China's Social Development and Policy
Into the next stage?

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Litao Zhao

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Chack Kie Wong

Introduction

The basic concept of the welfare state is the use of the state to provide welfare, from guaranteeing people a minimum income irrespective of their market value to offering all citizens without distinction of status and class the best standards available in relation to an agreed range of social services and benefits (Briggs, 1965). This is fundamentally different from the concept of the welfare society, primarily the family and voluntary associations that provide welfare (Rodger, 2000; Wong et al., 2002). Therefore, the welfare state is defined as using the state to provide welfare and benefits. In Western welfare theory, the welfare state is located at the interface of two sets of rights, or “rules of the game” (Gintis and Bowles, 1982, pp. 341–5)—citizen rights underlying the democratic institutions of society, and property rights underlying the capitalist market system. These two sets of rights are in constant and persistent contradiction with each other. According to neo-Marxist theorists, the contradictions underlying the welfare state are functional for the very existence of capitalism because they legitimize the accumulation function of capital (O’Connors, 1973; Gough, 1979; Offe, 1984).

When we study the welfare systems in East Asian societies where the underlying institutional arrangements are different from Western welfare states—the democratic institution and the capitalist economy were or are absent—we find that some systems may have different “rules of the game” or their institutional logic may take time to mature, such as the market economy in reform China and political democracy in Maoist and reform China, or rudimentary democracy in many East Asian societies. In other words, from the standard set by Western welfare capitalism, East Asian welfare systems can be described as “evolving” or immature (Tang, 2000; Kim, 2001).

Does it mean that we should look at East Asian welfare systems from the perspective of the welfare society and the welfare regime concepts, both de-emphasizing the state's role in welfare arrangements? The concept of the welfare society indicates an alternative and possible preference of the welfare system, predominated by families and voluntary organizations, over the welfare state (Burchell, 1995; Dean, 1995; Walters, 1997). What are the origins of the concept of the welfare regime? The welfare state regime was first used by
Esping-Andersen (1990) in his seminal work, Three Worlds of Welfare Capitalism. Later, he found the need to accommodate the contribution of different sectors in the distribution of benefits and costs in social settlements or welfare arrangements (Esping-Andersen, 1999), and he dropped the word “state” from “welfare state regime” (Gough, 1999).

The concept of regime in a welfare regime denotes the complex socio-political, legal and organizational features that are systematically interwoven in the relationship between the state and the economy as well as between the state and society (Esping-Andersen, 1990, p. 2; Walker and Wong, 2005, p. 6). That complex structure of relations between state, economy, and society is explained by Esping-Andersen’s (1990) seminal work that found that class coalitions of power resources account for the regime types in the form of social settlements among capital, labor and state actors. In this light, the concept of the welfare regime looks more powerful and explains the outcome of social settlements, for example, welfare arrangements as major components between regime types.

On the basis of the above brief discussion, we should adopt a different approach to the study of East Asian welfare regimes. In fact, neither capitalism nor democracy is necessary to constitute a welfare state or explain its development (Walker and Wong, 1996; 2004). Former Soviet bloc countries and Maoist China had many essential welfare services and provisions on a par with those in Western welfare capitalism. Also, the first batch of countries to initiate the core welfare state programmes, the social insurance schemes, were non-parliamentary regimes in Western Europe such as Austria, Denmark, Germany and Sweden (Flora and Heidenheimer, 1982, p. 70).

In other words, welfare development is driven not only by the institutional logics of capitalism and democracy; the driving force of welfare development in non-capitalist and non-democratic societies is often motivated by the need for political legitimacy of the authoritarian rule over society (Walker and Wong, 2005, p. 5). Therefore, it is necessary to look at the role of the state; in principle, it should be a state-led theory instead of a society-led theory such as a welfare regime. It is from this theoretical vantage point that we look at developmental state theory to explain the evolving Chinese welfare regime as a case of the East Asian welfare regime type.

On this basis, the organization of the chapter first introduces the tripartite framework, a framework larger than the institutional perspective above, and developed by Walker and Wong (2009) in their study of the relationship between economic policy and social policy. Analyses of the developmental state and their application in East Asian welfare regimes follow and finally, the chapter examines whether China is a developing welfare regime.

