is wide, covering laborers or citizens of various classes and industries, and most people could enjoy social insurance because it is established for events that would certainly happen in life. Social insurance is mandatory, because the insurance contents, coverage, benefits, and contribution rates are set by the state, once insurance coverage is determined through the national legislation, insurance relations will be created between social insurance management institutions and insurance beneficiaries. Social insurance is mutual assistance, because insurance funds are pooled and used on the redistribution principle in order to meet laborers' basic living needs under special situations, reduce losses caused by child bearing, old age, injuries, disabilities, illness, death, and unemployment to a level that people could support, and share the economic burden as much as possible. Social insurance is a kind of welfare, because insurance benefits are determined according to laborers' or citizens' basic living needs, and the state always bear a part of insurance expenses, in order to meet their needs. The reason why social insurance is

³⁷Concluding Remarks of Pang Zi, party committee member of the Ministry of Labor and Personnel, on the National Insurance and Welfare Work Conference, *China Labor*, Supplementary, Vol 2, 1984.

³⁸Xia (1988).

managed by non-profitable institutions appointed by the government is that they can guarantee the welfare feature of social insurance.

Social insurance is different from general commercial insurance or financial insurance (hereinafter referred to as general insurance) in nature and they are in different categories. General insurance, belonging to economic sector, is a tool to compensate a small part of people who suffered from economic losses due to accidents by gathering economic strength of most people. Similar to social insurance, general insurance is socialized and a mutual assistance, but it is not mandatory and not welfare either.

General insurance’s characteristics determined it unable to solve problems that social insurance aims at. Just take endowment insurance as an example, according to stipulations of social insurance, workers shall get material aids from country and society when they get old and lose work abilities. The aids shall have a minimum level and be determined according to workers’ ages, service length, and original wage levels, so that rights and obligations are linked by labor. Insurance expenses are mandatorily borne by enterprises, and pooled and managed by specific institutions. Retirees can enjoy insurance benefits until death so that their basic living needs could be satisfied, while as to general insurance, the rights and obligations for beneficiaries are linked by insurance premiums workers input. Insurance benefits are not determined according to workers’ needs; insurance funds are not raised through compulsory measures but on a voluntary and yearly basis; and insurance benefits are paid in a lump sum. Therefore, general insurance cannot solve social security problems. Currently, we have about 19 million retirees and need to pay old-age pensions of 20 billion yuan every year. For these retirees, when they were working, almost all their income was used for personal consumption; they did not have money and was not likely to buy insurance from insurance companies. In order to solve problems concerning old age and their pensions, we could implement social insurance, through a “partially funded system.” Work-related injury insurance is another example; under general personal insurance, the injured or disabled could only get a lump-sum compensation in cash, which is not enough to guarantee beneficiaries’ life, while under social insurance, the state and enterprises shall pay injured or disabled workers both lump-sum and long-term compensations in cash and also other material assistance. Little general insurance could offer such benefits. Therefore, the labor insurance must be reformed toward social insurance rather than general insurance. Further, social insurance must be managed by social insurance agencies rather than general insurance companies; otherwise, social insurance in our country will develop on a wrong track to become a commercial one.

3.2.2 Learn from Foreign Experience and Transform Social Security Ideas

In the 1980s, to reform the social security system was an urgent issue in China. But how to launch the reform, where could breakthroughs be made and which plan

should be chosen? All these questions are needed to solve. To transform from labor insurance of the planned economy system to social insurance of the socialist market economy was an unprecedented experiment. In order to implement the reform smoothly, China's social security reformers learned from the outside world, drew on foreign experience, and thus shortened the process of learning and "trial and error", hoping to make fewer mistakes for the social security reform and institution building.

Since the reform and opening up, China has already established channels to carry out in-depth exchanges with the world through important multilateral international organizations, including the World Bank, the International Labor Organization, and the United Nations Development Program. These organizations have extensive international contacts with political, business, and academic circles relevant to social security, and also have relevant resources, which could be used by Chinese reformers eager to learn and good at learning.

In 1983, the World Bank cooperated with China in economic sector for the first time and China particularly stressed on "knowledge cooperation." The cooperation agreement proposed to introduce advanced international concepts, knowledge, management, systems, and experience in order to promote China's economic reform and institutional innovation. To this end, China received technical assistance from the World Bank, especially used a large number of technical cooperation credits and introduced new ideas and methods through overseas visits, study, research, seminars, and consultation. In the field of social security, the World Bank created favorable conditions for China to understand social security systems and management in foreign countries. Some technical assistance projects that specifically targeted social security and many sub-projects included in technical cooperation credits promoted China's capacity building in social security.³⁹

The World Bank also issued special reports to disseminate in China social security ideas and practices that supported the market economy. In the 1980s, the World Bank's analysis reports on China's policies enjoyed a high reputation and always attracted great attention from the government. The most important and influential report for China was *China: Long-term Development Issues and Options* published in 1985, which particularly pointed out that China needed to develop a new social security system to meet the needs of future economic reform. In October 1985, shortly after the report was published, a then very influential Chinese media *World Economic Herald* published an article entitled "The World Bank Delegation Proposed: China Has an Urgent Need to Develop the Social Security System" in the 266th journal of 1985, and this article was reprinted by *Labor Science of China* in the first journal in 1986.

Labor Science of China Reprinted *World Economic Herald's* Article that Introduced the World Bank's Suggestion on China's Social Security System.⁴⁰

³⁹Xie (2014).

⁴⁰The World Bank Delegation (1985); quoted in *Labor Science of China*, Vol 1, 1986.

The World Bank economic delegation in the newly published report *China: Long-term Development Issues and Options* pointed out that China “has an urgent need to develop a new social security system to meet the needs of future economic reform.”

The report said that enterprises must function increasingly as economic entities, which will inevitably conflict with their current role as providers of many social services. Prices and wages need increasingly to reflect economic considerations and cannot be manipulated to the same extent as in the past to meet social objectives. Rapid economic change will mean accelerated growth of some enterprises but contraction and closure of others. Some skills will become obsolete, and some workers—sometimes through no fault of their own—may become at least temporarily unemployed. Thus, the absence of any organized means of supporting the unemployed and others suffering from economic change will become increasingly unacceptable. Rising expectations among the people as a consequence of economic growth will also increase pressure for the state to assume a growing and increasingly direct responsibility for social security and welfare.

The report also said comprehensive social security programs are of course administratively much more complex. Yet in this regard, China has considerable advantages over most other countries, particularly since it already has an institutional structure to build on. Urban areas have a household registration system, and rural areas have the former system of communes, brigades, and teams. These systems could be used initially in administering social security programs.

The report thought that the state could assume direct responsibility for ensuring a minimum level of economic security and to finance this from general budgetary revenues. In addition, the state could establish a nationwide social security fund. High-income earners would be required to contribute to the fund a portion of their wages or incomes above an established level, while households with incomes below a specified minimum level would receive an income supplement. Such a scheme would help to ensure that reform and policy measures introduced later (for example, allowing enterprises to dismiss workers, widening wage scales, and eliminating subsidies for food, rent, and other goods) would cause no families to fall below a socially acceptable income level.

The report pointed out that social security aimed at providing for those in need while minimizing disincentives to work. Thus all programs involve some tradeoffs among budgetary and administrative costs, disincentives, and inequities.

The report suggested that because of the many complex issues involved, it might be desirable to create a high-level social security commission to formulate a long-term plan to be implemented in stages.

Besides the World Bank, many other international multilateral organizations also gradually expanded cooperation with China. The International Labor Organization which plays an important role in social security established a Beijing Bureau on January 31, 1985. On the opening ceremony, Deputy Minister of Labor and Personnel Li Yunchuan stated in his speech the Chinese government’s fervent desire to introduce foreign knowledge and experience to realize modernization and positive attitude to the cooperation with the ILO:

Chinese people are making efforts to realize targets of “four modernizations” and “quadrupling”, but at the same time, we also need to introduce technology, knowledge, and capital, which is the main content of our opening-up policy and also our constant established policy. We all know that the ILO has done a lot and accumulated experience in developing intelligence, organizing training, and disseminating management experience. Chinese government has always been willing to work with the ILO in fields of technical training and labor protection. We are also willing to enhance multilateral and bilateral exchanges through the ILO, and thus make more contributions to it.⁴¹

Ian Chambers, first director of the ILO Beijing bureau, listed in his speech the ILO’s long-term cooperation programs with the Chinese government in terms of vocational training, labor plans, and other unemployed and employment issues. He also stressed that the ILO’s intention was, on the one hand, to provide Chinese government agencies with trade unions and business organizations, its relevant research results, work experience, skills, and knowledge; on the other hand, to learn and gain experience from China, for the development in developing countries. The ILO’s cooperation with China mainly focused on arranging and providing “expert consulting service,” organizing visits and offering financial supports.⁴²

Staff Working for Social Security Recalled Their Participation in Social Security Training Courses⁴³

Li Jiayi (former deputy director of the Social Insurance and Welfare Department of Henan Labor Bureau): our working ability (to promote the social pooling of the endowment insurance) indeed gradually improved, but our achievements should be attributed to the Ministry of Labor and Personnel. At that time, the Ministry attached great importance on professional training, and organized many training sessions with the ILO, in which I have participated three times.

Li Xiusheng (former director of the Social Insurance and Welfare Department of Henan Labor Bureau): the first training course was organized in September 1986, in the Air Force Hostel in Beijing Xisanqi. Lectures were given by foreign experts from about seven countries to over 100 audiences. Participants learned about situations in foreign countries, broadened their horizons, and began to understand social insurance theories, principles, and approaches; all of them felt to have learned a lot. And this training was reported by both *People’s Daily* and *Economic Daily*.

In the 1980s, the early stage of reform and opening up, China had a strong will to learn from developed countries and take advantage of their experience to develop China, while international organizations were also strongly eager to provide development experience and policy so as to affect China’s development process. This contributed to a wave of rapid and all-round Sino-foreign exchanges in the field of social security. The World Bank and the International Labor Organization

⁴¹The Opening Ceremony of the International Labor Organization Beijing Bureau is Solemnly Held, *Labor Science of China*, Vol 3, 1985.

⁴²The Opening Ceremony of the International Labor Organization Beijing Bureau is Solemnly Held, *Labor Science of China*, Vol 3, 1985.

⁴³Xia (2008c).

were important channels for communication, but exchanges were not limited to them. In addition to multilateral channels, China also employed various possible bilateral channels and funding channels, taking the approach of “bringing in and going global” to organize visits, research and communication in terms of methods, and policies of social security reform. For example, from December 27, 1986 to January 10, 1987, a Chinese delegation including the Ministry of Personnel, Ministry of Civil Affairs, People’s Insurance Company, State Restructuring Commission, State Development Planning Commission, and the Academy of Social Sciences went to the United States on invitation to observe and study social security issues. This visit lasted short, but covered comprehensive knowledge. The delegation leader, president of the China Academy of Labor Science, Yue Guangzhao wrote in the report:

Our delegation visited Boston, New York and Washington. In Boston, the Brandeis University organized a workshop for us to introduce the history and present situation of social security systems around the world. In New York, our funding institution – MetLife Insurance Company introduced the company’s situation, so that we understood the private insurance industry. In Washington, the delegation was received by the US Social Security Administration, Department of Labor, Urban Institute, the Congressional Budget Office, and the US China Business Council, and we mainly focused on the social security projects organized by the government.⁴⁴

Such exchanges broadened Chinese people’s horizon and quickly updated our knowledge and ideas of social security. According to articles published by delegation members after they returned, debates began to concentrate on pragmatic issues like the mode for raising old-age pensions, calculation method, and management model, rather than controversial issues in the early 1980s, such as whether social insurance was “necessary labor” or “surplus labor” in nature.

Staff of the Ministry of Labor and Personnel Put Forward Suggestions to Further Reform China’s Endowment Insurance System after Visiting the U.S.A.⁴⁵

With the implementation of economic reform, enterprises’ economic form, operation mode, employment system, and wage system have experienced many changes. Our current endowment insurance system, no matter its fund-raising mode, calculation method or management model, is no longer suitable for the new circumstances, and thus needs to be reformed. Recently, I had the opportunity to visit the United States and observed and studied its social security system. Some practice and experience in the U.S. are worth studying and we can refer to them to carry our reform for our endowment insurance system.

...

Considering our country’s specific conditions and referring to practices in America, I would like to make some tentative suggestions for discussion.

The first suggestion concerns the mode of raising pension funds.

⁴⁴Yue (1987).

⁴⁵Hua (1987).

The CPC Central Committee states in the “Seventh Five-Year Plan”, “to establish and develop the social security system should be based on our current national conditions and strength,” “social security funds should be reasonably borne by the state, enterprises and individuals, with enterprises and profitable public institutions as main contributors and the state will not bear the whole burden anymore.” It is necessary for the government and enterprises to cover part of pension funds, but it is also good for employees to part of endowment insurance. First, this approach can reduce the burden on the state; second, it can motivate people to care more about the social insurance development; third, it can mobilize enterprises and employees to supervise the use of pension funds so as to prevent relevant departments reducing or diverting funds to other purposes; fourth, three parties that pay insurance funds can check each other to prevent unhealthy practices like fraud in payment and benefits.

As to the “mode” of raising pension funds, now there are three ideas. The first is the “fully funded individual account system”, under which employees make monthly contributions to their individual accounts during working years and receive an annuity when retired; the second is the “pay-as-you-go system”, under which pension contributions current workers are determined by the amount of benefits paid to current retirees; the third is the “partially funded system”. Compared with the other patterns, the last one helps to meet the need of population aging and enables a better adjustment of social insurance funds between years. Our pension funds could also use the “partially funded system” as for the amount for accumulation should be set after long-term exploration.

The second suggestion concerns the calculation method of pension funds.

This issue is very important because it is related to the amount of pension and further development of our employment system reform and wage system reform. The economic reform has given birth to leasing enterprises, contracting enterprises, joint ventures, cooperative enterprises, foreign-funded enterprises, etc.; the employment system reform broke the “iron rice bowl”, implemented various employment systems, and mobilized reasonable labor flow; the wage system reform connected wages with enterprises’ profits and individual contribution of labor, expanded income gap. Under such a complex situation, the original calculation method of old age pension is obvious not suitable any more.

First, the calculation base should be appropriately increased in order to prevent retirees from suffering great income reduction due to retirement.

Second, as to the calculation method, contribution ratio could be set by different levels, high ratio for those of high income and low ratio for low income.

The third suggestion focuses on changing the single-pillar pension system.

In the US, pension is divided into three pillars: statutory pension, corporate supplementary pension, and individual deposit pension. Statutory pension is equivalent to about 40% of employees’ original wages, and corporate supplementary pension is about 20%, thus the first two pillars equal to about 60% in total. While in our country, we only have one pillar, the statutory pension, whose highest standard is about 75% of standard wages, and generally less than 50% of all income. This single-pillar system could no longer meet needs of present situation in

our country where diverse economic forms, operation patterns, employment systems, and wage systems exist. Therefore, I suggest adopting the "basic plus supplementary" approach, namely the state stipulates basic pension and enterprises stipulate supplementary pension according to their production level. The former is used to guarantee basic livelihood of retirees, and the latter reflects differences in enterprises' economic strength and benefits in order to encourage enterprises to improve their production.

The fourth suggestion concerns the management model.

Currently, the management of endowment insurance still mainly relies on manual work, which could hardly meet operation needs. But it is also too hard for us to carry out highly centralized modern management like in America. The current challenge is that we need to effectively implement instructions and decisions of the central government, establish coordinating commission at all levels as soon as possible, and implement unified management of personnel, money, and working affairs. As to the social pooling, insurance funds that should be pooled must be collected on time; retirement benefits that should be provided must be paid on time. This fund could only be used for its specific purpose, and any institution of individual could not use it for other purposes. Thus we should improve working efficiency of relevant institutions and cadres, and build financial management system, financial supervision system, and liability regime in order to realize good management.

Apart from "going global" to learn from foreign systems and experience, many foreign experts were also "invited in" to study China's social security system and put forward some concrete proposals for reform according to China's situation. For example, the State Commission for Restructuring took the lead to invite Professor Friedman of MIT Sloan School of Management, Mr. Thomson, advisor of the ILO Asia-Pacific Bureau, and Mr. Cai Yi, deputy chairman of Singapore Central Provident Fund Board, to visit China from March 23 to April 7, 1989. These experts carried out extensive and deep investigation in Beijing; Shanghai, Wuxi, Dalian, and Shenyang studied these cities' reform of social insurance system and especially focused on the unemployment insurance and mode of raising pension funds. Then, the State Commission for Restructuring also invited more than 30 Chinese experts and staff of the relevant ministries to participate in a two-day international symposium on China's social insurance system reform in order to share three foreign experts' opinions and thus promote consensus.⁴⁶

Based on the understanding of development laws of social security in industrialized countries and expertise accumulated in long time, three foreign experts issued their opinions on the reform of China's social security system, which, at that time, attracted great attention from political and academic circles. For example, they suggested that as the "pay-as-you-go" funding model could hardly meet the

⁴⁶Foreign Economic System Department and Distribution System of the State Commission for Restructuring the Economic System: Opinions of Professor Friedman and Other Foreign Experts on the Reform of Our Social Insurance System, *Labor Science of China*, Vol 7, 1989.

challenge of population aging and retirement peak, it is better to adopt the “partially funded system” and establish a pre-funded pension system. In this field, western developed countries do not have relevant experience, but “Singapore model” and “Chilean model” could be good references. The experts also gave some warnings, for example, to implement the pre-funded pension, system needs a number of conditions including affordability of public finance, enterprises and individuals, inflation situation, investment environment and development of financial market, and management system and management level. Since the above four conditions are not yet mature, experts suggested China to start with the pre-funding of the “partially funded system”, and then gradually transit to a fully pre-funded system. In addition, as China will maintain the diversified economic structure in quite a long period, and internal economic development is uneven, experts believe that China should adopt “hybrid pension plans” rather than a single pension model. They emphasized that the endowment insurance should be multilevel and comprehensive security, including family security, self-funded security, and mutual assistance security; the state should not take all burden itself. Three experts also discussed other issues, like how to solve the contradiction between increasing retirement age and youth employment, whether should we use actuarial approach to determine payment level of social insurance. As to the concept of social insurance, experts said that social insurance was a big social project that included pension, health care, unemployment, occupational injury, and other security systems, and it was a task of one hundred or several hundred years; once the system was established, it would influence several or a dozen generations. Thus to reform the social insurance system should be very prudent and careful, estimate possible changes in one or two decades in business, population and public finance, etc. Thus it should not be overhasty.⁴⁷ China’s later practices clearly showed that the above ideas changed our understanding on social insurance and influenced China’s strategies and policies of social security reform.

3.3 Experiments of Social Security Reform

Like reforms in other fields, China’s social security reform and development also started from “pilot projects”: in order to “cross the river”, in the absence of “bridge”, we need to send a few people to the river to look for “stepping stones”. To “cross the river” was the target, “stepping stones” were the path or tool which was not available yet and needed great efforts to be found out. The way to find out “stepping stones” was to launch pilot projects through which we could try out ideas and sum up experience, and then promote successful projects.

⁴⁷Foreign Economic System Department and Distribution System of the State Commission for Restructuring the Economic System: Opinions of Professor Friedman and Other Foreign Experts on the Reform of Our Social Insurance System, *Labor Science of China*, Vol 7, 1989.

3.3.1 *Pilot Reform in Collective Enterprises*

At the beginning, it was very difficult to launch pilot projects. In January 1982, after the Chongqing meeting on social security reform, Sichuan Province set Nanchong as a pilot county to try out the social pooling of pension funds of collective enterprises. Due to the inadequate social security laws, there was no legal basis for pilot projects, and work could be carried out only by referring to relevant Constitution provisions and “groping for stepping stones.”

Nanchong was a small county-level city of light industry, with only 71,000 active employees among whom 22,000 were in collective enterprises, accounting for 31% of the total employees. These collective enterprises were generally small, their production was unstable, economic strength was weak, and affordability differed a lot between enterprises. Since workers became older and older, retirees increased year on year, thus the overburden of retirement costs became an increasingly prominent problem. The old-age security problems of collective enterprises seriously restricted the development of collective economy. Prior to the implementation of pilot projects, some collective enterprises had already spontaneously developed various pension schemes in order to ensure that employees can work without worries.

Collective Enterprises Spontaneously Developed Pension Schemes Prior to the Implementation Pilot Projects.⁴⁸

In 1981 in Nanchong, Zhan Xuanhe and 22 unemployed youth established a Cultural Life Service Community, which was collective enterprise and engaged in painting mounting. Since some workers were worried about the source of income after retirement, from March 1982, the community began to implement a funding system of labor insurance, providing that according to the age, all regular staff should extract 3–5 yuan from wages every month and the community extracted 3–5 yuan from welfare expenses to pay for labor insurance funds saved in a specific account. Once an employee was approved to retire, he could draw pensions every month.

After Nanchong became a pilot city, a working group composed of cadres of the Labor Bureau and the Third Industry Bureau, with the vice mayor in charge, conducted a comprehensive investigation in production capacity, profit and loss, economic strength, age structure of employees, wage levels, and retirement expenses of 52 street enterprises and got basic data to provide a reference for deciding the contribution ratio and payment method of pensions. Ultimately, Nanchong worked out a final plan for the pension pooling of collective enterprises:

First, pension standard was low. Fu Zhonghua said, pensions which could “afford rice and pickles are enough”, thus retirees’ basic livelihood could be guaranteed, while the burden on enterprises was not too heavy.

⁴⁸Xia (2008a).

Second, the endowment insurance was established on the principle of “state funding, enterprises contributing more and individuals paying less.” Enterprises paid a pension premium of 20% of total wages, while individuals paid 3% of the standard wage. State funding was mainly used in the following two aspects: the first is profit sharing privilege, street enterprises that participated in the pension system could enjoy a profit sharing reduction from 20% to 10%; the second is tax preference, enterprises could deduct insurance premiums before tax. The original Labor Insurance Regulations stipulated that all insurance expenses should be borne enterprises and individuals should pay nothing. When promoting individual contributions, Nanchong pilot project met a lot of resistance. After the *Provisional Regulations on the Endowment Insurance of Collective Workers in Nanchong (Trial)* (hereinafter referred to as *Provisional Regulations*) were promulgated, many cadres and employees were strongly opposed to individual payment and even stated that individual payment violated principles of socialism, the state and enterprises should be responsible for protecting laborers and individuals should not pay insurance premiums any more. These objections almost prevented the *Provisional Regulations* from implementation. When the work came to a deadlock, it was the statement of a female accountant that changed the situation. Zhu Ziyao, former director of Nanchong municipal Social Insurance Bureau, believed that individual payment at least had four advantages, “it could encourage workers to care more about social insurance work; help to mobilize the masses to supervise insurance funds; help to raise insurance funds; and provide a basis for calculating pension benefits in the future.”⁴⁹ In short, it was after a fierce debate that the personal contribution approach could finally be implemented.

Third, retirement treatment was composed of “basic” and “supplementary” benefits. Basic pension came from social pooling funds and its standard was low, only enough to guarantee retirees’ basic livelihood. Enterprises provided supplementary pensions, thus retirees of companies with good production could get such benefits. The “basic plus supplementary” approach could not only guarantee retirees’ basic livelihood, but also solve the contradiction caused by uneven production and economic strength, avoid the “big pot” distribution, and combine interests and rights with responsibilities and retirement benefits with production.

Nanchong had such a good demonstration effect that from October 1982, Xinhua News Agency, *Economic Information Daily*, *Sichuan Daily*, and *Worker’s Daily* successively reported Nanchong pilot project. In December 1982, the Ministry of Labor and Personnel held a forum and invited relevant staff to share reform experience. After the forum, Fu Zhonghua published an article on People’s Daily, sharing Nanchong experience and introducing the establishment of the “basic plus supplementary” endowment insurance and concepts like raising funds through “contributions”, the “social pooling”, and “earmarked funds”. This article drew great attention nationwide.⁵⁰

⁴⁹Xia (2008a).

⁵⁰Xia (2008a).

Fu Huazhong, “To Ease Employees’ Worries—Opinions on Social Insurance Issues in Collective Enterprises”.⁵¹

Currently, a large number of collective enterprises—mainly “small collective” enterprises below district and county level—have not established social insurance system yet; thus employees are worried about their life when they lose labor capacity due to old age, illness, injuries, or disabilities. This problem has already impacted further development of collective economy. We should attach great importance to the social insurance of workers under collective economy, and take active measures to solve relevant problems.

The guiding principle should be reformed and innovated. The labor insurance system in state-owned enterprises has played an active role in easing employees’ worries. But it took too much burden, and the “big pot” distribution had some negative effects, thus this system needed to be gradually reformed. When establishing the social insurance system for collective enterprises, we must make reform and innovation. Considering real conditions of collective economy and economic strength, we should explore a new path which is suitable for both our country and collective economy, and which could balance interests of the state, enterprises, and employees.

Concrete measures and treatment should fit for the complex situation of collective economy, thus we advocate taking various measures and avoiding only “one single solution for diverse situations.” Collective economy is very complex, for it consists of both large enterprises at district and county level and also small street enterprises; both old enterprises and emerging ones; both factory-run collective enterprises; and those set up by families and rusticated youth. These enterprises’ economic strength, operation conditions, and staff composition are all different. Thus, insurance measures and benefits should be stipulated according to real conditions rather than be placed on the procrustean bed. For example, Nanchong in Sichuan Province provides retirees with a low standard basic pension to guarantee their basic livelihood, and profitable enterprises could offer supplementary pensions. This “basic plus supplementary” approach could not only guarantee retirees’ basic livelihood, but also solve the contradiction caused by uneven production and economic strength, avoid the “big pot” distribution, and combine interests and rights with responsibilities and retirement benefits with production. Such social insurance system could “benefit production, guarantee livelihood” and “develop production, improve livelihood.” Some regions and department also tried other methods. For example, the competent authority of collective enterprises could set a pension standard and pool pension funds itself; or insurance companies could provide several pension standards, and enterprises pay insurance premiums for employees; thus when workers get retired, they can enjoy benefits according to their

⁵¹Fu (1983).

insurance standards. We can try out all these methods, and then summarize experience and improve them in practice.

As to the source of pension funds, Nanchong adopts the principle of “state funding, enterprises contributing more and individuals paying less” to mobilize all parties. State funding means that enterprises can deduct insurance premiums before tax, banks provide high interests for insurance funds than general corporate deposits, and competent authorities reduce the proportion of profit sharing. Currently, opinions still differ on personal contribution. I think it does have some advantages: first, it could encourage workers to care more about social insurance work; second, personal contribution helps mobilize the masses to supervise insurance funds; third, it helps to raise insurance funds; and finally, it provides a basis for calculating pension benefits in the future.

To establish the endowment insurance system, we must a reserve. At the beginning of New China, we issued the *Labor Insurance Regulations*, stipulating that 2 months’ insurance funds should be withheld as a reserve. At that time, the workforce was young, medical expenses were limited, and pensions cost less. But now, the situation has totally changed. A reserve of 2 months’ insurance funds is far from enough; only by withholding one or two years’ funds or even more, we could solve problems. Thus relevant departments should calculate it carefully and work out concrete solutions in practice.

Insurance funds must be pooled. We had better cover enterprises with economic conditions and those with poor conditions, cover both old employees and new staff. If we do not implement the social pooling and ask enterprises to bear pensions themselves, some enterprises will be overloaded, and some underloaded with pension burden. Enterprises with weak economic strength or many retirees will be definitely unable to afford insurance premiums, and thus unable to establish or sustain the endowment insurance system. Social insurance is a social undertaking whose major functions are social pooling, reserving, and adjusting. Of course, as collective enterprises are so different from each other, the social pooling scope should not be too wide. The social pooling could start from companies, industries, and streets, and then gradually extends to the whole county (district), city, and province when conditions are ripe.

The pooled pension funds must be deposited in a specific account, used for the single specific purpose, and could not be transferred or diverted to other purposes.

The endowment insurance for workers of collective enterprises is an important issue that affects development of urban collective economy. Besides formulating policies and raiding funds, there are still many management and organization tasks. Leaders of all levels need to pay attention to it and carry out this work effectively.

Based on sufficient research and investigation, in April 1983, the *State Council promulgated the Provisional Regulations on Several Economic Issues Concerning Urban Collective Enterprises* to promote Nanchong experience nationwide. The *Provisional Regulations* stipulated that all urban collective enterprises should deposit certain amount of social insurance funds according to their economic

strength and abilities in order to gradually establish the social insurance system, guarantee basic livelihood of retirees or workers without working abilities. Social insurance funds should be deducted before income tax, deposited in a specific account and used for a single specific purpose. Provinces, cities and towns should develop their own social insurance schemes. The implementation scope, project number, pension standard, and implementation measures could be various. But retirement pensions should be pooled, and concrete regulations concerning endowment insurance and health care must be formulated. Generally, the medical insurance should not be totally borne by enterprises; individual also needed to pay a part in order to reduce medical expenses and drug waste.⁵²

Nanchong experience could be summarized as follows: the endowment insurance system should be developed through the “three combinations” method (raising funds from the state, enterprises and individual), in order to achieve the social pooling and control social risks. Reform began from a part of collective enterprises, and then was comprehensively tried out in large ones. Relevant competent authorities were responsible for the pooling and management, while labor departments for directing and coordination. In 1984, Nanchong began to extend pension pooling to state-owned enterprises, with the labor department in charge. In the same year, similar pilot projects were launched in some counties of Jiangsu, Guangdong, and other provinces. Therefore, China formally kicked off the comprehensive reform of the endowment insurance system.⁵³

As mentioned above, in the early stage of reform, a lot of people thought social insurance is similar to commercial insurance and considered it as a business opportunity. In 1984, the State Council assigned the pension reform of collective enterprises to People’s Insurance Company of China; in March 1984, manager of Sichuan Provincial People’s Insurance Company went to Nanchong, asking relevant department to transfer the management right of pension reform, while competent authorities refused, but some collective enterprises transferred it to the company. However, the People’s Insurance Company soon found that little money could be collected, thus give up this business only half a year later.⁵⁴ Similar cases also occurred in other regions. The commercial insurance aimed at gaining profits, when the People’s Insurance Company found that social insurance was a kind of social welfare in nature and was unprofitable; it did not have the passion to promote this work anymore.⁵⁵ In the long history of China’s social security reform, such failure just had negative impacts in a short time. As social security theories and experience became more and more popular, it was recognized that the social security system could help to maintain stable development of the society.

⁵²Xia (2009a).

⁵³Edited by the Ministry of Labor and Social Security (2007, p. 691).

⁵⁴Xia (2008a).

⁵⁵Xia (2009a).

3.3.2 *Pension Pooling and Individual Payment in State-Owned Enterprises*

In the early 1980s, state-owned enterprises had not adopted the market-driven employment yet; it was until 1985 that SOEs began to reform the employment system (reform of the labor contract system and the wage system). Prior to the reform, SOEs had already started pilot programs of social insurance pooling, not for promoting the market-driven employment, but for invigorating enterprises, promoting the market-oriented management and improving SOEs' competitiveness. Director of Sichuan Social Insurance Management Bureau, Yang Daxue, recalled, "in the early 1980s, the reform focus was to enhance the vitality of enterprises. The social pooling of pensions could not only solve the problem of uneven pension burdens, but also promote talent flow, and thus enterprises might become more vigorous."⁵⁶ Therefore, shortly after the pilot projects of the pension pooling in collective enterprises started, SOEs also began to implement the social pooling.

At the beginning of reform and opening up, to introduce competition mechanism into business management and operations was considered as the key to implement the principle of socialist distribution and to improve labor productivity. During 1977–1978, Chinese economists held four consecutive national seminars to discuss the issue of distribution according to work. In March 1978, Deng Xiaoping pointed out in a conversation with the head of the State Council Research Office that the nature of distribution according to work was socialist, and we must adhere to this principle.⁵⁷ From 1977 to 1983, the state-owned enterprises, government agencies, and public institutions carried out a series of wage reform to solve historical issues and also to implement the principle of "to each according to his work". The 1979 salary adjustment program stressed on assessment according to working attitude, technical level, and contribution. The 1983 salary adjustment in enterprises combined adjustment with reform, and adopted the "two linking" and "one floating" policy. "Two linking" meant that wage adjustment was linked to economic benefits of enterprises and individual working achievements; "one floating" meant that employees who got a promotion are needed to be assessed for another two or three years, and those who were qualified would get their wages fixed; otherwise, they would stay at the original level. Meanwhile, SOEs recovered the piecework wage and incentive wage system.⁵⁸ Since 1985, wage increase was linked to economic benefits of enterprises, and the state did not arrange wage reform or wage adjustments.⁵⁹ "To improve economic performance" has become a key idea in the early years of the SOE reform.

⁵⁶Xia (2009a).

⁵⁷Yan (1987, pp. 97–98).

⁵⁸Yan (1987, pp. 100–109).

⁵⁹*Notice of the State Council on the Wage Reform in State-Owned Enterprises*, quoted in Yan (1987, pp. 115–118, 178–182).

In order to adapt to the employment system reform, state-owned enterprises began to enter the market, implement independent management, and take full responsibility for their own profits and losses. SOEs also pursued principles of competition and efficiency and got rid of “filiation” with the state. In order to help enterprises to compete fairly in the market, the state needed to create a fair environment, including removing companies’ burden of labor insurance and making social responsibilities, which included “fairness” and “social protection”, more socialized. Therefore, after the social insurance reform in collective enterprises, SOEs also started pilot reforms of the insurance pooling.

Although in the Zhengzhou symposium at the end of 1983 there was considerable controversy, most participants still agreed to implement the social pooling of pension funds. Based on the experience of collective enterprise reform, it was decided on the meeting that pilot projects of pension pooling in SOEs would be launched in Zigong of Sichuan, Jiangmen and Dongguan of Guangdong, Taizhou of Jiangsu, and Heishan County of Liaoning Province.⁶⁰ Enterprises’ uneven burden and the lack of old-age pensions seriously affected regional economic development and social stability, and thus the pilot cities and country all actively carried out pilot projects. And as their situations were different, and the pension pooling in these regions also had different features, experience could be accumulated for implementing the nationwide social pooling in the future.

1. Pilot Project in Zigong, Sichuan Province⁶¹

Sichuan Province decided to launch the pilot project in Zigong, which was famous for salt production for a millennium. To 1984, Zigong had 2162 state-owned enterprises with nearly 200,000 employees, among whom 24% were in the salt industry. Many employees in this industry participated in the work before or during the Liberation, and thus salt enterprises had to maintain a large number of retirees and suffered a heavy burden. For example, in 1983, Gongjing Saltworks gained a profit of 790,000 yuan, while pension to pay was as much as 1.85 million yuan. Such a heavy burden turned a profitable enterprise into a loss-making one. As the pension increased year by year, its proportion went up from 3% in 1964 to 40% in 1984, and even 69% in some enterprises. The heavy burden distorted the real business situation of enterprises and social distribution. These old SOEs could only rely on state subsidies to survive, their few bonuses, and poor welfare seriously dampened employees’ working enthusiasm. While in enterprises of machinery, chemical engineering, electronics, textile, and other new industries, retirees were fewer, and pension expenses only accounted for 5–10% of the total salary. What was more, 86 enterprises did not have retired workers yet. Thanks to high wages, bonuses and good welfare benefits, employees in these enterprises were passionate

⁶⁰Xia (1987), Fu (1987).

⁶¹Information about the pilot pension pooling in Zigong can be found in Xia Guangbo Values and Pities of Zigong Pilot Reform, *China Social Security*, Vol 12, 2008. This article records an interview with Yang Daxue, director of Sichuan Social Insurance Management Bureau, and Xiang Mingfu, former director of Zigong Social Insurance Management Bureau.

to production. The uneven pension burden led to an unreasonable difference between enterprises, and thus it was difficult for the state to assess enterprises' economic efficiency. In Zigong, 40% enterprises were encumbered with heavy pension burden, and thus to promote the reform was extraordinarily difficult, and retirees often went to the provincial government to petition for their pensions.

After a large quantity of research and investigation, repeated calculation and comparison, and after soliciting extensive opinions, Zigong formulated a feasible social pooling program based on 26 plans, the *Trial Measures on the Social Pooling of Pension Funds in State-owned Enterprise*, taking effect from April 1985. Compared with the pilot program in Nanchong, Zigong still kept employer contributions and did not stipulate individual contribution.

The pilot program did not progress smoothly, due to resistance mainly from enterprises with lighter pension burden. For example, the Dongfang Boiler Factory needed to pay more than 120,000 yuan every month after joining in the social pooling, while its monthly expenses on retirees were only 60,000 yuan in total, so it was natural that this factory was reluctant to participate in social pooling. Zigong could only compromise to adopt a "unity plus distinction" approach, according to the spirit of "meeting actual needs and saving a few surpluses." This approach divided pension funds into two parts, "40% plus 60%": 60% came from a contribution from employers which needed to pay 12.5% of average total wages every month; 40% meant that enterprises should pay another contribution equaled to 40% of their average monthly pension expenses in the previous year. This approach would not only solve the problem of uneven pension burden, but also avoid collecting pensions at a same ratio.

However, there was still a problem of "pension surge or plunge" for a few enterprises. For example, Da'an Saltworks reduce 727,000 yuan pension expenses every year, while Dongfang Boiler Factory increased 267,000 yuan. Enterprises suffered from great pension increase would not like to participate in the social pooling. As such enterprises had few retirees and were mostly administered by the central authorities, Zigong "complaint" directly to the State Council. On December 27, 1984, the Legislative Affairs Office of the State Council held a meeting and finally decided: all enterprises under central and provincial management must join the pension social pooling. Due to this instruction, most enterprises under central management in Zigong signed the social pooling contract in a few months.

But one year later, there were still five enterprises refused to participate in social pooling, representing one-seventh of enterprises directly under the central management. These enterprises hindered the smooth progress of the pilot project, because enterprises would compare with each other and some that had joined social pooling quitted in the second year. Therefore, some contents which had already been covered by the social pooling (such as medical expenses of retirees) were forced to be excluded.

The reform of pension pooling led to a redistribution of social benefits and thus caused considerable controversy. There was a bitter opposition and reporters of Xinhua News Agency were also opposed to social pooling and wrote an article to criticize Zigong's pilot project as an "indiscriminate transfer of resources" which

evoked great repercussions. Even within labor departments, opinions also differed a lot. In addition, Sichuan People’s Insurance Company was trying to get the pension pooling business, and thus invited scholars to write articles influencing the public opinion, and whipped up a very strong opposition against the social pooling of pension funds.

However, the social pooling reform after all protected the interests of retirees improved their livelihood and guaranteed an in time and full payout of pensions; the social pooling played a role in balancing, reduced some enterprises’ pension burden, improved their business environment, and promoted their development of production; the reform also improved the management of retired workers, after implementing the social pooling, Zigong City fixed several places for retirees to receive pensions and reimburse medical expenses nearby, and thus offered convenience to retired workers. Zigong set retirement management station in 17 districts and organized management groups in over 170 villages, 9 towns, and 16 streets, so as to “combine professionals with the masses” and assign specific tasks to specific staff. In conclusion, in the process of reform, Zigong cut the interests chain of retirement benefit distribution and improved social welfare by seeking the support of superior authorities.

2. Pilot Project in Taizhou, Jiangsu Province⁶²

In Taizhou, Jiangsu Province, uneven pension burden also caused serious social problems. Jiang Changfa, former cadre of the “Retirement and Resignation Management Office” of Taizhou Labor Bureau recalled “In the early 1980s, the national economic structure has undergone great changes, some enterprises were shutdown or semi-shutdown, retirees of these enterprises could only get few pension and complaint a lot. Such situation continued to aggravate due to further economic reform, so reform of the endowment insurance system was inevitable. After the Third Plenary Session, the practice that employers took the whole burden of retirement benefits could not meet the real needs any more, therefore, the Ministry of Labor decided to launch pilot projects in Jiangsu Province.”⁶³

At that time, the municipal government and the municipal Party committee of Taizhou were very eager to make an achievement in economic reform; Jiangsu Province decided to launch the projects in Taizhou, but based on various considerations: first, Taizhou City, was one of the two municipalities specifically designated in the state plan in Jiangsu Province, its public finance was directly administrated by the provincial government, and thus the fiscal system benefited the

⁶²Xiang (2008a). This article records the interview with Wang Zhaoming, former director of the Planning and Allocation Office of Taizhou Labor Bureau, Jiang Changfa, former cadre of the “Retirement and Resignation Management Office” of Taizhou Labor Bureau, and Yin Jianhua, former director of the labor department of Taizhou Commerce Bureau.