The tripartite framework

Walker and Wong (2009) use a tripartite framework to analyze the relationship between economic policy and social policy in a comparative analysis of social policy as a public burden in the West and China, despite direct or indirect social policy contributions to economic production and welfare creation.

First, it is institutional. The neo-Marxist analysis of the inherent contradiction of the accumulation and legitimization function in welfare capitalism (O’Conner, 1973; Gough, 1979; Offe, 1984) offers a starting point for the institutional perspective. However, this structural-functional analysis does not explain the acceptance of welfare state programmes across all social classes in advanced industrial societies (Ringen, 1987; Pierson, 1991; George and Wilding, 1993). The democratic institution of society provides the impetus or logic for welfare development in capitalist societies (Gintis and Bowles, 1982)—equality of political rights allows individuals, regardless of their status and means, access to a range of welfare benefits and provisions on an equal basis with their fellow citizens (Marshall,1950). In theory, the citizen rights underlying the democratic institution of society is a society-led explanation of the popular support of the welfare state and the driving force for welfare development.

However, China should have different institutional logic from that of Western welfare capitalism, especially in the Maoist era. This fact is vividly illustrated in the provision of comprehensive danwei (work unit) welfare to urban employees. Danwei welfare was like the “cradle to grave” Western welfare state, despite the fact that it was missing the two “rules of the game,” citizen rights underlying the democratic institution of society and property rights underlying the capitalist market system (Walker and Wong, 1996). Now, China today is moving toward adopting a market mechanism and principles in its economy and even in the social sphere. The institutional logic of the capitalist market system should apply, but the democratic institution of society is still missing.

Second, it is ideology. China lacks a democratic society and is not a fully capitalist economy; nevertheless, it managed to provide sufficient social protection to its urban population through danwei welfare for decades. Since danwei are state-owned enterprises (SOEs) and government bureaus, including government-administered organizations such as universities and research institutes, they are part of the state apparatus through which the state decentralizes the tasks of national development to lower levels and organizations. In this institutional arrangement, danwei did not have to consider the cost of production in its welfare provisions to employees until economic reform was introduced in 1978 and in the early years of the reform period. So, the preclusion of the need for profit maximization should free individual danwei and the common people from constructing social policy or welfare as redundant or a waste of precious resources from economic production. However, this is not the case in China (Dixon, 1981; Leung and Nann, 1995). The legacy of traditional beliefs such as work ethics and family self-reliance reinforces the public perception of welfare as subordinate to economic production. Hence, those who receive social assistance were and still are regarded as secondary citizens. In other words, a lack of profit maximization or capital accumulation
in the Chinese institutional arrangement of economic production did not prevent a dual perception of welfare distribution—danwei welfare was seen as legitimate and rightful while poverty relief was seen as dependent, with a social stigma (Walker and Wong, 2009). In this light, apart from the institutional logic, ideological factors should be included in the study of welfare development in the case of China as an evolving welfare regime.

Third, it is developmental. Economic development brings about an increase in wealth and some of the increased share can be allocated for redistribution (Wilensky, 1975; Pampel and Williamson, 1988); indeed, this is the modernization theory in explaining welfare development (Hill, 1996, pp. 20–1). Therefore, a “growth state” (Klein, 1980) can assign more growth dividend for welfare consumption. However, pre-reform China was not a “growth state,” and this was Deng Xiaoping’s rationale for initiating economic reform. However, the institutional arrangement of a command economy gave it the freedom to provide danwei welfare out of proportion to its national resources and fiscal capacity, a situation that happened not only in pre-reform China, but also in former socialist countries in Eastern and Central Europe (Kornai, 1997). However, for the larger population, it lacked the resources required for redistribution. In other words, the equalization of citizen rights in welfare, i.e., all citizens without distinction of status and class are offered the best standards available in welfare and benefits, is apparently an unlikely option for a developing economy like China.

Therefore, the developmental perspective is a logic underlying the often rudimentary nature of welfare regimes in East Asia. They do not command the required resources for redistribution through the welfare state, apart from the fact that the political elite in East Asia generally holds a negative view of the idea of the welfare state (Esping-Andersen, 1996; Wong and Wong, 2001; Chau and Yu, 2005).

In summary, the tripartite framework is seemingly more powerful than a single dimension of institutional analysis. Now, we come to a literature review on the developmental state and East Asian welfare regimes to see whether it has any new insights for the study of the case of China as an evolving welfare regime.

The evolving East Asian welfare regimes

The rationale of the developmental state is simple and straightforward. In order to catch up with advanced nations, developing countries need to use their state capacity to direct the economy and the society to accomplish national economic development (Leftwich, 1995, p. 401). The post-war Japanese economic success provides a good example of the developmental state theory in national development; the Japanese experience has been emulated by other Asian countries (Johnson, 1982; 1995).

According to Johnson (1982), a developmental state is a coalition consisting of government ministers and state bureaucrats that prioritizes economic growth over all else. In essence, it is a combination of political power and economic expertise that gives the developmental state much transformative power (Weiss, 2000). The transformative power or capacity of the developmental state comes from a number of components. They include a relatively autonomous and determined developmental elite, a powerful, competent and insulated economic bureaucracy, a weak and subordinated civil society, the effective management of non-state economic interest, and performance or ability to quell opposition and sustain legitimacy. In essence, a successful developmental state relies upon a weak society without autonomy that cannot challenge the developmental elite (Leftwich, 1995, p. 405).

Ironically, the success of the developmental state may pave the way for its own demise, because, as these countries achieve their economic growth, a clientelistic state evolves into a citizen-led state over time and the developmental elite has to make room for new autonomous institutions as well as popular interests (Barro, 1997; Lijphart, 1999). In this light, Pang (2000) talks about the end of the East Asian developmental states due to two major factors—democracy and financial globalization. Democracy implies the equalization of political power; this means that, with the success of the developmental state, economic affluence is likely to breed an assertive citizen state and the relatively autonomous developmental state will be difficult to maintain.

Financial globalization implies that domestic capitalists no longer require financial subsidies from the state to grow, because it provides them with low interest rates. Therefore, it is difficult to count domestic capitalists as strategic collaborators in national economic development. Then, a developmental state is forced to change into a regulatory state, in which the state intervenes less and is more concerned with the forms and procedures and the market forces and domestic capitalists are more assertive in economic decisions (Johnson, 1999; Walter, 2006; Pereira, 2008).

According to this analysis, the developmental states in East Asia, Taiwan, South Korea, and Japan ultimately lose their power over the economy and society. However, Singapore did not. Pereira (2008) finds two reasons for this divergence of Singapore from East Asia's tiger economies. First, Singapore effectively manages its non-state economic interests in its national development; Singapore's government does not collaborate with domestic capitalists, but transnational ones. Therefore, the domestic capitalist class has not developed into an autonomous and powerful social agent with the capacity to challenge the authority of the developmental elite. Second, because of a weak and subordinated civil society largely due to effective governance, Singapore's working class enjoys the fruit of the developmental state and its trade unions are tightly controlled by the state. For example, housing has never been an issue in Singapore, because more than 80 percent of Singapore's citizens buy their apartment from the government. The high homeownership rate indicates, to a great extent, the effectiveness of an asset-based social policy (Sherraden et al., 1995; McCarthy et al., 2002). In other words, economic affluence does not come with an autonomous middle class and the state still has a firm grip on society.
Therefore, political democracy and a global economy explain the recent divergent national development of East Asian societies. Singapore's government, from the start of its developmental state, has effectively managed its non-state economic interests. It also sees welfare development as positive for its political legitimacy and sees it as a price to pay for maintaining a weak and subordinated civil society. Accordingly, Singapore is not a typical developmental state as social development is not at all subordinated to economic development (Lee, forthcoming).