⁶³Xiang (2008a). This article records the interview with Wang Zhaoming, former director of the Planning and Allocation Office of Taizhou Labor Bureau, Jiang Changfa, former cadre of the “Retirement and Resignation Management Office” of Taizhou Labor Bureau, and Yin Jianhua, former director of the labor department of Taizhou Commerce Bureau.

promotion of pension social pooling; second, industry in Taizhou developed well, and thus reform was conducive to economic development and the promotion of pilot experience; finally, Taizhou had a small population but many retirees were the new system could better protect the livelihood of retirees.

After Taizhou was designated as a pilot city, government officials immediately began preparing for the social pooling. Without much relevant knowledge, the officials tried to learn from experience of other countries. Before the pilot projects, the Ministry of Labor had sent staff to conduct research and investigation abroad; officials of Taizhou then contacted them to get understandings of the situation abroad. They also had some foreign documents translated in order to draw useful lessons.

Then, Taizhou conducted thorough investigations in the whole city to collect basic data necessary for the social pooling. In the second half of 1983, Taizhou Labor Bureau conducted several investigations to get an idea of the city's structure of active staff and retirees, and their wage levels. And in early 1984, the government calculated the contribution ratio. The proportion of the overall contribution was calculated. The preparatory work laid a good foundation for implementing the social pooling.

The pilot program in Taizhou also suffered great resistance. The biggest problem is that it was difficult for workers to change their ideas developed under the planned economy. Neither active employees nor retirees were willing to participate in the social pooling. When enterprises paid insurance benefits, retirees would receive red envelopes and daily necessities at every traditional festival; and besides pensions, they also enjoyed other benefits which would be eliminated once they participated in the social pooling, that was why retired workers did not want to join the social pooling. Under such influence, active workers who were approaching retirement were not willing to join the scheme neither. Young workers were more reluctant because they believed that retirees' pensions were paid by their contributions, and when they could get retired, the situation could hardly be predicted.

Of course, different pension burdens decide enterprises' different attitudes towards the social pooling. In general, enterprises with good benefits and light pension burden would not like to participate in the social pooling. For example, oil and other resource-based companies had good economic performance and high retirement benefits, so they were unwilling to participate in the pension pooling. And the Machinery Bureau which had many new enterprise, fewer retirees, and lighter pension burden were not willing either. While some old enterprises such as catering service companies lacked economic efficiency and had as many retirees as active staff, and were willing to participate in social pooling, so as their retirees, because for such enterprises, the social pooling could relieve their pension burden, while for individuals, it could guarantee their retirement income.

In order to ensure the smooth progress of the pilot reform, Taizhou established the "leading group for pooling retirement and resignation pensions" in April 1984 just after the city was designated as a pilot city. The leading group was headed by Deputy Mayor, Zhushou Lin, and set the "retirement and resignation pooling office" in the Labor Bureau to organize concrete work concerning the pooling of

"retirement pension" and "resignation allowance." This is an organization guarantee for the advance of the pilot project.

Faced with various resistances from workers and enterprises, Taizhou relied on the administrative system's organization and mobilization abilities to change people's opinions through active publicity and communication, so that workers and retirees gradually accepted the idea of social pooling. Then, Taizhou persuaded competent authorities in charge of industrial development one by one, reached a consensus at the executive level, and then relied on these departments to persuade enterprises.

Furthermore, in terms of concrete implementation, Taizhou adopted a "step by step" approach. The first step was to implement the pension pooling within industries, with most pooled funds kept in industries while a small part turned into the pooling office. The first step lasted for more than half a year, and then was to implement the pension pooling in the whole city. The reason why the first step was needed for transition was that some industries were profitable, and had fewer retirees and lighter pension burden, while some others were in the contrary; it was difficult for all enterprises and competent authorities to immediately accept the city pooling. The "step by step" approach was very effective. For example, under the Business Bureau administration, there were both profitable enterprises and inefficient ones, which formed a relatively balanced system. Thus, the Business Bureau was not against the implementation of the pension pooling within its system. Even other profitable systems were not strongly opposed to the pension pooling, because they did not need to pay much money outwards. However, just as the idiom says, "once you started, there's no turning back," once enterprises participated in the pooling in their own systems or industries, they could hardly exit it and finally had to join the pension pooling in the whole city, no matter they were willing to or not.

The Taizhou pilot project did not require individual contributions, and all pension burdens should be borne by enterprises. This was mainly due to the history and national conditions. At that time, it was commonly believed "Once I entered the service, I became a staff of the country. What I should do was to work hard, while the state should be responsible for my livelihood and welfare." Therefore, the idea of individual contribution would hardly be accepted by neither leaders nor workers for a while.

Pilot projects in Zigong, Sichuan Province and Taizhou, Jiangsu Province, were both carried out in regions where state-owned enterprises and state-owned economy had a large impact, so the projects suffered similar resistance. However, in other areas, particularly in regions where state-owned enterprises were absent or not strong enough, the social pooling was implemented steadily. For example, in September 1985, January 1987, and November 1987, Shenzhen launched the pension pooling in state-owned and collective enterprises. And just in 7 years, Shenzhen accomplished the transition from the pension pooling trial in contract workers to a pooling system that covered all enterprise employees.

In 1986, the State Council issued the *Provisional Regulations On Institution Of Labor Contract System In State-Owned Enterprises*, stipulating that enterprises

recruiting workers for regular jobs shall practice the unified labor contract system and the enterprise shall contribute to the retirement fund an amount equivalent to 15% of the total wages of contract workers and contract workers shall pay to the retirement fund an amount not more than 3% of their standard wage. Thereafter, the individual contribution system gradually extended to all enterprise employees.⁶⁴ Social pooling of the retirement pensions became an important supporting measure for the reform of labor system and was promoted even more rapidly. By 1987, already 600 cities and counties implemented the pension pooling, accounting for one-fourth of the total number of cities and counties. 114 cities, including Shanghai, Beijing, Wuhan, and other provincial capitals and municipalities directly under the central government, realized the social pooling at the city level, representing one-third of total municipal administrative divisions.⁶⁵ At that time, the general problem for the pension pooling of SOEs was that the pooling level was too low, mainly at the municipal and county levels. Therefore, although to some extent, the social pooling alleviated enterprises' burden of social responsibilities; it had little influence on promoting the labor flow nationwide and eliminating regional differences.

In January 1991, the State Council issued the *Decision on the Reform of the Pension System for Staff and Workers of Enterprises*, putting forward the establishment of a multitiered pension system composed of the state basic pension, the supplementary pension programs in enterprises and individual pension programs in the form of savings accounts and stipulating that premiums for basic pension shall be borne by the state, enterprises, and individuals together; individuals shall pay pension premiums and pension funds shall be raised through the social pooling and the partially funded system. This was an important document of the State Council on social insurance work since the reform and opening up.⁶⁶ Compared with previous documents, this Decision clearly pointed out that the basic direction of China's pension system reform was towards a shared responsibility between the state, enterprises, and individuals, and pension funds should be raised according to "actual needs of pension expenses and the affordability of enterprises and individual." It is worth noting that the Decision also drew on the "Singapore model" and the "Chilean model", adopted part of their "accumulation" approach, and put forward that endowment insurance funds shall be raised on the principle of "making the expenditures in line with the revenues, having a little surplus, and keeping some accumulation." In terms of the management agencies, the Decision stipulated that "premiums for basic pension should be deposited in special accounts opened by the social insurance management agencies and used for special purposes, no entity or person shall use the money without authorization," and "government at all levels shall establish the endowment insurance fund committees to lead and supervise the

⁶⁴Edited by the Ministry of Labor and Social Security (2007, p. 689).

⁶⁵Fu (1987).

⁶⁶Edited by the Ministry of Labor and Social Security (2007, p. 687).

management of pension funds.”⁶⁷ The Decision laid a cornerstone for the future reform and development of China’s pension system.

The social pooling of retirement pension soon showed its social effects: while solving problem of enterprises’ uneven pension burdens, it also guaranteed the basic livelihood of tens of millions of retirees and provided them with a sense of security. However, before the social pooling, pensions were paid by enterprises, and were determined by enterprises’ business situation. *People’s Daily* particularly published an article to introduce the effect of pension pooling on the protection of retirees’ basic livelihood of workers and the reduction of enterprises’ burden.

China: 22 million⁶⁸

...Enterprises in which the number of retirees surged suffered a heavy pension burden, and such enterprises were countless...

...Retirees rapid increase in business start breathing heavy load pension issues, such enterprises it is difficult to count...

Dalian Sixth Comprehensive Repair Plant is a small factory located in a narrow alley in the Shahekou District. There are 99 active employees while retirees are as many as 445, namely 99:445. The factory’s annual profit is about 20 million yuan, while the annual pension expenses are as high as 37 million. In the past decade, the total amount of pensions and subsidies in arrear reached 340,000 yuan. Although it has changed 17 directors, none of them could come out an idea to solve this problem.

Let’s listen to Ding Lirong, a retiree of the factory: I retired since 1982. My husband is a model worker of Dalian Steel Plant, but died from cancer at the age of 47. So I raised four kids all by myself. In the first year after retirement, the factory paid me 30 yuan every month, then about 20 yuan in the second year. But even such little amount of pension could not be guaranteed. When my pension should be paid, I feel very worried every time, and afraid to see words like “pension payment postponed” on the blackboard on the factory gate. At that time, every time when our pensions should be paid, the factory director and the secretary would avoid appearing in the factory, so worry was totally useless. For many times, some of us decided to collect money to appeal to the higher authorities for help, every contributed 3 yuan and so did I. Why our factory is so poor? We also discussed this question.

Active employees said “How can one support four or five people?”

Retirees said “The factory was built up and developed by us, so in fact, it is retirees who support active employees, isn’t it?”

...

Such enterprises are in quantity over the whole country!

Since 1980s, a large number of old employees who started work in the early days of the New China gradually reached the age of retirement. The contradiction of

⁶⁷ Edited by the Ministry of Labor and Social Security (2007, p. 693).

⁶⁸ Wu (1990).

uneven pension burden between old and new enterprises has become increasing serious. In the textile, food, salt, transportation, and other traditional industries, pension expenses are equivalent to more than 50% of the total wages, and even more than the total wages in some enterprises; while in the electronic, instrument, chemical, and other emerging industries and new businesses, pension expenses account for less than 5% of the total wages, and some enterprises even do not have any retiree. At that time, each enterprise only was responsible for its own affairs, but as the gap of pension burden became very wide, more and more enterprises felt unable to afford pensions.

In 1984, the Ministry of Labor and Personnel entrusted by the State Council, started trial projects of the social pooling of pension funds in Zigong of Sichuan Province, and Dongguan and Jiangmen of Guangdong Province.

Social pooling is a management approach of pension funds with which the state collects pension funds of a certain percentage of the total wages from enterprises, and after a comprehensive coordination, pay back pensions to enterprises according to their actual needs. It is a concrete application of the principle of “for the majority” in the field of social insurance. The social pooling of pension funds turns corporate responsibilities into social responsibilities, so that the livelihood of retirees can be guaranteed by the society.

In October 1987, Dalian Sixth Comprehensive Repair Plant which was close to bankruptcy also participated in the social pooling of pension funds in Dalian, and got benefits of 310,000 yuan in total by the end of 1989. In the first quarter of this year, the pension fund that the factory has paid was 6400 yuan, while the actual pension paid to its retirees by the social insurance management was nearly 80,000 yuan. Enterprises’ burden was greatly alleviated and the state also proposed to increase pensions for all retirees to a higher wage level. Retirees of the Sixth Repair Plant were not worried about their pensions any more. Those who often complaint to higher authorities in the past now are eager to disseminate the idea of pension pooling; some of them have even be reported on television. Last winter, the factory offered subsidies of heating fees to retirees; this was the first time. On that day, Ding Lirong and her colleagues cried and said “Thanks the Party! Thanks the government for developing the social pooling of pension funds!”

The factory’s retirees sent to Dalian Social Insurance Management Agency a banner with the words “social insurance, beneficial to the state and people,” which is still on the wall of the meeting room.

...

After 6 years’ development, this promising undertaking is thriving across the country, and it has begun to take shape.

According to the data provided by the Ministry of Labor, currently, 50 million active employees and over 9 million retirees of state-owned enterprises have already participated in the pension pooling. Social Insurance Management Departments have coordinated and paid pensions of 10 billion yuan; more than 1000 cities and counties have implemented the social pooling of pension funds for retirees of collective enterprises; 12 million labor contract workers have participated in the endowment insurance system; labor departments at all levels across the

country have established more than 2700 social insurance management agencies, with over 20,000 full-time cadres.

...

At the end of 1989, China's economy faced a severe situation: the monetary policy was tightened, the market became sluggish, industrial production slowed down, and some enterprises partially stopped production.

What about retirees' life?

Dandong, China's largest border city, took the lead in economic growth and efficiency in that province early that year, and however by the end of the year, it plummeted to the last.

The Fourth Silk Plant stopped production in some workshops since June, and sometimes as many as 800 employees stopped working, accounting for more than one-third of the total number of employees. During the downtime, wages were cut to cut wages, even leaders were no exception. Fortunately, as the plant had participated in the pension pooling, it received 300,000 million yuan from the municipal social insurance department, and its 1000 retired workers could get their pensions without any reduction.

The famous Liaoning Watch Factory which had always contributed more to the pension funds while receiving less was in a tight corner last year: to operate the factory needed a liquidity of at least 6 million yuan, while there was not even a penny, the factory's thousands of employees were waiting income to earn a living, while the factory could only rely on loans to pay salaries from January to March; and since the first day of the year, none of the medical fees could be reimbursed.

Unexpectedly, the Social Insurance Management Agency came to tell the factory that it could defer the payment of pooling funds but the agency would pay it pensions as usual. This help was really timely!

On a conference of the State Council, the minister of Labor reported that so far, the 9 million retired workers who have participated in the pension pooling, no matter those of enterprises with many retirees, or enterprises that partially stopped production, could all get their pensions without any reduction.

When the economy fluctuated, the social insurance showed its function of protecting people's life and reassuring the public. And it is the case when irresistible natural disasters happened.

In the earthquake occurred in Gengma and Lancang of Yunnan Province in 1988, 230 enterprises that had already participated in the pension pooling suffered from damages, and more than 4000 retired workers immediately met difficulties in their life. It was the 380,000 yuan funds provided by the Social Insurance Management Agency that solved the urgent needs.

In summer 1989, a disastrous flood flooded more than 200 enterprises in the pension pooling scheme in Jinhua, Zhejiang Province. The Social Insurance Management Agency reduced or exempted nearly 200,000 yuan pooling funds for the affected enterprises, and allocated almost 10 million pensions to help them and their retired workers overcome difficulties. This was already the second time over the past 2 years.

The social pooling of pension funds relieved enterprises' burden, and enabled them to engage in business activities as a normal market player or in the case of bad performance, to declare bankruptcy without any social burden. In the country's first case of bankruptcy—the case of Shenyang Explosion-proof Equipment Factory—retirees got all their pensions from Shenyang social insurance agencies receive, so they were satisfied with the arrangement after bankruptcy. Before the Factory closed down, it had 72 retired workers, and after the bankruptcy, some found other jobs, some retired earlier, and there were still 29 workers stayed unemployed. In order to guarantee livelihoods of retired and unemployed workers, Shenyang Branch of People's Insurance Company of China officially assumed the relief duty and paid benefits from the social insurance funds. Therefore, retirees could still enjoy the benefits as those of collective enterprises. The pensions were paid by Shenyang social insurance agencies, and issued by sub-district Offices.⁶⁹

3.3.3 From the “Employment Security” to the “Laid-off Insurance”: Deeping Marketization of the Employment

In the 1980s, another important reform of China's social security system was to establish an unemployment insurance system, which resulted from the deepening economic reform. With the development of economic reform, enterprises continued to turn into major players of the market economy, and needed to allocate resources like labor force in accordance with market rules. Therefore, a market-oriented allocation of labor resources became an inevitable trend, which was the fundamental driving force for the reform of the employment system. However, in the 1980s, China's enterprises were not merely “economic players”; they also assumed a variety of social functions and responsibilities. Since the social security system had not been completed yet, the “employment security” could not just be an old concept in people's minds; it was also indispensable for workers to sustain their life. Meanwhile, in the process of economic restructuring, some workers who had grown up under the planned economy needed to change ideas and update skills, in order to adapt to the market-oriented employment. These workers used to passively accept jobs arranged by the state, and life arranged by enterprises under the planned economy, but now they should transform into “economic men” who actively pursue subsistence and development under market conditions. The transformations of these workers' abilities and living conditions were mainly linked to changes of the external conditions and system. Thus a system that could “liberate the labor force”—providing guarantee for basic livelihood, training for necessary skills, information of the employment market, and so on—was in need. If the society could provide these social services effectively, the flow and liberation of labor force would be relatively

⁶⁹Wang and Wenquan (1986).

smooth. The reform of China’s employment system in the 1980s did not follow general economic laws to send the surplus labor directly to the market, let them rely totally on themselves; instead, the reform was launched in an organized, progressive way, to promote an unprecedented labor force transfer in China.

1. Reform of the Labor System and Arrangement of the Redundant Labor in Enterprises

Under the planned economy, enterprises were overstaffed and production was inefficient; these problems already existed for very long time. Since reform and opening up, China introduced the competitive mechanism which would definitely influence the employment system not adapted to the market economy. In 1983 when enterprises were streamlines, to solve the problem of redundant labor was put on the agenda. It was estimated that across the country, enterprises’ redundant workers accounted for about 15% of the total number of employees. Since the labor system and the employment system had not been reformed yet, the arrangement of redundant labor was like a “stopgap”. The Ministry of Labor and Personnel, the State Economic and Trade Commission and the Ministry of Finance formulated several measures to solve the problem of redundant labor, and from 1983 to 1985, arranged over 3 million redundant workers, and the redundancy was alleviated to some extent. By the mid-1980s, due to the introduction of the contracted management responsibility system for enterprises, the labor system reform was further deepened, labor efficiency was enhanced, the industrial structure was adjusted, and production tasks were changed; the problem of redundant labor turned outstanding again. According to a survey conducted in Fujian, Zhejiang, Shanxi, Yunnan, Shaanxi, Hebei, and other provinces, around 1988, redundant employees of enterprises accounted for 8–15%, thus redundant labor of SOEs nationwide could be figured out as 15 million. Some local governments and enterprises also estimated that if production was organized strictly according to a fixed number of workers and fixed quotas, the proportion of their redundant workers could reach 20 million, representing 15–20%.⁷⁰

Under the planned economy system, due to various constraints, China implemented the “employment security system” in some enterprises for long time. Not only was providing job opportunities seen as an important task for the government, but also was the elimination of unemployment considered as an important feature which demonstrated the superiority of the socialist system to the capitalist system. Until the late 1980s, this view still had significant influence, and the opinion that “unemployment policies” were infeasible was still predominant.

About the Opinion that “Unemployment Policy is Infeasible”⁷¹

In the process of the reform during the past decade, we always used the concept of “waiting for employment”, while in the past 2 years, newspapers and magazines

⁷⁰Zemin (1988).

⁷¹Kang (1989).

hyped the “advantages” of “unemployment”, stating that unemployment could be a means to mobilize employees’ working enthusiasm. The most prominent view is that some market enthusiasts think that no matter in a socialist or capitalist society, the market economy will inevitably cause a large amount of unemployment which is beneficial. And they also criticize that “waiting for employment” just sounds nice, but indeed does not have any difference from “unemployment”, and only acknowledging the fact of “waiting for employment” but ignoring “unemployment” embodies the old ideas. As to me, I cannot agree with such opinion. If such idea becomes the principle of formulating national employment policies, the overall situation of stability and unity will be inevitably under constant threat.

Now some people propose to change the “employment security” to the “unemployment security”, thus to change unemployment to a “secured unemployment”. This claim is debatable. To change the “employment security” to the “unemployment security” is not allowed in the socialist society, even if in the capitalist society, it will not be advocated, and for raising employment rate and realizing full employment are important slogans in presidential campaigns in capitalist countries. This is because employment means that the labor force is creating wealth while unemployed people could only consume without contributing to production.

The argument of “secured unemployment” is unfounded, for unemployment cannot provide laborers with any sense of security, but only a sense of crisis.

“Unemployment causes a bitter consequence, namely hunger.” Those who suffered unemployment would not like to suffer hunger any more. The harsh reality that the unemployed should to face is the lack or insufficiency of food. Many supporters of “secured unemployment” state that the unemployed will feel secured if they are provided with more unemployment benefits, will not they? But let us think about it, since we carry out a cheap labor policy; is it possible to offer a big sum of relief funds? Even if the state has such abundant financial resources, we would better set up labor service companies beneficial to the society, rather than engage in unemployment benefits.

With such public opinion and social conditions, the Chinese government established two basic principles concerning redundant workers: First, the principle of efficiency, “we should firmly dismiss redundant workers from their post, and not allow ‘tasks for three people to be accomplished by five people’”; second, the principle of fairness, “we should rely on enterprises to solve labor surplus instead of pushing workers to the society. We should create new opportunities for production and service, through promoting labor, developing life service companies, etc.; at the same time, we also should actively organize training to create conditions for redundant workers to change jobs.”⁷² Thus, throughout the 1980s, labor surplus occurred during the reform of enterprise management system and employment

⁷²Accelerating the Reform of Labor, Wage and Employment Systems—Report of Minister Zhao Shouyi on the National Conference for Labor Department (Bureau) Directors (Abstract), *China Labor*, Vol 1, 1985.

system was mainly solved by enterprises through promoting production and service. Those who had difficulties in changing jobs were waiting opportunities in their enterprises, or exchanged to other enterprises through the open labor market within the enterprise. Thus in general, redundant workers were not pushed to the society to cause social uncertainty.⁷³

In accordance with the principle that enterprise internal resettlement was the principal, and social resettlement was the supplement, major channels for arranging redundant workers in the 1980s were as follows:

First, internal arrangement. Enterprises mainly relied on launching new production projects, developing the tertiary industry, and engaging in a variety of business to arrange redundant staff. According to a survey in Fujian and other five provinces, among the surplus workers who changed jobs, 70% were arranged through this method.

Second, surplus and shortages regulation, and export of labor services. According to the above-mentioned survey, about 10% redundant workers were arranged through the surplus and shortages regulation. Redundant workers were mainly transferred by labor departments or enterprises to newly established enterprises, expanded enterprises, or enterprises that needed more staff in the same region and same industry.

Third, policy-based arrangement. According to the survey, 9% redundant workers were arranged based on relevant policies. The arrangement targets and measures were as follows: female workers who had domestic difficulties or who were during pregnancy or lactation, could apply for a long leave during which 60% of the wage was paid; redundant workers who were willing to resign could get living subsidies in one lump sum; those who were close to retirement age and could not contribute to production any more, and could leave their posts for convalescence with certain amount of living subsidies and formally apply for retirement until they reached the age; those who asked for a short-term leave to find other jobs could apply for remaining at posts without wages.⁷⁴

According to the above practice, the vast majority of redundant workers were arranged. Some of them embarked on new jobs and some were guaranteed for basic livelihoods through sick leave, retirement, etc. But there were still a small part of redundant workers without any arrangement. It was estimated by relevant department in 1988 that reforming the employment system and allowing companies to dismiss redundant employees led to job losses of 3% workers. At that time, there were 90 million permanent workers nationwide; if 3% were laid off, unemployed workers would increase by about 3 million. After the implementation of the *Enterprise Bankruptcy Law*, other 3 million workers would lose their jobs, together with already existent 3 million unemployed urban residents and people who lost

⁷³Ni (1989).

⁷⁴Zemin (1988).

their jobs due to other reasons, the total number of unemployed people in cities and towns would exceed 11 million.⁷⁵ How to guarantee their basic livelihoods and create conditions for their employment? This was an important issue the state faced when promoting the reform of enterprises. In order to ensure a stable social environment that further reforms needed, and also to solve the life difficulties of these unemployed, the Chinese government began to explore ways to establish the unemployment insurance system. In the beginning, people are confined to the idea that “unemployment didn’t exist in socialist societies”; they used words “waiting for employment” instead of unemployment in relevant policies, like the *1986 Provisional Regulations on Unemployment Insurance for State-Owned Enterprise Employees*. At the same time, the state began to mobilize various powers and resources from the state, collectives and individuals to create new jobs, upgrade skills of redundant workers, in order to help them embark on new jobs. In this respect, labor service companies played an important role.

2. A “New Type of Social Organization”—Labor Service Company

In the 1980s, labor service companies played an important role in China’s social transition. In the beginning, China met a serious employment problem which even worsened in the process of reform and opening up. For a large country with hundreds of millions of people, to secure employment was closely related to social stability and development. In the early years of reform, Deng Xiaoping pointed out “modern production requires fewer workers; however our population is so large, we should strike a balance, otherwise, we will face a long-term underemployment which is linked to many other social problems. Thus our party members engaged in practice and theories need to conduct joint research, so that we will certainly be able to find appropriate solutions.”⁷⁶ In order to solve the employment problem, China mobilized the intelligence and the power of the whole Party and based on the country’s national conditions, established labor service companies, which later became an agency with strong Chinese characteristics during the social security reform.

After the Third Plenary Session, almost all regions set up labor service companies in accordance with the requirements of the central government. In January 1979, the central government proposed “We should create more employment opportunities, and governments in all regions should promote collective farming, forestry, animal husbandry, fisheries, handicrafts, business services, labor service companies and public utilities.”⁷⁷

Labor service companies were strongly supported by the state since the beginning. On May 31, 1980, the Ministry of Finance and the National Labor Bureau with their branches in provinces, municipalities, and autonomous regions jointly issued the *Notice on Subsidy Standards for Labor Service Companies* in 1980, to

⁷⁵Zemin (1988).

⁷⁶He (1985).

⁷⁷Compilation Committee of Nanjing Chorography (1999, p. 68).

provide companies with financial supports.⁷⁸ In addition to subsidies from the central government, labor service companies could also get financial supports from their organizers and enjoy a preferential income tax reduction or exemption for 3 years.⁷⁹ Therefore, labor service companies developed rapidly. By 1985, China had established more than 450,000 labor service companies at all levels, 1269 raining centers and various training courses, and 218,000 small collective enterprises, providing 6.14 million jobs and vocational training for 1.6 million people every year.⁸⁰

Since labor service companies developed well and played an important role in employment, the labor department clarified their orientation:

The labor service company is responsible for organizing social labor force and carrying out economic activities, it also assumes some administrative functions of the labor department. It combines economic approaches with administrative methods to organize and guide employment. Under the overall planning and the leadership of local governments, the company organized unemployed youth and other unemployed people to participate in vocational training and some subsidized compulsory work, thus they could study and work at the same time, and get prepared for future employment. And then according to the needs of economic development and personal qualifications, and after assessment, the labor service company will help the unemployed find jobs through developing collective and individual economies; introducing the unemployed to enterprises in accordance with their needs; and providing temporary worker to the enterprises or organizing temporary work.⁸¹

Due to the guiding thought that surplus workers could not be directly pushed to the society and problems of labor transfer could not be simply solved by “unemployment insurance”, labor service companies became a bridge that transferred labor force between enterprises and the society, so they were known as “a comprehensive agency that coordinates employment, transfers and manages temporary workers in enterprises and carries out vocational training”; they were also known as a “labor ‘reservoir’”.⁸² Since enterprise management mechanism and employment system were further reformed, labor service companies played an increasingly important role in absorbing enterprise surplus workers. In 1985, Deputy Minister of Labor and Personnel, He Guang stated in a speech that the labor service company was a new type of social organization of labor, with both administrative and economic functions. It was responsible for organizing, training, inputting, adjusting, and the transferring labor force. In the labor system reform, labor service companies provided social conditions for labor flow, and changed the situation that enterprises could not select employees, and individuals could not choose their jobs. Labor

⁷⁸Subsidy Standards for Urban Labor Service Companies in 1980 Issued by the Ministry of Finance and the State Labor Bureau, *China Labor*, Vol 8, 1980.

⁷⁹Wang (1990).

⁸⁰Sun (1986).

⁸¹Notice of the Ministry of Labor and Personnel about Issuing 〈Several Opinions on Labor Service Company Issues〉 (No. 12, 1982), *China Labor*, Vol 11, 1982.

⁸²Notice of the Ministry of Labor and Personnel about Issuing 〈Several Opinions on Labor Service Company Issues〉 (No. 12, 1982), *China Labor*, Vol 11, 1982.

service companies had their own production network, service network and training bases to accommodate a considerable amount of labor, when enterprises needed more employees, they could sign a contract with labor service companies which could provide qualified labor force; and when these workers were not needed any more, they returned to labor service companies and waited for other opportunities.⁸³

In 1989, the Deputy Director of the Labor Management and Employment Department of the Ministry of Labor, Ni Xinsong said when reviewing the employment reform during the past decade of reform and opening up:

Labor service companies... have following major tasks: First, to promote the development of collective economy, establish bases for labor and production, promote horizontal integration, coordinate relevant economic policies, and create more employment opportunities for the unemployed and surplus workers; Second, to establish vocational training centers and mobilize social resources so as to organize training course at multi-level and in multi-forms for people who would like to find or transfer jobs, and thus create favorable conditions job-seekers; Third, to be responsible for collecting, using and issuing the unemployment insurance funds, and provide social security to the unemployed; Finally, to collect information of social labor resources, offer employment consulting services, assume the responsibility of employment agencies and serve to develop the labor market and match labor supplies and demands.⁸⁴

In addition to arranging surplus workers, labor service companies developed a thorough network that penetrated and connected various industries. Overall, labor service companies could be divided into the following three categories:

First, labor service companies at province, autonomous region, municipality, county levels, were subject to labor departments of the same level, and their business was guided by companies of superior levels. Main tasks for these companies were to coordinate local employment and workforce management, provide information on the labor supply and demand, as well as on market and economic situations, provide career guidance, and carry out coordination, guidance, service, and supervision for companies at lower levels. Some also organized training centers and supply and market departments serving for the grassroots.

Second, labor service companies at street and township levels were subject to the administration of local governments. Such companies were grassroots organizations and economic entities in nature. Their main tasks were to manage local unemployed people, organize training, manage service teams, and set up and manage the collective economy to create job opportunities.

Third, labor service companies organized by enterprises and other public units were grassroots organizations and economic entities. They were subject to the administration of organizers and superior companies. Their main tasks were to manage the unemployed workers of the organizers, provide vocational training and job recommendation, and organize and operate collective enterprises to create job opportunities.⁸⁵

⁸³He (1985).

⁸⁴Ni (1989).

⁸⁵Sun (1986, 1989).

It was the Chinese thought which focused on “employment” rather than “unemployment” that turned labor service companies into an organization that linked enterprises and the society by job arrangement, the unemployment insurance, and reemployment services. Since the market-oriented reform was deepened, surplus workers of enterprises mainly relied more on the society rather than enterprises to find jobs. In this transition, labor service companies, thanks to their nature and organization network, functioned as a bridge. In 1986, when the unemployment insurance system was initially implemented, labor service companies served as an important agency that collected and paid unemployment insurance funds, and provided necessary training and other career services to the unemployed. This form of social organization enabled the transfer of tens of millions of labor force to be a quiet, unnoticeable historical process.

3. The “Laid-off Insurance” as An Interim Measure

Since the late 1970s to the mid-1980s, to arrange surplus workers, China made a lot of efforts which, on the one hand, greatly reduced the number of surplus workers; on the other hand, established labor service companies to accept, manage, and arrange the unemployed, thus created favorable conditions for promoting the unemployment insurance and social arrangement of surplus workers. After the society gained the basic ability to accept and arrange employees laid off by enterprises, the government began to promote further reform of the employment system. In 1986, the State Council promulgated the *Provisional Regulations On Institution Of Labor Contract System In State-owned Enterprises* and the *Provisional Regulations For State-owned Enterprises To Recruit Workers*, demanding enterprises to recruit employees from the society; adopt open examination and merit-based hiring measures, stipulating that state-owned enterprises shall practice the labor contract system for newly employed workers, allowing enterprises to dismiss discipline-violating employees, and further promoting the market-oriented employment. In 1986, the 18th meeting of the Sixth NPC Standing Committee passed the *Bankruptcy Law of the People’s Republic of China (Trial)*, allowing some enterprises that had difficulty in survival due to poor management to declare bankruptcy. On July 12, 1986, the State Council promulgated the *Temporary Provisions on Laid-off Insurance for State-owned Enterprises Employees*.⁸⁶ Although unemployment became inevitable, employees who were laid off could be guaranteed for their basic livelihoods and future reemployment.

According to the *Temporary Provisions on Laid-off Insurance for State-owned Enterprises Employees*, the laid-off insurance mainly covered four types of state-owned enterprise workers, including (1) employees of enterprises that declared bankruptcy; (2) employees of enterprises facing bankruptcy who lost their jobs during the statutory streamlining period; (3) employees whose labor contracts

⁸⁶At that time, since whether unemployment existed in the socialist society was not yet clarified, the word “unemployment” was not used to express unemployment issues, but the phrase “waiting for employment.”

were terminated; and (4) employees who were dismissed. The laid-off insurance premiums should be paid monthly by the employer but not individual workers, and the contribution ratio should be 1% of the total amount of all workers' standard wages. Labor service companies of local labor administrative departments were in charge of the management of unemployed workers and their laid-off insurance funds.

The benefit standards of the laid-off insurance were as follows:

First, for employees of enterprises that declared bankruptcy, employees who lost their jobs during the statutory streamlining period, and those who were dismissed, if their service length reached 5 years or more, they shall receive the laid-off relief funds for up to 24 months. In the first 12 months, the monthly fund shall be 60–75% of the unemployed workers' standard wages; while in 13–24 months, 50% of their standard wages. If the workers' service length was less than 5 years, they shall receive the laid-off relief funds for up to 12 months; 60–75% of their standard wages every month. Second, for employees whose labor contracts were terminated, after deducting the months when they enjoyed living subsidies, they shall receive the laid-off relief funds in accordance with the above stipulations.

From 1986 when the *Temporary Provisions on Laid-off Insurance for State-owned Enterprises Employees* were issued to the early 1990s, the unemployment insurance coverage constantly expanded, even covering employees of collective enterprises in some provinces. In the meantime, the pooling level was raised; some provinces and cities established provincial balance funds of unemployment insurance; and the unemployment insurance mechanism and the reemployment promotion mechanism were formed in order to guarantee the basic livelihood of unemployed workers while helping them find new jobs as soon as possible. By the end of 1992, the unemployment insurance covered 476,000 state-owned enterprises, 74.4 million workers. The state set up more than 2100 management agencies, used the unemployment insurance funds to establish more than 750 vocational training bases and 400 self-help production bases, and invested 92 million yuan in employment services.

3.4 Transformation Period of the Social Security

The 1980s is a critical period for China's social security system reform. From the early days of the New China to the "Cultural Revolution", the comprehensive security system for workers was proved to be infeasible because the coverage was small and benefit gaps between workers in different regions, industries, and positions were too large. The benefit gap not only existed between urban and rural areas, but also between SOEs and collective enterprises, and enterprises, government agencies and public institutions. Moreover, the system which asked employers themselves to provide social security could hardly balance benefit standards, thus would fail to fulfill the state's promise to laborers. After entering the 1980s, China launched various economic reforms and introduced the market competition

mechanism which would inevitably affect the labor system and social security system. Through “trial and error”, explorations, and experiments, China soon decided to choose the socialized system to achieve the protection for workers. Around the late 1980s, China’s modern social insurance system was close to be established.

In the 1980s, “social pooling” was a key term. Since retirement pension costs gradually increased, pension funds needed to be coordinated and used in a larger scope, and also needed socialized and professional management. Social pooling agencies took over enterprises’ responsibilities to provide social security, enabled workers to have more choices, and also set free employers. Although the ideal situation that social pooling could liberate the labor force and relieve enterprises was not totally achieved in the 1980s, relevant concepts and system design were already formulated.

The “laid-off insurance” and the “labor service company” are innovative concepts created in China, which not only made the first appearance of unemployment in a socialist country, turned the laborer–enterprise contract into the labor force–society contract, but also created an interim period between layoff and reemployment. Such practice laid necessary basis for enhancing China’s productive forces.

“Individual contribution” is another hot concept introduced in the social insurance reform since the labor contract system had been implemented. Contract workers should bear a small part of insurance premiums to enjoy social insurance benefits, but in the past, all costs had been borne by the state and enterprises. Although employers assumed most of the payment, and some local governments provided subsidies, it was the first time that the risk-sharing pattern of social responsibilities appeared. Since 1984, employees that enjoyed the labor insurance medical care and public medical care should bear a certain part of medical expenses and this was implemented nationwide. Some places set quotas and some linked medical expenses with workers’ personal economic benefits, in order to enhance employees’ awareness of self-security and cut down medical expenses.

Although the principle was established, the individual contribution was still very difficult to be realized. Since the pension collection work only relied on administrative instructions and lacked enforcement measures legal norms, manpower and other resources, enterprises always shut the door upon relevant staff.

In rural areas, thanks to the household responsibility system, farmers’ income increased. The *Draft Directive on the Work of Rural People’s Communes (Trial)* was passed on the Third Plenary Session of the 11th Central Committee in December 1978, stipulating that basic accounting units in good conditions could implement the pension system. In 1980, some wealthy provinces started pilot pension programs. By 1984, already 660,000 people had participated in the pension insurance through individual contributions. And some areas also started medical cooperation, with the healthcare funds co-financed by collective economies and individuals, or totally paid by individuals. With the healthcare funds, sometimes the medical expenses were reimbursed in whole or in part; sometimes only injection fees, treatment charges and fees for diagnosis were free, while drugs were paid by patients themselves, or all outpatient medical expenses were paid by patients while

hospitalization expenses and treatment costs were reimbursed in whole or in part. Individuals became a party in charge of the social security, not only beneficiaries, but also the significance of personal participation for social progress which was recognized.

In short, China's reforms in this period inevitably touched the social security. However, from the social pooling of pension funds to the establishment of the old-age pension system, from the laid-off insurance to the "labor service company", all reforms centered on the economic reform and marketization of enterprises, and "the overall reform objectives had not yet been set from the height of economic system construction."⁸⁷

⁸⁷Edited by the Ministry of Labor and Social Security (2007, p. 691).

Chapter 4

Socialist Market Economy and Preliminary Establishment of the Social Security System: Development in 1990s

In the 1990s, China entered the key stage for reforming and developing the social security system. During this period, China's old-age insurance system began to take shape, the unemployment insurance evolved from the laid-off insurance and was established, and the health-care reform also started. All these measures were originally taken to support the economic system reform, but later turned out useful in meeting the needs of labor transfer and labor flow during transformation of economic system and employment pattern. The basic direction was to resist against the risks brought by the market economy, by developing the social security system.

4.1 “Document No. 33”—Foundation for the Endowment Insurance Reform

In 1991, the *Decision of the State Council on the Reform of the Pension System for Staff and Workers of Enterprises* (Document No. 33 issued by the State Council) played an important guiding role in transforming China's social security system and establishing the old-age insurance system. As Wang Jianlun, former deputy minister of Labor and Social Security said, during the transformation from the employment security under the planned economy into the modern social security system, “document No. 33” “works as a right crossing stone.”

“Document No. 33” laid the foundation for China's modern social security system in at least five aspects: First, it identified the basic direction for developing China's social insurance, namely, to protect citizens by social insurance rather than employment units; Second, it figured out the basic path to achieve social security goals, namely, to implement the social pooling from localities, counties and municipalities, and gradually to provinces and the whole country; Third, it pointed out that the old-age insurance should be afforded by the country, enterprises and individuals (at that time, individuals were required to pay 3%), rather than be mainly

borne by the state or enterprises as under the planned economy; Fourth, it reiterated that the old-age insurance system should continue to follow the principle of distribution according to work, and a multi-tiered system should be established to adjust to China's real conditions and make the social security available to everybody, but equal benefits would not be a must; Fifth, it stipulated that social insurance funds should be managed under a special account and used for specific purposes. The payments should be deposited in the "special account for old-age insurance" opened by management institutions, with interests. The calculating and distributing methods did not change temporarily, but might be adjusted according to economic situations in the future.¹ China's later social security reforms basically followed this direction.