The developmental state theory can also account for the welfare development in this region. Welfare developmentalism is the combination of welfare development and a developmental state; it suggests that the state subordinates welfare development to economic growth. We can also find similar idea in welfare productivism (Holliday, 2000). Welfare developmentalism in East Asia means that government intervention and policies are used extensively to promote industrialization by investing heavily in the education and health of the workforce to enhance the legitimacy of the government and to pacify labor (Tang, 2000; Kwon, 2002; Aspalter, 2006). Thus, welfare tends to target selective groups close to the developmental elite, consolidating its legitimacy and a premium is placed on those public and social policies that are growth-oriented. So, how could welfare developmentalism become inclusive welfare or universal welfare, such as the extension of the decommmodified welfare programme? Political democracy seems to be the answer in view of the recent experiences in South Korea and Taiwan (Hort and Kuhnle, 2000; Kwon, 2002; Croissant, 2004; Ahn and Lee, 2005; Back, 2005; Hill and Hwang, 2005; Yasuhiro, 2005). However, it does not mean that population aging and other social factors are not important. This is an important explanation for the modernization theory in welfare development (Hill, 1996, pp. 18–24).

In the case of Korea's change to inclusive coverage, according to Kwon's account (2002, pp. 30–2), the development of universal health insurance was a long process fueled by democratization. In Korea, national health insurance first started in 1977 with typical exclusive developmental welfare features targeted at large-scale companies with more than 500 employees. It was extended to cover public sector workers and private school teachers in 1978. It was not until the 1988 presidential election that competitive campaigns under a democratic constitution forced all candidates to listen to the grievances of people left out of the national health insurance system. All candidates, including President-elect Roh Tae-woo, promised to extend health insurance coverage to all citizens. Even after health insurance became universal, the funds were managed separately in terms of collecting contributions and reimbursing their members’ hospital treatment. In 2000, Kim Dae-jung's government decided to merge all funds (409 at the highest point) into a national health insurance fund (Kwon, 2002).

In the case of Taiwan's expansion of its decommmodified welfare programme, both the Kuomintang and the Democratic Progressive Party applied a strategy of promising social welfare policies in highly competitive elections during the process of democratization (Aspalter, 2002, 2006; Ku, 2002; Wong, 2005). The expansion of the old age allowance, a non-developmental social expense programme, is an example. In the 1990s, local government chiefs of all parties began to address the issue of elderly poverty and pledged to establish a universal old-age allowance scheme in their cities or counties once they were elected. In 1997, even the popularly elected ruling Kuomintang President Lee Teng-Hui endorsed the idea of universal old-age allowance. In 2002, the universal old-age allowance was introduced by Taiwan's opposition party leader, Chen Shui-Bian of the Democratic Progressive Party, in his first presidential term (2000–2004).

On the basis of the analysis above, in the interplay of the developmental state with welfare development, there are two models demonstrated by the experiences of Korea, Taiwan and Singapore.

The first model, seen in Korea and Taiwan, is the shift from state-led welfare development to society-led after the democratic institution of society dominates. When civil society is weak, the developmental elite have more freedom to work on national development according to their judgment and expertise of what is good for the country. When the country has succeeded to some extent in its developmental goals and society is democratized, it shifts to a society-led model in welfare development.

In the second model, seen in Singapore, the developmental elite retain their power even in economic affluence. The development elite can devise deliberate policies (choice of economic collaborator and asset-based policy instead of redistribution) and exercise political control over trade unions that save them from subsuming to the degenerative logic of the developmental state, i.e., economic affluence breeds an assertive citizen state that eventually leads to a society-led model in welfare development.

The case of China as an evolving welfare regime

Now, we can incorporate the welfare development experiences of a few East Asian welfare regimes into the institutional dimension of our tripartite framework, fully aware that Western welfare theories—the society-led welfare regime theory and the neo-Marxist underlying contradictions of welfare capitalism—are inadequate in the study of East Asian welfare regimes.

Now, we look at the evidence in the study of the China's evolving welfare regime from a tripartite framework. Four types of statistical data are presented as empirical evidence for our tripartite analysis of China's evolving welfare regime; they are the share of social expenditure as a percentage of GDP, the share of SOE employment as a percentage of total urban employment, healthcare expenses, and the division of expenditure and revenue of central government and local governments. The share of social expenditure as a percentage of GDP is an indicator of the commitment of the state to citizen rights. For example, inclusive welfare or decommmodified welfare, especially social protection in healthcare and
income maintenance programs of various kinds, are basically redistribution of the welfare state by cash transfer. Of course, East Asian welfare development is characterized by inadequate decommodification but is biased toward social investment. To compensate for this, public education expenses are included in the social expenditure figures. This type of statistical figure should indicate the extent of the universal coverage of welfare and benefits in a society.