When it came to "document No. 33," Jiao Kaiping, former director of the Endowment Insurance Department of the Ministry of Labor and Social Security said, "It is the first important document for the endowment insurance reform since the Third Plenary Session of the 11th Central Committee in 1978." This red tape indeed had great influence. Just in the year when it was issued, the social pooling of the old-age insurance witnessed a huge progress. By the end of 1991, over 2300 counties and cities, accounting for 98% of the total number, implemented the overall planning of enterprise endowment insurance, and among them, over 1300 also integrated urban collective enterprises into the pension pooling.²

"Document No. 33" also left some uncertainties. For example, it emphasized that China's social security system should be supported by multiple pillars and its risks should be shared by the government, enterprises, and individuals in the future. However, there was no explicit stipulation for respective responsibilities of the three pillars. Whether the government should afford more or just ensure the basic social security? Enterprises are only responsible to pay insurance premiums or also have other market responsibilities? Should enterprises also be encouraged to establish annuities for employees? What are the responsibilities of individuals and households except for payment? Thus, the interpretation of "document No. 33" held the key to choose policies for the social security reform in the 1990s. "Document No. 33" also allowed different places and enterprises to take differentiated measures based on national policies; at the same time, it put forward the principle of determining payments on the basis of incomes, and having as well as depositing a little surplus. Accumulation rate of different provinces and cities could be different. Later development proved that the "partial saving" principle motivated many stakeholders to formulate a number of saving plans and combine the social pooling with individual accounts; and allowing differences among different regions and industries motivated enthusiasm of various parties but also widened the gap among different industries. "Document No. 33" was still applicable to only state-owned enterprises and worked as a "reference" to other enterprises. Especially for employees of foreign-invested companies and private companies, it was only a

¹*Decision of the State Council on Deepening the Old-age Insurance System Reform for SOE Employees* [document No. 33 (1991)]. Zheng et al. (1990).

²Xia (2009b).

policy formulated by provinces and cities, and was not institutionally binding.³ Therefore in China, race to the top and race to the bottom were both possible to appear, and the choice depended on decision-makers of enterprises or localities.

4.2 Market-Based Transformation of Employment— From the “Laid-off Insurance” to the Unemployment Insurance

4.2.1 Reform in State-Owned Enterprise and the Emergence of Social Risks

In 1992, the 14th CPC National Congress put forward a reform goal of establishing the socialist market economic system. This goal has profoundly influenced the process of social security reform. China’s social security system, no matter institutional development or concept orientation, was affected by the “socialist market economy.”

In the early 1990s, China’s priority was to promote the market-based reform whose most difficult part was to reform state-owned enterprises. There were many bottlenecks. On one side, the rapid development of the market economy in South China provided fresh reform experience. On the other hand, SOEs in North China were still trapped in mismanagement or even heavy losses. In these enterprises, the employment system was rigid, the “iron rice bowl” and the “big pot” system were common phenomena, and they suffered from low economic returns or even heavy losses, but only rested on their laurels and remained reluctant to reform.

Zhu Rongji Commented on the “Big Pot” Phenomenon in State-owned Enterprises.⁴

If the internal system is not reformed, with enterprises relying on the government, employees relying on their enterprises, and the “iron rice bowl” as well as the “big pot” systems prevailing, even the most favorable external environment will be useless. How can enterprises improve their profits, if cadres and employees lack enthusiasm, if enterprises themselves lack motivation to pursue technological advance and economic benefits, and if their potential cannot be tapped? Currently, a large proportion of SOEs are suffering or close to losses. Even worse, many enterprises are just eating up their resources. For example, even when losses occur, employees can still get bonus; when an enterprise is led into trouble, the manager can serve as an official in another place; production does not stop despite of

³*Decision of the State Council on Deepening the Old-age Insurance System Reform for SOE Employees* [document No. 33 (1991)]. Zheng et al. (1990).

⁴Zhu (2011, pp. 103–104).

overstocking; surplus laborers will not be laid off; reward and punish standards are not clear, thus employees' performance makes no difference to their remuneration.

The reform of SOEs in the 1990s was not a small step, instead, it was a large-scale "structural adjustment" that required enterprise to stop production, carry out technological innovation and turn overstocked inventories into technical transformation funds for purchasing equipment and paying salaries which could promote consumption. The reform did not mean to encourage low-efficient enterprises to carry out a price war. Instead, it aimed at reducing or stopping production, which was later summarized as "closure, stop, merger, and transfer." To implement this big reform, the central government put forward various policies and measures, and adopted the *Regulation on the Transformation of Operational Mechanism of the Industrial Enterprises Owned by the Whole People*. However, since there was not any supporting reform on the employment system, enterprises did not have the power to fire employees and employees also lacked necessary guarantees concerning reemployment training, job introduction, and unemployment insurance, therefore, surplus laborers were still on original positions, SOEs were commonly "overstaffed,"⁵ and the SOE reform could hardly go further. The then vice Premier Zhu Rongji, who was in charge of the SOE reform said, "The structural adjustment of enterprises should be accompanied by industrial restructuring. Now, the processing industry is too big and bears a heavy burden due to excessive staff; in addition, the tertiary industry is underdeveloped. If the surplus labor in the processing industry can be transferred to the tertiary industry in an orderly way, not only will the industry's burden be eased and fresh blood be injected into the field of circulation, but also enterprises' performance will be improved and employees' income be increased."⁶

The key of SOE reform was the industrial restructuring which was bound to the transformation of employment structure and pattern as well as labor transfer. At the beginning, some SOEs tried to distribute part of the labor force by encouraging them to leave production posts and engage in a diversified economy, such as small businesses and other service-based industries. For such workers, their statuses as state-owned enterprise employees would be retained, and they could also enjoy the labor insurance and all other benefits for SOE staff. In this way, a social system began to form in enterprises. However, "enterprises burdened with social functions" later became a more and more serious problem. Collective enterprises set up by distributed labor force became "minor state-owned" enterprises that developed "small societies" by taking advantage of SOEs: they set up schools, hospitals, and welfare institutions by consuming the resources of SOEs. What was worse, some collective enterprises even made use of the monopolized resources of SOEs to conduct "rent-seeking," speculate, and profiteer, thus disrupted the market order.

⁵Zhu (2011, p. 189).

⁶Zhu (2011, p. 97).

Zhu Rongji Criticized the “Minor State-Owned Enterprise” Phenomenon in Northeast China⁷

...

A steel Group is the most typical one in Liaoning Province. Among your staff, 223,000 belong to the “state-owned” part, 170,000 the “collective” part. The later rely so heavily on the former that they have already caused a serious problem. You seem to operate more social institutions (schools, hospitals, and welfare institutions) than the whole province. Its indeed very difficult to deal with the dependency relationship between collective enterprises and state-owned enterprises, but we must find out a way to separate collective enterprises from their parent SOEs, no matter through distribution or other approaches. Although it is not easy, we must start from now on and carry out pilots in a couple of enterprises, because this problem will cause increasingly heavy burden on SOEs.

To truly realize the labor flow, the government must reform the employment system and personnel system, eliminate the “iron rice bowl” and “big pot” systems, and introduce the competition mechanism. Also, a social security system must be established.

Spring 1992, after Deng Xiaoping’s Southern Tour, the method of the SOE reform became clear and to reform and establish the social security system was also put on the agenda. On March 25, 1992, in the speech titled *Comprehensive and Correct Understanding of the Spirit of Deng Xiaoping’s Talk in South China*, Zhu Rongji clearly put forward the concept of the “social security system.” He said, “What happens to laid-off workers? Local authorities must be responsible (for them); they must establish a social security system (the word social is underlined by the author), offer job training, set up employment centers, and find placements for the workers in order to ensure social stability. I feel this is a deep contradiction in the transformation of enterprise operating mechanisms and the foremost problem that needs to be resolved. I hope there can be a breakthrough in this area this year. Once we have a breakthrough on this issue, we can say we’ve found a workable model for integrating a socialist planned economy with market regulation. There are still many other reforms to be carried out. Basically, we have to be more liberated in our thinking.”⁸

The then vice premier Wu Bangguo, who was in charge of industry said, “After years of exploration, the direction, goal, and principle of the SOE reform are now clear... Currently, the excessive surplus labor is a prominent problem... On one hand, SOEs are overstaffed and bear such a heavy burden that their economic efficiency could hardly be improved. According to statistics, among 40 million active workers in SOEs across the country, over 10 million are redundant. The annual expenditure for them is as high as 100 billion yuan while the profit of SOEs

⁷Ibid., p. 17.

⁸Zhu (2013).

in 1997 is only 45.1 billion yuan. Thus, overstaffing is a key factor in enterprises' poor performance and losses. On the other hand, the "big pot" and "iron rice bowl" systems hindered labor flow, impacted employees' enthusiasm and hampered the improvement of technology and productivity. The development of the socialist market economy, the adjustment and upgrading of industrial structure and the advance of science and technology all urge us to solve the redundancy problem, establish an employment system fit for the market economy and increase efficiency by downsizing staff. Otherwise, our goals of SOE reform and development can hardly be achieved."⁹

4.2.2 Establishment of the Social Security System that Synchronizes with Labor Force Marketization

1. The "Laid-off insurance" and Its Implementation

For the transition from the planned economy, first and also the changes are always in the conceptual aspect. After learning from western countries' experience in the social insurance, China accepted the idea that social insurance is a necessary supporting system for the market economy. However, the ideas of "full employment" and "zero unemployment in a socialist country" were not changed accordingly, the country put forward the "laid-off insurance" in early reforms in order to demonstrate that the socialist system would protect labor force and socialist China is different from capitalist western countries. China would not throw the transferred labor force into the market and leave them on their own. Instead, it gradually established a multi-tiered system to protect all laborers.

In 1993, to support the implementation of the *Regulation on the Transformation of Operational Mechanism of the Industrial Enterprises Owned by the Whole People*, the state council amended the 1986 *Provisional Regulation on the Laid-off Insurance of SOE Employees* and promulgated the *Regulation on the Laid-off Insurance of SOEs*, which expanded the insurance coverage and established the laid-off insurance funds financed by enterprises to ensure basic livelihoods of personnel awaiting employment. At the same time, the Regulation also adjusted the level of overall planning, increased the contribution standard and changed treatment calculation and distribution methods. In this way, the SOE reform could be supported.¹⁰

⁹Wu Bangguo, *Do a Good Job in Ensuring the Basic Livelihood and the Reemployment for Laid-off Workers of State-owned Enterprises*. Zheng et al. (1999, pp. 15–16).

¹⁰Edited by the Ministry of Labor and Social Security (2007, p. 767).

Provisional Regulation on the Laid-off Insurance of SOE Employees (Excerpts)¹¹ No. 77, [1986], issued by the State Council, July 12, 1986

Chapter 1 General Rules

The regulation is formulated in order to meet the needs of the labor system reform, promote sound labor flow, and guarantee a minimum standard of living for the staff and workers of state-owned enterprises (hereinafter referred to as enterprises) waiting for employment.

This regulation shall be applied to:

Staff and workers of the Enterprises which have legally declared bankruptcy;

Staff and workers of the Enterprises facing bankruptcy laid off during the statutory streamlining period;

Staff and workers who have terminated or canceled their labor contracts;

Staff and workers who have been dismissed by the Enterprises.

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The resources of the laid-off insurance funds shall come from the following sources:

The Enterprises shall pay laid-off insurance premiums on the basis of 1% of the standard payroll of all staff and workers (the payment is deductible in income tax);

After the laid-off insurance funds are deposited into banks, their interest shall be calculated in accordance with state regulations;

Local financial subsidies.

(Omission)

(Omission)

Chapter 3 From “Enterprise Insurance” to Social Insurance

The expenditure items of the laid-off insurance fund are as follows:

- (1) Relief funds for staff and workers of the Enterprises which have legally declared bankruptcy and staff and workers of the Enterprises facing bankruptcy laid off during the statutory streamlining period, who are waiting for employment;
- (2) Medical fees and death grants for staff and workers of the Enterprises which have legally declared bankruptcy and staff and workers of the Enterprises facing bankruptcy laid off during the statutory streamlining period, who are waiting for employment, and maintenance and relief funds for their dependents;
- (3) Retirement pensions for personnel retiring from the Enterprises which have legally declared bankruptcy and for personnel who meet retirement requirements but have been laid off by the Enterprises facing bankruptcy during the statutory streamlining period;
- (4) Relief funds and medical subsidies for staff and workers who have been dismissed by the Enterprises or who have terminated or canceled their labor contracts;

¹¹Zheng et al. (1999, pp. 67–69).

- (5) Vocational training expenses for staff and workers waiting for employment;
- (6) Expenses for staff and workers waiting for employment to help themselves through production;
- (7) Fees for managing laid-off employees and the insurance fund.

The base of the laid-off relief is calculated in accordance with the average monthly standard salary of staff and workers in the last two years before they leave their positions and the relief funds shall be paid as follows.

(1) ...Staff and workers with at least five years of service shall get the relief funds for no more than 24 months, among which: from the 1st to 12th month, the monthly payment shall be 60–75% of their standard salaries, from the 13th to 24th month, 50%; staff and workers with less than five years of service shall get the relief funds for no more than 12 months, and the monthly payment shall be 60–75% of their standard salaries.

On April 12, 1993, the *Regulation on the Laid-off Insurance of SOE Employees* (Decree No. 110 of the State Council), toughened regulations on insurance benefit standards on the basis of the document No. 77 issued by the State Council in 1986. Yet, it also added contents like “additional necessary payment for improving livelihoods of the unemployed and helping them to be reemployed,”¹² which showed the role of the laid-off insurance in promoting employment. The decree No. 110 also added “punishment rules” to prevent moral hazard. Immediately, the State Council issued decree No. 111 to regulate the arrangement of surplus workers, which showed that although the government started to allow bankruptcy to meet the needs of the market economy, it would not abandon SOE staff. Instead, learning from western countries, the country applied the concept of their unemployment insurance to the laid-off insurance.

The measures for resettling the laid-off employees were very detailed and required enterprises to “conduct diversified operations, organize labor service activities, develop the tertiary industry, and use resources in a comprehensive manner.” All in all, the state made every effort to resettle surplus workers rather than abandon them. In order to encourage enterprises to be more active, the government also put forward many tax incentives, such as two years of tax exemption for independent accounting units of the tertiary industry that had resettled excessive employees and three years of halved business income tax. The government also required enterprises to support transferred labor forces to start their own business in terms of funding, venue, raw material, and equipment, give them opportunities to contract projects of SOEs and pay salaries to transferred employees during job training. Moreover, the government also had specific arrangements for the retirees and even those who applied for resignation, so as to ensure their retirement pensions and living allowances. If the unemployed still could not find a job after training, they could enjoy the laid-off insurance during the job-seeking period. That is to say, the unemployed did not enter the market immediately after they left their posts. Between enterprises and the society were multiple safety nets that could help

¹²Zheng et al. (1999, p. 70).

laid-off workers to go through the transition period and prevent them feeling jobless and helpless.

2. Guarantee of Basic Livelihoods for Laid-off Workers

Supported by unemployment policies, enterprise restructuring was accelerated, and the amount of laid-off workers surged. However, the protective measures for laid-off workers were not as flawless as designed. According to a report prepared by Wu Bangguo, the then Vice Premier in charge of industry, by the end of 1997, 12.74 million workers had been transferred or laid off by state-owned enterprises, accounting for 17% of the total labor...Apart from the workers that had been transferred or got reemployed, 6.34 million laid-off workers still remained unemployed, accounting for 8.9% of the work force in state-owned enterprises. Among them, 3.09 million had no access to the subsistence allowance, accounting for 49% of the total laid-off workers. It was predicted that in the following three years, about 3 million more workers would be laid off each year. In addition, by the end of 1997, over 5.7 million in urban areas had already been registered as unemployed, millions of new labor force would enter the market each year in the future and rural surplus labor also needed to be transferred.¹³ Thus it could be imagined how severe the situation was.

Under such circumstances, the central government inevitably set to guarantee basic livelihoods and reemployment of laid-off workers as the “top priority for reform, development, and stability.”¹⁴ In the 1990s, the CPC Central Committee and the State Council issued various documents, regulations and notifications to achieve this goal. Premier Zhu Rongji stated that, the scope of the subsistence allowance for laid-off staff should be made clear and reemployment training should also be organized. The subsistence allowance should be granted by reemployment centers for no more than three years at a level higher than the local unemployment benefits. Under the “three-thirds” principle, fiscal departments, enterprises, and society (including part of the unemployment insurance funds) each cover one-third of the basic cost of living.¹⁵ The central finance would provide subsidies by the special-purpose transfer payments to ease the burden of troubled regions and old industrial bases. Zhu said, “to provide such subsidies is a must, even if it means that we have to cut down some projects, build fewer halls and guesthouses, practice frugality, and tighten our belt for a couple of years.”¹⁶ January 26, 1998, the Ministry of Labor and Social Security and other departments further proposed that

¹³Wu Bangguo: *Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises*. Quoted in Zheng et al. (1999, p. 15).

¹⁴Premier Zhu Rongji's *Summary Speech at the Closing Ceremony of the Working Conference on Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises* (May 16th, 1998). Quoted in Zheng et al. (1999, p. 3).

¹⁵Zhu (2014, p. 22).

¹⁶Premier Zhu Rongji's *Summary Speech at the Closing Ceremony of the Working Conference on Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises* (May 16th, 1998). Quoted in Zheng et al. (1999, p. 3).

for staff of state-owned enterprises that halted or half halted production due to losses, if they had not participated into the pension pooling, cannot receive minimum wages, subsistence allowances, or basic pensions from their enterprises on time, and if their income was lower than local minimum living standards, their basic livelihoods would be guaranteed by the government. In 1998, the central finance spent 3 billion yuan as “the cost for economic system transformation.”¹⁷ Therefore, SOE layoffs were supported by the government. In addition, the contribution rate of the unemployment insurance was raised in a period of time from 1 to 3%, one percentage point coming from individuals and the other from enterprises. The increased two percentage points have been estimated to be 10 billion yuan, mainly used to laid-off workers.

The central government had strict regulations on the subsistence allowance and social insurance payment for SOE laid-off workers, because this money were the workers’ lifeline. Administration expenses, training fees, and other costs all came from other sources. If an enterprise went bankrupt due to the pilot project of “optimizing the capital structure,” its earnings from asset realization would be used for resettling laid-off workers. The resettlement payment should be three times as much the local average annual wage. Policies were also put forward to subsidize troubled industries such as textile, coal, and ordnance industries. For example, for every 10,000-spindle production reduction, the textile industry was subsidized by 3 million yuan, half from the central finance and half from the local finance, to resettle laid-off workers. The coal industry could get an annual subsidy of 1 billion yuan from the central government and all its income tax was returned. And the ordnance industry received 650 million yuan from the central government. Vice Premier Wu Bangguo believed, “As long as all these policies are fully implemented, the basic livelihoods of laid-off workers will be guaranteed.”¹⁸

3. Reemployment Measures

In addition to guaranteeing basic livelihoods for the laid-off, the government should also attach equal importance to expanding employment channels and providing reemployment services. Premier Zhu Rongji said, “When we focus on developing emerging industries and high-tech industries, we should take our abundant labor resources into consideration and develop the labor-intensive industry according to local conditions. The tertiary industry, especially the service industry, has enormous job opportunities, for example, community service, commodity delivery, house-keeping service, environmental protection, tree planting, grass growing, tourism and information industry are all important channels for creating jobs...therefore, we should attach importance to developing small and medium-sized enterprises, the collective economy, individual economy, and private economy in rural and urban

¹⁷Wu Bangguo: *Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises*. Quoted in Zheng et al. (1999, p. 18).

¹⁸Wu Bangguo: *Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises*. Quoted in Zheng et al. (1999, p. 19).

areas. Further measures should be taken to reform the employment system and methods and promote periodical employment, including temporary work, hourly work, seasonal work, and the system of flexible working hours.”¹⁹

To develop the tertiary industry and improve reemployment, the government set up the “reemployment service center” to transfer surplus workers in an orderly way. The first step was to solve the problem of “how to lay off,” and on this issue, careful arrangements were made. Vice Premier Wu Bangguo emphasized three points, “First, enterprises cannot lay off workers without any regulation. Considering the bearing capacity of various parties, a layoff application system must be set up. And since the subsistence allowance and insurance premiums for laid-off workers are mainly from the public finance and the unemployment insurance fund, every layoff application must be filed to the Ministry of Labor and Social Security. Second, the layoff procedure should be standardized and transparent, which workers to be laid off should be discussed by the leading group rather than the manager (or the factory director) alone. The programs of trimming and reassigning staff to raise productivity should be elaborated based on opinions from the workers’ congress to ensure fairness and realize employment through competition, so that laid-off workers would be convinced and on-post staff would feel pressure. Third, companies should fully consider the difficulties faced by employees and make protective measures, such as avoiding laying off a couple at the same time, and avoid laying off model workers, families of serviceman and martyrs, and the handicapped.”²⁰

The second step was “to transfer the laid-off to reemployment service centers.” Laid-off workers were not pushed into the society directly, instead, they enter enterprises’ reemployment service centers. “Any state-owned enterprise that has laid off a worker must set up a reemployment service center or any similar organization. The center shall be responsible for paying subsistence allowances, paying the endowment insurance, medical insurance, unemployment insurance and other social security expenditures, and organize vocational and reemployment training to help laid-off workers find new jobs.” Therefore, layoff meant an extension of employment and wait for a new job, but not unemployment.²¹ According to Wu Bangguo’s report, the reemployment service center was an institutional arrangement that showed the advantage of the socialist system and was a transfer of the employment pattern from the planned economy to the market economy. The party, the government, and enterprises should all be responsible for laborers.

¹⁹Premier Zhu Rongji’s *Summary Speech at the Closing Ceremony of the Working Conference on Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises* (May 16th, 1998). Quoted in Zheng et al. (1999).

²⁰Wu Bangguo: *Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises*. Quoted in Zheng et al. (1999, p. 17).

²¹*Notice by the Central Committee of the Communist Party of China and the State Council on Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises* (No. 10 [1998], June 9th, 1998). Quoted in Zheng et al. (1999, pp. 81–82).

Wu Bangguo “To Ensure Basic Livelihoods and Reemployment for Laid-off Workers from State-owned Enterprises”.²²

It should be pointed out that reemployment centers must be established in enterprises (underlined by the author). Enterprises should not push laid-off workers to the society; instead, they must be responsible for them. Since laid-off workers do not terminate their labor relations with enterprises, employers should certainly take care of them. This is an obligatory responsibility for managers, factory directors, trade unions, the party, and the government. Employers are most familiar with their laid-off workers, so they can do a lot to ensure basic livelihoods for laid-off workers and provide reemployment services, and such help is much easier to be accepted. But it does not mean to go back to the employment system under the planned economy. It is an interim measure for transferring to the market economy when the social security system is still imperfect. Of course, enterprises need not take care of laid-off worker forever, they just need to, with the help from the government and the society, shoulder corresponding responsibilities, ensure basic livelihoods, and provide reemployment service for laid-off workers before they find new jobs.

The third step concerned main tasks of the reemployment center, explained by Wu Bangguo in following three points:

First, distributing the basic subsistence allowance to laid-off workers; second, paying the endowment insurance, unemployment insurance and medical insurance for laid-off workers; third, providing employment training and guidance for to help laid-off worker be reemployed. These measures are all very important, but the first priority is to guarantee the basic livelihoods of laid-off workers. This is an unchangeable principle that must be fully implemented. Once their basic livelihoods are guaranteed, big problems will not occur, social stability will be maintained and work on vocational training and career presentation will carried out more easily.²³

Therefore, to establish and improve the reemployment center and to implement the reemployment project are interim measures to achieve a modern social security system. These measures aimed at downsizing enterprises without pushing laid-off workers to the society or creating any turmoil, so that a steady transition could be achieved. The key to the reemployment project was to combine the guarantee of the basic livelihoods for laid-off workers with reemployment, and at the same time, to liberate laid-off workers from worries about pension, unemployment, and medical insurances.

On this issue, Vice Premier Wu Bangguo proposed very specific approaches:

First, social insurance premiums including the endowment, unemployment and medical insurance fees paid before layoff and during the period from layoff and reemployment should be calculated in succession for future benefits. Second, for laid-off workers from individual, private and foreign-invested enterprises that have not been covered by the social

²²Wu Bangguo: *Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises*. Quoted in Zheng et al. (1999, p. 18).

²³Wu Bangguo: *Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises*. Quoted in Zheng et al. (1999, p. 18).

security system, social security institutions should help the workers to pay premiums consecutively, and the Ministry of Labor and Social Security should urge these companies to quickly set up social security system. Third, the welfare housing distribution policy for laid-off workers should be equal to that of active staff. These policies should be explained to laid-off workers in various forms. Slogans like “wherever you go, the pension insurance will be continued” and “wherever you work, the medical insurance is ensured” are easy to understand and more acceptable to laid-off workers.²⁴

In addition to the above measures, ideological and political work would be supplemented to change people’s views on employment—to find jobs on our own is normal and respectful, all work are equal, so that surplus workers would be willing to find jobs in individual and private companies. In this wide labor transfer, on average 16,500 people found jobs in individual or private companies each day everyday, 80% of which were laid-off workers. In Harbin, 48% of the 210,000 laid-off workers were reemployed in the tertiary industry. And in Tianjin, the “Breakfast Project” alone attracted over 1000 laid-off workers.²⁵

With the support of policies, labor transfer was accelerated. By the end of 1997, 6.4 million workers had already been reassigned and transferred, and among the rest 6.34 million laid-off workers, 3.24 million had access to the subsistence allowance. In the 111 pilot cities for “optimizing the capital structure,” 1777 reemployment centers were established and the reemployment service system had taken its initial shape.²⁶

The reemployment project was motivated by the reform of enterprise system. When regulations on the resettlement of laid-off workers were promulgated, the bankruptcy method of state-owned enterprises was officially issued. The bankruptcy of state-owned enterprises should be arranged after laid-off workers were well settled rather than before. In *Notice of the State Council on the Relevant Issues concerning the Pilot Implementation of Bankruptcy of a State-Owned Enterprise in Some Cities (No. 59 [1994] of the State Council, October 25, 1994)*, the first regulation is, “To implement enterprise bankruptcy, the employees of a bankrupt enterprise must be properly settled first and foremost.” In term of settlement methods, the *Notice* provides regulations on reemployment training, job introduction, self-saving production, labor export, one-time settlement fee, unemployment insurance treatment, the endowment insurance benefits, and relief of occupational diseases.²⁷ The later issued *Supplementary Notice* further highlights the organization of reemployment work, instructing departments including the State Economic and Trade Commission, the State Commission for Restructuring the Economic System, the Ministry of Finance, the Ministry of Labor, People’s Bank of China,

²⁴Ibid, p. 19.

²⁵Wu Bangguo: *Ensuring the Basic Living Standards and Reemployment of Laid-off Workers from State-owned Enterprises*. Quoted in Zheng et al. (1999, p. 20).

²⁶Ibid, p. 16.

²⁷*Notice of the State Council on the Relevant Issues concerning the Pilot Implementation of Bankruptcy of a State-Owned Enterprise in Some Cities (No. 59 [1994] of the State Council, October 25th, 1994)*. Quoted in Zheng et al. (1999, pp. 73–75).

the State Land Bureau, and the State Administration of State Property to set up a “a national leading group of the enterprise merger and bankruptcy and the reemployment of workers.”²⁸ The *Supplementary Notice* states that the people’s government of a pilot city shall actively promote the experiences of Shanghai Municipality in implementing the reemployment project, establish a reemployment service center in combination with the reform of labor, employment, and social security system as well as the local situation from the higher level to the lower level; actively explore new means of employment, care for the lives of the workers of bankrupt enterprises, properly arrange workers of bankrupt enterprises, and maintain social stability. The expenses for settling workers of bankrupt enterprises shall be appropriated from the incomes incurred from transfer of land use right. If the proceeds are insufficient, the deficit shall be covered from the disposal of unsecured property or mortgaged property in sequence. The settlement expenses shall be three times the average salary of enterprise workers in the previous year of the pilot city. The next year, the CPC Central Committee with the State Council issued the *Notice on the Basic Living Standard Guarantee and Reemployment for Laid-off Workers of State-owned Enterprises*, requiring party committees and governments at all levels to “enhance the sense of urgency and responsibility.”

While formulating these policies and measures, Chinese leaders always stressed that these measures aimed at realizing a more ambitious goal. The *Notice* clarified the historical features of these policies and highlighted the nature of the socialist system as well as the responsibilities of the Communist Party of China and the government demonstrated in this work:

Notice of the CPC Central Committee and the State Council on the Basic Living Standard Guarantee and Reemployment for Laid-off Workers of State-owned Enterprises [No. 10 (1998) of the CPC Central Committee, June 9th, 1998]²⁹

This is an inevitable stage for us to set up the socialist market economy and the modern corporate system. In the long term, with the progress of the reform, development of science and technology and economic restructuring, correspondingly, there will be frequent adjustments in the labor market. The key to resolving difficulties of loss-making large and medium SOEs within three years and to promoting the sound development of the national economy is to solve the problem of overstaffing. Although laying off surplus staff will create temporary difficulties for some workers, this move is fundamentally conducive to healthy economic growth and to all-round social development. Furthermore, it is in the long-term interest of the working class.³⁰ We should recognize that resolving the basic living and reemployment problem for laid-off workers from SOEs is not only a significant economic issue, but also a political

²⁸*Supplementary Notice of the State Council on the Relevant Issues about the Pilot Implementation of the Merger and Bankruptcy of State-Owned Enterprises in Some Cities and the Reemployment of Workers* (No. 10 [1997] of the State Council, March 2nd, 1997). Quoted in Zheng et al. (1999, pp. 75–80).

²⁹Zheng et al. (1999, p. 81).

³⁰Zhu (2014, p. 19).

one; it is not only a pressing current task, but also a strategic issue of long-term influence. Handling this job well is an essential requirement of socialism and a responsibility that should be borne by the Party and the government.³¹

4. Practice of Shanghai

Shanghai's practice in reorganizing enterprises and settling laid-off workers was recognized by the central government and became the model "reemployment project." Shanghai experience was thus promoted nationwide. The key to Shanghai's success was that its reemployment project effectively alleviated the negative social impacts caused in the process of enterprise reform and industrial restructuring and ensured the progress of the reform.

Shanghai is an old industrial city, to speed up development, in the mid-1990s, Shanghai reformed the operational mechanism of enterprises and introduced the competitive mechanism to strengthen enterprises' competitiveness; and at the same time, upgraded economic structure to transform from an industrial city to a city pillared by financial and service sectors. These two transformations brought serious unemployment problems and giant reemployment pressure. The unemployment issue in Shanghai mainly had the following features:

First, the number of laid-off workers increased sharply within a short period of time. Due to the reform of enterprises' operational mechanism and the adjustment of industrial structure, a huge number of workers were laid off during 1996 and 1997, which became an "explosive" social problem.

Second, the number of laid-off workers was huge, and they accounted for a large percentage of total employees. Almost all industries had laid-off workers, and old industries like the textile industry suffered from a more severe problem due to the production restriction.

Third, among laid-off workers, many were women or middle-aged staff who were poorly educated, and whose living standard was low, and they always had to spend much more time finding a new job. Specifically, most of the laid-off workers aged from 36 to 45, 68.9% were female, 93.3% only had a middle school degree or even lower, and 39.5% waited for more than one year for being reemployed.

Fourth, the social security system was not sound enough. Many laid-off workers could not rely on the social security system to guarantee their basic living, and the subsistence allowance and medical expense reimbursement all became problems.³²

To properly settle laid-off workers was the key to the industrial restructuring and state-owned enterprise reform in Shanghai. Therefore, Shanghai began mobilizing the administrative power to achieve the reemployment of laid-off workers. At the beginning of 1996, the municipal party committee of Shanghai proposed to set the reemployment project as a priority in Shanghai's big picture of reform,

³¹Ibid.

³²Chen and Sun: *The Birth of a Miracle: Scanning of Shanghai's Reemployment Project*, quoted in *How the Miracle Was Created: A Research Report on Shanghai's Reemployment Project*, pp. 32–33.

development and stability. At the same time, a high-level leading group for the reemployment project was established to ensure the coordination and cooperation among different departments such as the department of labor, social security, medical insurance, finance, civil administration, economic commission, trade union, and women's federation.

With the organizational guarantee, Shanghai began to explore the way to settle laid-off workers. In early 1996, based on grass-roots researches, Shanghai came up with a new idea—to establish a new institution in charge of basic livelihood guarantee, vocational training, and job introduction. When workers were laid off, they entered this institution first, so they neither stayed in enterprises nor be pushed to the society. July 8, 1996, the enlarged meeting of the standing committee of Shanghai Municipal Committee was opened. The meeting stated that to settle laid-off workers, the new measures were to bring the initiative of the government, society, enterprises, and employees into full play, set up the “reemployment service center” responsible for laid-off workers, expand reemployment channels in the whole society and coordinate the adjustment of labor structure. Right after this meeting, Shanghai launched the pilot reemployment program. July 12, 1996, the municipal government of Shanghai issued the *Opinion on Advancing the Reemployment Project in Shanghai Textile Company and INESA (Group) Company*, requiring pilot resettlement projects to be launched in the textile industry and the instrument and electronics industry where many laid-off workers concentrated. The pilot program should be launched on the following principles:

- (1) Set up one pattern—competent administrative departments and troubled enterprises were responsible for, and the government and society provided funds to the “reemployment service center.”
- (2) Form two mechanisms—the mechanism for SOE merger, acquisition and bankruptcy, and the mechanism for hiring and firing staff.
- (3) Open three sources of funding—the “reemployment service center” would be co-funded by the government, the society, and holding (group) companies.
- (4) Define three uses of the raised fund—the funds should be used for the subsistence allowance, medical expenses, and social security payment for the laid-off workers.
- (5) Enhance four reassignment channels—transferring workers to districts and counties; combining industry with commerce, and transferring workers from the secondary industry to the tertiary industry; organizing the unemployed to help themselves by production; and encouraging self-employment.³³

Speaking of establishing a reemployment service center, Mr. Zhu Junyi, deputy director of the Economic Commission of Shanghai Municipality and former chief of Labor Bureau, made a good analogy, “we build this ‘bridge’³⁴ with an aim of

³³Chen and Sun (1998a, pp. 7–9).

³⁴Here “bridge” means the reemployment service center which worked as a bridge between business and society.

bringing the surplus employees of SOEs out of their traditional bulwarks, changing their mindset and helping them gradually enter into the labor market. The “bridge” is borne at a special period of time due to the fact that it mainly targets at people of a certain age group. Popular at the job market, the under-thirty-five year olds have to cross the “bridge” and find a job on their own. As for the older ones, some may be guaranteed a social pension scheme, some a promise for early retirement and still others just retire early once and for all depending on their ages. These preferential policies enable them to gain a competitive edge in the market as their demand for wage decline to a certain extent. Ultimately, they can make it to the other side of the bridge—the labor market, whether with a walking stick or on a wheelchair. After years of transitioning period, the employment market becomes completely liberalized, engendering a labor system that matches with socialist market economy.”³⁵

Progress was made in addressing unemployment in Shanghai. On the one hand, the laid-off workers were reemployed to avoid social instability. An accumulative number of 1,091,000 people were laid off from 1991 to 1996, 891,000 of which landed in another job through the reemployment project and the “reemployment service center.” In 1996, all of the 230,000 laid-off workers were reemployed. The successful labor restructuring of such an above medium-sized city without any social unrest was largely resultant from the reemployment project.

On the other hand, enterprise reform has been achieved in an orderly and smooth manner. During the pilot period of implementing corporate bankruptcy system in the textile and the instrument and electronics industries, none of the enterprises managed to go through the procedure. However, less than one year after the reemployment center was established, 17 enterprises did so, involving nearly 10,000 employees and 13,000 retirees. Meanwhile, the center created the condition for SOE reform and development as it took over the wellbeing of some laid-off workers. The strenuous efforts of Textile Holdings (Group) turned a loss of 350 million yuan from January to July in 1996 to an annual profit of 10 million yuan. The Instrument & Electronics Holding (Group) also made a turnaround from a deficit of nearly 10 million yuan in the beginning of the year thanks to the Reemployment Center, which helped resettled 2800 workers, accounting for 30% of the total.³⁶

All in all, amidst the strong tide of industrial transformation and enterprise reform in 1990s, China’s social reform should still follow the pattern of “crossing the river by feeling stones.” While learning through trails and errors, we should also leverage the communal advantages of traditional Chinese organization culture to realize the resettlement of SOE’s laid-off workers with a fundamental goal of guaranteeing their welfare. Their basic livelihood should be guaranteed in the first place, while reemployment training and services have been provided to them, on the basis of which market would then play a dominant role in labor resource allocation and an employment pension scheme been put in place. In 1999, the *Regulations on Unemployment Insurance* were promulgated after repeated revision, setting out the

³⁵Chen and Sun (1998a, pp. 36–37).

³⁶Chen and Sun (1998a, pp. 18–19).

funding mechanism of employer and employee joint contribution plus fiscal subsidy, clarifying relevant treatments and standards, and standardizing application criteria and benefits for the unemployment insurance with stricter insurance fund management.³⁷ The unemployment insurance replaced the “job waiting insurance” and became a mature system in China’s modern insurance mechanism.

4.3 Establish a Pension Insurance System that Combines Social Pooling with Individual Accounts

In the 1990s, China gradually gained a deepened understanding of the overall picture of social security system as well as its specific content and began to learn about different modes of social security system, which were then applied to cope with problems occurred during the reform. The overall social security system building became one of the five basic elements of building a socialist market economy. The key to reform and development at this stage remained to be establishing an old-age pension scheme that also bore on reform of unemployment insurance, medical insurance, and work-related injury insurance as well as minimum allowance for urban residents. Social security reform in 1990s contrasted sharply with the decentralized one-by-one pilot reform in 1980s in that it was tasked with overall reform and framework planning. Hence, mechanism building became a buzzword.

As mentioned above, *The State Council’s Decisions on Deepening corporate Employees’ Senior Pension Scheme Reform (No. 33)* pointed out that the development of senior care would adopt a holistic approach with the government, business, and individual sharing their due risks. How to reflect this development trajectory in mechanism? This turned out to be a focal point of discussion for social security system reformers in 1990s.

4.3.1 Discussions on Pension Insurance System

Policy-makers and experts had heated discussions on what kind of system should a modern social old-age pension scheme adopt, which had a significant impact on our pension system that “combined social pooling with individual accounts.” Such model’s pros and cons remain a controversial subject until today.

China’s reform has widely drawn on foreign experience, so is the old-age pension system reform. The U.S. and major European countries were taken as role models as well as Chile, Singapore, and Chinese Hong Kong region. “Singaporean Model” and “Chile Model” were common words in various reports and discussions,

³⁷Edited by the Ministry of Labor and Social Security (2007, p. 689).

while the European “pay-as-you-go” was unavoidably criticized during discussions on European social pension model, yet the “accumulative” “individual contribution account” drew wide acclaim. Some scholars and officers noted, despite the fact that countries adopting the social pension model made up the majority, this model did have its own drawbacks, therefore, China might be prone to the Singaporean and Chilean “public accumulation funds” model. Zhang Guangyao with Social Insurance Association of Guangdong Province stated that China “may have some alternatives other than the social pooling model,” “may try placing funds contributed by employers partially to individual accounts...which grows with salary rises. This is attainable in Guangdong...The combination of social pooling and individual account model was adopted by Guangdong in 1993 and has been carried through with only demands for perfection now.”³⁸

In addition to learning from abroad, to do market study before making decisions was also customary for China’s reform. In May 1993, instructed by Central Government’s Fiscal Leadership Group, NDRC and Ministry of Labor led a social security reform study group with the participation of 11 working units. The group’s research outcomes were written into the *Decisions on Several Issues Related to Building a Socialist Market Economy* passed by the Third Plenary of the 14th CPC Central Committee in November 1993. In April 1994, the same fiscal leadership group summoned a second field study to Shandong and Shanghai with a focus on “building a social security system.”

Boasting the most developed industrial sector in China, Shanghai has hence accumulated a host of industrialization- and urbanization-related social issues, one of which being retirement pension system. Since 1990s, the retired population has been growing by over 100,000 people annually and the ratio of retired and quitted employee population to incumbent workers reached 1:2.8, higher than any other cities in China. Retirement pension coverage has to be expanded to ensure pension for all workers. However, the implementation of fairness-centric social pension system has to be differentiated with local governments exploring the right mechanism to adapt to complex and evolving demands. The old-age insurance reform policy promulgated by Shanghai in 1993 was to implement a unified system in all enterprises, institutions, and working units, while other regions adopted differentiated system for SOEs and collective enterprises, private businesses and institutions and working units. Moreover, individual old-age insurance account was set up to combine personal contribution and social funds. Individuals own the amount on their personal account: the more they contribute at work, the more they get after retirement. To push forward senior insurance system reform, the Administration Bureau of Social Security was established as a functional department of the municipal government to manage related daily affairs. The department had to win support and understanding from the people since such systematic reform would have a direct impact on their welfare. Therefore, an extensive opinion solicitation was conducted among the workers on the reform plan during discussions organized

³⁸Zhang (1996).

by Municipal Commission and Government, starting from focus group discussions among 400,000 staff of 260 enterprises to wide discussions among 2,050,000 staff of over 3000 units citywide. A consensus was reached to implement such reform through piloting in a few units first before citywide implementation.³⁹

Focus research group on “establishing a social security system” delivered a report on Shanghai experience to the State Council, which acknowledged the overall plan for social security system reform by combining social fund and individual account. The report directly influenced relevant policies in Combined Social security system section of the No. 6 document of State Council issued in March 1995.

As for why such combined system was adopted, Song Xiaowu, Director General of Macro-System Department of State Council Institutional Reform Office, explained later on, “Singapore adopts a state compulsory public accumulation fund system with employer and employee contributions, while in Chile, only workers are forced to contribute by law; and the fund is run by commercial insurance company through market competition. Although social security system reform in Singapore and Chile exerts a huge impact on the world, most countries tend to establish a three-tier system: the first tier being government enforced funding through tax or fees with a strong sense of mutual assistance; the second being employer voluntary vocational insurance with certain government tax subsidies with a little sense of mutual assistance; the third being individual contribution with certain government tax subsidies without any sense of mutual assistance. Given current situation in China and drawing on Singapore and Chile experience, the three-tier insurance system is the best choice.”⁴⁰

4.3.2 Establish a System that Combines Social Pooling with Individual Accounts

The *Decisions on Several Issues Related to Building a Socialist Market Economy* passed by the Third Plenary of the 14th CPC Central Committee in November 1993 has devoted a large chunk of section to elaborate on the social security system.

The Decision emphasized the significance of establishing a social security system; standardized the scope and content of the system, “social security system includes social insurance, social relief, social welfare, the special care and placement system and social mutual assistance and personal contribution funds;”⁴¹ clarified the basic structure of China’s social insurance system is to combine social

³⁹Zheng Dingquan: *Promote Reform of Social Security System and Establish a Multi-tiered System*, quoted in Zheng et al. (1999, p. 278).

⁴⁰Song Xiaowu: General Questions about the Social Security System, quoted in Zheng et al. (1999, p. 267).

⁴¹Edited by the Ministry of Labor and Social Security (2007, p. 695).

overall plan and individual accounts for employees' basic old-age pension and medical insurance scheme; proposed to unify social insurance policy and ensure a law-based management system by separating management and fund operation and let management agency to function as administrative department; reemphasized that "social insurance level should match with the development level of our society's productivity and our resilience on all fronts. Social insurance system should be differentiated for urban and rural residents based on the principle of societal mutual assistance." The Decision also highlighted "developing commercial insurance as a supplement to social insurance." In addition, the Decisions proposed "to establish an insurance fund supervisory agency with the participation of relevant government authorities and the public in order to oversee the collection and management of social insurance funds."⁴²

Decisions on Several Issues Related to Building a Socialist Market Economy (Excerpt)⁴³
November 14th, 1993

- (26) Establishing a multi-layered social security system is crucial for deepening enterprise and working unit's reform, maintaining social stability, and building a socialist market economy system. Social insurance system consists of social insurance, social relief, social welfare, the special care and placement system and mutual assistance, and individual contributions. Related policies should be consistent and law-based. The quality of the system should match with China's productivity level and resilience on all fronts. Methods on urban and rural social security system should be differentiated and based on mutual assistance. Commercial insurance should serve as supplement to social insurance.
- (27) Guaranteeing funding source and insurance method based on the types of social insurance. Emphasis should be made on improving employer contributed pension and unemployment insurance system by increasing social service function and reducing enterprises' burden so as to facilitate corporate restructuring and achieve enhanced efficiency and competitiveness. Old-age and medical pension for urban employees are borne by their employers and themselves to unify the two accounts. Unemployment insurance system should be improved and insurance fee be collected in proportion to employees' salary. A work-related injury insurance system should be widely applied. Farmers mostly live in their own families when they grow old with certain communal support. Some may opt for individual savings insurance at their option. Rural cooperative medical system should also be developed and improved.
- (28) Establishing a unified social security governance authority. Better governance of social security cause requires a virtuous cycle of social security fund-raising and fund management mechanism to be established. But the administration management should be separate from fund management with the governance

⁴²Ibid., p. 693.

⁴³Zheng et al. (1999, p. 3).

authority mainly be responsible for administration. A social insurance fund supervisory agency should be established to oversee fund collection and management. The fund management company can invest in government bonds to avoid depreciation on the premise of normal payment and safe services in place.

The above Decisions have in fact pointed out strategic path for China's social security reform, namely the establishment of social security system on multiple fronts. Besides public old-age pension, employers were encouraged to buy supplementary insurance for their staff in accordance with local situation.⁴⁴ A two-tiered old-age pension scheme is established including social funds and personal accounts. On March 1, 1995, the State Council promulgated the *Circular on Deepening the Reform of the Pension System Staff and Workers of Enterprises* [No. 6 (1995) of the State Council]. The "No. 6 document" further stated, on the basis of the Decisions, that "to combine the overall planning of insurance funds from society with individual accounts" represented the future reform direction, clarified that premiums for basic pension should be borne by enterprises and individuals together and decided to launch pilot programs nationwide.⁴⁵ The document emphasized, "Thought shall be given to the actual circumstances in our country: that the level of productive forces is relatively low" and "the level of insurance shall be adapted to the development level of the social productive forces in our country as well as to the affordability of different sectors;" "Attention shall be paid to all interests, including those of the State, enterprises and individuals, and to immediate interests as well as to long-term interests. Then, based on ample investigation, calculations, arguments, and proof, comprehensive arrangements can be made in such matters as the proportion of payment of pension premiums by enterprises to that by individuals, the standards for distributing pension and the rate of accumulation of insurance funds. Strict control shall be maintained over the proportion of payment of basic premiums and the level of distribution of basic pensions so as to lighten the load of the State and enterprises."⁴⁶ The document also required, "actively create conditions to expand the extent of socialized management and service for pension. Distribution of pensions by social organizations shall gradually be adopted to supersede distribution by respective enterprises. The initiative of different quarters should be fully brought into play in order to gradually transform the administration mainly by enterprises of retired veteran cadres and retired workers into administration which depends mainly upon communities." Given there were no relevant laws in place, the State Council's rules were authoritative and disciplined enough to be executed in affiliated agencies and carried out in all provinces in China.

⁴⁴Refer to *Labor Law* promulgated in July 1994.

⁴⁵Labor and Social Security Department of China (2007).

⁴⁶*Circular on Deepening the Reform of the Pension System Staff and Workers of Enterprises* (No. 6, [1995]). Zheng et al. (1999, p. 58).

The purpose of the “No. 6 Document” was to establish a multi-layered endowment insurance system with multiple responsible parties, different stakeholders in different levels, and taking different forms of insurance: the basic endowment insurance should adopt the overall social planning—employers and employees jointly contributed to the insurance fund, and the government was in charge of distributing and managing the fund on the principal of social redistribution and mutual assistance. Part of the pension funds was deposited into individual accounts to reflect the principal of “more pay for more work” and at the same time alleviate the burden of an aging population through more savings. However, funds in individual accounts could not be managed by individuals themselves like in developed countries; instead, they were unified into the basic pension scheme. December 1996, the Ministry of Labor issued the *Opinions on Establishing Enterprise Supplementary Endowment Insurance System*, requiring enterprises to establish supplementary pension system with relevant best practice for reference.⁴⁷

Despite a consensus on the establishment of a “combined account,” local implement plans varied sharply due to different interpretations and interests consideration of different authorities in the reform of “pay-as-you-go” system. The most prominent debate was between System Reform Commission (SRC) and Ministry of Labor (MOL) on the implementation plans of the endowment insurance.⁴⁸

The SRC had intended to implement the plan of “more individual contribution, less social pooling” (referred to as the “SRC Reform Plan”) whose basic idea was to take the contribution-based system as the main content and benefits-based as a supplement to prevent the new system from tilting toward pay-as-you-go. The MOL plan aimed at “more social pooling, less individual contribution” and proposed to change “full accumulation” to “partial accumulation” in individual, carry out social pooling mainly in the form of pay-as-you-go and rely on social pooling to address funding source issues for the pension paid to the “elderly” and “middle-aged” groups. This MOL plan was widely adopted by local governments.

Without a unified implementation plan, the central government met halfway and delegated power to local authorities in order to push the reform forward. Besides the “No. 6 document,” the government also issued two contrasting plans: *Implementation Method One for Combining Social Responsibility and Individual Account for Employees’ Basic Pension Scheme* and *Implementation Method Two*, which allowed for revision by local authorities at their option.

Wang Jianlun, former Deputy Director General of Labor and Social Security Department reminisced, “I was right in time for the big debate when I was transferred to the department. Heated debate erupted between SRC and MOL with big quarrels and direct confrontation. No concession was made by either party so two plans went

⁴⁷Edited by the Ministry of Labor and Social Security (2007, p. 687).

⁴⁸Xia (2009b).

in parallel for local authorities to choose by themselves. One is the Big Account Plan represented by Shanghai, the other is Small Account Plan by Beijing, while still others opted for the third way by meeting the two in half. Both implementation methods adhered to the “combined account” principle, but differed hugely in goals and implementation paths. The huge difference in implementation resulted in inefficiency that hindered the unification of the endowment insurance system. “After the trail running period, there were three kinds of accounts, posing huge difficulties during the transfer of social security account. The coexistence of multiple plans led to the craze to vie with each other out of the central government’s control. SRC and MOL had to report to the State Council and issued joint documents requiring local enterprises to adjust the basic pension to realize systematic unification.

Bitter debate on whether to implement “big account” or “small account” was still ongoing in 1997. After repeated research and argument, a compromising “medium account” plan was finalized and the unified pension insurance system as well as its operation mechanism was basically formed. July 16, 1997, the State Council issued *Decisions on Establishing a Unified Basic Pension Insurance System for Enterprise Employees* (No. 26 [1997] of the State Council), summarizing pilot experience in recent years and proposing the aim of the reform:

Basically establish by the end of the century a pension system which will meet the requirements of the socialist market economic system, and apply to the staff and workers of enterprises of all kinds and individual laborers in cities and towns, have multiple financial resources and multiple categories of insurance, combine a collection of insurance funds from society with individual accounts, balance rights with obligations and adopt socialized management and service.⁴⁹

The Decision required regions and relevant authorities to improve the mechanism for the normal adjustment of basic pensions and realize systematic unification by the end of 1997. The “unified system” mainly referred to: the unified contribution ratios of employers and employees, unified deposit ratio in individual accounts, and unified basic pension calculation and distribution method. These targets were required to be accomplished by 1998. Mr. Li Boyong, then Minister of Labor pointed out in a presentation that the *State Council’s Decisions on Establishing the Unified Basic Pension Insurance System for Enterprise Employees* represented “a major decision” that “marked a new stage of old-age insurance system reform in China”.⁵⁰

⁴⁹Edited by the Ministry of Labor and Social Security (2007, p. 687). Zheng et al. (1999, pp. 63–65).

⁵⁰Li Boyong: Carrying out State Council’s Decisions on Combining Social Responsibility And Individual Account for Employees’ Basic Pension Scheme—Speech Delivered at National Combining Social Responsibility and Individual Account for Employees’ Basic Pension Scheme (Excerpt), *China Labor Science*, Vol 9, 1997.

“Three Unification” of the Basic Pension Insurance System for Enterprise Employees.⁵¹

- (1) Unify and standardize contribution ratios of employers and employees. The basic pension insurance premiums paid by an entity shall generally account for not more than 20% of the total wages of the entity and the premiums paid by an individual shall account for no less than 4% in 1997. The individual contribution ratio shall increase by 0.5% point every year until to 8%.
- (2) Unify the scale of individual account. An individual account for the basic pension insurance shall be established by depositing 11% of employees’ salaries. The individual account comprises all the individual contribution and part of employer contribution (balance of 11% of the salary and individual contribution).
- (3) Unify the payment structure and standard of basic pension. Basic pension shall fall into two parts: one is the base pension that equals to 20% of the local average salary at the time of the worker’s retirement; the other is the pension from the individual account whose monthly payment standard shall be the amount of the deposit in the individual account (sum of principal and interest) divided by 120.

Since then, the model of “combining social pooling with individual accounts” turned from a principle to reality and from a pilot project to a standard. A new mechanism that made pension fair and efficient was set up. It provided an institutional guarantee for the pension coverage of all urban workers and reasonable labor flow. Later, the mechanism was further standardized and legalized.⁵² According to Minister Li Boyong, the pension policy differed from place to place before the unification of the basic pension system. However, since the introduction of the “No. 26 Document,” 11% became a standard nationwide, the redundancy would be removed and the gap would be filled. The basic pension after retirement hinged mainly on the amount in the individual account (personal payment plus enterprise payment) and the interest of it. The pension premium should be no more than 20% of employees’ salaries, including the portion allocated to the individual account. The “No. 26 Document” also stipulated that when an employee moved to another place to work, the sum in the individual account (personal payment plus enterprise payment) should also be transferred so as to promote labor flow. Although such work was difficult for places with great labor losses, it had to be done, because the basic pension insurance is a socialized and government-organized pension that ensures basic livelihoods.⁵³

⁵¹Hu Xiaoyi: *New Development and Purpose of the Reform of China’s Pension Insurance System*, quoted in Zheng et al. (1999, p. 298).

⁵²Hu Xiaoyi: *New Development and Purpose of the Reform of China’s Pension Insurance System*, quoted in Zheng et al. (1999, p. 289).

⁵³Li Boyong: *Carrying out State Council’s Decisions on Combining Social Responsibility And Individual Account for Employees’ Basic Pension Scheme—Speech Delivered at National*

Dalian Opens the Individual Account.⁵⁴

Since 1993, Dalian began to introduce the system of individual contribution, which made up 2% of the salary. In 1996, the city implemented No. 6 Document of the State Council and set up individual accounts for in-service staff. 12% of one's salary went to his or her personal account, 2% from individual contribution and the rest 10% from enterprise contribution. Meanwhile, the social insurance companies in Dalian decided to supplement the contribution record in the individual account since 1993, with 2% of individual contribution and 10% of individual contribution.

Thanks to the strong organizing capacity of Chinese administration and the balancing of different interests, the model of "social pooling plus individual account" was advanced rapidly in the 1990s. The coverage of pension insurance was expanded, and the collection rate of pension premiums grew. In 1997, the then Premier Zhu Rongji made concluding remarks at the Conference on Guaranteeing the Basic Livelihoods and Reemployment of SOE Laid-off Staffs, mentioning that the number of in-service employees involved in pension pooling reached over 86.7 million with a coverage rate of 80%. If informal employees and retired employees were counted, the total number was 120 million. The coverage rate was 96% for SOEs, 53% for urban collectively owned enterprises, and 31.8% for enterprises of other ownerships. However, most foreign-invested businesses were excluded from the social pooling. Premier Zhu stressed, "Enterprises of all ownerships should pay pension premiums in accordance with regulations and participate in social pooling. ... This is an international practice and a labor protection system of all countries especially developed ones."⁵⁵

Individual accounts expanded the coverage of old-age pension. Employees' concern about their rights forced companies to pay their portion in full and on time.⁵⁶ In the end of 1997, 55.52 million employees in China had personal accounts, with the rate of 64%. In 1998, the rate grew to 77%, and this figure Shanghai, Hunan, Shandong, Gansu, and Ningxia even soared to 95%. Back in 1997, the adjustment mechanism of basic pension for enterprise staff had took shape, with a saving of over 77.45 billion yuan in individual accounts to reach 4381 yuan annually nationwide, 365 yuan per month. The pension received was 81.41%

(Footnote 53 continued)

Combining Social Responsibility and Individual Account for Employees' Basic Pension Scheme (Excerpt), *China Labor Science*, Vol 9, 1997.

⁵⁴Wang (1997).

⁵⁵Premier Zhu Rongji's Concluding Speech at the Closing Ceremony of the Conference on Guaranteeing the Basic Livelihoods and Reemployment of SOE Laid-off Staffs (May 16, 1998), Zheng et al. (1999, p. 6)

⁵⁶Hu Xiaoyi: New Development and Purpose of the Reform of China's Pension Insurance System, quoted in Zheng et al. (1999, p. 289).

of the wage base for individual contribution, a decrease of 2.14% points year on year.⁵⁷ The Law of Large Numbers showed its benefits.

However, the reform of this period did not address a major problem in transition, i.e., there was no financing source for the pension fund for old employees. After the new measure was introduced, the fund only came from the “social pooling” and individual accounts of in-service employees. While since the old system adopted the pattern of pay-as-you-go: no individual account had been opened for old employees and no pension fund been accumulated. Therefore, the government had to compensate the implicit debt accumulated for old employees (senior and intermediate). This issue was most hotly debated in 1993–1995. At that time, economists proposed two solutions: cutting part of state-owned assets or issuing recognition bond. However, both were not put into practice due to the opposition of government agencies.

With implicit debts, shortly after the introduction of the individual account, a structural problem occurred. Although the individual account was recorded independently, it was managed together with the pay-as-you-go basic public pension. Thus, the balance in individual accounts could be used to cover nonindividual-account basic pension. What was worse, in old industrial regions, some enterprises tended to default on or avoid premium payment due to the high rate, which made it more common to use individual accounts to cover pensions under the pay-as-you-go pattern. In 1997, the record total amount in personal accounts exceeded the balance in national pension fund. In 1998, this phenomenon became more prominent. Some individual accounts even became empty.⁵⁸ The government began to worry about how to fulfill the promise on personal accounts, and debates on whether individual accounts should be kept “empty” or “made full” started and sustained for a decade.

4.3.3 Socialized Distribution of the Old-Age Pension and Improved Pooling Level

The shift from enterprise insurance to social insurance relied on work on both “money” and “personnel.” In terms of money, the government should relieve enterprises of the pension burden and achieve the social pooling. As to personnel, the government should separate pension insurance services from enterprises. The

⁵⁷Hu Xiaoyi: New Development and Purpose of the Reform of China’s Pension Insurance System, quoted in Zheng et al. (1999, p. 289).

⁵⁸Hu Xiaoyi: New Development and Purpose of the Reform of China’s Pension Insurance System, quoted in Zheng et al. (1999, p. 289).

socialized distribution of pension was a key measure, for it clarified “who would be in charge of pension distribution.”⁵⁹

In the mid-1990s, as the social pension pooling was advanced, the socialized distribution was also put on agenda. According to Wang Jianlun, the then Vice Minister of Labor and Social Security, “socialized distribution is a revolution that marks the establishment of social insurance awareness in China. In my opinion, an important symbol for the transition from enterprise to social insurance is full funding and socialized pension distribution”.⁶⁰

Although social pooling was achieved, pension distribution was still managed by enterprises until middle or late 1990s. At that time, the social security agency and enterprises adopted the pattern of “partial payment and allocation” and “dual-basement”. It means the balance between insurance premiums and pensions was first calculated, if the balance was positive, the enterprise would pay it to social security agency, otherwise, the agency would allocate this amount of pensions to the enterprise. When old-age pensions were controlled by enterprises, they were very likely to be appropriated. That is why retirees could not get their pensions in full. In addition, as the money was managed by enterprises, the social security agency did not know how it was used, whether and how much money was paid in arrears and even whether the pension had been paid.⁶¹

To solve this problem, a pilot project was carried out on socialized distribution of the old-age pension. For example, to ensure full and timely pension payment, Shangshu City (in Jiangsu Province) decided to allow service stations of the social security administration to distribute pension to over 200 retirees from 7 bankrupted and acquired textile companies.⁶² After concluding this experience, in March 1995, the State Council issued the *Circular on Deepening the Reform of the Pension System for Staff and Workers of Enterprises* (the “No. 6 Document”). It said:

Each region and department concerned shall actively create conditions to expand the extent of socialized management and service for pension. Distribution of pensions by social organizations shall gradually be adopted to supersede distribution by respective enterprises. Regions with sound technical conditions and work bases may adopt direct distribution by banks or post offices, and regions not meeting the requirements at present may distribute pensions through institutions in charge of social insurance. These institutions may also establish and station branches in large enterprises or use other methods to provide management and services for retired veteran cadres and retired workers of enterprises. Moreover, the initiative of different quarters should be fully brought into play in order to gradually transform the administration mainly by enterprises of retired veteran cadres and

⁵⁹Chen and Feng (2008). Han Feng is the Deputy Director of the Social Security Management Center of the former Ministry of Labor and Social Security.

⁶⁰Liu and Wang (2008c).

⁶¹Chen and Feng (2008).

⁶²Ibid.

retired workers into administration which depends mainly upon communities. Thus, the level of socialized management of insurance shall be heightened to conscientiously lighten the load of enterprises.⁶³

In order to promote the distribution by social organizations, September 9, 1996, the Ministry of Labor and Social Security held the first meeting on socializing pension distribution. This briefing summarized the experience of some pilot regions and proposed that socialized distribution was needed for setting up a social security system outside enterprises and easing pressure on enterprises. It was an important responsibility of social security administrations at all levels. All places were required to step up socialized distribution after this meeting so as to achieve nationwide full collection of the basic pension fund and nationwide socialized distribution.

Despite all these efforts, the socialized pension distribution still met various resistance. First, opinions were divided. Some held that retirees were part of enterprises and their pensions should be covered by enterprises. This could not be shifted to the government. Some said that retirees had deserved devoted all their lifetime to enterprises, so enterprises should take care of them, it was unreasonable to kick the ball to the society. Others thought that it was a systematic project. Without supporting systems, it would be difficult to socialize pension distribution.⁶⁴

Former Vice Minister of Labor and Social Security Wang Jianlun on the Disputes over Socialized Pension Distribution.⁶⁵

First, I will talk about retirees. Before, when people were employed by enterprises, they seemed to get “iron bowls,” as all their needs were covered by enterprises from cradle to grave. After 30 years of reform and opening up, enterprise employees became social workers; retired employees became retired people. This was a profound transformation in ideology and identity. However, the retired people did not consider it as a more free and secure transformation. With traditional thinking, they believe that since they have devoted all their lifetime to the enterprise, their pensions should be covered by the enterprise instead of the society. At that time, I went to investigate in Guizhou where the retirees felt heartbreaking and cried. I tried to convince them of the benefits of socialized management and distribution.

...

Social security administrations did not agree to socialize distribution either. First, social security agencies argued that it was unreasonable for enterprises to shirk responsibilities. If the distribution did not do well, agencies had to bear the consequences. Second, they wondered if the distribution was sustainable as the surplus of social security funds was limited. Third, the agencies said their work load was

⁶³*Circular of the State Council on Deepening the Reform of the Pension System for Staff and Workers of Enterprises* (No. 6 [1995] of the State Council, March 1st, 1995), quoted in Zheng et al. (1999, pp. 57–63).

⁶⁴Chen and Feng (2008).

⁶⁵Liu and Wang (2008c).

too heavy. In 1997, we held a meeting on socialized distribution in Changshu, Jiangsu. A director rose and said, “You will destroy the social safety net. If all the surplus is issued as pensions, what can we depend on?” I answered, “What’s the use of your department if you cannot ensure pension distribution?” Our arguments were really heated. But resistance does not just come from local departments; opinions were also divided within the Ministry of Labor and Social Security.

Under the system of partial payment and allocation, some enterprises used the allocated balance to offset social insurance premiums. That is why many retirees could not get pensions. The core of socialized distribution is to shift partial payment to full payment and ensure pension distribution.

A more serious challenge was how to establish a distribution channel separate from enterprises and how to raise necessary funds. According to statistics, in the mid-1990s, 93% pensions were issued by enterprises and 7% by social security administrations. Due to lack of statistics, many enterprises were reluctant to admit pension arrears, and administrations also did not know the amount of pensions in arrears. Without a financial subsidy system, the pension pooling was so insufficient to pay and compensate old-age pensions. Therefore, after the introduction of No. 6 Document in 1995, although social security departments had made great efforts, little progress was achieved in socialized distribution.⁶⁶

Since pension arrears worsened, social tensions were aggravated. Around the Spring Festival of 1998, a mass incident broke out for some retirees demanded their pensions in arrears. In just a quarter, 137 emergencies occurred in Shenyang, Liaoning. In Panzhihua, Sichuan, retirees swarmed to block Jinshajiang Bridge. In Wuhai, Inner Mongolia, retirees stood in the way of a train. All these incidents harmed social stability and attracted great attention from the Central Government.⁶⁷ In the Spring of 1998, Zhu Rongji, who had just assumed the Premier, went to northeastern China to investigate and held a symposium in Changchun on guaranteeing the basic livelihoods of laid-off workers. During the symposium, the most hotly debated issue was that pensions could not be paid on time and in full. After the investigation, Zhu felt convinced that in addition to guaranteeing the basic livelihood for the laid-off, the government should also guarantee pension payment on time and in full for retirees. Later, the CPC Central Committee and the State Council held a meeting on reemployment and proposed the policy of “two guarantees” which was required to be the first priority for the Party and the government. The proposal of this policy represented that the endowment insurance attracted attention of China’s top leadership as well as transformed the government’s functions in social security.⁶⁸

The policy of “two guarantees” elevated socialized pension distribution to the central government level, and made it the top priority of labor security. In the end of May, 1998, the Ministry of Labor and Social Security printed and issued the

⁶⁶Xia (2009d).

⁶⁷Xia (2009d).

⁶⁸Ibid.

Emergency Note on Doing a Good Job in Issuing Pensions for the Emeritus and Retired. In June, a symposium on social security work was held in Beijing and was attended by social security officials of 14 provinces, autonomous regions and municipalities with serious pension arrears. Later, the government issued the *Notice on Building a Reporting System Concerning the Settlement of Pension Arrears for the Emeritus and Retired*, requiring all places to submit special reports and statements on a monthly basis. The Ministry of Labor and Social Security mobilized administrative forces to promote socialized pension distribution.⁶⁹ It also launched a ranking list on *People's Daily* to publicize the work progress in each region every quarter. This measure was very influential. Regions that once ranked the last quickly advanced its socialized pension distribution after several months. The work on socializing old-age pension well demonstrated high efficiency of China's administration. At the end of 1998, the distribution rate of China's pensions was 35%. The pensions for 27.27 million enterprise retirees were paid on time and in full, and some pensions in arrear were repaid, which promoted social stability. By the end of 2000, the distribution rate grew to 90%, almost a nationwide coverage. 11.5 billion yuan of historical arrearage for urban enterprises was repaid, and 9.7 billion yuan of new arrearage was incurred. For the first time in history, the clearing of arrearage exceeded new arrearage.⁷⁰ December 1, 1999, the Ministry of Labor and Social Security held a meeting on the national pension distribution in Shenzhen and clearly stated that social security departments must commission banks or post offices to issue pensions, in another word, advocate socialized distribution.⁷¹

Former Vice Minister of Labor and Social Security Wang Jianlun on the Nationwide Promotion of Socialized Pension Distribution.⁷²

Since April 1998, we began to establish a statistical system to investigate the distribution of pensions and historical arrears. I remember clearly that in May, we invited the leaders of 16 provinces with pension arrears to Beijing and ordered them to pay pensions. Meanwhile, we started shifting partial payment and distribution to full distribution and signed agreements with banks on socialized distribution. In July, Premier Zhu Rongji asked how many pensions in arrears we have. We answered 6.4 billion yuan. Then he said that 7.6 billion yuan would be granted to us to pay the arrearage.

...

I was rather confused at that time. I said that was more than enough. Premier Zhu said, "Take it. You will know. Just wait and see." Later, the Ministry of Labor and Social Security and the Ministry of Finance distributed the money to provinces with historical arrears. As a result, many provinces still reported further arrears. We did statistics and found an arrearage of 28.9 billion yuan in total. In a typical province,

⁶⁹Feng (2008).

⁷⁰Xia (2009d).

⁷¹Ibid.

⁷²Liu and Wang (2008c).

the original statement showed a pension arrearage of 1.23 million yuan. However, after receiving the government fund, the Vice Governor, Party Secretary General and the Director of the Labor Security Bureau reported an arrearage of 830 million yuan. At that moment I understood Premier Zhu's consideration. That is why I told people in charge of pension distribution in different places, "Which do you want? A better image of yourself or a better livelihood for local people? Think about it carefully."

...

As a subsidiary of the State Council, we cannot casually invite a governor to our Ministry. At that time, I was so anxious that I could only choose to call several governors directly and ask them to monitor pension distribution. I felt that we must spare no effort to distribute pensions. To ensure full payment and allocation as well as socialized distribution is such tough work that the social security center of our Ministry worked day and night, and people from local social security administrations were transferred to our center to monitor the work. I think its a great stride and a landmark in the development of China's social security system. To ensure pension distribution seems like a battle, or the Huahai Campaign in the War of Liberation.

After pension distribution was socialized, social security agencies would face retirees directly. Thus, conflicts between retirees and enterprises became that of between the retirees and government which had to be fully responsible for pension payment. Therefore, the government mobilized administrative forces and tried every possible means to raise funds and expand the role of social security in mutual assistance. This further improved the level of pension coordination and allocation, and advanced reform measure such as establishing the financial subsidy system.

Socialized pension distribution made disadvantages of the low level of social pooling prominent. Many regions adopted the county-level coordination, the ability to disperse risks was weak; macro control was difficult; and pension arrear for retirees was serious.⁷³ According to incomplete statistics, by the end of May 1998, pension arrearage reached 8.7 billion yuan and involved 3.56 million people,⁷⁴ which led to a growing number of petitions. The best solution to this issue was to expand the scope of social coordination and give play to the role of the Law of Large Numbers in balancing risks. In accordance of the spirit conveyed by the State Council, Minister Li Boxiong said, "Leaders from the State Council highlighted the issue of coordination level and mentioned it in particular while making the decision of system unification. All regions should seize the opportunity of system unification, do careful planning and take great efforts to shift the county-level coordination to province-level. Hopefully, in the next century, state-level coordination can be achieved."⁷⁵

⁷³Li (1997).

⁷⁴Hu Xiaoyi: *New Development and Purpose of the Reform of China's Pension Insurance System*, quoted in Zheng et al. (1999, p. 291).

⁷⁵Li (1997).

In the process of promoting socialize pension distribution; difficulties also appeared in eliminating industrial coordination. Since the start of pension insurance reform, some SOEs began to boycott local coordination and launch industrial coordination. According to Jiao Kaiping, former director general of the Department of Pension Insurance, those who supported industrial coordination and those who supported province-level coordination often argued with each other in the State Council. He said, “The first ‘battle’ after the establishment of the Ministry of Labor and Social Security was to delegate the right of industrial coordination.”⁷⁶

Real demand became the engine for reform again. In May 1998, the Central Committee of the CPC and the State Council held a meeting on guaranteeing the basic livelihoods and reemployment for SOE laid-off workers, requiring that laid-off workers’ pensions be fully and timely paid, new pension arrears should be forbidden and governments should pay off previous arrears gradually. Later in August, the State Council published *The Notice on Implementing the Unified Basic Pension Insurance at Provincial Level and Transferring Industrial Coordination to Local Governments* [No. 28 (1998) of the State Council, August 6, 1998] which required that a provincial pension provision system be established so as to prevent the risks for pension payment through expanding the scale of social pooling and strengthening capital provisions.

Under the command of the Central Committee of the CPC, party committees and governments at all levels prioritized the implementation of eliminating industrial pension coordination. With strong political will and arduous persuasion and preparation work, the pension pooling work in different industry sectors including water conservancy, electricity, railroad, posts and telecommunications, construction, transportation, coal and electricity, and banking, was transferred to provinces, autonomous regions, and municipalities in the mid-1980s. Such transfer broke the barriers between industries, promoted the society to share risks, leveled the playing field for different industries, and thus created conditions for fair competition. The barrier which restricted the free flow of labor forces was removed.

In order to guarantee the funding source for the old-age pension, the Chinese government took some measures to discipline pension management. In January 1999, the State Council published *Provisional Regulations on Collection and Payment of Social Insurance Premiums* (No. 259 Document of State Council).⁷⁷ The Regulations provided the legal basis for collecting social insurance contributions and thus became a powerful instrument for clearing up pension payments. Therefore, the Ministry of Labor and Social Security took measures to expand the coverage of pension insurance and strengthen collection and payment of insurance premiums on one hand; and to accelerate the clearing up of pensions in arrears on the other hand. After insurance premiums were collected, two-line management approach was adopted—collection of pension contributions by social security organizations and pension payments by financial institutions.

⁷⁶Xia (2009d).

⁷⁷Zheng et al. (1999, pp. 140–144).

Under the background that the insurance funds failed to meet the demand of socialized pension distribution, subsidies were provided by fiscal departments at all levels. In the case that provincial pensions were not enough, the Central Committee would fill in the gaps through payment transfer.⁷⁸ In 1999, under the deployment of the Central Committee, the central and local governments raised money from several channels to guarantee the payment of pension premiums in full and timely, in addition, they also paid 14.4 billion yuan of arrears, thus further protected the legal rights of retired employees.

4.4 Launch Medical Insurance System Reform—From “Labor Insurance” to “Social Insurance”

While the pension and employment system reforms were implemented vigorously, the medical insurance system was also close to be reformed.

4.4.1 The Difficulties of Publicly Funded Health Care Services and Labor Medicare System

In the 1990s, China still implemented the publicly funded health care system and the labor medicare system established in the early 1950s. Under these systems, civil servants enjoyed publicly funded health care services supported by fiscal departments and employees of SOEs enjoyed the labor medicare system supported by welfare expenses. Such treatments were all managed by their respective work units. In rural areas, the rural cooperative medical system, where funds were provided by the township collective income with government subsidies, was implemented. With the deepening of the economic reform, the planned economic system which has supported the publicly funded health care system and the labor medicare system changed dramatically, and loopholes of such systems emerged. Deputy Prime Minister Wu Bangguo attributed the two systems' flaws to three aspects: first, medical costs increased too rapidly to be affordable for fiscal authorities at all levels; second, inefficient oversight caused high costs of medical care services, low efficiency, and serious waste; third, coverage of medical care was limited, socialization rate was low and huge benefits gap existed between different groups.⁷⁹

There were many reasons for the above problems. The fact that the state fiscal department and employers had taken on too much financial burden was a major reason for the quick increase of medical care expenses. The publicly funded health

⁷⁸Xia (2009d).

⁷⁹Speech by Wu Bangguo, the Vice Prime Minister on the Meeting about Medical Care Reforms for all National Urban Employees (November 26th, 1998), Zheng et al. (1999, p. 22).

care system and the labor medicare system covered expenses from clinics to in-patient and from minor to severe diseases. In the 1990s, the growth rate of employees’ medical expenses maintained high, among which the annual growth rate of publicly funded health care exceeded 30% and the average growth rate of medical expenses exceeded 20%.⁸⁰ The medical expenses for all employees in 1997 were 77.37 billion yuan, 27 times more than that of 1978 with an annual growth rate of 19%. However, fiscal income in the same period only increased by 6.6 times with an annual growth rate of 11%. This put too much pressure on fiscal departments at all levels, institutional organizations and enterprises.⁸¹

While the state fiscal department and employers took on all financial burdens, the role of hospital had already changed. Under the planned economy system, the expenses of hospital were propped up by fiscal departments and hospitals did not need to generate incomes on their own. However, during the process of market-oriented reforms, the role of hospital became more complicated. A hospital was not only a social institution providing basic medical services but also a for-profit market player to provide special medical services. The market-oriented reforms in medical industry took place along with the reform and opening up. Impacted by ten chaotic years, medical and health services developed slowly. It was called “government monopoly, big pot operation, one-size-fits-for-all and no budget nor audit,” resulting in prominent issues such as impoverished hospitals, inaccessibility to doctors, in-patient services, and surgeries.

On January 1, 1979, Qian Xinzhong, the then minister of Health said during an interview, “we should manage health care services through the force of the market.” The reform for medical and health care institutions began to take shape. Later, three ministries including the Ministry of Public Health published the *Notice of Strengthening the Pilot Work of Hospital Economic Management*. From then on, hospitals launched rectification and reforms with market-oriented management as the focus. From 1981 to 1989, central regulations were published every three to four years, among which the most important one was the *Report on the Issues Concerning Medical and Health-Care Reform* promulgated on April 25, 1985 by the Ministry of Public Health and approved by the State Council. Therefore, 1985 became the launching year of the medical and health care reforms. In this period, two typical cases were advocated nationwide: the “Xiehe Experience”—management transformation and the “Kunming Experience”—socialized logistics services. One old cadre once spoke of the medical reform, “The main thinking was ‘decentralizing power, transferring profits, expanding the autonomy of hospitals, and basically copying SOE reforms.’” In 1989, the State Council approved and forwarded the Ministry of Public Health’s *Suggestions on Expanding Medical Care Services* and the medical care reform was carried out amidst disputes. The national expense of

⁸⁰Wu Ritu, Chen Jinfu: *To Establish the Basic Medical Care System for Urban Employees and Accelerate China’s Medical Care System Reform*, Zheng et al. (1999, pp. 358–359).

⁸¹*Speech by Wu Bangguo, the Vice Prime Minister on the Meeting about Medical Care Reforms for all National Urban Employees* (November 26th, 1998), Zheng et al. (1999, p. 22).

health care was cut, so hospitals had to feed themselves and generate incomes on their own. The reform methods were evident from the beginning—“there was only policy support but no monetary support.” After several years’ efforts, hospitals achieved a lot but some chaotic situations also appeared—doctors went moon-lighting and “electric cooker” was prescribed by doctors.

Until the 1990s, market-oriented reforms in the medical industry were still ongoing. In September 1992, the State Council published *Suggestions on Deepening the Health Care Reform* that accelerated market-oriented reforms. However, hospitals at all levels came up with many items to make profits such as “operation by designated doctor,” “special nursing care,” and “special ward,” resulting in medical costs hikes.⁸² Vice Prime Minister Wu Bangguo said, “Medical problem is the most prominent issue for employers that remains unaddressed. Many people complain that in the past, people only spent a little money to see a minor sickness; now even catching a cold would cost dozens of, even hundreds of yuan. Under current system, some medical institutions write prescription randomly, do over-examination and charge ridiculous fees, all these practices were difficult to prohibit; and the phenomenon that the employees got medicines for their whole family was commonplace. According to surveys by relative departments, unreasonable medical expense accounted for 20–30% of employees’ medical expenses.”⁸³

On one hand, the state fiscal department paying all the costs resulted in huge fiscal pressures and a serious waste of medical resources. On the other hand, there was a lack of safeguard mechanisms. With the deepening of market-oriented reforms in the work force, the number of employees in non state-owned urban enterprises increased from 150,000 before the reform and opening up to 37,540,000 in 1977, a third of the total number of employees in SOEs. These employees were not covered by the publicly funded health care system or the labor medicare system. In some poor areas and in enterprises where the operation and production were not good, some employees’ medical expenses could not be reimbursed and medical arrears were huge. More employees appealed to their working units and the governments because they had no money to go to see doctors and their medical expenses could not be reimbursed.⁸⁴

A Case Study that Employees Were Inaccessible to Necessary Medical Care Services Due to Enterprises’ Inability to Afford Medical Expenses.⁸⁵

When the Harbin Pen Factory that had been established in 1950s ceased production, Ti Enlan in labor department wrote down the worrying numbers—780 staff in active, 1045 retired workers and 19 million yuan of total loss. Reimbursement

⁸²Liu (2009a).