The share of SOE employment to total urban engagement indicates the extent of the need for redistribution by the welfare state in the Chinese welfare regime. China’s dual welfare system is characterized by its bias toward SOEs and other danwei employers. In other words, the decline of SOE employment, one of the economic reform objectives, means that more employees are exposed to poor terms in remuneration, working conditions and benefits.

The statistical data on healthcare expenses provide an opportunity to look into a specific policy area of the need for social protection, as driven by the logic of capital accumulation. Therefore, we can see whether welfare development as depicted by macro-level data of social spending matches that of the micro-level specific policy area; perhaps a specific policy arrangement can remedy the inadequate finance in state welfare.

The statistical data of the division of the expenditure and revenue of central and local governments show whether China has commanded the required social resources for redistribution. In China, local governments are primarily responsible for the provision of public services, especially social welfare and benefits. The central government will reallocate part of its collected revenue to local governments in the second-round fiscal distribution for the sake of maintaining the financial balance between local governments and supporting specific policy objectives. For example, in the early 2000s, the matching-up of social assistance benefits from the central government enabled the urban Minimum Livelihood Security Line, the social assistance programme in China, to extend its coverage to those in need. Before this financial match-up, local governments had to choose between eligible applicants due to financial constraints (Tang, 2005). Of course, the reallocated revenue from the central government is not all for welfare and benefits; nevertheless, it indicates the extent of fiscal resources, i.e., the developmental dimension, available for redistribution to meet the need for political legitimization.

The institutional dimension

Table 10.1 reveals the social expenditure patterns of China during its economic reform and its different institutional arrangements of welfare. In the pre-reform period, China spent very little of its national wealth on social expenditure (a broader definition to include education and even cultural activities due to inseparable official statistics)—3.61 percent of GDP in 1978, when Deng Xiaoping started the reform process. That share increased to 9.48 percent in 1985 because we include 5.62 percent of GDP as subsidies to loss-making enterprises in the social expenditure budget.

In this stage of economic reform, China needed to provide subsidies to loss-making SOEs enterprises, not only because they were state-owned, but also because much of their loss was due to spending on labor insurance and welfare funds as part of the danwei welfare. For instance, in 1978, the SOEs spent an amount equivalent to 13.7 percent of their wage costs on workers’ insurance. The amount rose to 24 percent in 1985, 28.2 percent in 1989, and 34 percent in 1993 (Walker and Wong, 1996, pp. 76–7). In Western welfare capitalism, a subsidy of this kind may be regarded as subsidies to social security.

That share of national wealth substantially decreased to an insignificant amount in 1995 and thereafter as a result of the gradual effect of the government’s implementation of labor regulations on dismissal, recruitment, bankruptcy, and the establishment of the labor contract system since 1986 (Leung and Nann, 1995, p. 67). In other words, from the early stage of economic reform through the mid-1990s, the restructuring of SOEs was
necessary. This explains the drop in the subsidy from government to loss-making enterprises in mid-1990s. From 1995 on, the share of GDP as subsidies to loss-making enterprises was reduced to insignificance; for example, it was 0.54 percent in that year, not recorded in 2007, and was only 0.12 percent of GDP in 2008.

Table 10.2 shows the share of employment of SOEs as a percentage of total urban employment. In 1978, when Deng Xiaoping initiated economic reform, SOEs had 78.3 percent of total urban employment, but that figure declined to 35 percent in 2000, one year before China was admitted into the World Trade Organization. The share of SOE employment declined to 21.3 percent in 2008. This gradual decline of employment of SOEs as a percentage of total urban employment had an important implication for the welfare regime of China, a need for the state to intervene to alleviate the capital accumulation function, even though the SOE employment peaked in the mid-1990s in terms of the absolute number.

As mentioned above, the restructuring of SOEs that resulted in the rise of non-state sector employment implies that more employees are exposed to poor terms in remuneration, working conditions, and benefits. It is only in recent years that the central government in Beijing has realized the uneven primary distribution of market wages. For instance, recently a government minister in charge of human resources and social security suggested that since China had the right conditions such as GDP per capita exceeding US$4,000 and an annual growth rate of 8.6 percent in 30 years (1979–2008) (Renmin Zhongxie Bao, September 8, 2010), a 15 percent annual rise of wage was recommended in the upcoming 12th Five Year Plan.1

Therefore, it is clear that, despite the introduction of a capitalist market system, the protection of labor is at the mercy of the developmental elite because of inadequate citizen rights. If structural factors do not favor non-state sector employees, it is necessary to look at secondary distribution; that is, redistribution by the state in China's welfare regime. In this regard, we can look at evidence of redistribution in China's welfare regime.