⁸³Speech by Wu Bangguo, the Vice Prime Minister on the Meeting about Medical Care Reforms for all National Urban Employees (November 26th, 1998), Zheng et al. (1999, p. 22).

⁸⁴Speech by Wu Bangguo, the Vice Prime Minister on the Meeting about Medical Care Reforms for all National Urban Employees (November 26th, 1998), Zheng et al. (1999, p. 23).

⁸⁵Liu (2009a).

policy for medical expenses went from monthly to quarterly, and then further delayed to yearly. People had to wait in a long queue, holding a pile of invoices in hand. However, a patient could only reimburse 50 yuan for a few thousands of fees incurred. When the plant stopped production, it cannot afford any fees for employees. The medical fees in arrear cumulatively were 4 million yuan for employees and 2.8 million yuan for retired workers. In Ti Enlan’s mind, such grief was beyond description.

At that time, the main problem of China’s medical care system was that funding was not market-oriented: once an enterprise had difficulties in operation, they cannot afford the basic medical expenses. Such systematic disadvantages undermined people’s perception of the socialist system. How come a system that serves people cannot allow people to enjoy necessary medical care services? Besides, the current economic system quickly became more market-oriented, which required the socialization of medical care system. Therefore, reform of China’s medical care system became necessary in the 1990s.

4.4.2 Initiating Pilots of Medical Insurance Reform

Establishing the medical insurance system is more complicated than the old-age insurance. Building pilots before scaling it up is still an effective way of reform. Since 1984, some localities and industries have been exploring addressing various kinds of defects in our medical system in different ways. At the early stage, the focal point of the reform was reining in the excessively fast growth of medical expenses, letting hospitals serve as the agent managing medical funding and the distribution of medical expenses among individuals, their employers and hospitals. Some localities started to ask employees to pay a small share of expense instead of letting the government and their employers pay all the expenses; some gave medical compensation in the form of annual salary to employees so that they themselves took responsibility for medical payments. Beijing and Wuhan implemented the scheme of social pooling for major diseases; Shanghai “controlled the total amount and made structural adjustment.” In a word, all localities were actively exploring paths of medical system reforms. However, pilot programs were mostly attempts made by localities. The central government did not unify or coordinate the work on medical reform pilots.

1. Experience of Pilots in Zhenjiang and Jiujiang

In the 1990s, as the issue of medical insurance became increasingly prominent, medical insurance reform was put on the agenda and the central government started to roll out pilots of medical insurance reform. In March, 1993, the State Commission for Restructuring the Economic System, the Ministry of Health in charge of medical services at state expenses, the Ministry of labor in charge of medical service under

labor insurance and the Ministry of Finance arrived at the preliminary opinions on the pilot reforms of the medical service system on the basis of investigation and studies. In January, 1994, Li Peng, Premier of the State Council, held the Work Meeting of the Premier to focus on the reform of the medical insurance system. The meeting studied the relationship among the government, companies and public institutions, individual employees, and hospitals. It decided to choose two representative medium-level cities with good conditions that would not cause big implications as pilots. The two pilot cities chosen were Zhenjiang city of Jiang Province and Jiujiang city of Jiangxi province. In line with the basic principle of old-age insurance reform, the model of “combining social pooling and individual accounts” was applied to the reform of medical insurance system.⁸⁶

According to the explanation of Wu Ritu, deputy director of the medical insurance department of the Ministry of Labor and Social Security, the model of “combining social pooling and individual accounts” aimed at combining individuals’ awareness of medical expenses and responsibilities for security with social responsibilities. This could meet individual employees’ needs of basic medical care and effectively rein in waste, and ensure the existing medical expenditure was covered and accumulate for future medical security fund.⁸⁷ However, as the medical security system involved more complex players and party of interests, the pilot programs in Zhenjiang and Jiujiang were tortuous despite the great efforts made by the central government and all tiers of local governments.

(1) The Case of Zhenjiang

At the time when Zhenjiang started to implement the health-care reform pilot program, health-care expenses were rising too fast and led to heavy fiscal burden; health-care resources were not evenly allocated, as a result, many corporate employees did not have access to adequate health-care security; also, health-care expenses became a heavy burden for enterprises seeking further development. After Zhejiang was chosen as the pilot city, its health-care system reform did not go well—neither enterprises nor individuals developed a strong awareness to participate, employees and retirees worried that they would get less benefits and medical institutions worried that their revenue would drop. The main driver of the reform was administrative bodies. The government of Zhenjiang came up with the slogan of “at the downstream of Yangtze River, Zhenjiang will strive to go upstream in health-care reform” and “change your mind, or change your position.” Thanks to the strong administrative impetus, the participation rate in the basic medical insurance for urban employees reached 95% in the first year in Zhenjiang.⁸⁸

⁸⁶Liu and Hou (2009b). This article is an interview with Peng Peiyuan, former State Councilor in charge of the pilots in Zhenjiang and Jiujiang.

⁸⁷Wu Ritu, Chen Jinfu: Building the Basic Medical Insurance System of Urban Employees and Advancing China’s Reform of Medical Insurance System in All Aspects. Quoted in Zheng et al. (1999, p. 360).

⁸⁸Liu (2008b).

Despite the dazzling participation rate, flaws in institutional design led to a large-scale over-expenditure of the health-care pooling fund in 1996.⁸⁹ At first, in 1995, the flat rate settlement was adopted in the health-care reform in Zhenjiang, which meant that the settlement was based on the workload of the hospital and a standard flat rate. In this way, the reform achieved a revenue–expenditure balance of the fund in that year with a surplus rate of 8%. However, in 1996, hospitals falsely increased their workload to get the maximum flat rate payment through such means as breaking down hospital visits, duplicating registration, breaking down prescriptions, hospitalizing patients with only minor diseases, and duplicating hospitalization. As a result, the expenditure of the health-care fund soared. At the same, patients complained about having to get in long lines to register and see doctors for more than once. In 1996, because the insurance was expanded, patients increased by 21%; plus, the insured individual payment only accounted for a very small share of the total payment, 7.3%. All these factors together increased the per capita health-care expenditure by 17% in 1996. In that year, Zhenjiang’s health-care fund expenditure increased by 42% over the previous year, significantly outnumbering the growth of the fund revenue in 1996.

As people doubted “whether health-care socialization is feasible,” the driver that was behind health-care reform was still administrative forces. In 1997, the party committee and government of Zhenjiang proposed to “move steadily and uninterruptedly.” They adopted some measures, for example, increasing the share of individual payments properly, setting a ceiling for the payment made by basic medical insurance fund, and, for the amount that exceeded the ceiling, resorting to pooling, and additional insurance used in the high medical expenses incurred by serious diseases. These measures partially addressed the issue of hospitals falsifying their workload. However, hospitals began to turn down patients and reduce services. In 1998, Zhenjiang started the approach of “controlling the total amount, having flat rate settlement, budgetary appropriation, flexible final settlement, and award based on evaluation” to strike a balance between safeguarding health-care service and controlling expenditure. However, hospitals coped by extreme practices such as giving extraordinary prescription at the beginning of a year and then controlling prescription value at the end of the year.⁹⁰ In 1999, Zhenjiang replaced the previous settlement approach with “individual accounts making payments according to the actual usage of service and total expenditure of pooling funds being controlled.” In this case, some medical institutions excessively induced patients to consume.⁹¹ These practices showed that controlling the total amount might work in ensuring a revenue-and-expenditure balance of health-care funds but may not necessarily control the unreasonable growth of medical expenses in

⁸⁹Liu (2008b).

⁹⁰This approach aimed at maximizing hospitals’ revenue because the total amount was under control.

⁹¹As individual accounts made payments according to the actual medical service consumed, hospitals induced patients to receive service more than needed to increase their own profit.

hospitalization. In 2001, Zhenjiang started to downplay the role of “controlling the total amount” and adopted a compound method of “global budget, flexible settlement, and the payment of patients with certain diseases being determined according to the disease category.” As a result, surplus was achieved in both pooling funds and individual accounts. At this stage, health-care reform in Zhenjiang secured partial achievements.⁹²

(2) The Case of Jiujiang

The other pilot city, Jiujiang, experienced a health-care reform journey no less tortuous than that of Zhenjiang. In the 1980s, Jiujiang already started reform pilots because it had serious problems in public healthcare and healthcare under labor insurance. At the end of the 1980s, many enterprises in Jiujiang faced operational difficulties and could not guarantee the medical expenditure of employees. Thus, many enterprises gave employees a lump-sum money for outpatient service payment, which was 6–8 yuan per month per employee, and reimbursed 60–90% of their hospitalization expenditure. But actually the medical expenses of many employees could not be reimbursed. Thus, many people complained to the party committee and government of Jiujiang. However, there were such grave phenomena as employees asking for long recuperation leave for minor diseases and doctors blindly prescribing tonic medicine. Therefore, Jiujiang started a reform pilot targeting the health-care insurance of retirees from state-owned enterprises and public institutions in Xingzi county under its jurisdiction. In 1991, it again launched a reform pilot targeting enterprises owned by the whole people and public institutions receiving no fiscal appropriations in Linchuan county under its jurisdiction.⁹³

The health-care reform pilot in Jiujiang was also driven by administrative forces. After *Opinions on the Pilot of Employees' Healthcare System Reform* [Tigaifen (1994) No. 51] was released in April, 1994, Peng Peiyuan, the State Councilor who was mainly in charge of pilots, personally led a team to arrange for work in Jiujiang, and attended the discussion meeting on the plan of health-care system reform pilots in Jiujiang and Zhenjiang. Vice Premier Zhujiang listened to the report on the two pilots. The Working Meeting of the Premier directly examined and approved the *Interim Provisions on the Social Medical Insurance of Employees in Jiujiang*. This showed how much importance was attached to the pilot program.

The pilot plan in Jiujiang can be summarized as “one model, two synchronization, three unification, and four mechanisms.” “One model” means that the one model of social medical insurance system would be established, which would combine social pooling and individual accounts and cover all types of jobs in administrative and public institutions and corporations, regardless of ownership and forms of employment. “Two synchronization” means that the reform would be synchronized in administrative and public institutions and all kinds of enterprises would be synchronized in the 15 counties (city or district) of Jiujiang. As for

⁹²Liu (2008b).

⁹³Zhang (2008).

institutional arrangement, the medical insurance of enterprises fell under the jurisdiction of social insurance bureaus while that of administrative bodies and public institutions under their division of medical insurance. “Three unification” meant that under the principle of territorial management, units and employees that participated in medical insurance all had to carry out unified social medical insurance policies, unified payment proportion and basic structure, and unified management of health-care fund. “Four mechanisms” meant that establishing the following four mechanisms will be focal points: the steady mechanism of fund-raising of social medical insurance, the effective supply mechanism of medical payment, the mechanism of restraining employees and the mechanism of restraining medical institutions.

After Jiujiang implemented the new medical insurance scheme on January 1, 1995, the past phenomenon of different enterprises having different standards and systems was gone. Jiujiang basically achieved the socialization of medical insurance. Medical insurance played a better role in making social adjustments. No one complained or petitioned because of medical insurance anymore. However, the health-care fund of Jiujiang suffered an enormous deficit, which reached more than 60 million yuan by 1998. According to the memory of people involved in the reform, the main reasons for the deficit are as follows:

First, the absence of a clear definition of the basic medical care that needed to be covered by the insurance. During the pilot period, the expenses of the same disease could have huge differences. For example, the expenses of the insurees who received kidney transplant surgeries could range from 120,000 to 170,000 yuan. The expense of one leukemia patient within one year was as high as 360,000 yuan. All these expenses were covered by the basic medical insurance. In addition, there was no ceiling for the payment. During the pilot, the average out-of-pocket payment made by employees was only 240 yuan. Such a level of security was beyond the range of the actual economic development in Jiujiang.

Second, mismanagement—Corporate accounts that did not pay or individual accounts of corporate employees that could not pay timely still operated even though their accounts were empty. This, as the health-care fund did not collect the money due, increased the expenditure of the fund and falsely increased the surplus of individual accounts.

Third, the shortage of strong measures for collecting premiums. It was a prominent issue that health-care funds had difficulties collecting payments. In the first three years of the pilot, the payment rate of administrative bodies and public institutions was around 95%, and that of enterprises only 65%. Some enterprises did not perform well, and this affected the collection rate of health-care funds. Personnel in charge in enterprises did not have a strong awareness of social insurance, and employees did not have a strong awareness of self-protection.⁹⁴

From 1998 to 2000, Jiujiang adjusted its medical insurance system. First, it adopted measures to ensure payment collection and suspended medical care

⁹⁴Zhang (2008).

treatment to employees from units that did not pay. In 1998, the actual collection rate of medical insurance reached 92.8%. The way of payment also changed. When medical expenses were incurred, it was first paid by individual accounts; after money in the individual accounts was all used, employees would pay 5% of their salary, and the amount that exceeded this would be paid by pooling funds, whose payment ratio would be 80–90% depending on the categorization. Since 1999, Jiujiang has been imposing limits on the responsibility and payment scope of health-care pooling funds and individual accounts. The pooling funds only pay for the hospitalization expenses of employees and individual accounts only for outpatient expenses. The outpatient expenses incurred after employees' individual accounts are used up will be paid by employees themselves instead of the pooling funds. This way, in 1999, the surplus of individual accounts reached 1.83 million yuan; the pooling funds collected 16.04 million yuan, and the expenditure that year was 17.04 million yuan, which meant that the deficit was only 999,000 yuan, much lower than the figures of the several previous years. Jiujiang also stipulated that big sums over 30,000 yuan would be split among employees, their employers and social pooling funds. This measure to a certain degree contributed to the revenue-and-expenditure balance of pooling funds.⁹⁵

2. Expanding the Pilot

The pilots in Zhenjiang and Jiujiang yielded much experience and many lessons for China's health-care reform. Besides the strong administrative impetus needed, the most important experience is specifying the payment scope of pooling. During the reform, the concept of "basic medical security" was mentioned more than often. The so-called basic medical security involves the most fundamental issues that need to be specified in the establishment of the new health-care system, which are also key issues that need to be focused on during the pilot. Although "it is hard to define the basic diseases and nonbasic diseases and specify what diseases should be covered and what should not be covered," the difficult reform rendered us convinced that it is necessary to control basic medical security. Socialist system does not mean unlimited provision of service. Medical security provided is limited to fund-raising. Meanwhile, basic diagnostic and treatment technologies, medicine, medical service facilities and so on should also be controlled. Also, the highest payment of health-care pooling funds, the ceiling, should be set.⁹⁶ This means what a reasonable system should be established to balance the ideal and reality.

In May, 1996, on the basis of the pilots, the General Office of the State Council issued *Opinions of the State Commission for Restructuring the Economic System, the Ministry of Finance, the Ministry of Labor and the Ministry of Health on Expanding the Pilot of Healthcare System for Employees*, and decided to expand the scope of pilot of health-care reform. 38 cities from 29 provinces and

⁹⁵Ibid.

⁹⁶Liu and Hou (2009b). This article is an interview with Peng Peiyuan, former State Councilor in charge of the pilots in Zhenjiang and Jiujiang.

autonomous regions were selected as new pilots. More than 40 cities from Hainan, Shenzhen, Shanghai, Qingdao, and so on followed the principle of combining social pooling with individual accounts and explored different models of medical insurance.⁹⁷ The reform in Hainan and Shenzhen adopted practices and yielded experience different from those of Zhenjiang and Jiujiang.

(1) Hainan pilot and the compartment model

In 1989, the State Council listed Hainan as a pilot province for the comprehensive reform of social security system. From 1989 to the end of 1991, Hainan province conducted many researches, demonstrations, simulation measures, and calculations. Then from the beginning of 1992 to the end of 1993, the provincial government issued temporary provisions on four social insurances, namely, old-age insurance, unemployment insurance, work injury insurance, and medical insurance. The socialized insurance featuring the “four unification” approach was implemented, which was unification of mechanisms, standards, management, and adjustment. This approach was applied to all types of enterprises including state-owned, collective, foreign-funded, and private enterprises. However, as medical insurance mechanisms was designed too ideally and had major defects, for example, funds could not provide aid to each other, there were no changes to the way of reimbursement and no mechanism to restrain fees, and some counties and cities that first conducted reform suffered serious fund deficit. As a result, the reform was aborted.

In 1994, Ruan Chongwu, who was then the party secretary and governor of Hainan province, decided to try the compartment model of individual accounts and social pooling funds running independently and separately. In February, 1995, the provincial people’s congress adopted *Provisions of Medical Insurance for Urban Employees in Hainan Special Economic Zone*, a local law for the medical insurance system of Hainan.⁹⁸ According to it, all urban employees must participate in medical insurance, and the premium was shared between employers and employees, with the former contributing 10% of the total amount of salary and the latter 1% of their total salary. In this way, individual accounts and mutual aid accounts ran separately. Hainan’s model is called the compartment model.⁹⁹

The main features of the pilot medical insurance system based on the compartment model and combining individual accounts and social pooling accounts are as follows:

First, the scope of payment of these two accounts is clearly demarcated: individual accounts pay for medical expenses incurred by daily treatment in the case of ordinary diseases and the amount being below the deductible, and a small

⁹⁷Vice Premier Wu Bang Guo’s speech at the opening of the work meeting on the national reform of medical insurance system of urban employees (1998). Quoted in Zheng et al. (1999, pp. 22–23). Also refer to Wang (2008).

⁹⁸Liu (2008c).

⁹⁹Gao Ronghai, Exploring running individual accounts and mutual aid accounts separately and building an effective mechanism to control the excessively fast growth of medical expenses. Quoted in Zheng et al. (1999, p. 382).

proportion of expenditure above the deductible in the case of serious diseases; mutual aid accounts pay for a large proportion of the medical expenditure above the deductible in the case of serious diseases.

Second, the ownership of the two accounts is clear, each using independent accounting. One cannot crowd out or overdraw from the other.

Third, the expenditure management of mutual aid accounts is governed the settlement approach of advanced payment and control over the total amount.¹⁰⁰

Another important feature of the medical insurance reform in Hainan is that the reform is applied to all kinds of workers, which means that civil servants and corporate employees are insured the same way, eliminating the previous institutional barrier between medical care at state expenses and that under labor insurance. Since 1995, ordinary workers and civil servants including the provincial governor have been enjoying the same treatment of medical insurance under the same provisions. This was a sensation back then.¹⁰¹

Thanks to the efforts of multiple parties, the compartment model of medical insurance reform made achievements. Before the reform, enterprises in Haikou district spent 13% of their total salary as medical expenditure; after the reform, that proportion dropped by three percentage points to 10%. The burden on fiscal revenue was reduced by a bigger margin. In 1993, the fiscal expenditure of provincial-level bodies for medical care at state expenses increased by 19.7% over that of 1992, and the figure in 1994 increased by 46.4% year on year, and the figure in 1995 increased by 60.6% year on year. These expenditures were far beyond the range that fiscal resources could afford. However, in 1996, one year after the reform was implemented, the fiscal expenditure of provincial-level bodies for medical care, compared with the actual medical expenditure of 1995, did not increase, but decreased by 15.2%. The reform significantly eases the fiscal burden caused by such medical expenditure, and such medical expenditure remains low after the reform.¹⁰²

(2) Shenzhen's Buji Model

Shenzhen is a city whose residents are mostly immigrants. The evolution of its medical security system is closely related to the development of Shenzhen as a special economic zone (SEZ). In the early stage of the SEZ, a lot of immigrant workers flooded into Shenzhen, and they were covered by neither medical care at state's expenses nor medical care under labor insurance. To satisfy their needs for basic medical security, the Buji Model of medical security emerged in Shenzhen. This is a model that first emerged at the grass-roots level. It refers to the migrant workers cooperative medical care model implemented in Buji Town, Shenzhen

¹⁰⁰See Footnote 99.

¹⁰¹Liu (2008c).

¹⁰²Gao Ronghai, Exploring running individual accounts and mutual aid accounts separately and building an effective mechanism to control the excessively fast growth of medical expenses. Quoted in Zheng et al. (1999, p. 382).

more than 20 years ago. Buji Town is located in the north of Shenzhen, known as the “No. 1 Town of Shenzhen”. Starting from 1983, more and more migrant workers came to Shenzhen. To satisfy their needs for basic medical care, an enterprise in the industrial zone of Buji Town started to work on cooperative medical care with Buji People’ Hospital. The enterprise asked the hospital to send medical teams to the factory and provide primary medical and health security for migrant workers. Migrant workers only needed to pay one yuan per person per month to enjoy free basic diagnosis and treatment. If they went to the Buji People’ Hospital, they could reimburse 50% of medical expenses. This approach was hugely welcomed by enterprises and workers. At first, only a few enterprises joined this scheme, later all enterprises in the industrial zone joined. As this scheme became more influential, Buji People’s Hospital formulated regulations for its management. In 1995, Buji Town issued the *Interim Provisions on Basic Medical Insurance of Migrant Workers in Buji Town*, which was applied to enterprises within its jurisdiction. The temporary provisions specified the reimbursement range. If the expenses were within the range, insurees did not need to pay outpatient or in-patient expenses. For insurees transferred to hospitals at higher level, 80% of the medical expenses, if verified, would be reimbursed according to regulations, and the total amount reimbursed shall not exceed 50,000 yuan a year.¹⁰³

While the Buji Model was experimented on a small scale, Shenzhen initiated a top-down health-care reform. In 1989, Shenzhen was listed by the State Council as a pilot city for the integrated reform of social insurance and started to prepare for the reform. At that time, medical insurance reform at the national level was yet to be started. Therefore, Shenzhen explored the reform plan mainly by drawing upon overseas experience and considering its actual conditions. In 1990, Shenzhen came up with its medical insurance system reform and for the first time in China proposed the concept of individual medical care accounts. Learning from Singapore, the reform scheme set a quota, and 10% of the amount above the quota would be paid by individuals. In August, 1992, Shenzhen released *Temporary Provisions on Social Insurance in Shenzhen and Implementation Rules of Employees’ Medical Insurance under the Interim Provisions on Social Insurance* in Shenzhen. Thus, Shenzhen became the first city in China to remove the previous system of medical care under labor insurance and establish a unified medical care system. Following the principle of “equal work, equal pay, and equal insurance,” Shenzhen incorporated migrant workers under the unified insurance scheme as well. The insurance scheme covered the permanent employees, contract employees, and temporary employees of all types of enterprises, public institutions, government institutions, and groups registered in Shenzhen. Pooling funds were set as the source of payment. Fiscal revenue, employers or old-age insurance institutions should pay the premium and individuals did not need to pay. Enterprises were supposed to pay 8%

¹⁰³Liu (2008a). This article is an interview with Chen Zhiming, former head of Bureau of Medical Insurance in Shenzhen, and Shen Hualiang, Medical Insurance Section chief under Bureau of Social Insurance in Shenzhen.

of the total amount of employees' monthly salary, and retirees 10% of their pension. By the end of 1992, 62,000 people in Shenzhen participated in this medical insurance scheme.¹⁰⁴

The medical insurance reform of 1992 preliminarily established the mode of combining social pooling with individual accounts in Shenzhen. However, there were some problems in the pilot stage. First, the proportion of migrant workers who participated in the insurance was not high. As there was no mechanism for individuals to contribute, enterprises had a heavy burden. Only 20,000 migrant workers were insured in the whole city. Second, the reform in 1992 stipulated that "reward will be given if the expense is below the quota and there is a surplus; individuals shall pay a small proportion of the amount exceeding the quota, and there is a ceiling for payments made by individuals".¹⁰⁵ This approach also caused some problems. First, many people borrowed medical cards to receive medical service and insurees received outpatient service frequently, on average 40 times per person per year. The main reason was that hospitals broke down prescriptions as they did not think the reward for surplus was enough. Second, the problem of changing drugs was serious. Shenzhen is an immigrant city. During the Spring Festival many people went back to their hometown. Before they left, many of them went to hospitals and waited in long lines to ask for medicine not listed on the drug catalog, which even resulted in some medicine being sold out. Considering these problems, competent authorities once considered if they should implement individual accounts in the real sense.¹⁰⁶

In 1994, Shenzhen Social Insurance Bureau conducted a pilot of medical insurance that implemented the model of social mutual aid and individual accounts in Nanshan District. The main measures of the pilot were as follows: fiscal resources or employers would share medical insurance expenditure according to certain standards and insured individual set up individual accounts to control medical cost. In May, 1996, on the basis of the success of the Nanshan Pilot, the municipal government of Shenzhen issued *Interim Provisions on Basic Medical*

¹⁰⁴Liu (2008a). Also, section of medical insurance from *Records of Labor and Social Security in Shenzhen*, Haitian Publishing House, pp. 311–314, 2005.

¹⁰⁵The specific approach is as follows: The quota of medical expenditure per employee per year is a certain proportion of the total of average salaries in his unit in the previous year, which varies with age brackets. The medical expenditure per retiree per year is set to be 13% of the average salary of Shenzhen in the previous year. Employees' medical expenses below the set quota are paid by medical insurance funds. As the amount that exceeds the quota, employees pay a small proportion themselves. If the amount paid by employees themselves exceeds 8% of the total of pension per capita of Shenzhen in the previous year, then employees no longer pay in the year, and the other medical expenses incurred in the year will be paid by medical insurance funds. If employees do have difficulties paying their amount, they can apply for an appropriate reduction. Medical expenses of retirees of enterprises that participate in old-age insurance and of party and government bodies and public institutions that participate in medical insurance will be paid by medical insurance funds. Section of medical insurance from *Records of Labor and Social Security in Shenzhen* (p. 317) (2005). Shenzhen: Haitian Publishing House.

¹⁰⁶Liu (2008a).

Insurance of Shenzhen and would implement the mechanism of combining social pooling with individual accounts across the whole city since July 1, 1996. The medical insurance devised three mechanisms for different groups of insurees: comprehensive medical insurance for employees and retirees with permanent residence of Shenzhen; hospitalization medical insurance for employees (migrant workers), and the unemployed on unemployment benefits; special medical insurance for retirees and revolutionary servicemen with disabilities of Class 2 under Grade 2.¹⁰⁷

This reform expanded the coverage of medical insurance. By 1996, the number of insurees reached 243,500. Meanwhile, the reform set a mechanism for individuals to pay. The comprehensive medical insurance required a payment of 9% of the total of monthly salaries; fiscal resources or employers shall contribute 7% and individuals 2%. As for hospitalization medical insurance, the premium was 2% of the employees' monthly salary average over the first half of the year, all of which shall be paid by employers or unemployment insurance institutions. As for special medical insurance, the insurees did not need to pay. The benefits enjoyed by insurees varied with the types of insurance. The medical expenses under special medical insurance were all charged to the account and the expenses that exceeded the amount covered by basic medical insurance shall be paid by the party who originally made the payment. As for hospitalization expenses under the hospitalization insurance and comprehensive medical insurance, 90% shall be paid by mutual aid funds and 10% by individuals in the case of employees; 95% shall be paid by mutual aid funds and 5% by individuals in the case of retirees. The outpatient expenses under comprehensive medical care could be paid by individual accounts, and, after individual accounts were used up, could be shared by individuals and mutual aid funds depending on the circumstances.¹⁰⁸

This reform made some breakthroughs in controlling fees, however, for enterprises, paying 2% of the total of average monthly salaries for migrant workers' medical insurance was still higher than what they needed to pay under the Buji Model. Thus, the proportion of migrant workers who participated in the hospitalization medical insurance designed for them was still not high. The issue of migrant workers' medical security was not resolved in the 1990s. It was not until 2004 when the pilot of migrant workers' cooperative medical care was implemented and the reformed Buji model was implemented across the whole city that the issue was resolved.¹⁰⁹

¹⁰⁷Section of medical insurance from *Records of Labor and Social Security in Shenzhen*, Haitian Publishing House, pp. 311–314, (2005).

¹⁰⁸*Ibid.*, pp. 313–317.

¹⁰⁹Liu (2008a). This article is an interview with Chen Zhiming, former head of Bureau of Medical Insurance in Shenzhen, and Shen Hualiang, Medical Insurance Section chief under Bureau of Social Insurance in Shenzhen.

4.4.3 Document No. 44—Milestone of Medical Insurance System Reform

Learning from the experience of the pilots, on January 15, 1997, the CPC central committee and the State Council issued *Decision of the CPC Central Committee and the State Council on Health Reform and Development* (Zhongfa [1997] No. 3). The document reiterated that the purpose of socialist modernization drive was “providing all people with health safeguard and improving the health of the whole nation,”¹¹⁰ which emphasized that the goal of health-care system reform was not just efficiency but also safeguard for everyone. The No. 3 document came up with the target of “initially building the health system with Chinese characteristics by 2000, including health service, medical security and health law enforcement and supervision, basically delivering health safeguard to everyone and further improving people’s health.”¹¹¹ However the means to achieve this target still mainly relied on planning and fiscal input, as evidenced by the quote: “The input of central government and local governments to health should increase every year as the economy grows and should grow at a speed no smaller than that of fiscal expenditure. Efforts should be made to vigorously expand the fund-raising channels of health and extensively mobilize and raise funding from all quarters of society for the development of health.”¹¹² However, medical insurance was not discussed in particular.

It was at the end of 1999 that the approach to medical insurance was specified. On November 26th–27th, 1998, the State Council held a work meeting on reforming the national medical insurance system of employees. In the meeting, experience of all pilots nationwide was summarized and the work on reforming the medical insurance system was formally arranged. In December, the State Council issued *Decision of the State Council to Establish Basic Medical Insurance System for Urban Employees* [Guofa (1998) No. 44], usually known as the No. 44 document. The No. 44 document is a milestone in medical insurance reform. The basic logic of the reform was derived from previous experience of medical reforms nationwide, which was “basic security, extensive coverage, shared contribution and the combination of social pooling, and individual accounts.” In summary, Wu Bangguo, the then Vice Premier, said that we should stay committed to the principle of “low-level security and extensive coverage” to meet employees’ basic medical needs. To figure out the reasonable level of basic medical insurance, the key lies in an appropriate proportion of fund-raising from different sources. In *Decision of the State Council to Establish Basic Medical Insurance System for Urban Employees*, the State Council proposed a standard for macro control of basic

¹¹⁰Decision of the CPC Central Committee and the State Council on Health Reform and Development [No. 3, (1997), January 15th, 1997]. Quoted in Zheng et al. (1999, p. 43).

¹¹¹Ibid.

¹¹²Ibid.

medical insurance for urban employees—employers shall pay around 6% of the total salaries of their employees and employees shall pay around 2% of their own salary.¹¹³

The basic approach of medical care reform was unifying the management of medical care at state’s expenses and that under labor insurance and thus establishing a basic medical insurance system for urban employees nationwide. The basic medical insurance system is at the core of China’s social insurance and the contribution to it is shared by social mutual aid funds and individuals. The design of basic medical insurance took into consideration China’s unique national conditions of huge regional differences on a vast land as well as economy of scale and social fairness. It also learned the lesson from the industrial pooling of old-age insurance, in which case powerful industries declined to participate and thus undermined the mutual aid capacity of local pooling funds. Therefore, the reform adopted territorial management instead of industrial pooling. Payment is controlled to hover around 6%. Payments made by individuals all went to individual accounts; 30% of payments made by employers went to individual accounts and the rest to pooling funds. The principal and interests of individual accounts belonged to individuals and could be carried over and inherited. The pooling funds and individual accounts were managed separately to avoid the former overdrafting from the latter and thus the “empty accounts” of old-age insurance individual accounts. Besides the basic medical insurance, the country also encourages all kinds of complementary medical insurance to satisfy different market needs.

In July, 2000, the State Council held the work meeting on reforming the national basic medical insurance system of urban employees and the medical and health system. The meeting proposed synchronously implementing three reforms, namely, reform of medical insurance, medical and health system and the medicine production and distribution system, marking the formal beginning of reforms on medical systems. By the end of 2000, 70% of the regions adopting prefecture-level pooling started to implement the medical insurance system reform.¹¹⁴

4.5 Employment Injury Insurance and Establishment of Urban and Rural Subsistence Allowance Systems

In the 1990s, with the deepening of marketization, not only major social security systems such as old-age and medical insurance were going through reforms to adapt to new political, economic, and social needs, but also people’s needs for work injury insurance and social assistance were highlighted.

¹¹³Vice Premier Wu Bang Guo’s speech at the opening of the work meeting on the national reform of medical insurance system of urban employees (1998). Quoted in Zheng et al. (1999, pp. 23–25).

¹¹⁴Edited by the Ministry of Labor and Social Security (2007, p. 688).

4.5.1 Reform of Employment Injury Insurance

Labor Insurance Regulations, which was issued in 1951 and amended in 1953, included work injury insurance. Under the circumstances back then, it was labor insurance funds that paid for the benefits of employees with work injuries. As “social insurance” became “business insurance” during the Cultural Revolution, work injury insurance became enterprises’ nonoperating expenditure and hence completely the responsibility of enterprises. In the 1990s, the problems of business work injury insurance, namely, small scope of application, low benefits and weak resistance toward risks, became increasingly serious.¹¹⁵ Under such circumstances, reform on work injury insurance made important progress.

1. Work Injury Insurance No Longer Suited for Socioeconomic Development

Problems that emerged because the old work injury insurance was not in line with socioeconomic development were mainly as follows:

First, the benefits were low and not adequate to meet the livelihood needs of employees with work injury as well as family members of employees who died from work injury. Employees with work injuries or disabilities and family members of employees who died of work injury could not get a lump-sum compensation payment, and the compensation for dependent families was only 25–50% of the salary of the deceased. This could almost sustain the livelihood of one to three people in the 1950s. However, in the 1980s, if the compensation was not increased, it could hardly meet the needs of living necessities. And some workers who had partially or completely lost their labor capacity could not get high pension benefits. Plus, China did not have the mechanism of raising pension and compensation in line with consumption price rises. Therefore, the living standards of employees with work injury dropped by the year even could hardly be sustained any more.¹¹⁶ For example, Wang Jifan, a worker of the iron mine in Phoenix Mountain, Nanjing, Jiangsu province, became completely disabled because of work injury and thus retired in 1962. His compensation was only 28 yuan per month, which remained unchanged for 16 years. The amount was slightly adjusted after 1978, but still reached only 38 yuan in the middle of the 1980s. The compensation for relatives of employees who died from work injury was even lower. Most compensation still followed the standards of the 1950s, except the allowance for living under strained circumstances in 1985, which employees with work injuries and family members of the deceased complained a lot.¹¹⁷ The low benefits led to some disturbances by workers, which seriously affected the order of production and work in enterprises and even social stability. Yang Hua, who used to be the chief of the section of insurance and benefits under the Bureau of Labor, Tieling, Liaoning province,

¹¹⁵Dong Zhichang, Overview of China’s Work Injury Insurance System. Quoted in Zheng et al. (1999, p. 419).

¹¹⁶Xiang (2008b).

¹¹⁷Xiang (2009).

recalled: “In 1996, an employee of a chemical and mechanical factory in Tieling was killed during business trip. The factory already planned to handle his death as death from work injury. However, his family members demanded that the factory send a vehicle to bring the body back. The factory had no choice but to have someone travel thousands of kilometers to transport the body back. Then, the family members demanded that the factory buy a house for them and let the brother of the deceased to work in the factory, and they would not cremate the body until their demands were met. Because of this, the factory spent almost 10,000 yuan on this, and the manager, vice manager and union president were made exhausted by these demands and spent nearly a month trying to settle this incident.”¹¹⁸ Such incidents were often seen back then.

Second, there were no work injury insurance and socialized management, therefore, the role of work injury insurance in mutual aid and risk sharing could not be brought into play.¹¹⁹ This led to many problems. First, small, meager-profit, and loss-making enterprises were economically vulnerable and thus could not guarantee the compensation of work injury. In the first half of 1989, Donggou county (today’s Donggang city) of Liaoning province conducted a survey of 62 households of workers who died from work injuries, and it found out that 41 households could not get compensation on time. Second, in closed and bankrupt enterprises and private and foreign-funded enterprises that did not comply with *Labor Insurance Regulations*, compensation could not be guaranteed for employees with work injury. In 1986, Donggou County Nozzle Plant went bankrupt, as a result, more than ten workers with work injury and families of the deceased workers could not get compensation. Foreign-funded enterprises were mushrooming but did not comply with *Labor Insurance Regulations*. Therefore, their employees with work injury had difficulties in getting compensation. By the end of 1990, foreign-funded enterprises nationwide totaled 30,000, 3000 of which were located in Shenzhen. In a factory processing materials supplied by client in Dongguan, a worker’s finger was cut when he was operating a machine. Later this factory was operated by a Hong Kong businessman. Claiming that the injury did not occur during his term, the new boss refused to compensate. This worker petitioned for as long as half a year before Labor Bureau had to bring the old boss back to address the issue. Third, small enterprises usually could not resist risks on their own. In July, 1989, a fireworks plant in Dongguan, Guangdong province exploded, leading to five dead and three injured. The medical expenses and compensation spent was more than 300,000 yuan. The factory had to close.¹²⁰

In addition, without specific rules and regulation, work injury insurance was not binding enough. Thus, some enterprises declined to comply with the regulations; some enterprises just gave temporary workers salary and disregarded their compensation for work injury; some enterprises concealed work injury incidents or

¹¹⁸Xiang (2009).

¹¹⁹Xiang (2008b).

¹²⁰Xiang (2008b).

handled work injury as non-work injury cases. Such behaviors neither safeguarded the rights and interests of employees nor compelled enterprises to strengthen work safety.

2. Considering Reform of Work Injury

The social needs that existed became a force propelling social change. First, foreign-funded enterprises with experience in modern production and operation expressed their wish to participate in work injury insurance to competent authorities. In some cities in Guangdong, foreign-funded enterprises often asked labor departments about how to get work injury insurance. Their purpose was mainly to diffuse their risks of work injury so that they could focus on operation. In 1984, Min An Insurance Company Limited, from Hong Kong made a proposal of carrying out work injury insurance businesses in Shenzhen to Shenzhen government, who was deeply moved. In May of the same year, Shenzhen government started to investigate and study this issue and made calculations. In August, the government came up with the reform plan of work injury insurance.¹²¹

Starting from the middle of the 1980s, competent authorities in the central government had been considering the reform of work injury insurance. According to Zeng Xianshu, who was once the head of Department of Work Injury under Division of Social Insurance of the Ministry of Labor, in the mid-1980s, the Ministry of Labor started to investigate domestic work injury insurance and to study overseas work injury insurance system, and decided to carry out pilot first before institutionalizing it. The target was to build a modern socialist work injury insurance system.¹²² In December, 1988, the national meeting of directors of labor departments was held, in which Luo Gan, Minister of Labor, proposed to “make good preparation for the reform of work injury insurance.” The Ministry of Labor drafted *Vision for Reforming the Insurance System of Corporate Employees (Discussion Draft)* and solicited opinions on it.¹²³

In March, 1989, Bureau of Insurance and Welfare under the Ministry of Labor held a meeting on reforming the system of social insurance and proposed four principles on reforming the system of work injury insurance: first, insisting on the socialist path; second, adjusting compensation for work injury. Long-term disability compensation and one lump-sum allowance should be given to completely disabled workers depending on the grade of their disability; in the case of death from work injury, funeral allowance, and compensation for lineal family members should be properly raised and the mechanism of lump-sum compensation should be built; third, establishing a mechanism of regularly increasing work injury insurance compensation in line with the rise of consumption prices and people’s living standards; fourth, implementing industry-specific compensation rate and floating rate in line with the principle of “collecting payments based on expenditure and

¹²¹Xiang (2008b).

¹²²Xiang (2009).

¹²³Xiang (2008b).

aiming for slight surplus,” and establishing work injury insurance fund. These principles have been followed until today.¹²⁴

As with the pension reform, the reform of work injury insurance was not smooth. Differences in views and vested interests departments put off the reform. Shenzhen proposed the reform of work injury insurance in 1984, yet it was six years later, on August 1, 1990, that the pilot was initiated across the board.¹²⁵ At late 1980s and early 1990s, besides Shenzhen, other places initiated their reforms as well, which mainly included Haikou city of Hainan province, Dandong city of Liaoning province and Jiangle county, Sanming city of Fujian province.¹²⁶ The biggest problem facing the pilots was that people did not have a unified and proper understanding of work injury insurance. Some leaders and government departments thought that work injury insurance was a commercial insurance and should be the responsibility of insurance companies not labor departments. Some commercial insurance companies launched employer responsibility insurance, which in part met employers’ needs of sharing work injury risks. This delayed the reform of socializing work injury insurance by a long period. Later, long-term communication and exchanges, firmly pushed through by the Ministry of Labor, led to a gradually unified understanding of work injury insurance, which made it clear that that work injury insurance was a social insurance.¹²⁷

After this, reforming work injury insurance was still tortuous. In 1988, the Ministry of Labor drafted *Vision for Reforming the Insurance System of Corporate Employees*. According to this draft, pilots would run for two years, and then for the next three years, provisions of work injury insurance would be discussed and formulated. According to this plan, at the end of 1991, the Ministry of Labor started to formulate *Provisions of Work Injury Insurance of Corporate Employees (Draft)*; in February, 1992, it printed and distributed this draft to labor departments of all provinces, autonomous regions and municipalities as well as ministries, commissions and institutions directly under the State Council, and solicited their opinions. On October 24, 1992, the draft was submitted to the State Council to be examined and approved and was revised for many times in 1993 and 1994. Due to the differences of relevant departments on the social pooling and management of work injury insurance funds, the State Council did not hold meetings to discuss the draft. Later, according to the legislation work plan of the eighth National People’s Congress, a leading group and office for drafting social insurance legislation were established by many departments including the Ministry of Labor, State Planning Commission, State Economic and Trade Commission, State Commission for Restructuring the Economic System, Ministry of Personnel, Ministry of Civil Affairs, Ministry of Health, Ministry of Finance, People’s Bank of China and

¹²⁴Xiang (2008b).

¹²⁵Ibid.

¹²⁶Dong Zhichang, Overview of China’s Work Injury Insurance System. Quoted in Zheng et al. (1999, p. 419).

¹²⁷Xiang (2008a).

All-China Federation of Trade Unions. On May 8, 1995, *Social Insurance Law* (Draft) was submitted to the State Council to be examined. In the draft, work injury insurance was in the sixth chapter and contained altogether 11 clauses. However, as the legislation of social insurance was halted, so was the legislation of work injury insurance.¹²⁸

Although reform of work injury was delayed on the national level, local pilots and practices kept moving forward, which accumulated experience for the national reform of work injury insurance.

3. Pilot of Work Injury Insurance: Liaoning

The pilot of work injury insurance implemented in the late 1980s and early 1990s focused on the social pooling of work injury insurance, establishing work injury insurance funds and setting new standards for identifying work injury insurance and for evaluation grade of disability. These measures aimed at regulating work injury insurance, decreasing the difficulties of operation, easing conflicts arising from the handling of work injury incidents and safeguarding the legitimate rights and interests of injured and disabled workers.¹²⁹ Dandong and Tieling city were the first batch of cities to carry out the pilot reform.

In August, 1989, Donggou county under Dandong municipality started the pilot reform. In December, 1990, Tieling municipality started as well. According to the recalling of Sun Yunbo, who was the first head of Labor Insurance Office of Donggou County and later became the head of Labor Bureau of Donggang municipality, Dandong neighbored North Korea and was thus in a special geographical position; in the late 1980s and early 1990s, Dandong's economic development was not going well. Its first bankrupt enterprise was Donggou Nozzle Plant, and it was quite common that employees with work injury and family members did not get compensation. In 1988, Liaoning province briefed the central government about its to-be-implemented pilots of work injury insurance and asked its localities for opinions. Thus Dandong decided to carry out the pilot. Dandong was also a pilot for labor employment reform and started the pilot of labor contract system for all employees in as early as 1984. In October, 1986, Donggou county established Office of Labor Insurance and started old-age insurance pooling in enterprises owned by the whole people. "At that time, five social insurance reforms were proposed. After the old-age insurance reform was carried out, we turned to work injury insurance. To be frank, without the institutions, we could hardly make the pilot happen," recalled Ma Chengyu, the draft person of Interim Measures of Work Injury Insurance of Employees in Donggou County and deputy head of Office of Labor Insurance in Donggou.

The pilot in Donggou had the following characteristics. First, the coverage was extensive. Foreign-funded enterprises, permanent, contractual and temporary employees, apprentices and probationers were all covered by work injury insurance.

¹²⁸Xiang (2008a).

¹²⁹Edited by the Ministry of Labor and Social Security (2007, p. 289).

Second, benefits were moderately raised. Pension was added if workers retired because they completely or partially lost labor capacity; funeral allowance should be three months' average salary of the employer involved and shall not be less than 300 yuan; compensation shall be offered to lineal family members of the deceased according to *Labor Insurance Regulations*, plus allowance for living under strained circumstances. In cases of death from work injuries, a lump-sum compensation shall be granted, the amount of which was 20 months' salary of the deceased but subject to a minimum of 2000 yuan. Third, the contribution rate was low and varied with industries. The mining industry paid the highest rate, 0.8%, and commerce, the lowest, 0.2%. Fourth, mutual aid was boosted by setting up a reserve of work injury insurance, which was 15% of the total amount in the fund of work injury insurance. Fifth, compensation was provided for workers with old work injuries. Old work injuries that occurred before the employer participated in the insurance was covered by the pooling funds as well. Sixth, a dispute settlement mechanism was established. Should disputes over compensation emerge between employers and employees, they could apply for labor arbitration; should disputes over compensation emerged with Office of Labor Insurance, lawsuits could be filed with the court. These measures were quite effective. By October, 1991, two years after the pilot was initiated, more than 30,000 employees in Donggou county were insured; 1030 employees who were disabled because of work injury and 105 family members of the deceased claimed compensation. The fund surplus reached more than 2 million yuan. The social benefits were prominent.

Tieling municipality in Liaoning province started its reform of work injury insurance later than Donggou County, Dandong. Its biggest feature was municipality-wide pooling. According to the explanation of Yang Hua, the chief of the section of insurance and benefits under the Bureau of Labor, the reason for Tieling's municipality-wide pooling was as follows: In the first half year of 1991, Bureau of Labor of Tieling municipality was learning about the real conditions of Tieling county and Tiefu city. It found out that implementing both municipality-level pooling and county-level pooling would cause many problems. Under Tieling municipality, there were nine counties (cities or districts) and their employees only accounted for half in the whole Tieling municipality. Plus, most well-performing enterprises were concentrated in the downtown area. County-level pooling would have trouble coping with major work injury accidents, and the compensation burden would fall disproportionately between municipality-level and county-level pooling.

From 1985 to 1989, work-injury-induced disabled workers of enterprises in the municipality numbered 620, and deaths 29. The compensation of work injury insurance in 1989 was 390,000 yuan, accounting 0.37% of the total of salaries; work-injury-induced disabled workers of enterprises in the nine counties (cities or districts) numbered 1300, and deaths 94. Their compensation of work injury insurance in 1989 was 1.08 million yuan, accounting 0.9% of the total of salaries. The nine counties had remarkable economic disparities. For example, in 1989, compensation of work injury insurance accounted for 1.3% of total salaries in Faku

county, but only 0.4 and 0.01% in Kangping county and Tiefu city, respectively. In addition, municipal-level pooling would be conducive to unify identification and compensation standards as well as management approaches, which was helpful to work injury insurance. Nine months after the implementation of municipality-level pooling, 919 units were insured and work injury insurance funds collected amounted to 760,000 yuan.¹³⁰

4. Interim Measures on Work Injury Insurance of Corporate Employees (1996) Issued by the Ministry of Labor

The absence of national-level laws and regulations on work injury insurance exerted negative influence on national reform of work injury insurance. Many localities nationwide carried out pilots of work injury insurance, and even issued interim measures or regulations. However, these regulations were not consistent and even hugely different as the central government did not formulate unified policies. For example, *Regulations on Social Work Injury Insurance of Corporate Employees in Guangdong Province* issued in 1992 recognized twelve scenarios that justified compensation of work injury insurance; however, *Interim Regulations on Work Injury Insurance of Corporate Employees in Haikou* issued in 1989 only identified seven kinds of work injuries. Inconsistencies in standards would surely result in contradictions and conflicts in practices, which would ultimately affect the implementation and effects of work injury insurance. This dilemma could only be addressed by promulgating nationally unified legal documents on work injury insurance.

At that time, *Labor Law* had been promulgated and needed supporting measures. However, departments in the central government could not reach a consensus and issue regulations on work injury insurance. Under such circumstances, the Ministry of Labor turned to the less-than-ideal alternative, addressing the issue by promulgating its own regulations. On August 12, 1996, based on the experience of all pilots nationwide, the Ministry of Labor issued *Interim Measures on Work Injury Insurance of Corporate Employees* (No. 266, [1996]), and it was put into trial use on October 1, 1996. This was, in the wake of social pooling for pension and medical insurance, another important reform measure of social pooling of a major social insurance system in the course of developing the socialist market economy since reform and opening up. This document unified local regulations, initially standardized identification criteria, compensation standards and management procedures of work injury insurance and decided to set a work injury insurance fund, all conducive to a regulated work injury insurance system.¹³¹ By the end of 1997, more than 1400 counties and cities from 27 provinces and autonomous regions participated in the reform pilot; 35.07 million employees were insured; the revenue

¹³⁰Xiang (2009).

¹³¹Xiang 2008b.

and expenditure of work injury insurance fund in 1997 was 1.36 billion and 610 million yuan, respectively. The surplus of work injury insurance funds nationwide reached 2.77 billion yuan.¹³²

Interim Measures, as mentioned above, was only a departmental document and thus not binding enough. That is why the insured of work injury insurance has been just around 43 million since 2000. However, this document made clear the scope of work injuries, and set a complete system on issues from identification of work injury, assessment of labor capacity to compensation. As a result, of China's five social insurances, work injury insurance became the most regulated and had the clearest right-obligations specifications. It could satisfy Chinese workers' needs of the most needed compensation after suffering occupational injuries.¹³³ More importantly, the interim measures enabled the whole society to recognize the irreplaceable role of work injury insurance in the course of industrialization, laying a foundation for the issuance of *Regulations on Work-Related Injury Insurance* in 2003.

4.5.2 Establishment of Urban and Rural Subsistence Allowance Systems

In the era of planned economy, the implementation of "job security" led to full employment in urban areas. Most urban residents worked in units owned by the whole of people and by the collective, thus they could enjoy all kinds of social security provided by their units. The government and units would be responsible for employees, cadres and even their family members from cradle to grave. In the 1990s, with the evolution of the socialist market economy, enterprises gradually became main players in the market and gradually stripped away their social responsibilities. Business insurance shifted toward social insurance. The livelihood of individual workers was increasingly influenced by market events. Urban poverty became an increasingly serious issue and China's poverty problem broke out like a contagion. Internationally, economic globalization and the Asian Financial Crisis imposed enormous influence on China's economy. Domestically, the rapid market-oriented economic system remodeling as well as deepening of enterprise reform gave rise to many economic and social conflicts in Chinese cities. The four years from 1993 to 1996 saw continuous rise of consumption prices. After 1993, the economic performance of state-owned enterprises deteriorated rapidly. What's worse, China's social security system was not sound at that time. Therefore, within a few years, a urban poverty-stricken group emerged, and it was mainly composed of the unemployed, laid-off workers, employees from enterprises that were

¹³²Dong Zhichang, Overview of China's Work Injury Insurance System. Quoted in Zheng et al. (1999, p. 419).

¹³³Xiang (2009).

suspended or semi-suspended and retirees whose pension was in arrears and their dependents. To stabilize social order and ease social conflicts, the government at first adopted temporary remedies such as the “heart-warming project,” which only had limited effects and failed to eradicate poverty. Following this, formulating institutionalized permanent measures was put on the agenda.¹³⁴

In 1993, the government of Shanghai municipality announced the building of a minimum living allowance guarantee system for urban residents, the beginning of urban subsistence allowance. At that time, the corporate operation mechanism and employment system reform vigorously promoted in Shanghai led to a batch of unemployed and laid-off workers. Meanwhile, the significant rise in consumption prices further hurt the living standards of some low-income households. As social assistance policies lagged behind, there emerged a group of people whose livelihood was extremely difficult as none of the government, their employer and their family could take care of them. According the instructions of Shanghai municipal government, competent authorities increased the standard compensation for family members of work-injury-induced deaths, and adjusted the 16 kinds of social relief recipients and 10 kinds of social relief standards. This patchy style brought heavy workload, but did not work.

In a municipal meeting held in April, 1993, Bureau of Civil Affairs of Shanghai municipality made a proposal: identifying a subsistence allowance as the benchmark for allowance and assistance in all industries and adjusting it in line with consumption index. This proposal was recognized by municipal leaders and participants. After that, relevant departments such as Bureau of Civil Affairs and Bureau of Labor fleshed out the proposal. After multiple investigations and studies, Bureau of Civil Affairs came up with four plans. The municipal government, after consideration, decided to establish subsistence allowance for urban residents and specified the amount as 20 yuan per person per month. Then Shanghai’s system of subsistence allowance was officially launched on June 1, 1993. The subsistence was adjusted once a year in accordance with the rise in consumption prices. Bureau of Civil Affairs was responsible for adjusting and releasing the subsistence.¹³⁵

In 1994, Ministry of Civil Affairs held the tenth national civil affairs working meeting. It recognized Shanghai’s experience, proposed the reform target of “gradually providing urban social relief recipients with relief set in accordance with their local subsistence allowance benchmark” and arranged pilots for it. By the first half of 1995, another five big and medium-sized cities, namely Xiamen, Qingdao, Dalian, Fuzhou and Guangzhou, set up their subsistence allowance system. After that, another 20 cities implemented this system. At this stage, municipal governments built their urban subsistence allowance system basically on their own.¹³⁶

In May, 1995, Ministry of Civil Affairs held a national meeting on urban subsistence allowance in Xiamen and Qingdao. It asked cities that already put in place

¹³⁴Tang (2009).

¹³⁵Tang (2009).

¹³⁶Tang (2009). Edited by the Ministry of Labor and Social Security (2007, p. 690).

subsistence allowance to introduce their experience and called for scaling up this system nationwide. Pushed by Ministry of Civil Affairs, the system of urban subsistence allowance rapidly spread nationwide. By the end of May, 1997, 206 municipalities built this system, accounting for one-third of China's total number of centrally, provincially and county administered cities.¹³⁷

In September, 1997, the State Council issued *Notice of the State Council on Establishing the Urban Subsistence Allowance System in All Localities* [No. 29 (1997) of the State Council]. The document required that all 668 cities and 1638 municipal towns where county governments were located put in place subsistence allowance by the end of September, 1999. This was indeed realized as scheduled. Of the recipients, 21% previously received allowance from civil affairs departments and 79% were newly covered by the scheme. At the 50th anniversary of the founding of the PRC, subsistence of all localities increased by 30%. In 1999, the State Council issued *Regulations on Urban Residents' Subsistence Allowance*, making the subsistence allowance system an official legal system. According to the estimates of scholars, 4.026 million urban residents received this allowance by the end of 2000.¹³⁸

4.6 Socialized System Building

The 1990s is a key historical stage for China's social security system to be socialized. In this stage, China's social security went through difficult and prudent reforms in all areas, and shook off the model of "security from units" and started the socialization and systemization journey. In July, the State Council considered experience from various localities and reform pilots and came up with some principles: By the end of the twentieth century, building a old-age insurance system that applies to all kinds of urban corporate employees and self-employed personnel and that features diverse sources of funding, multi-tiered security, the combination of social pooling with individual accounts, a balance between rights and obligations and socialized service management.¹³⁹ These principles were meant to apply to old-age insurance but basically reflected the generic targets of China's social security system reform.

During the reform to achieve these targets, the labor insurance set during the early stage of the new China graduated to old-age insurance, medical insurance and unemployment insurance and other kinds of socialized insurance, and job security became job-seeking insurance and then unemployment security. When workers flow in the wake of industrial adjustment and corporate operation changes, larger

¹³⁷Ibid.

¹³⁸Tang (2009). Edited by the Ministry of Labor and Social Security (2007, p. 690).

¹³⁹Decision of the State Council on Building a Unified Basic Old-age Insurance System of Corporate Employees [No. 26, (1997), July 16th, 1999]. Quoted in Zheng et al. (1999, pp. 63–65).

scale and more socialized measures that have greater adjusting capacity emerge one after another to continuously fulfill the country's commitment to labor protection.

The process of socializing social security is a process of breaking boundaries and redistributing interests. In July, 1997, the State Council issued *Decision of the State Council on Building a Unified Basic Old-age Insurance System for Corporate Employees*, and unified the basic old-age insurance system for corporate employees. In August, 1998, the State Council issued *Notice of Handing over Basic Old-age Insurance for Corporate Employees under Provincial Pooling and Industrial Pooling to Local Management*. By the end of August of the same year, the social pooling of 11 industries including rail and power had been handed over to localities for management upgrading, bringing into play the role of old-age insurance in mutual aid. In December, 1998, the State Council issued *Decision of the State Council on Establishing the Basic Medical Insurance System of Urban Employees*, which specified the model and reform direction. In January, 1999, the State Council amended *Regulations on Job-seeking Insurance for State-owned Enterprise Employees* and issued *Regulations on Unemployment Insurance*, which further clarified the coverage scope, fund-raising means, contribution ratio, eligibility criteria, and level of benefits.¹⁴⁰ From the perspective of institutional design, disproportionate burden between enterprises and the society and interests involving industrial pooling were issues that must be addressed. China is too big to allow us to achieve national pooling of all social insurances with one stroke. However, striving for a larger scale pooling is the direction that socialist national building will always point to.

In the 1990s, China successively issued many kinds of national policies and provisions on social security; in 2000, it established the national social security fund; On October 11, 2000, the fifth plenum of the 15th party congress adopted *Suggestions of the CPC Central Committee on Formulating the Tenth Five-year Plan of National Economic and Social Development*, which specified the following target: accelerating the building of a socialized social security system that is independent of enterprises and public institutions and that features diverse sources of funding, regulated security system and socialized social services. If this target was achieved, labor would no longer "be owned by their units" and their units would no longer "be responsible for their social security". Instead, the country would be responsible for granting labor social protection through social insurances. Social insurances mean that the funding of social security mainly comes from contribution from enterprises and individuals complemented by the government's fiscal subsidies, which is a multi-channel and diverse collection system of social security funding. Under this system, social security is governed by unified regulations, standards, procedures and management. Management and supervision is undertaken by dedicated social service institutions. Chinese people gradually shift their identification with "work units" to the country.

¹⁴⁰Edited by the Ministry of Labor and Social Security (2007, p. 15).

Chapter 5

Toward Social Equity—Reform in Twenty-first Century

As early as the beginning of “reform and opening up,” Deng Xiaoping has already said that we should solve the subsistence problem for hundreds of millions of people. January 1, 1984, the CPC Central Committee issued the *Notice on Rural Affairs in 1984*, pointing out “As division of labor appears and develops in rural areas, increasingly more people will quit cultivation and turn to forestry, fishery, and livestock production and also a great part of people will turn to small-scale industries or service industry in small towns. This inevitable historic progress could create favorable conditions for expanding agricultural production and changing population distribution and industrial layout. If we cannot solve the “subsistence problem of 800 million farmers,” if they have no way to become rich, if our country fails to become rich, we thus cannot realize the Four Modernizations.”¹

In 1980s and 1990s, China’s social security reforms were mainly carried out in cities, aiming at solving problems caused by economic restructuring, such as the lack of social security, and its insufficiency and unsustainability. After entering the twenty-first century, China’s market economy has constantly developed, economy base has become stronger, and urban residents’ livelihood has been greatly improved. However, inequitable distribution also showed up and became more and more serious. Apart from income disparities, there were also big gaps in the social insurance system. Different benefit levels, large amount of rural laborers that were not covered by the social security system and other problems attracted many concerns and caused hot debates. As large rural labor force migrated to towns and cities to work or do some business, if they cannot enjoy social security, China would not put an end to its backwardness, and for the ruling party, its first leaders’ modernization dream would not come true.

¹The “subsistence problem” was raised by Deng Xiaoping in the *Opening Remarks for the National Science Conference*. He said “What about our production technology? Now there are still hundreds of millions of people facing subsistence problem, thus in fact, we haven’t solved the food security problem.”

5.1 Farmers and Social Security

Since 1980s, Chinese labor force experienced an unprecedented migration. They followed the trend of the time and seized opportunities to change their jobs and find jobs in other cities. More important, plenty of rural residents left their hometown and migrated to coastal cities and central cities. This migration created billions of new jobs, countless wealth, but also shook urban–rural “dualism” formed since the founding of New China.

In 1980s and 1990s, social security reforms mainly targeted on urban employees. Although modernization, reform, and opening up quickly expanded this group of people, they were still the minority. Until twenty-first century, among 1.3 billion Chinese people, over 0.9 billion were registered as “peasants.” Many of them (over 200 million) already migrated to towns and cities, but these migrant workers were not covered by urban social security, because they were “peasants.” While in their hometown, due to their leaving and changes of production mode and scale, the traditional rural security system suffered structural damages and needed repair and reconstruction.

5.1.1 *Transformation of Peasant Society and First Attempts to Reform Pension Security System in Rural Areas*

An important driving force for China’s fast economic and social development is millions of farmers’ impulse to get rich through hard work. This impulse was totally released by household responsibility system adopted in the early years of reform and opening up. This system enabled households to replace collectivity to organize, decide, and carry out economic production. Then agricultural products could be sold in the free market, which attracted some farmers to collect agricultural products with local markets. As commodity markets expanded, transport infrastructure developed, coastal labor markets opened, and job opportunities increased, a large amount of young peasants left their countryside, left fields, and mountains to work or do business in mines, factories, and cities. These migrant workers offered services, created wealth, and changed both themselves and traditional Chinese society. It was estimated that in 1983, migrant workers were 2 million, in 1984, this figure went up to 6.3 million, 1985, 11 million, and since then it kept an increase of 5 million every year.² According to data of the National Bureau of Statistics, until the end of 2008, the number of Chinese migrant workers reached 225.42 million, among whom 8.5 million worked in local cities, while 140 million in other remote cities. And 28.92 workers went to cities with their whole families, thus became

²Gu (2015).

urban residents in reality.³ Such a large scale of labor flow and human migration changed not only the original social ecology in rural areas, but also China's job market and employment environment in urban areas. Moreover, the big group of 200 million migrant workers is rebuilding China's labor relations, including social security relations.

In very long time, Chinese migrant workers held a special social identity. The reason why they are called "migrant workers" is that they are workers, but their identity is farmers. They lived in urban areas due to work, but their "hukou" is in their hometowns, remote countryside. Migrant workers keep special relationships with land, in the sense of social security; they can enjoy "land security." Thus, although migrant workers are engaged in industrial or other non-agricultural work, although they are similar to urban employees and even face more industrial risks than other full-time workers, they are excluded from social insurances that are relevant to statutory "urban employees." Migrant workers also likely take seasonal or temporary jobs, but legal labor insurance measures and social security benefits are not stipulated in temporary contracts. In 2005, *China Labor* reported a labor dispute occurred in Shanghang County, Fujian Province in 2003. In this case, some migrant workers worked for a tobacco company for over 20 years, but were treated like temporary workers without same social insurance benefits as other employees. These migrant workers were in a dilemma between urban security and rural security systems, and had no choice but to turn to the law. At that time, such case was not rare.⁴

Mr. Lai and 2 colleagues used a tobacco company in Shanghang County (Abridged by the author).⁵

Mr. Lai and his two colleagues are peasants from Shanghang County, Fujian Province, and were employed by a tobacco company as contract workers in 1980s. By September 2003, they had worked for over 20 years and their contract would soon expire. When leaving the company, Mr. Lai and his colleagues found themselves out of the social insurance scheme because they were migrant workers. After 20 years' working, they were all in their 40s or 50s, but even could not enjoy unemployment insurance. What was worse, as they had not participated in pension insurance, they could not get retirement benefits when getting old. While in their hometown, as they were considered as urban employees, their farming land had already been taken back. They required the company to pay social insurance premiums, but the company thought that migrant workers were different from urban workers. April 2, 2004, Mr. Lai et his colleagues filed an appeal to Shanghang labor dispute arbitration committee, claiming:

³The State Statistics Bureau: *Investigation Report on Migrant Workers Nationwide in 2013*, http://www.stats.gov.cn/tjsj/zxfb/201405/t20140512_551585.html.

⁴Hua (2005).

⁵Hua (2005).

1. The company shall, in accordance with laws and regulations, make up social insurance premiums from the beginning of their work to March 2004.
2. The company shall, in accordance with laws and regulations, pay social insurance premiums.

Shanghang labor dispute arbitration committee placed this case on file. The investigation proved what the claimants said to be true; therefore, at the hearing on May 21, 2004, the committee returned a verdict in accordance with relevant laws and regulations:

1. In accordance with the *Labor Law*, Article 72, the respondent party, Shanghang Tobacco Company shall make up the payment of pension insurance premiums from the beginning of the claimants' work to October 2003.
2. The claimants were still hired since November 2003 to do the original work on the original post; therefore, the two sides have formed the factual labor relations. In accordance with the *Labor Law* and the *Fujian Province Labor Contract Regulations*, the two sides shall sign labor contracts, employers, and employees shall participate in the social insurance scheme and pay social insurance premiums. The complainants who have been working in the respondent party for 20 years, proposed to sign labor contracts without a fixed term which shall be signed.

Social changes such as the implementation of the household responsibility system, the development of socialist market economy, and the migration of more than 200 million workers, brought many structural social changes in the vast rural areas. First, due to the change of industrial structure and the decline of collective economy, rural household income became increasingly instable, a lot of young workers outflowed to urban areas which provided more labor force to cities but also exacerbated the aging of rural population and the problem of supporting old rural residents. Second, due to restrictions of hukou and other reasons, migrant workers did not join the urban social insurance scheme, so they failed to accumulate social benefits against old age, diseases, and other risks at the peak of their labor capacity, and could only rely on personal savings and family as a final resort to get security. This trend would definitely increased social risks, and caused problem of poverty caused illness, return to poverty caused by injury, and lack of support for the elderly, which would become serious social phenomenon.

Initially, the poverty faced by rural old people was mainly solved by the government through social relief. Since the 1980s, research findings and policy suggestions of the World Bank, and other international development agencies on aging were widely spread in China, and China's social security sector also started to explore various programs to deal with an aging society. In 1986, the Ministry of Civil Affairs began to explore the reform of the rural pension system, and the proposal of establishing the rural endowment insurance system was written into the Seventh Five-year Plan. Under the condition that farmers began to work in cities, and their income increased, the rural pilot programs of pension funds was first launched in Jiangsu and Zhejiang provinces, and then five counties in Shandong

Province to 1991. In 1992, based on the experience of pilot programs, the *Basic Endowment Insurance Plan of County Level (Trial)* was issued. In 1995, the General Office of the State Council issued an approval to recognize the importance of rural pension insurance pilots. From 1995 to 1997, 2123 of China's total 2900 counties introduced the rural endowment insurance system, with a participation ratio of 9.47%.

However, at that time, the reform enthusiasm was pretty high while theory and practice preparations were far from enough. The initial reforms did not adequately take into account the flow of farmers and the flexibility of rural employment, and other necessary conditions for the establishment of the social insurance system. The reform mainly aimed at rural populations, with individual contributions as the major part, collective subsidies as a supplement, and national policies as a support. The main approach was to save and accumulate insurance funds in individual accounts, namely, individual contributions and collective subsidies were all saved in personal accounts. During the accumulation period, if the interest rate changed, interests of insurance funds would be calculated according to the prevailing one. When the insured reach 60, pension payment standard would be set according to principal and interest accumulated in personal accounts and the average life expectancy.⁶ The objective of this first attempt was to: change the old-age models such as “five guarantees for households” and “nursing homes for the elderly” which could hardly function due to the decline of collective economy. The main idea was to turn collective responsibilities into individual responsibilities, establish personal accounts guaranteed by the government to save individual contributions, and thus accumulate old-age pensions for farmers.

However, compared to industrial income, agricultural income was very instable. Employees in the industrial sector and other non-agricultural sectors had relatively fixed monthly income, while farmers' income was mainly on an annual basis, depending on every year's harvests. In addition, a large proportion of agricultural income was income in-kind income which was already a kind of security but difficult to be calculated in social insurance. The initial reform program was to directly change the security in kind into the security in cash. The instability of agricultural income inevitably resulted in the uncertainty of rural endowment insurance payment, and difficulties for collecting pension funds in rural areas which mainly relied on individual contributions. What was more, due to the small capital scale of individual accounts and the lack of fund management talents, rural pensions funds were difficult to operate and manage? Therefore, pilot programs of rural endowment insurance encountered many difficulties from the very start, some accumulated pension funds faced sustainability risks, some interest calculation standards were too high, and some funds suffered defective financial regulations.

After the Ministry of Labor and Social Security was established in 1998, the State Council assigned the rural endowment insurance work to it. The Ministry

⁶Editing Committee of the Teaching Materials for the National Cadre Training (2006, p. 148).

followed the instructions of the State Council which stated that “our rural areas do not have the condition to widely implement the social security”⁷ and proposed to rectify rural endowment insurance originally carried out by the civil affairs system. In July 1999, the State Council approved and forwarded this proposal, and in March 2000, the Ministry of Labor and Social Security began to rectify and standardize rural endowment insurance funds, got back risky funds, reduced interest calculation standard for personal accounts, revised the financial accounting system, and improved the pension calculation and payment approaches. By the end of 2005, 1900 counties in 31 provinces (autonomous regions and municipalities) carried out rural pension insurance work. 54.41 million people participated in the rural endowment insurance, representing 7% of the agricultural labor force, the funds reached 31.02 billion yuan and 3,018,000 people received old-age pensions.⁸ From the perspective of system exploration, this reform could be considered as an attempt from which we could accumulate experience and draw lessons.

In this period, rural health-care security also experienced a big change. In late 1950s, according to the experience of Base Areas, and relying on the collective economic resources, people’s communes developed the rural cooperative medical system which covered 90% of the administrative villages (production teams) by 1980. The rural cooperative medical system, together with rural health stations and the “barefoot doctor” system, tried to solve the health-care problems for farmers under poor economic conditions and played a positive role in solving problems, such as the lack of medicines and disability caused by illness. The life expectancy for Chinese population increased from 35 years old in 1949 to 65 years old.⁹ Even with influences of wars taken into consideration, medical and health conditions in China’s rural areas were greatly improved, for example, the schistosomiasis raging for many years was eliminated.

Rural economic reform motivated rural labor force, but at the same time also weakened the rural collective economy. Relying on the collective economy, the rural cooperative health-care system could not operate any longer, the administrative villages covered by cooperative health care dropped to about 5%, and village clinics were closed or converted to private clinics. Farmers frequently face problems of unaffordable and inadequate medical services and suffered from poverty caused by illness. Migrant workers in particular, brought urban risks into the countryside, because the sick or disabled migrant workers were not covered by the urban health care, and could only went back to their hometowns, bringing impacts of illness and disability to their family.¹⁰

⁷Edited by the Ministry of Labor and Social Security (2007, p. 691).

⁸Editing Committee of the Teaching Materials for the National Cadre Training (2006, p. 149).

⁹Editing Committee of the Teaching Materials for the National Cadre Training (2006, p. 211).

¹⁰Editing Committee of the Teaching Materials for the National Cadre Training (2006, pp. 149, 212–216).

5.1.2 The Social Security for “Migrant Workers”

The “tidal wave of migrant workers” is a unique phenomenon in the development history of social development in contemporary China. The most vivid example is the tide of migrant workers returning home before every Spring Festival and flooding back to work in cities after the Festival. Compared with the labor flow in the process of industrialization in other developed countries, migrant workers in China go to cities in a semi-organized and semi-secured way. They work in cities, and at the same time get guarantee from their land and relatives in the countryside. Migrant workers have created a dense network between urban and rural areas, and gradually eroded and broken the barriers that separated urban areas from rural areas for so many years.

The “land tenure security” is another unique phenomenon in the social transition period in China’s rural areas. The tenure security made it possible for early migrant workers to choose urban jobs with flexibility, and employment in urban areas provided migrant workers with opportunities to increase their income and improve their livelihoods. Hundreds of millions of migrant workers have made an irreplaceable contribution to the rapid development of China’s industrialization and urbanization, while the “land tenure security” was a basic condition for their contribution. However, with the deepening of reform and the development of urban and rural economy, the “tenure security” for migrant workers in their hometown changed, some land was requisitioned for economic and transportation development, some land experienced a transfer, thus for migrant worker who are in cities for long time, the nature of “land tenure security” has already changed. In cities and towns, the nature of migrant workers’ jobs, working environment, and conditions are also changing. Most migrant workers used to do small business in urban areas but then they gradually became industrial workers engaged in construction, transportation, and mining projects. Traditional social protection in rural areas could hardly cover various industrial and social risks migrant workers encounter.

Just take the old-age risk for example: both migrant workers and urban workers are faced with the issue of old age. But many migrant workers have lost their farming skills because they are not engaged in agriculture for a long time, thus it is impossible for these workers to work on the land after retirement, some other workers have already lost their “land tenure security” due to land transfer or other reasons. As many migrant workers do not join the urban pension insurance scheme, after retirement, they cannot receive a fixed amount of monthly pension as urban workers. Personal savings and their family thus become migrant workers’ final support, but quite unreliable.

Why such a large group of workers are exposed to pension risk for long time? How can we develop social security for these people? Massive research reports show that there were three kinds of exploration in China in this period:

The first approach was to include migrant workers in the old-age insurance system for urban employees, but it could only be adopted for migrant workers with stable work and stable income. However, most migrant workers were flexible in

employment, and had characteristics of inter-regional migration, low income, and instability. Studies show that by 2005, the minimum standard wage varied from 235 yuan/month to 684 yuan/month.¹¹ Employers that pay the minimum wage are often unable to afford social insurance or other benefits. In addition, too flexible employment makes it difficult to calculate continuously insurance contributions, and as wages of migrant workers are often not necessarily paid monthly, it is difficult to calculate the contribution bases for social insurance. Even if migrant workers have record of continuous social insurance contributions, when they return home, they could not take pensions paid by their employers to home, because migrant workers tend to work in different provinces, and pension funds in different provinces are still separate. Since the national pooling of pension funds has not been achieved, although the national labor market is taking shape, the social security system is still divided and cannot solve the problem of “portability loss” of migrant workers’ insurance rights and interests and the risk of “stopping paying insurance.”¹² The result is that most migrant workers voluntarily choose not to participate in the old-age insurance scheme.

The second approach was to establish an endowment insurance system which was specifically for migrant workers and different from the system for urban workers. This system employed the framework of the old-age insurance system for urban employees but set “double low” standards, namely, the contribution ratios for both employers and migrant workers were lowered 12 and 4%, respectively. The problem of this system lay in the wide gap between insurance benefits for migrant workers and urban employees. With such system, it would be difficult to coordinate two different schemes, and employers would also tend to reduce labor costs by paying migrant workers’ pension funds at a lower contribution ratio, resulting in the “race to the bottom” of welfare. For migrant workers who had already participated in the basic old-age insurance for urban workers, this arrangement would lower the level of their benefits. However, if follow the urban system with a contribution ratio of 20% for employers and 8% for employees, the burden was too heavy for small businesses and a considerable number of migrant workers and their employers choose to “exit” the pension plan. In practice, in order to cut expenses, some migrant workers indeed did not participate in the endowment insurance and other social insurances, or even required before returning home at the Spring Festival to exit the scheme they had participate in.¹³ In 2004, the number of urban employment was 265 million, while only 126 million employees participated in the old-age insurance. Since urban employees would generally be insured, it can be inferred

¹¹Research Group of the Institute of Labor Science under the Ministry of Labor and Social Security (2005).

¹²When migrant workers return to their hometown, pension funds accumulated for years cannot be transferred with them, thus the workers may suffer from the “portability loss” which make migrant workers would not like to participate in the endowment insurance scheme, and also severely damage the fairness of the endowment insurance system Liu and Cheng (2008).

¹³Chen and Rong (2011).

that most informal workers, including migrant workers, did not join the insurance scheme.¹⁴

The third approach is to implement a comprehensive insurance for migrant workers and non-urban household workers in a few relatively well-developed cities, such as Shanghai and Guangzhou. Since September 1, 2002, Shanghai implemented the comprehensive insurance for migrant workers, providing benefits of commercial insurance or social insurances including work-related injury or accidental injury insurance, health-care insurance, and endowment insurance.

The above diverse approaches were kept until the new generation of migrant workers appeared. Zhang Junliang and others scholars conducted more than 400 questionnaires in several cities in Sichuan Province and concluded that: for the second generation of migrant workers, born in and after the 1980s, although they still registered for the rural household, most of them chose to do non-agricultural work in other places. Compared to their parents, the younger migrant workers with skills of higher level were more engaged in industrialization and urbanization, they were more willing to participate in technical training, more accustomed to urban life, and they had stronger will to get a stable job and develop their careers in cities. But their dual identity of “rural people” and “urban dwellers” made it difficult for the new generation to enjoy equally the fruits of industrialization and urbanization; as a result, they had greater mobility than their parents.¹⁵ A sample survey conducted in Jiangsu Province in 2008 showed that the frequency of job-hopping of the new generation was about 0.45 time every year on average, almost six times higher than that of traditional migrant workers.¹⁶ In addition to the endowment insurance, migrant workers’ participation in job-related injury insurance and health-care insurance was also very limited, and the benefit level for them was not high. Such situation increased the social risks migrant workers face, and it is also not good to achieve balanced economic and social development in China.

While the situation of migrant workers changed, the government’s policy on migrant workers has always been adjusted to these changes. In the early years of reform and opening up, the main policy for migrant workers was “administrative examination and approval” and “quota control,” namely, to control the number of migrant workers through planning and setting quotas. To the mid-1990s, a large number of migrant workers spontaneously flooded into towns and cities, the central government’s policy turned into “strengthening management,” “providing protection in accordance with law” and “attaching same attention to management and service.” Just in 1997, three documents concerning migrant workers were issued in order to protect the rights of migrant workers, strengthen training for young migrant workers, and standardizing inspections on production safety. Since the twenty-first

¹⁴Research Group of the Institute of Labor Science under the Ministry of Labor and Social Security (2005).

¹⁵Zhang et al. (2013).

¹⁶Qin Lijian, Yang Qian, Huang Yixiang: Research and Review on the Transfer and Continuation of the Basic Medical Insurance in Different Regions for Migrant Workers, *China Health Economics*, No. 2, Vol 34. (No. 384 in all).

century, the government's policy has paid more attention to social vulnerable groups, social fairness, and justice, and began to organize studies on skill training, labor protection and social security for migrant workers. Some cities have developed work-related injury insurance for migrant workers, and accident insurance especially for those did work at heights and other work of great danger. Public institutions for occupational disease prevention and treatment began to provide services for migrant workers. Some key cities, such as Beijing and Guangzhou, took the lead to remove system barriers for migrant workers to participate in pension, health care, and work-related injury insurances, and basically established a system the provides same benefits for migrant workers and urban workers.

The social security of migrant workers has attracted great attention of China's leaders. The then General Secretary of the CPC, Hu Jintao put forward twice the idea that "industry nurtures agriculture, urban areas nurture rural areas" at the Fourth Plenary Session of the 16th Central Committee and the 2004 Economic Work Conference. Later, the State Council issued *Several Opinions of the State Council on Settling Issues on Rural Migrant Workers* [No. 5 (2006) of the State Council], proposed to explore pension insurance approaches that fit migrant workers and give priority to the work-related injury insurance and health care for serious diseases. The *Opinions* asked regions to establish a fund for serious disease medical insurance, and focus on the health care for migrant workers during their treatment in hospitals. The document even mentioned that the contribution ration should be set reasonably according to actual conditions, and insurance expenses should be mainly borne by employers. Besides, taking into account the mobility and diversity of migrant workers, the State Council's document also proposed to provide settlement services for migrant workers willing to receive treatment back at home after getting serious diseases. Where conditions permitted, migrant workers with stable work could be directly included in basic medical insurance scheme for urban employees. Migrant workers could also voluntarily participate in the new rural cooperative medical system in their hometown. The *Several Opinions of the State Council on Settling Issues on Rural Migrant Workers* is an important policy basis for promoting the development of the social security system for migrant workers.

Several Opinions of the State Council on Settling Issues on Rural Migrant Workers [issued by the State Council, No. 5 (2006)].¹⁷

Six, actively and steadily solve social security issues for migrant workers.

16. We will pay great attention on the social security for migrant workers. Based on their most urgent needs, we will issue different guiding opinions for different insurances, promoting the social insurance work in a steady way, give top priority to the employment injury insurance and the health care for serious

¹⁷*Several Opinions of the State Council on Settling Issues on Rural Migrant Workers* [issued by the State Council, No. 5, (2006)], http://www.gov.cn/zhuanti/2015-06/13/content_2878968.htm.

illness, and then gradually advance the endowment insurance. The social security to migrant workers should adapt to their high mobility, thus the insurance relationship and benefits should be able to be transferred and continued in order to protect the workers' interests and rights in mobile employment. Since the income of migrant workers is relatively low, the social security should also implement a low standard and gradual transition in order to motivate employers and migrant workers to participate in the insurance.

17. We will include migrant workers into the work-related injury insurance in accordance with law. Governments at all regions should seriously implement the Regulation on Work-related Injury Insurance. Employers must go through formalities in time to help their employees participate in the work-related injury insurance and pay insurance premiums in full and on time. After any worker is injured due to work, employers must accomplish ascertainment of the work-related injury, work capability assessment and pay insurance benefits. If the injury occurs on any worker who has not participated into the insurance, employers should still pay insurance benefits according to the regulation. Currently, we should accelerate the participation in industries that have more migrant workers and higher work-related injury risks, such as the construction industry, the coal exploitation industry, and so on. The construction industry should also pay the personal accident insurance for workers who do high-risk work.
18. We will solve as soon as possible the health care for serious illness for migrant workers. All coordinating areas should formulate regulations on the social pooling of the health care for serious illness, and give priority to solve the medical care during hospitalization for migrant workers in urban areas. Competent authorities should fix the contribution ratio according to regional realities, and the contribution should be mainly borne by employers. We will also improve the settlement of medical insurance fees and offer settlement service to the insured workers who would like to be cured back in their hometown. In conditions permit, migrant workers with stable work could be directly included in the Basic Medical Insurance System for Urban Employees. They could also join the New-type Rural Cooperative Medical Insurance in their hometown if they are willing to.
19. We will explore an endowment insurance that fits farmers, who have a low contribution ratio, wide coverage, and can be transferred and connected with the currently existent endowment insurance system. If conditions permit, migrant workers with stable work could be directly included in the Basic Endowment Insurance System for Urban Employees. If migrant workers have already participated in the urban system, employers should continue to pay insurance premiums for them. And departments of labor and security should formulate as soon as possible regulations on transferring and continuing the endowment insurance relationship for migrant workers in different regions.

5.1.3 *The New Rural Old-Age Insurance*

Since the twenty-first century, China has launched pilot reforms of the old-age insurance for urban enterprise employees for more than 20 years, and established a basically stable system, thus the peasant endowment insurance also needed to develop. At the beginning of 2006, the CPC Central Committee and the State Council successively issued the *Opinions on Promoting the Construction of New Socialist Countryside* [No. 1 (2006) of the Central Committee], *Several Opinions of the State Council on Settling Issues on Rural Migrant Workers* [No. 5 (2006) of the State Council] and other important documents, put forward the issue of developing rural social insurance system, and gave absolute priority in the “Eleventh Five-Year Plan” to the establishment of the rural social insurance system which suited economic development. The documents also clearly stipulated the social insurance work for landless peasants, migrant workers, and farmers. This was a milestone for establishing the new rural old-age insurance system. Before, pension insurance work for farmers were carried out separately in provinces and municipalities. By the end of 2005, 1900 counties (cities, districts, and banners) in 31 provinces, autonomous regions, and municipalities directly under the central government had already worked on the rural old-age insurance. A total of 53.64 million farmers participated in the insurance scheme, accumulated insurance funds reached 30.5 billion yuan, more than 2.7 million insured farmers received pensions, 4 million farmers whose land was requisitioned were included in the social security system, and more than 40 billion yuan pension funds was raised.¹⁸ However, the old-age insurance in different regions were separately managed, there was no unified understanding, system, standards, coverage, or replacement rates for farmers’ old-age insurance, the level of security was low, and management methods were relatively backward.

Although the system stipulates that the basic urban old-age insurance system should cover all the workers in urban enterprises, including migrant workers, its contribution standard is too high (20% of the total wages for employers and 8% of person wage for employees) for migrant workers whose wages are very low and their employers whose affordability is limited. In addition, the employment of migrant workers is not stable, their movement direction is not clear, usually between urban and rural areas, and in the case of transferring urban pension insurance, only funds in individual accounts can be transferred, social pooling funds cannot, so some migrant workers often choose to exit the insurance scheme when they leave cities to draw pensions accumulated in their individual accounts, more migrant workers choose not to participate in the insurance scheme. Therefore, there is a gap of insurance benefits between migrant workers and urban workers.

Addressing the social security issue for one billion peasants is an unprecedented big problem. Compared with the early industrialized countries, China’s situation is very special. The absolute number of Chinese farmers is far larger than that of any

¹⁸Chang (2006).

other country, and the relative number is also among the biggest in the world. What's more, the overall income of China's farmers is low and poor people mainly live in rural areas. The gap between urban and rural areas is far wider than that in developed countries, and it is estimated that this situation will still exist for some time.¹⁹ In the history of mankind, there is not any precedent or experience in successfully establishing the endowment insurance in such a large low-income group.

On how to solve the problem of the endowment insurance for China's farmers, people's opinions differ a lot.

Some people think that, as farmers have the right to land contract and could get agricultural benefits, another pension insurance system different from that for urban employees should be established specially for farmers. For example, a lower level system could be set up, which not only reduces the cumbersome management for means test of the minimum pension system, but also cuts down costs for managing pension funds. Such system is more suitable for farmers whose income is instable and difficult to count by money.

Some propos that, in order to facilitate the future connection between the urban system and the rural system, and to stimulate farmers' participation, the pension insurance system for famers should be similar to that for urban workers, namely the rural system should combine the social pooling with individual accounts.

Other people suggest that in order to simplify the pension insurance system and enhance the insurance portability to meet demands of farmers with great mobility, a system with individual accounts should be established.

Chen Peiyong of the Office of Legislative Affairs of the State Council believes that the first system design is easy to operate, favorable to reduce management costs, and more suitable for farmers' income features, but it demands more payment from the state, and is not conducive to motivate farmers to work hard, in other words, this system may accustom farmers to "waiting for, relying on, asking for" the pension insurance. The second system design is more complex, and the costs on calculating contribution bases and managing pension funds are higher. What's more, the pilot programs in the early 1990s prove that it is difficult implement the individual contribution method among farmers who mainly rely on agricultural labor and whose affordability is limited. Thus this system faces a risk of unsustainability. The third system design is relatively simple and suitable for farmers' feature of strong mobility, but it also has problems like unsustainability and the difficulty in individual contribution.²⁰

In order to address the endowment insurance issue for migrant workers, local governments also tried various approaches; for example, some regions implemented a low contribution ratio (12% of the total wages for employers and 4–8% for individuals according to their income). Some regions took mandatory measures, such as "sealing contribution records and blocking individual accounts" to retain

¹⁹Chen and Rong (2011).

²⁰Chen and Rong (2011).

interests and rights of farmers who suspended contribution due to return home, issuing payment voucher to solve the transfer of interests and rights for farmers who in other regions, and stopping dealing with the “insurance cancellation.” By the end of 2008, 24.16 million migrant workers have participated in the urban pension insurance, accounting for only 17% of the total migrant workers.

Based on experience of local pilot programs, on September 1, 2009, the State Council issued a document²¹ to stipulate that in order to guarantee the basic livelihood of the rural elderly, a new-type old-age insurance system for rural residents which combines individual contributions, collective subsidies and government subsidies, and which can work in line with other social security policies such as family pension, land tenure security and social assistance, should be established. At this point, the reform of the pension insurance system for farmers has been taking shape. After repeated deliberation, consultation, pilot trials, and demonstration, a system that comprises the basic pension mechanism and the individual accounts was adopted. The basic pension mechanism is a generalized system of preference which provides farmers with 55 yuan per month, paid by the state finance, totally in central and western regions, and half in the east. For the old who reach 60 years old, as long as their children contribute insurance premiums, they can enjoy the basic pension.²²

August 2009, at a press conference held by the State Council Information Office, Hu Xiaoyi, Vice Minister of Human Resources, and Social Security announced that before the National Day in 2009, the new rural pension insurance pilot would be launched in rural areas, covering 10% of the country’s counties (cities/districts/banners). The new system is totally different from the old system in terms of the financing structure. The old system was mainly financed by farmers themselves, thus it was in fact a model of self-saving. The new system is combination of individual contribution, collective subsidy and government subsidy, and the central government would subsidize the local government and even the farmers directly.

More specifically, the “new old-age insurance system for rural residents” takes agricultural employment and social needs into full consideration, and was established on the principle of “ensuring basic livelihoods, realizing broad coverage, being flexible, and being sustainable.” Its level is not high; the standards of fund-raising and insurance benefits were set according to the affordability of local economic and social conditions. Although the new system is still guided by the government, it mainly functions in the way that the government encourages farmers to participate in insurance voluntarily and the system was first implemented in pilot programs and then spread all over the country. In the new system, basic pensions are paid by both central and local governments, and the level is low in order to solve the difficulty of collecting fees. As different regions have different situations,

²¹The *Guiding Opinions of the State Council on Carrying out the Pilot Projects for Establishing a New Type Old-age Insurance System for Rural Residents* [No. 32 (2009) by the State Council].

²²Zou (2009).

local governments have the right to independently decide the amount of basic pensions they pay according to their own affordability. The bottom line was set at 55 yuan without an upper limit, for example, basic pensions reached 280 yuan in Beijing which just spent 1 year achieving the full coverage. The basic pension mechanism is in nature a social redistribution system. After the pilot programs were spread, China's farmers of 60 years old or above, could all enjoy the universally beneficial pension. Besides the basic pension mechanism, the new system also comprises individual accounts where are easy to be transferred with participants and in which the insured could save pension funds voluntarily of fixed amounts.

The new system covers a very wide range, except students, those who reach 16 years old and did not participate in the old-age insurance system for urban employees can participate in the new-type old-age insurance system for rural residents through voluntary contributions; rural residents over 60 years old, as long as their children join the new system, need not pay the insurance anymore and could directly enjoy basic pensions provided by central and local governments. As to individual accounts of the new system, participants could voluntarily pay the contribution of eight "fixed amounts": 100, 200, 300, 400, 500, 600, 800, or 1000 yuan eight every year (but the last three levels have not been implemented in reality). Pension benefits are offered in accordance with the length and the number of participants' contribution, the more they have paid, the more benefits they can receive. Migrant workers can also participate in the new system. They always have great mobility, some would choose to stay in cities for long time, and some choose to return to the countryside when getting old. Therefore, migrant workers have two choices, one is to participate in the insurance system for urban employees, but they must pay the insurance premiums in the town of city they live for at least 15 years in total; the other choice is to participate in the new old-age insurance system for rural residents, and transfer their pension funds accumulated in their urban pension insurance accounts into their individual accounts of the new system and then receive pensions in accordance with relevant provisions.

Pilots of the new rural old-age insurance show that no matter in developed or underdeveloped areas, subsidies of local governments have always played an important role. In affluent areas such as Suzhou, Jiangsu Province, the government subsidy reached 50–60% for migrant workers. While in underdeveloped areas, the government also provided some subsidies. Many farmers believe that although they have to pay the insurance, without individual contribution, they will lose government subsidies.

5.1.4 The New Rural Cooperative Medical System ("NCMS")

China's rural health-care reform has experienced many changes. As early as 1974, China's farmers themselves created a rural cooperative medical insurance system

which attracted extensive attention at the 27th World Health Assembly. The UNICEF's 1980–1981 annual report particularly noted that China's "barefoot doctors" system provided primary care for farmers in backward rural areas, setting an example for underdeveloped countries to improve the health care.²³ By the early 1980s, as the rural collective economic system gradually collapsed, barefoot doctors and village health clinics lost their economic support. After a period of exploration, China's rural areas attempted a new cooperative medical with the support of governments at all levels, this system is later known as the "New Rural Cooperative Medical System" in order to be distinguished from the traditional system.

Considering the rapid development of urbanization and industrialization, China's central government paid increasingly more attention to the social security in rural areas. In 2002, the 16th National Congress of the Communist Party of China proposed to "establish rural endowment insurance, medical insurance, and minimum living security system." In October 2002, the CPC Central Committee and the State Council issued the *Decision on Further Strengthening Rural Health Work*, which clearly stated that the new rural cooperative medical system should be gradually established throughout the country. In January 2003, the General Office of the State Council issued the *Notice on Employment Management and Services for Migrant Workers in Cities*, and transmitted the *Suggestions on the Establishment of a New Rural Cooperative Medical System* issued by the Ministry of Health to accelerate the development of the NCMS. Different from the old system under the planned economy, the new system is a mutual assistance insurance that people can join voluntarily. The funds mainly come from individual contributions and government subsidies, and are mainly used for medical expenses. The initial design of the NCMS is that expenses of serious illness are reimbursed by the social pooling, while minor illness costs by personal accounts.

Similar to the New Rural Old-age Insurance, the New Rural Cooperative Medical System also covers migrant workers who move to work in different places, the driving force for its establishment is also the central government. The *Several Opinions of the State Council on Settling Issues on Rural Migrant Workers* stated that "local governments should pay close attention to the medical insurance of serious illness for migrant workers," "in areas where conditions permit, migrant workers with stable employment can be included into the Urban Employee Basic Medical Insurance System. Migrant workers can also voluntarily participate in the New Rural Cooperative Medical Insurance."²⁴ In 2006, the Ministry of Health, the National Development and Reform Commission, the Ministry of Civil Affairs, the Ministry of Finance, the Ministry of Agriculture, the Food and Drug Administration, and the Chinese Medicine Bureau jointly issued the *Notice on Accelerating the Pilot Project of the New Rural Cooperative Medical System*, requiring that: pilot projects should be implemented in 40% of counties (cities, districts) of the country in the

²³Xia (2009e).

²⁴*Several Opinions of the State Council on Settling Issues on Rural Migrant Workers*, http://www.gov.cn/zhuanti/2015-06/13/content_2878968.htm.

same year, 60% in 2007, spread nationwide in 2008, and the NCMS should cover almost all rural residents in 2010.

In order to speed up the construction of the NCMS, since 2003, the central government began to provide the insured farmers with a per capita subsidy no less than 10 yuan every year and also asked local subsidies, aiming at encouraging farmers' participant by reducing their burden. In 2006, the central government decided to increase the subsidy to 20 yuan in central and western regions, and requested a corresponding increase 10 yuan by local governments, the increased subsidies would mainly be used for serious illness. At the same time, the central government also subsidized districts whose agricultural population exceeds 70% and pilot counties (cities, districts) in Liaoning, Jiangsu, Zhejiang, Fujian, Shandong, and Guangdong provinces, so as to further reduce the risk of reform pilots and motivate local governments to establish the "new rural cooperative." Rural poor families and individuals with too heavy medical burden could get subsidies from the government, and the Ministry of Civil Affairs also took the lead in mobilizing charitable organizations and other social resources to raise funds through various channels. In addition to raising funds, the government also worked to establish a "new rural cooperative" medical information system, and first unified management software, basic data and service standards for the NCMS in provinces, in order to prepare for the spread of modernized service management for the rural cooperative medical insurance.

One objective of the NCMS is to cover migrant workers who didn't have medical security for long time. But since the establishment, the "new rural cooperative" always could not support inter-city settlement, as migrant workers cannot return home to seek medical treatment in designated hospitals, and they rarely apply sick leaves to see minor illnesses in cities, the "individual accounts" designed for minor sickness is meaningless in their view. If they really get a serious illness however, the amount of medical expenses that can be reimbursed by the NCMS is not large enough. For example, the Shenzhen Social Medical Insurance Measures provides in Article 46, "those who have participated in the medical insurance system continuously for less than 6 months, the reimbursement shall not exceed 50% of the city's average wages of active employees of the previous year, and the amount for those who have participated in the system for half to 1 year, 1-2 years, 2-3 years, or more than 3 years shall not exceed the same, twice, three times, and four times as much as the average wages, respectively."²⁵ This reimbursement rate is far lower than the standard of the urban medical insurance, and since migrant workers have big mobility, they usually can only enjoy lower level reimbursement. In addition, the management of the "new rural cooperative" is not unified, the contribution ratio, reimbursement standards and reimbursement conditions are all different in different regions, therefore, it is very difficult to transfer the insurance. Moreover, the medical insurance in which migrant workers participate only provides benefits when they pay insurance contribution, once the workers interrupt the

²⁵Hua and Hanling (2010).

insurance, their insurance relationship and records are also interrupted. Migrant workers cannot as urban workers, extend the insurance to retirement, and cannot connect it with the urban health insurance either. That is why various invisible “welfare barriers” exist, and why even though the “new rural cooperative” is accessible to all migrant workers over the country, few of them would like to participate in it or other medical insurances. The Ministry of Human Resources and Social Security estimated that by the end of November 2008, 41.96 million migrant workers had participated in medical insurance, and among them 7.68 million were in other medical insurances, such as the health insurance for migrant workers and the comprehensive insurance. According to the data of the total number of migrant workers (at the end of 2006), from the National Bureau of Statistics, only 31.79% migrant workers participated in the medical insurance.²⁶

However, effective policies and strong fiscal support have played a key role in quickly expanding the coverage of the New Rural Cooperative Medical Insurance System. The Document No. 5 (2006) issued by the State Council required that migrant workers with stable jobs should be integrated in the Urban Employee Basic Medical Insurance System, and those without stable jobs be integrated in the Serious Illness Insurance or the Special Medical Insurance for Migrant Workers. Since 2006, local governments successively issued regulations on the Serious Illness Insurance for Migrant Workers, allowing migrant workers to only participate in the social pooling for serious illness under the current system of Urban Employee Basic Medical Insurance. What’s more, the serious illness insurance was stipulated to be borne by employers, the contribution ratio was 4% of the total wages of active workers, 2% was saved in the pooling funds to pay outpatient services for serious illness and inpatient medical expenses, 2% was saved in individual accounts for minor diseases. In areas where conditions permitted, a supplementary medical insurance for large medical bills was also established, borne by the pooling funds and individual contributions.²⁷

In the next few years, the NCMS experienced rare development opportunities: the central government used strong policy and financial tools to solve the long-term problem of medical security for farmers. Following the “Document No. 5,” the CPC Central Committee and State Council issued the *Opinions on Deepening the Reform of the Pharmaceutical and Healthcare System*, and issued the *Circular of the State Council on Printing and Issuing the Plan for Recent Priorities in Implementing the Reform of the Pharmaceutical and Healthcare System (2009–2011)*, requiring all localities to draft relevant supporting documents, continue to expand the coverage of medical insurance, and strengthen the collection of social insurance. As the “Document No. 5” allows migrant workers to participate in either the urban medical insurance or the “new rural cooperative,” in the course of practice, the phenomenon of “race to the bottom” would inevitably appear due to the choice of capital profit: employers took the opportunity to change the social insurance benefits of migrant

²⁶Hua and Hanling (2010).

²⁷Hua and Hanling (2010).

workers with stable employment into the lower standard benefits of the Special Medical Insurance for migrant workers. The difficulty of the government was that: if the government connects the medical insurance system for urban workers with that for farmers, regulations of the two systems would not match with each other, in addition, the higher contribution ratio and contribution base of the urban system may press employers to reduce costs by laying off workers and thus reduce job opportunities for migrant workers.

In order to further promote the NCMS, the government adopted a series of incentive measures. For example, in the year when babies are born, they can automatically enjoy the “new rural cooperative” benefits with their parents, but from the second year, they will be required to pay individual contributions in accordance with relevant stipulations. At the same time, the government also increased subsidies for both the NCMS and the Urban Residents Basic Medical Insurance to 200 yuan.²⁸ And the government proposed: under the policy framework of the “new rural cooperative,” the reimbursement of hospitalization expenses should reach 70%. Since 2012, the subsidy for the “new rural cooperative” has been further raised to 240 yuan per person every year. The original 200 yuan was still provided by the central government to as before; the newly added 40 yuan was subsidized by the central government at different rates according to different regions, 80% for western regions, 60% for central regions and a certain portion for eastern regions. In principle, farmers should contribute 60 yuan per person every year, but in areas with difficulties, individual contributions can be paid in 2 years.

With the strong government financial support, by the end of 2012, already 805 million people participated in the new rural cooperative medical insurance, 53,641 million people in the basic medical insurance for urban employees, and 271.56 million people in the basic medical insurance for rural residents. The number of participants of the above insurances reached 1.3 billion, and the state subsidies for health surpassed 900 billion yuan.²⁹

Since 2003, the government mainly relied on financial input to solve the social inequity problem in the field of medical security. The government subsidy became an important tool that promoted farmers’ participation in the social insurance, but inevitably, it soon caused “moral hazards.” In addition, as subsidies were allocated through both social security departments and health departments, insurance reparticipation and repeated subsidy allocation were very common. In Hangzhou, in 2010 alone, the number of people participated in double insurances of the above three was up to 40,000. According to a survey conducted by the China Health Insurance Research Association, the reparticipation rate of the medical insurance reached 10–15%, and even 30% in some places, which caused a subsidy loss of 2 million to 30 billion yuan every year. Such a low efficiency of the government

²⁸Arrangement on Major Work in 2011 Concerning 5 Key Reforms of the Health Care System, Official Website of the government of People’s Republic of China, February 17, 2011.

²⁹*Unified Administration of the Health Care will be Accomplished and the Ministry of Social Security and Human Resources will Check Repeated Participation in the Insurance*, June 29, 2013.

subsidy thus became a root of new social injustice. Moreover, the uneven distribution of medical resources was not resolved either, medical resources are in surplus in cities, but are badly needed in rural areas. That's why so many rural residents flood into urban hospitals, which leads to an enormous pressure to the urban health-care system. However, in rural areas, few people would choose primary health-care institutions whose proficiency is limited, and the utilization rate is as low as 25%. The rural labor force outflowed to urban areas, those who stay in the countryside are mostly the elderly and children whose medical expenses are high, and this also resulted in the low quality of medical care for poor farmers.³⁰

5.1.5 The Integrated Subsistence Allowance Systems for Both Urban and Rural Areas

In the 1990s, a large number of state-owned enterprises in Shenyang, Xining and other places stopped production, resulting in a surge in unemployment. In addition to providing re-employment services, the government also adopted a “three-step” approach to transform the basic livelihood security system for laid-off workers to the unemployment insurance system. However, as the unemployment insurance funds could not meet the needs of laid-off workers, at the end of 2000, the State Council issued the *Circular on Improving the Social Security Pilot Program in Urban Areas*, setting Liaoning as a pilot province and one city in each other province as pilot cities, so as to strengthen and improve the subsistence allowance system for urban residents.³¹

The urban subsistence allowance system in China follows three principles: (1) the government assumes the main responsibility; (2) the object is all urban residents; (3) the system only guarantee basic livelihoods, and the standards shall be adapted to the level of productivity, the overall living standard of local residents and the affordability of various parties. And it also emphasized the combination of state guarantee with social assistance and encouraged residents to help themselves through working.³² In the “Tenth Five-Year Plan” period, the goal was to “protect people with needs as much as possible,” thus the urban subsistence allowance system quickly expanded. Around 2000, the beneficiaries were 3.8 million, to the end of 2001, this number increased to 11.7 million, then jumped to 20.64 million one year later, and by 2005, the number of people covered by the urban subsistence allowance system covering the crowd stabilized at 22 million.

³⁰*Unified Administration of the Health Care will be Accomplished and the Ministry of Social Security and Human Resources will Check Repeated Participation in the Insurance*, June 29, 2013.

³¹Zhang (2006).

³²Xiang (2006).

During the fast development of the urban subsistence allowance system, the central and local governments' financial input also increased rapidly. In 2001, the nationwide input was 4.16 billion yuan, of which the central government expenditure was 2.3 billion yuan. By 2005, the input rose to 18.52 billion yuan, of which the central government expenditure was 11.2 billion yuan.³³ Gradually, some problems like the benefit standard, the evaluation of the beneficiaries' income, the hidden employment of the beneficiaries³⁴ and welfare dependency emerged, and in May 2004, even the event "thousands of people cheated insurance benefits in Cuanjiang" occurred in Chongqing.³⁵ But although there were some shortages, the urban subsistence security system still played an important role in providing security and guaranteed basic livelihoods of the vulnerable group who were impacted by the market economy reform.

Since the twenty-first century, the urban subsistence allowance system has been gradually improved, and to integrate the social assistance in urban and rural areas has become a trend. In 2002, on the "China Anti-Poverty Forum" held by the Disaster Relief And Social Assistance Department of the Ministry of Civil Affairs, Yang Yiyong of the National Development and Reform Commission stated that, the subsistence allowance system functioned as a tool to reassure the people, government finance at all levels should take more money to establish a similar system in rural areas.³⁶

After the reform of the "household responsibility system," the security function of the rural collective economy declined, and the rural areas began to carry out pilot programs of the subsistence allowance system. In 1994, the 10th National Conference on Civil Affairs Work decided to "establish a social security system with multiple tiers and standards that could go with economic development." In the same year, Shanghai and Yangquan of Shanxi Province, took the lead to carry out pilot programs which required the government and rural collectives to offer some financial help to rural residents whose per capita household income was below local minimum living standards. From 1996 to the end of 1997, Jilin, Guangxi, Gansu, Henan, Qinghai, and other provinces successively issued documents and policies, stipulating that the subsistence allowance should be mainly borne by fees paid by farmers for overall township planning and village reserve. To the end of 2000, 1930 counties and towns established the rural subsistence allowance system, covering 75% of the country.³⁷

³³Zhang (2006).

³⁴Among the beneficiaries, active staff, workers with flexible employment, the registered unemployed, the registered unemployed and other people with working abilities accounted for 62.8% Peng and Ding (2009).

³⁵Cuanjiang is a county in Chongqing, according to the investigation; the insurance funds "unnecessarily" offered were up to 620,000 million yuan. Thus, it can be figured out that as much as 10 million yuan subsistence allowances were wasted just in Chongqing Zhang (2006).

³⁶Zhang (2006).

³⁷Liu (2007).

After the rural tax and fee reform, various taxes and charges like the “three deductions and five fees” were canceled, many accounts of rural subsistence allowance were “empty” in central and western regions, and the eastern region were not spared. In April 2003, the Ministry of Civil Affairs encouraged regions where conditions permitted to establish the rural subsistence allowance system, issued the *Notice on Further Strengthening the Relief Work for Rural Poor Families*, requiring the central and western regions to implement the relief system for rural poor households, and regularly provide relief in cash or in kind to households of widows or widowers who were unable to meet the “five guarantees” requirements but were in extremely difficulty, and to households without working capacity due to severe illness or disability. Therefore, the rural areas had three social assistance systems: the rural subsistence allowance system, the rural poor family’s assistance system and the “five guarantees” system.³⁸

In 2004, the *CPC Central Committee and the State Council issued the Opinions on Several Policies to Increase Farmers’ Income* [No. 1 (2004) issued by the Central Committee], proposing that “relief standards should be raised for the extremely poor people without working capacity; and regions where conditions permitted should explore to establish farmers’ subsistence allowance system.” In 2006, the CPC Central Committee and the State Council issued the *Opinions on Promoting the Construction of the Socialist New Rural* [No. 1 (2006) by the Central Committee], calling for further improvement of the rural social assistance systems including the “five guarantees” security system, the relief system for extremely poor households and subsidies for disaster victims; and requiring regions where conditions permit to actively explore the establishment of the rural subsistence allowance system.³⁹

In addition to government policies, the rural subsistence allowance issue also triggered hot social discussions. From 2004 to 2006, the National People’s Congress and the Political Consultative Conference received more than 200 proposals on the social assistance in rural areas, of which 80% concerned the rural subsistence allowance issue.⁴⁰ To the end of 2005, the Ministry of Civil Affairs invited some social policy experts to conduct provincial and municipal researches on the establishment of the rural subsistence allowance system. The research report *On The Rural Subsistence Allowance System in Liaoning and Hebei Provinces* pointed out that the rural subsistence allowances system was at a critical development period: if the government promoted it, the system could realized the full coverage, but if there was no external driving force, the development may stagnate. If the central government would push the system development as much as the urban subsistence allowance system, it was estimated that the rural system would reach “full coverage” within 2–3 years. On the “Chinese Economy 50 Forum” on June 25th, 2006, the well-known economist Wu Jinglian even stated that “the state had

³⁸Zhu and Xu (2007).

³⁹Zhu and Xu (2007).

⁴⁰Liu (2007).

enough financial resources to achieve the universal subsistence allowance system,”⁴¹ China already had the condition to realize the full coverage.

In this context, the establishment of the national rural subsistence allowance system was finally put on the agenda. The Central Rural Economic Work Conference held in December 2006, and the *Opinions of the CPC Central Committee and the State Council on Promoting the Development of Modern Agriculture and Steadily Advancing the Construction of a New Socialist Countryside* [No. 1 (2007) by the Central Committee] clearly stated, “the Rural Subsistence Allowance System should be established nationwide.” March 5th, 2007, Premier Wen Jiabao announced in the *Report on the Work of the Government* that the nationwide establishment would be achieved in that year. On July 11th of the same year, the State Council issued the *Circular of the State Council on Establishing the System of Guaranteeing Minimum Subsistence in Rural Areas throughout the Country* [No. 19 (2007) by the State Council]. August 2nd, the Ministry of Finance and the Ministry of Civil Affairs jointly issued the *Notice on the 2007 Rural Subsistence Allowance Funds* [No. 102 (2007) by the Ministry of Finance]. The central government specially arranged 3 billion yuan to support local governments, especially those with financial difficulties, to establish and implement the rural subsistence allowance system.⁴²

After 2007, the number beneficiaries of rural subsistence allowances rose rapidly, and even faster year by year, until 2011 began to slow down, reaching 53.135 million. By the end of 2010, the subsistence allowance system had already covered all the eligible rural relief recipients, and basically “people with needs could all receive subsistence allowances.”⁴³

In the “Eleventh Five-Year Plan” period, the “reform of income distribution” was put on the national agenda, helping the poor became a priority of government work. Social assistance funds mainly came from the government finance; therefore, it was much easier to achieve urban and rural coordination than other social security fields. To the end of 2011, the average national minimum subsistence standard reached 287.6 yuan per person per month, and the monthly per capita subsidy reached 240.3 yuan; the average rural minimum standard was 143.2 yuan per capita every month, and the monthly subsidy was 106.1 yuan. Some developed areas, such as Shenzhen, Ningbo, Suzhou even unified urban and rural subsistence standards. In March and May 2011, the National Development and Reform Commission, the Ministry of Civil Affairs, the Ministry of Finance, and other ministries successively issued the *Notice on Establishing the Linkage Mechanism Between Social Relief Standards and Price Increases* and the *Guidance on Adjusting Urban and Rural Subsistence Allowance Work and Further Regulating Relevant Standards*, the linkage mechanism was thus formally established.⁴⁴

⁴¹Xia (2012).

⁴²Zhu and Xu (2007).

⁴³Xia (2012).

⁴⁴Xia (2012).

5.1.6 *Toward Equity and Integration*

The urban–rural dualism in the field of social security was an inevitable development trend in China’s history, but it then became an obstacle with the development of society. The Communiqué of the 18th CPC Central Committee stressed that it was necessary to form “a new-type relationship between urban and rural areas and between workers and peasants, so that peasants can equally participate in the modernization process, enjoy the fruits,” “it is necessary to establish a more equitable and sustainable social security system and strengthen health system reform.”⁴⁵ What the Communiqué stressed was a more equitable society, more affordable services, more balanced regional development and more uniform rules and regulations.

Fairness first found expression in the “enjoyment of all people,” as Professor Zheng Gongcheng said, “to realize the social security that could be enjoyed by everyone has become the party and the government’s solemn political commitment to the people.”⁴⁶ The attitude and speed of the Chinese government to honor its commitment were remarkable. To honor the commitment to “the social security for all,” the first step was to expand the coverage, which was soon achieved. In August 2009, Vice Minister of Human Resources and Social Security Hu Xiaoyi announced at a press conference held by the Information Office of the State Council: China continued to achieve success in expanding the social security coverage, by the end of 2009, more than 1.2 billion citizens would enjoy the basic medical security, among them, 830 million were farmers who participated in the “new rural cooperative.” The new rural endowment insurance pilot would also be launched in the same year and Chinese farmers at or above the age of 60 would be able to enjoy the universal state pension. In addition, the basic pension for urban workers would also be increased.

In 2011, the Chinese government launched pilot old-age insurance for urban residents, to improve the long-term system deficiency. It was the first time that China achieved the full coverage of the pension insurance systematically. To the end of September 2012, the number of urban and rural residents who participated in endowment insurance reached 449 million, together with the participants of the endowment insurance for urban workers, the total number reached more than 700 million. 124 million urban and rural residents received basic pensions, thus China’s endowment insurance system became the world’s largest. The Communist Party of China, after a long-term institutional exploration, realized its early social ideals through the social security system for all.

The government’s guidance, especially the government’s direct financial input, has played a key role in rapidly expanding the social security coverage, and scholars and experts also recommend and appreciated the increase in government

⁴⁵ *Communiqué of the 18th CPC Central Committee*, http://news.xinhuanet.com/house/tj/2013-11-14/c_118121513.htm.

⁴⁶ Zheng (2008).

input. Through subsidies for payment, for the elderly, interest subsidies, treatment adjustment and other financial measures, the government set up the “subsidy system” for farmers to participate in the “new rural cooperative.”⁴⁷ Since 2013, subsidy standard for the “new rural cooperative” at all levels was further increased from 240 yuan per person every year to 280 yuan. If policies permitted, the reimbursement ratio of hospital expenses could reach 75%, and the serious illness security pilots were launched for 20 diseases including children leukemia, congenital heart disease, colon cancer and rectal cancer. In 2014, the subsidy standards for the “new rural cooperative” and urban residents’ medical insurance were again increased by 40–320 yuan. Among it, the central government still paid 120 yuan, while for the rest 200 yuan, 80% was paid by the central government in western regions, 60% in central regions and a certain proportion in eastern provinces. The individual contribution ratio for farmers and urban residents went up by 20 yuan on the basis of the 2013 level, and the national average individual contribution standard reached 90 yuan per person every year. The National Health and Family Planning Commission and Ministry of Finance required that in 2015, government finance at all levels should increase the subsidy standard for the “new rural cooperative” by 60–380 yuan per person; increase farmers’ individual contribution standards by 30 yuan, and the national average individual contribution standard would reach 120 yuan per person every year.

The rapid increase in the input in old age and medical security has attracted more and more people to join the social security system voluntarily, which has played an important role in achieving “the social security for all.” The government’s original intention was to guarantee all citizens’ fair social security interests and rights. However, the rapid financial investment would inevitably cause “reparticipation” and “insurance fraud.” In this case, the state initiated a top-down reform of the administrative system. According to the arrangement of the State Council in 2012, the “new rural cooperative medical insurance” charged by the National Health and Family Planning Commission was officially placed under the administration of the Ministry of Human Resources and Social Security, and relevant administrative agencies, personnel, and assets were also transferred to the Ministry.

Since 2013, the Ministry of Human Resources and Social Security rectified the reparticipation in the “new rural cooperative” and other insurances in all provinces, discovered that 70,000 people falsely claimed social insurance subsidies, the total amount reached 118.07 million yuan, but 113.89 million yuan was already recovered. Most of the fraudulent claims were caused by reparticipation. As the state input in the “new rural cooperative” was very large, reparticipation in the medical insurance was prominent. Therefore, to achieve social equity, in addition to expanding the social insurance coverage, it is also necessary to strengthen the supervision and regulation on subsidies, more importantly, the government should integrate institutions and mechanisms, standardize management, and coordinate information and resources in a larger scope.

⁴⁷Chen and Rong (2011).

In the process of China's social security reform, in addition to the central government, local governments were also a major driving force. All the pilot reforms were carried out by local authorities, and then promoted to the whole country based on pilot experience. For example, in order to solve the long-standing problem of urban and rural coordination, Chongqing itself formulated its own policy in order to integrate farmers into the city naturally. The coordination of the medical insurance system was also first achieved at provincial and municipal levels based on pilot experience of more than 30 cities, and then the administrative department (Ministry of Human Resources and Social Security), together with the National Development and Reform Commission and the Ministry of Finance worked on the universal health-care system.⁴⁸

In some cases, social security development even did not need government financial input; the work-related injury insurance is an example. In most western industrialized countries, the work-related injury insurance is always the first to be introduced, because employment injury is the largest social risk, and social security is the best solution.

Migrant Workers Enjoyed Equal Treatment in Chongqing

Chongqing is a place where the big countryside and a large city both exist, how can we take advantage of the hukou system reform for migrant workers to achieve urban and rural coordination? Urban-rural coordination should be people-oriented, thus it is in essence an issue of turning migrant workers into urban residents. The process of urbanization...is in face the process that farmers enter in the city. A few years ago, almost 9 million farmers in Chongqing left the countryside to work in urban areas, among whom more than 5 million worked in Chongqing, and more than 3 million in coastal areas. For these 5 million workers, those who have already worked for 3 or 5 years, would like to stay in the city to work, and voluntarily applied for the urban hukou, would be registered as urban residents. This transfer of 270 million migrant workers, together with some families, the entire rural population is 400 million, to become the city of Chongqing accounts. Through this process, we achieved the integration of urban and rural treatments, all of the migrant workers who changed their hukou, could enjoy same treatments in employment, old-age pensions, health care, housing and education as urban residents, and urban residents.

Another important issue was whether the three pieces of land could be retained by farmers whose hukou had been transferred to rural areas. Some stated that the land is a collective property, thus the arable land, the forest land and the homestead could only be allocated to members of the collective, the county, the village. If you transferred your hukou to other areas, you are not a collective member any more, thus should the land not belong to you either? However, we think this issue concerns farmers' basic interests. Since the land was already allocated to the farmers, it should be still belonged to them even they transferred their hukou to other areas. That is how Chongqing protected farmers' interests. So, 4 million farmers happily

⁴⁸Qin, etc. (2015).

transferred their hukou, and not even one problem occurred. The farmland retained in the countryside was cultivated by other people, thus the productivity increased, and the above farmers in the city would spend at least 10,000 yuan a year once became urban residents, thus the urban consumption was promoted, and the social ecology of human rights was improved. This measure also led to an unexpected result. Since 2012 and 2013, Chongqing's import and export soared 7–80% in every first quarter, because in coastal areas, work has always been carried out in more than 9 months every year, and suspended for over 2 months, migrant workers began to return home in December, and came back to cities in February. From December to February, enterprises were suspended, company leaders and executives also went back home. This damaged the productivity and also troubled farmers for they had to move between cities and their hometown. However, thanks to the reform of hukou system, migrant workers in Chongqing became urban workers, then they did not need to go back home for over 2 months, and orders suspended in coastal areas were transferred to Chongqing. The Policy was originally intended to solve the problem of migrant workers, but it unexpectedly attracted investment and promoted import and export development.

5.2 Legal Construction of China's Social Security System

Since the social security system became increasingly mature and well-developed, its legal construction was put on the agenda. As mentioned earlier, China's social security system reform was carried out from the time of the planned economy to the era of the socialist market economy, with an absence of legal norms and the lack of practical experience, and the state was "crossing the river while groping for stepping stones." As a result, administrative regulations regarding the social security were better developed than relevant legislation.

From the early New China to the reform and opening up, namely during the planned economy era, administrative regulations were the main basis for regulating social security. After the reform and opening up, the social security legislation attracted more and more attention. Since administrative regulations were not standard enough, in particular, some provisions could hardly be implemented by local departments, the state on the one hand continued to issue regulations and decisions, on the other hand, began social security legislation in the fields where pilot programs were proved successful. For example, in 1994, the *Regulations on the Work of Providing Five Guarantees in Rural Areas* (Decree of the State Council No. 141) were issued, and in the same year, the *Labor Law* in which one chapter targeted the social security was adopted. The in July 1997, the *Decision of the State Council on Establishing a Unified Old-age Insurance System for Enterprise Employees* [No. 26 (1997) by the State Council] was issued; in 1998, the *Decision of the State Council on Establishing the Basic Medical Insurance System for Urban Employees* [No. 44 (1998) by the State Council]; in 1999, the *Regulations on Unemployment Insurance* (State Council Decree No. 258), the *Provisional*

Regulations on the Collection of Social Insurance Premium (State Council Decree No. 259), and the *Regulations on the Minimum Living Guarantee for Urban Residents* (State Council Decree No. 271). In the 1990s when China's social security system reform was in full swing, it was the administrative regulations that built the basic system framework under the socialist market economy. However, the lack of legislation hampered the further development of the social security system, thus since entering the twenty-first century; legislation has become an important part of the social security reform.

5.2.1 *Difficult Start*

As early as the 1990s, social security legislation has already started. The promulgation the first *Labor Law* of the People's Republic of China in 1994 was a clear signal. It was a step toward re-recognizing and standardizing "labor" after the establishment of the socialist market economy. The Labor Law not only gave birth to the social security, but also marked the transformation of the labor system from a planned one to the market system, thus provided conditions for the rational flow and the effective allocation of labor factors. The 1994 Labor Law also established basic legal principles of the labor market under China's socialist market economy, and provided important legal protection for laborers' legitimate rights and interests. Since then, the *Regulations on Unemployment Insurance*, the *Provisional Regulations on the Collection of Social Insurance Premium*, the *Regulations on Management of Housing Provident Fund* and the *Regulations on the Minimum Living Guarantee for Urban Residents* came out in 1999 as important social security administrative regulations.

Since the establishment of the socialist market economy, all circles in China have called for the enactment of a national *Social Insurance Law* to replace the *Labor Insurance Regulations* which were invalid for long time. Particularly since the Third Plenary Session of the 14th CPC Central Committee, the social insurance responsibility has gradually shifted from employers to the society, and the pension pooling and management were basically socialized. The central government proposed to establish a sustainable social security system that had a large coverage, multiple levels, and guaranteed basic security. These important principles needed to be set up by legislation. In addition, legal norms were also needed in order to achieve multiple sources of social security funds, and standard fund management and supervision, to formulate China's social security system framework and further extend its coverage to urban, rural workers, and residents. Therefore, the social security could become a social right for everyone.

In China, enacting the Social Insurance Law has gone through many procedures, including drafting preparation, drafting, deliberation by the State Council, and revision by the NPC Standing Committee. The government conducted researches, discussions, problem solving, and revision at the same time, overcoming many difficulties. At the turn of the century, there was an increasingly popular demand for

social security legislation. On one hand, this was because the development of the social security system needed to integrate policies and establish legal authority through legislation. Especially when barriers still existed between sectors and regions, to establish a universal social security system which was suitable for the market economy, needed to rely on legal constraint to regulate behavior of the parties in the field of social security. On the other hand, forces outside the administrative system also actively promoted the social security legislation which could be the basis for supervising and regulating the administrative power. Since the 1990s, some NPC deputies, CPPCC members and experts always put forward proposals for the social insurance legislation. The social community had already reached a consensus on the significance and urgency of accelerating the legislation, but opinions differed a lot on how to enact the social security law.

As the department in charge of social security affairs, the Ministry of Labor and Social Security undertook the task of drafting social security legislation. In order to draft the first law, the *Basic Old-Age Insurance Regulations (Draft)*, the Law and Legal Department of the Ministry employed domestic and foreign resources in the first half of 1999 to convene symposiums and seminars on pension legislation, inviting the Legislative Affairs Office of the State Council, the All China Federation of Trade Union, the China Entrepreneur Association, Beijing, Shanghai, and Tianjin labor departments, as well as experts and scholars, to discuss key issues and difficulties of China's pension legislation and legislative framework, exchange information on international pension insurance legal system, rules and principles, and policy objectives, and determine specific issues such as the retirement age, pension eligibility, and pension funds management. September 1999, the *Basic Old-Age Insurance Regulations (Draft)* was reported to the State Council and the Legislative Affairs Office, and then experienced a very long period of amendment and perfection.

China faced a lot of difficulties in the social security legislation. Chen Peiyong, Lin Lin of the State Council Legislative Affairs Office explained in an article that the social community had called for the legislation for more than a decade, but there was always no unified social security law, main reasons were as the follows. First, the content of social security is complex, different social security types, like the social insurance, social assistance, social welfare, and veteran benefits, have different beneficiaries, fund sources, treatment standards, and management authorities. Even the social insurance itself also comprises of five different types with the above differences. In addition, pension insurance and health insurance could be further divided into social pooling funds and individual accounts. And the situation is even more complicated if the flexible employment is taken into consideration. Therefore, to unify requirements on principles, implementation, and management in legislation is quite difficult. Second, some basic principles needed to be set up to resolve social injustice caused by the "urban-rural economic dualism." Third, the public opinion environment was complex at that time, issues concerning fairness and efficiency

were hotly debated, and thus some basic legal principles and policy objectives were still in dispute.⁴⁹

However, the social security legislation was also confronted with some profound social development problems. For example, the socialist market economy did not end the economic dualism, and the wealth gap between urban and rural areas was further widened with the increasing Gini coefficient in the process of economic development. One important problem faced by legislators was: whether the equal distribution of wealth should become a legislative goal, this is choice question of basic values. Another problem lay in migrant workers. The reform and opening up broke the urban-rural dual structure and promoted the labor flow between urban and rural areas. But due to the backward system construction, these workers who contributed a lot to the development of China's market economy, were neither covered by the rural social security system nor protected by the urban system. To provide them with necessary and effective social protection, and safeguard their social interests was an issue that must be seriously thought about and solved by legislators. In fact, migrant workers were originally covered by the urban social security in the process of legislation, but finally they were excluded because at that time most people thought that the security level for migrant workers was relatively lower. "The low level still had some advantages," it could avoid the "Latin-Americanization" caused by rapid urbanization, and consequences resulted from deficit spending in welfare states. However, if migrant workers' rights and interests could not be protected, social problems such as the rich-poor gap and social instability will occur.⁵⁰ Big regional differences in the contribution ratio, treatment standard were also a problem; to improve the level of overall planning was of great difficulty. How to enact a unified national law, while coordinating temporary differences?

In order to solve urban-rural differences under the dual economy and regional differences, China's social security legislation was first carried out in cities, then in rural areas, respectively, and step by step, with fairness and efficiency taken into consideration. Laws were formulated and enacted in the aspects where conditions were ripe. Chen Peiyong wrote, "Social security legislation should not only pursue the large coverage and comprehensive contents, laws should be enacted respectively based on subcategories of the social security. I would like to emphasize that subcategories here also refer to their subcategories. For example, since we have already promulgated administrative regulations on the unemployment insurance and the work-related injury insurance, the state could separately enact laws concerning the endowment insurance and the medical insurance. This method is to carry out legislation according to insurance types (this is a vertical approach). But in our existing legal system, we also have regulations on the social insurance collection and payment (which were issued at the time when insurance premiums could hardly be collected. This is a horizontal approach). Of course, to carry out legislation

⁴⁹Chen and Lin (2006).

⁵⁰Chen and Lin (2006).

according to the collection, management and payment of the social insurance premium could also be a good choice.”⁵¹

China's social insurance legislation entered a period of intense preparation at the beginning of the twenty-first century. On the National Work Conference on the Law-based Administration of Labor Security held in Zhuhai, Guangdong Province on May 18th to 19th, 2000, Minister Zhang Zuoji said that the central government had been “engaged in drafting and discussing labor security laws and regulations,” aiming at establishing “a social security system independent of employers.” Therefore the Ministry of Labor and Social Security was “actively promoting the social insurance expansion, as well as premium collection and payment work,” and it “accelerated the drafting, research and discussion work of the *Social Insurance Law*, and then completed the first draft.”⁵² Vice Minister Liu Yazhi stressed on the revision and research work of the *Social Insurance Law* when she deployed the work of the year 2000, “the major task is to cooperate with the NPC Legislative Affairs Department and the State Council Legislative Affairs Office to work on the revision and amendment of the draft of “two laws and one regulation,”⁵³ according to the process of reform and requirements of establishing a social security system independent of enterprises and public institutions.” The Ministry should also conduct a comprehensive examination on documents that had already been issued.⁵⁴ One month later, on June 20th, 2000, a temporary agency—the State Council Special Economic Research Office (hereinafter referred to as “Special Office”) was set up in Zhongnanhai, in a small two-storey building to the north of Ziguangge. Its entire staff was seconded. The head of the office was Liu Zhongli, with Wang Jianlun, vice minister of Labor and Social Security, Chen Yaoxian, vice chairman of the China Securities Regulatory Commission, and Li Kemu, deputy director of the Arbitration Office as deputy directors. The office comprised three groups: social security group, financial group and rural affairs group. Among them, the social security group had most staff—five people, from the Ministry of Finance, Ministry of Labor and Social Security, Ministry of Civil Affairs and the State Council Reform Office. This group had a very clear task—drafting a plan to improve the social security system.⁵⁵

What the Special Office discussed was principle issues of the *Social Insurance Law* legislation, such as whether the basic model of “social pooling with individual accounts” was feasible? How to operate individual accounts? At which level should the social pooling be implemented? Who would collect social insurance payments?

After a period of time, a prominent problem occurred. Funds in the “social pooling” and in “individual accounts” were managed together, and funds in

⁵¹Chen and Lin (2006).

⁵²Liu (2000).

⁵³Namely the *Social Insurance Law*, the *Labor Contract Law*, and the *Basic Old-age Insurance Regulations*.

⁵⁴Liu (2000).

⁵⁵Xia (2009c).

“individual accounts” were transferred to pay pensions immediately, thus “individual accounts” became a billing tool and were “empty.” By the end of 1999, 72.66 million workers had established insurance accounts, representing 76.5%, while the total amount of empty accounts reached 191.42 billion yuan. In order to prevent the government from failing to honor the “individual account” commitment in the future, some people advocated abolishing “personal accounts” as early as possible. However, many years after establishment, the “personal account” had already been accepted by the society, its abolition would negatively influence the society and reduce the credibility of the government. After hot discussions, the Special Office reached a consensus: since abolishing the “personal account” would have a negative psychological effect on workers and impact public trust in the government, and even the abolition could not resolve the shortage of pension funds, the original model should be kept. The Special Office further decided to select Liaoning as a pilot province to make individual accounts play the real role, and also required the pilot province to unify different tracks of laid-off arrangements and unemployment protection.⁵⁶

The reason why Liaoning was selected as the pilot province was that it had a relatively high urbanization rate, a large proportion of retirees (10%), and was a heavy industry base, if Liaoning could succeed, other provinces could too. The specific approaches carried out in the pilot province were as follows: (1) reducing the individual contribution, and enterprises’ contributions would not be saved in individual accounts anymore; (2) individual accounts and social pooling funds should be managed separately, and in a period of time, savings in individual accounts could only be used to buy government treasuries; (3) improving basic pension levels, for those who had contributed over 15 years, their basic pensions would be increased annually at a certain percentage, until up to 30% of workers’ wages. But in fact, as different regions were in different situations, debates never stopped until October 2003, when the Third Plenary Session of the 16th Party Central Committee adopted the *Decision on Several Issues about Accelerating the Improvement of the Socialist Market Economy System*, emphasizing the need to adhere to the basic system that combined social pooling with individual accounts.⁵⁷

5.2.2 Hot Discussions

On March 14, 2004, the Second Session of the Tenth National People’s Congress passed the *Amendments to the Constitution of the People’s Republic of China*, and Article 23 stipulates, “The state establishes and improves the social security system fitting in with the level of economic development.” The social security system was formally and solemnly written into the Constitution which became the most

⁵⁶Xia (2009c).

⁵⁷Xia (2009c).

authoritative legal basis. In December 2005, the *Social Insurance Law* and the *Social Assistance Act* were planned to be enacted. In August 2006, the Ministry of Labor and Social Security issued the *Regulations on the Legislation Work of the Ministry of Labor and Social Security*, starting and regulating labor and social security legislation. In this new situation, the social insurance registration was accelerated since 1994.

During the legislation process, issues like the coverage, the system design and the overall level of the social insurance system were hotly discussed, and among them the core issue was how to deal with the relationship between employment growth and employment protection, namely how to maintain the flexibility of the labor market and promote employment growth, but at same time also protect workers' rights of social security? Opinions on this key issue, no matter in the academia, or in the government, differed a lot. Some people thought from strengthening the mandatory law and protecting workers' interests, thus stated that the *Social Insurance Law* should cover all urban workers, including small business workers and self-employed ones. To this end, scholars called for reduction of the threshold for social insurance participation and mandatory coverage for all workers. Other people thought that China's small businesses and the informal sectors were important sources of employment. These enterprises faced fierce competition and could enjoy few profits, thus forcing them to take part in the social insurance will increase their operating costs, and harm the development of small and middle-sized enterprises and therefore impact employment. The mandatory expansion of the insurance coverage, would not only increase the cost of the legal enforcement, but even make some enterprises turn to underground business in order to avoid excessive costs, which would be more detrimental to workers' employment and social insurance rights. That was why these scholars suggested expanding the social insurance coverage case by case, and step by step. For example, it can be stipulated that only workers whose income reached a certain level or enterprises with a certain number of employees were forced to participate in the social insurance, while other laborers and small enterprises could join the insurance scheme voluntarily. With the increase in large and middle-sized enterprises and the reduction of informal employment, the coverage of the social insurance will be expanded naturally.⁵⁸

There was also disagreement over whether the social insurance system should be unitary or multiple: for example, whether the insurance for civil servants and employees in public institutions should be integrated into the social insurance system for urban workers or still be kept independent? The independent insurance system helped to ensure the stability and integrity of the civil service, while unifying the systems is conducive to larger personnel mobility and higher management efficiency of social insurance. In addition, whether the social insurance for migrant workers should be included in the system for urban employees or a separate social insurance should be established? Whether the insurance for people of flexible employment and non-employed population should be developed independently?

⁵⁸Peng (2008).

Should the social pooling of basic pension funds or the segment accounting be implemented? Should the focus be on income security or human capital investment? Consensus could hardly be reached on these issues.

Scholars were concerned with issues like the small coverage of the social insurance system, the dual structure and regional differences that restricted labor mobility, unequal treatment for equal work and the inequality of social insurance rights and interests due to personal identity, employers, and different local financial resources, they also focused on the social insurance premium collection system which was not unified, and the low management efficiency. In addition, the “empty” individual accounts, the weak awareness of the rule of law in the field of social insurance, and excessive use of administrative methods to manage social insurance affairs, also attracted scholars’ attention. They suggested that the *Social Insurance Law* should be a basic law, which could guarantee equal social security rights and interests for all urban and rural residents, establish a unified national social insurance legal system, and regulate unified provisions on the basic social security principles and the basic insurance benefits for all urban and rural workers. The *Social Insurance Law* should lay a foundation for the establishment and perfection of China’s social security system, based on which, different supplementary laws and regulations could be adopted for different regions, different insurance items, and different occupations, thus the social security system could be formed.⁵⁹

However according to enterprise representatives, the old age, medical, unemployment, work-related injury, and maternity insurances that enterprises should pay (not including the public housing fund) were already as high as 30–40% of the total wages, even would reach 50% with the employees’ individual contributions included. If such a high cost cannot be covered by enterprises’ rapid benefit growth, it may weaken the market competitiveness of the law-abiding enterprises, or push enterprises to evade social insurance obligations, resulting in a serious shortage of the actual insurance contributions. Since enterprises were overwhelmed by such high costs, local governments often adopted flexible approaches when collecting social insurance premiums, such as allowing or “acquiescing in” enterprises’ taking base wages, even minimum wages instead of actual wages as the insurance contribution base.⁶⁰ This payment “at discount” might turn the company’s current payment pressure into future labor disputes. The *Social Insurance Law (Draft)* which later solicited public opinions, did not directly stipulate the collection of social insurance, but authorized the State Council to resolve this issue.

In addition to the collection of social insurance premiums, the basic old-age insurance was also one of the most hotly discussed topics. The reality that there was not a unitary coverage for all different social insurance types, was finally accepted. The basic pension insurance covered all urban enterprises and their employees, as well as employees in public institutions which implemented enterprise management; the basic medical insurance covered all urban enterprises and their

⁵⁹Yu (2003).

⁶⁰Zhao (2008).

employees, staff of state organs, public institutions, private non-enterprise institutions, and full-time staff of social groups; the unemployment insurance mainly covered all urban enterprises and their employees, and employees in public institutions; the work-related injury insurance covered all enterprises and individual businesses; the coverage of maternity insurance varied in different provinces. Based on the above consensus, scholars put forward that a large number of cases should be included in legal norms to solve problems concerning temporary workers and migrant workers, as well as issues about excessive overdue fines and misappropriation of social insurance funds. Scholars also proposed to use legislation to protect the social security rights and interests of vulnerable groups, increase penalties on illegal enterprises, check the misappropriated social insurance funds, as well as investigate and affix criminal responsibilities to violators.⁶¹

After extensive debates and revisions, the draft of the *Social Insurance Law* was deliberated for the second time at the Sixth Session of the Eleventh NPC Standing Committee on December 22, 2008, and entered the stage of public consultation. Public opinion mainly came from two channels: through the Internet and through academic societies and associations.

December 28, 2008, the General Office of the NPC Standing Committee issued the *Notice on Requesting Public Comment on the Social Insurance Law of the People's Republic of China (draft)*. On the same day, the NPC published the full text of the draft and launched the online public consultation. In this discussion that mattered people's social rights and interests, Internet users were unprecedentedly active. Until 16:00 on January 12, 2009, the system received 47,511 views on the Internet. In addition, on the major portals, there were more than 20,000 posts and over 200 blog articles related to this issue. Among all the public consultations, this time received most opinions.⁶² The discussion touched all major issues like efficiency and fairness, coverage, and system integration.

Extracted and Edited by the Editorial Department of *China Social Security*:

Hot Discussion on the Draft of Social Security Law on the Internet⁶³

Netizen "I WANT SOCIAL SECURITY": the Social Security Law concerns interests of all citizens. In order to ensure the rule of law of the social security, the insurance "freedom" is very important. ... The legislation of social insurance marks a great transformation of China's economy and society. The social security calls for "freedom."

Netizen "Shanghai Jinshan": The *Social Insurance Law* is a savior that could guarantee the old-age security of our migrant workers, we hope that the law be implemented as soon as possible. What we are concerned about is the feasibility, the social security transfer should be practical and procedures should be simplified, so that the stipulations could protect the interests of migrant workers.

⁶¹Han (2008).

⁶²Edited by the Editorial Department of *China Social Security* (2009).

⁶³Edited by the Editorial Department of *China Social Security* (2009).

Netizen “mzhhq”: the way to solve the problem of transferring the social insurance relationship is to realize the social pooling at provincial level for the insured, and the social pooling at national level for the uninsured.

Netizen “xinhuazd”: we must unswervingly implement the “multi-track system” of the old-age security! Some retirees of state-owned enterprises calling for integrating their pension system with that of civil servants, this is a great setback! ... The multi-track system can adapt to the different needs of different social groups: one system for non-profitable administrative institutions and another for profit-oriented enterprises in order to encourage enterprise staff to work hard, and help to develop enterprises in the competition. Just think about it, if the enterprise staff just like civil servants could enjoy same benefits despite of profits, who will work hard? How to stimulate enterprises to gain more competitiveness? Is not it a step back to the era of planned economy? If we all enjoy same treatment and the “big pot,” how can China’s enterprises have any competitiveness, without which enterprises will definitely collapse. Therefore, the single pension system is absolutely a disaster for the country! The state must unswervingly implement “multi-track system” which is the driving force for promoting China’s rapid and sustained economic development!

Netizen “Anzhuang”: the phrase that “the pension systems for government organs, public institutions and enterprises shall be integrated” should be added to the law.

Netizen “jklsadf”: to levy the social insurance tax is the only way to ensure fairness and justice of the social insurance, and eliminate the “dual system” of old-age pension. At the same time, the state should open commercial insurance, those who think the social insurance benefits are too low, could buy commercial insurance. What’s more, stipulations concerning farmers’ benefits should be clarified in the Law.

Netizen “Zhu Wenping”: the social security system should follow the principle of large coverage, low standards and high coordination; reduce the contribution ratio on the basis of scientific accounting; include civil servants and staff of public institutions into a unified system; allow people whose registered residence is in another area to get old-age pension in the places where they have paid insurance premiums; choose the median wage as the contribution base rather than the average wage; and include rural residents and migrant workers into the social security system in order to eliminate the urban-rural dualism.

Netizen “Lake & Rose”: I really applaud the enactment of the *Social Insurance Law*. The stipulation that “all citizens share...” is in line with Article 33 of the Constitution, “All citizens of the People’s Republic of China are equal before the law.” And I propose to add “individual laborers” to Article 4, namely to the article as follows: Employers, individuals and individual laborers within the territory of the People’s Republic of China shall pay social insurance premiums in accordance with law; Individuals shall enjoy social insurance benefits in accordance with law. Here individual laborers are mainly what I refer to farmers.

Netizen “gu786”: the social security of rural residents should not be stipulated only at the end as “Supplementary Provisions.” To include rural residents into the

social security system is a social progress, but I suggest putting the content of chapter XII "Supplementary Provisions" in previous chapters.

Netizen "New Farmer": This draft of the Social Insurance Law still does not cover all farmers, so it should be entitled as "Social Insurance Law for Non-farmers." In China, if farmers are not covered, how could the social insurance law be useful? I hope that farmers will not be excluded from the social insurance law any longer, and their interests and rights can be regulated and guaranteed.

Netizen "Citizen": I hope to reduce discretionary provisions and narrow differences, promote consensus through democratic centralization, discussion, revision and improvement, so that the law will be more practical. I also suggest that the "new rural cooperative medical care" be changed to the "rural basic medical insurance"; penalties on enterprises that do not fulfill their social security obligations be strengthened; and the revenue and expenditure of the social insurance funds be mandatorily published.

January 15, 2009, China Insurance Institute held a Seminar on Social Insurance Law in Beijing, participants put forward their proposals to amend and improve the law. Song Xiaowu said that the enactment of the social Insurance Law started from 1994 but had met many difficulties, the reason was that during the period of social transformation, many of our policies were uncertain. The *Social Insurance Law (draft)* which has already been published, only has the guiding ideology and legislative principles, but does not have any idea of the quantity or term. It avoids some difficult problems, such as the separate management of social pooling from individual accounts; and the excessive authorization to the State Council. The regulations on the pension insurance of civil servants and rural residents, the agencies and methods for collecting social insurance funds, and regulations on saving insurance funds into the financial account were all stipulated by the State Council, but there was not any specific constraint or supervision on the State Council.⁶⁴ Yang Yansui thought that, since the *Social Insurance Law* was enacted in the absence of the *Social Security Law*, it was impossible to be perfect. We could only implement the legislation first in the fields with mature conditions, in order to end up operating the social security without law as soon as possible.⁶⁵ There were also some other views: the *Social Insurance Law* should be a law for protecting rights rather than a law of labor relations, thus it should highlight the government's responsibility for organizing and implementing social insurance and clarify that the government, employers and individuals are equal contributors. The law should promote the integration of social insurance systems, even though in the primary stage of socialism, big gaps exist between different regions, urban and rural areas, and it is impossible to support welfare for all citizens by the public finance, the *Social Insurance Law* still should start to eliminate differences in insurance benefits between urban and rural areas, different regions, as well as public institutions

⁶⁴Editorial Department of China Social Security: Find out Problems and Solutions (2009).

⁶⁵Ynag (2009).

and enterprises, so that it could turn “five separate insurance systems” into a unitary one.⁶⁶

In the discussion, the “dual-track of the social insurance system” was one of the focuses. Among the opinions and suggestions received by the General Office of the NPC Standing Committee, most were for the full coverage of the *Social Insurance Law*. Some suggested that the state should implement a universal compulsory social insurance, no matter for civil servants, employees of enterprises and public institutions, farmers or freelancers. All Citizens that reach 18 years old, regardless of occupation, must participate in various social insurances. On the account of social security funds was also a controversial issue. Some people advocated saving the funds into a special fiscal account; however Zheng Gongcheng believed that if the social security fund was deposited in the fiscal account, it would become a fiscal fund under the risk of diversion. Therefore, we should keep it public and independence, and achieve its self-balance. The government was only a guarantor and supporter, but could not dominate the social security fund. In the discussion, the collection system, one of the most controversial issues since 2007 when the *Social Insurance Law* entered the review process, once again sparked controversy. Even after several rounds of debates, there was not any result. The 1999 *Interim Regulation on the Collection and Payment of Social Insurance Premiums* provided that the social insurance premiums shall be collected by the taxation authorities or the social insurance agencies. During the following decade, these two collection systems co-existed and had same weight. People in favor of the “taxation authorities” believed that taxation authorities could coercive means to collect insurance funds, thus the efficiency would be higher; while people in favor of “social insurance agencies” thought that taxation authorities mainly focused on enterprises rather than individuals, thus their management could not be meticulous, especially many mistakes might exist in account keeping, leaving troubles to the future when rights and interests should be paid back to the insured. Participants all thought that the Law should clearly stipulate the collection agency, but it was obvious that the legislature was hesitant on this issue.⁶⁷

5.2.3 Promulgation

October 28, 2010, according to the Order No. 35 of the President of the People’s Republic of China, the *Social Insurance Law* was promulgated—New China’s first comprehensive law on the social insurance system finally came out. After 15 years’ repeated studies, discussions, consultation, pilot trials and democratic deliberation procedures, this law establishes a basic framework for China’s contemporary social insurance system. As some experts proposed previously, the Social Insurance Law

⁶⁶Fu (2009).

⁶⁷Editorial Department of China Social Security (2009).

is more like a bill of rights than a bill for enforcement. It stipulates that the state shall establish social insurance systems such as basic endowment insurance, basic medical insurance, employment injury insurance, unemployment insurance, and maternity insurance, and incorporate the basic endowment insurance for employees, the new-type social endowment insurance for rural areas and the social endowment insurance for urban residents into the national basic pension insurance framework. But the pension plan for national civil servants and staff of public institutions is still under the authority of the State Council rather than the law.

The Social Insurance Law (2010) stipulates principles of the on the coverage, funding sources, and insurance benefits of the endowment insurance and medical insurance systems for employees. It also gives authority to the State Council to make management measures, requires the state to improve the social endowment insurance system for urban residents, and authorizes specific implementation task to governments of provinces, autonomous regions and municipalities directly under the Central Government. What's more, since the employment injury, unemployment and maternity insurances are relatively simple, and also more mature after years of practice, provisions on these insurances are more specific.

In principle, the Social Insurance Law covers all employers and individuals in China. It provides that employers and employees shall participate in the basic endowment insurance and basic medical insurance for employees; individual industrial and commercial households without employees, part-time employees not participating in the basic endowment insurance through their employers and other persons in flexible employment may participate in the basic endowment insurance and the basic medical insurance for employees; rural residents may participate in the new-type rural endowment insurance ("new rural endowment insurance") and the new-type rural cooperative medical care ("new rural cooperative"); urban unemployed residents may participate in the social endowment insurance and basic medical insurance for urban residents; and rural migrant workers shall participate in social insurance in accordance with the Law. The employment injury insurance, unemployment insurance and maternity insurance cover all employers and their employees. Farmers whose land is expropriated shall be included in the corresponding social insurance system in accordance with the relevant provisions of the State Council. If the land-expropriated farmers are employed, they shall participate in all the five social insurance schemes. If the land-expropriated farmers turn into urban residents but are not employed, they may participate in the social endowment insurance and basic medical insurance for urban residents, and those who are still registered as rural residents may participate in the "new rural endowment insurance" and the "new rural cooperative." Foreigners employed within the territory of the People's Republic of China shall also participate in social insurance analogically in accordance with this Law. In short, from the legal point of view, China achieved the "full coverage" of the social insurance system for the first time.

The Social Insurance Law (2010) also stipulates that the social insurance funds shall be raised through the payment by employers, individuals, and the government.

Premiums of the basic endowment insurance for urban workers, the basic medical insurance for employees and the unemployment insurance shall be paid by employers and individuals, while premiums of the employment injury insurance and the maternity insurance shall be paid by employers rather than employees. To the new-type social endowment insurance for rural areas, the combination of personal contributions, collective subsidies, and government subsidies shall be applied; while to the basic medical insurance for urban residents, the combination of personal contributions and government subsidies shall be applied. When social insurance funds are insufficient for payment, the people's governments at and above the county level shall provide subsidies; in the new rural social endowment insurance and the basic medical insurance system for urban residents, the government subsidizes the insured persons; and when the basic endowment insurance funds are insufficient for payment, the government shall provide subsidies.

The Social Insurance Law (2010) also stipulates principles for benefits of basic endowment insurance, basic medical insurance, employment injury insurance, unemployment insurance, and maternity insurance. According to the principles of broad coverage as well as being able to be transferred and connected, some benefits of employment injury insurance and unemployment insurance are stipulated to be paid by insurance funds instead of employers, and the regulations on transfer and continuation of basic old-age insurance, basic medical insurance and unemployment insurance relationships are also provided. On the one hand, the law clarifies the rights and obligations of the laborers and employers in the field of social insurance and promotes the harmonious development of society; on the other hand, institutional obstacles against the free flow of talents are eliminated, which helps to form the unified human resources market.

- Where an individual is employed in a different overall planning area, his/her basic endowment insurance relationship shall be transferred with him/her, and the contribution period shall be calculated on a cumulative basis. When the individual reaches the statutory retirement age, his/her basic pension shall be calculated by segment but be paid in a unified way.
- Where an individual is employed in a different overall planning area, his/her basic medical insurance relationship shall be transferred with him/her, and the contribution period shall be calculated on a cumulative basis.
- Where an employee is employed in a different overall planning area, his/her unemployment insurance relationship shall be transferred with him/her, and the contribution period shall be calculated on a cumulative basis.

In addition, the Social Insurance Law (2010) also provides clear regulations on improving collection and payment of social insurance premiums, management of social insurance funds, operation of service organizations, protection of personal rights and interests, information construction of social insurance, the mechanism information sharing and communication, and also protection⁶⁸ and supervision of

⁶⁸Until the end of 2009, the social insurance funds already reached 776.6 billion yuan.

insurance funds (NPC, administrative and social supervision). In the process of great social transformation, the Social Insurance Law has established a new protective relationship between China's citizens, employers and the country, and employers, and established a nationally unified personal social security number. For individuals, the social insurance is a "record of life, service for the whole life, and protection of life"; for the society, the state has unified management on mobile workers, thus China's social transformation is promoted to a new level.

5.3 Two Breakthroughs of China's Social Security System

Since the twenty-first century, China has made many progresses in the social security system reform and construction. One of the most prominent and significant achievements is the establishment of a social security system for farmers, and realization of the full coverage of the social security system through the new rural endowment insurance, the new rural cooperative medical system and the minimum subsistence guarantee system for urban and rural residents; therefore, China began to develop toward a higher level of social equity; another achievement is the legalization of social security which ended the era when social security work was guided only according to administrative orders or normative documents. These two achievements are of epoch-making significance in China's history of social security development, and even in the history of China's social development. At the same time, the achievements are also very difficult to be made.

The difficulty lies in the gap between social reality and ideal goals. For example the rural social security system should be established on a special and fragile basis: the large rural population, so many differences, and very instable employment of rural population are rarely seen in other countries. Thus, establishing the social security system under such conditions relies on the strong impetus from the state and active participation of all regions. The system construction itself is a process of narrowing down gaps in a large scale between the rich and the poor, as well as between urban areas and rural areas. Around 2010, the "system full coverage" of China's social security was basically realized, the intangible social security barriers between different industries and between urban and rural areas were gradually removed, and the target of "social security for all" was gradually accomplished.

The promulgation of the Social Insurance Law (2010) is a milestone in the development of China's social insurance legal system. It developed from zero and met a lot of difficulties. The Social Insurance Law is not only a fruit of the wisdom of all sectors, but also a systematic social project that connects reality with ideals, focuses on both development and fairness, coordinates central and local governments, balances urban and rural areas, and integrate regulations and policies. With the uneven economic development, it is unprecedented to establish a unified Social

Insurance Law, formulate unified legal principles and elaborate unified social development objectives. Through this work, the social justice turned from the CPC's ideals and beliefs into legal norms, and developed from the policy level to the legal level. In the implementation process, there is still a long way to go to improve the rule of law, but the direction is very clear, that is, to establish a society that provides "security for all" while developing the economy.

Chapter 6

Great Social Transformation

Almost one century has passed since the 1920s when the Communist Party of China proposed its social ideals and administrative guideline of “establishing the social insurance system” and “protecting laborers’ rights and interests.” In this period, in order to fulfill its commitment, the CPC has actively explored and practiced various social insurance systems and measures according to the real social conditions. It developed the backward agricultural society to a modernized industrial society, and at the same time, established a social security system enjoyed by all people. The significance of such historic social transformation has not been fully recognized yet.

First, the social security system developed from zero. After the free supply system in the war time, the 1951 *Labor Insurance Regulations* and many explorations and reforms since reform and opening up, the first *Social Insurance Law* that covers all Chinese people was adopted in 2010, and then further reformed and developed in the old age insurance, healthcare, the subsistence allowance, and other fields. To establish a social security system that could cover 1.3 billion people in a country developing rapidly was such a big and complicated task that it is totally unprecedented.

Second, this transformation proved again the close relationship between social security and employment. In the early days of the New China, among the nearly 500 million population, only tens of millions people were industrial workers with stable income, and urban residents represented only 12%. Most people relied on agriculture, commerce, handicraft, or other means for their livelihood, with quite instable income. Under such economic conditions, to raise social insurance funds through personal or employers’ contributions was impossible, and to provide laborers with social security through one system, one approach and one unitary standard was also impractical. That was why Western countries’ system which provides insurance benefits according to contributions could hardly be implemented in China. Instable and nonstandard employment, limited financial resources of the government and actual needs of the state to develop industry first all forced China to find out another way, namely to adopt different measures with different fund-raising methods, different benefit levels targeting different groups such as

employees of enterprises, staff of government organs and public institutions, members of rural communes and other workers. However, the transformation of China's employment patterns, the industrial transition, and the transfer of a large number of labor force led to the collapse of social security barriers and the urban-rural "dualism." The development of production and the transformation of employment patterns were promoting China's social security reform in all aspects, towards a more unified and fairer system.

Third, the major driving force of China's social security system reform and construction came from the ruling party's social philosophy and governance system. In Western countries, the impetus mainly came from the needs of industrial and economic development, the pressure from social groups and the actions of the rulers. Although the rulers were critical, their actions often lagged behind. While in China, the situation was totally different. China had a relatively backward economy, extremely large population, vast territory and obvious differences in different regions, and its economy and society developed rapidly, the primary driving force for establishing a social security system under such complex conditions was from the ruling party and its ideals and objectives formulated in the early days, which was to establish a social insurance system so as to protect the rights and interests of workers, and make the society fairer. But these ideals and objectives could not be accomplished immediately due to constraints of the national conditions. On the one hand, the CPC and the central government declared their ruling objectives through the *Common Program* and the *Constitution*; on the other hand, took step-by-step measures and level-by-level systems to gradually fulfill the commitment to protect workers. With economic development and increasing financial resources of the central government, the CPC Central Committee and the State Council promulgated various normative documents and administrative regulations to expand social security coverage in various fields or improve insurance benefits.

Ministries and commissions in charge of social security affairs, as well as local competent authorities also played an important role. These agencies had a better understanding of local realities, could design appropriate and practical social security schemes according to specific situations in different field and regions and formulated appropriate social security policies targeting specific circumstances, so that these agencies served as driving force for organizing pilot reforms, summarizing experiences, spreading information and good practice, and making sure the implementation of the central government's policies. It was the "territorial administration" principle and the regional co-ordination of the endowment insurance that broke social security barriers between different industries and employers, developed the social insurance into a more universal one, therefore the insurance funds became more secured, and the protection for workers were more stable.

In addition, as in other industrialized countries, social needs, as well as pressure from stakeholders and the public have always been the driving force behind China's social security development. In some areas, such as work-related injuries and medical care, where there is a demand, there would be a policy. In some cases, enterprises, employers and foreign-funded enterprises would like to reduce social risks to focus on enhancing production and efficiency, thus they asked

administrative departments to establish targeted insurance system. Then since the 1980s, various circles have paid close attention to challenges and problems in China's social policies and provided advice and suggestions for the reform.

Fourth, due to the above mentioned special conditions and impetus, China has a unique and diversified development trend in the field of social security. So before establishing the new system, it is necessary to launch pilot programs, for example we have the "Zhenjiang and Jiujiang model," "plate model," "Buji model," and various other models, but all pilot projects were implemented under principles of the central government in order to explore the appropriate method, and the goal of the central government is to achieve a social security system with "various channels of financial sources, multiple levels of the security, combination of social pooling with individual accounts, correspondence between rights and obligations and socialized service management." The overall goal and unified principles clarify the direction for social practice which in turn makes the objectives be fulfilled.

Fifth, in China, diversified social security, especially regional social co-ordination, both destroyed traditional social boundaries, and gave birth to new boundaries. In the early days of the New China, the labor insurance system provided better protection for industrial workers, but also set up urban-rural boundaries between industrial and agricultural laborers. In the process of reform and opening up, the social pooling of pension funds under the "territorial jurisdiction" principle broke boundary between villages and the boundary between industries, but at the same time, new boundaries and standards were formed. The minimum subsistence guarantee and the medical system reform broke regional and urban-rural boundaries but also made new restrictions and standards. Under the new framework, security obligations should not only be assumed by the government. Through the authority of the law and administration, the government established a fund-raising channel which comprised contributions from employers and employees as well as government subsidies. Thus the government could redistribute social wealth and motivate all social members to jointly contribute to the social security system. In this system, security boundaries were re-defined in a professional way: for example, the threshold for receiving old-age pensions is the "contribution for a cumulative period of 15 years or more" or the statutory retirement age; the boundary for medical insurance is providing the "basic medical insurance" rather than "all medical expenses"; the subsistence allowance system also has its own benefit standards. These standards are managed by a new, professional, and socialized system and institutions, which mark the overall transformation of the social organization, structure, and governance.

Such transformation also changed the relationship between the state and individuals. At first, the state provided social protection to industrial workers through employers and to farmers through the rural collective economy. But industrialization, urbanization, and marketization have not only challenged this kind of protection, but also challenged China's most traditional family security function. Employment units, the collective economy and the household economy could hardly to resist the social risks brought by industrialization and marketization, thus the state began to assume more and more responsibilities for social protection.

Finally, with the expansion of the market, the transfer of industries and laborers, and the introduction of the inter-regional social security system, new methods and new boundaries replaced old ones, the insurance coverage expanded, and standards and systems were gradually unified, so the country has become the largest social organization.

Sixth, from the perspective of individual citizens, thanks to this social transformation, they began to join a huge social security network. Enterprises are no longer the society for workers, production teams are no longer the society for farmers, and although the family is still very important, it is no longer the main source of livelihood security. Leaders of all industries could no longer escape social protection responsibilities with the excuse of protecting industries' interests, and the performance of enterprises could no longer affect retirees' pensions. Although different systems and benefit barriers still exist between the urban and rural areas, between different regions, and between different industries, they are being broken and the threshold is becoming lower. Transformation of the social protection also changed the relationship between the state, enterprises, and individuals: the relationship between the state and individuals has become more direct, and national identity has become more concrete.

There is only one reason for all these changes: a truly socialized system is being formed and improved. The so-called social security system for all is in fact a system with responsibilities for all. In the same country, people are responsible for each other, and protect each other, and the government provides systems for such protection. Under the market economy, these systems provide the basic social security; while under the socialist system at the same time, they also bear the responsibility of achieving social equality through redistribution.

After nearly a century of social exploration, the Communist Party of China preliminarily realized its early ideals of "establishing social insurance" and "protecting interests and rights of workers." With these ideals turning into concrete systems, the living conditions of Chinese people, their relationship between each other and with the government have also changed. It is a relationship of interdependence, mutual relief, and mutual protection. Although the government's policies and financial support have played an important role, the fairness and sustainability of the social security system depend more on the recognition and trust of all people. In the early days of the New China, a worker in a state-owned enterprise might say, "As long as I work hard, I will be protected by the country." After this series of changes, he should say: "As long as I pay insurance premiums on time, I will be protected by the society."

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