As discussed above, social expenditure as a share of GDP does not make us excited about the redistribution of social resources in China. However, there were substantial increases recently—social expenditure as a share of GDP rose from 3.83 percent in 2005 to 4.04 percent in 2006, 6.19 percent in 2007, and 6.66 percent in 2008, substantial increases in a short time. In absolute terms, spending on culture, education and healthcare jumped from 610 billion yuan in 2005 to 1,286 billion yuan in 2008, an increase of 210 percent over four years. The corresponding rise in social expenditure on pension and social welfare was even more impressive, from 71.6 billion yuan in 2005 to 680.4 billion yuan in 2008, a jump of 950 percent in four years.

It can be concluded that redistribution in China is at a pretty low level but there have been impressive increases recently. We will explain this increase later. In the meantime, judging from the evidence available, the present level of social resource redistribution seems unlikely to legitimize the accumulation function of capital, using a comparative perspective. For example, in 2003, the average OECD country spent 12 percent of their GDP on cash benefits for redistribution, 5 percent as income support to the working age population and 7 percent as pensions for elderly and survivors (OECD, 2007).

Indirect empirical evidence supports this claim. For example, that inadequate redistribution resulted in social miseries is paraphrased in terms of the "Three Mountains" facing people—education, healthcare and housing are not affordable. Sometimes, retirement is also added and termed the "Four Mountains" in public discourse. Social unrest is a great concern of the government. In fact, a stability maintenance office was set up in 2006 in different tiers of the government to oversee social unrest and propose initiatives to maintain social stability. They are indicators of the insufficient political legitimization function of the state.

Now we turn to a particular policy area, healthcare, to examine whether citizen rights to healthcare protection are prevalent in the urban reformed healthcare system. As mentioned above, China's danwei welfare was restructured to facilitate the marketization of the economy. It is along these lines that unemployment, retirement, and healthcare protection are reformed. In other words, welfare reform in China is likely to work along the major tenet of welfare developmentalism—the subordination of social policy to economic and industrial policies.
Below, we will briefly outline the reform initiatives in the context of a dual system in healthcare protection and if healthcare engenders the right to affordable healthcare.

China has a dual healthcare system with urban and rural subsystems. Due to limited space, we confine our study to the urban healthcare system for employed persons. In the traditional urban system, labor and government insurance for healthcare was provided to employees of danwei, the former for SOE employees; the latter was provided to government civil servants and state-administered organization employees. The two traditional urban subsystems were not sustainable because they did not take cost into consideration and employees lacked the incentive to save for medical expenses. In the 1980s, initiatives such as cost sharing were launched to reform the traditional urban healthcare system. In 1993, the initiative to use a system of healthcare financing that combined a socially pooled fund with personal medical accounts was announced and piloted in Zhenjiang and Jiujiang, two medium-sized cities. In 1998, the new basic health insurance system was fully implemented to replace the traditional labor insurance and government insurance.

In terms of the source of financing of China’s urban healthcare between 1998 and 2003, a span of five years after the new basic health insurance system was implemented, the share of the source of finance on the part of government insurance declined from 16 percent in 1998 to 4.0 percent in 2003, and 28.7 percent to 4.6 percent on the part of labor insurance in the corresponding years (Wong et al., 2006: Table 6.3). In other words, the reform in healthcare was successful because it reduced the financial burden over danwei, especially the productive SOEs. On closer scrutiny, the share of the source of finance was shifted to social insurance, i.e., basic health insurance, and its share rose from 4.7 percent in 1998 to 32.2 percent in 2003 (ibid.). Likewise, self-payment remained at a similar level, that is, 44.1 percent in 1998 and 44.8 percent in 2003 (ibid.).

From a neo-Marxist structural-functional perspective, the effect of this policy choice is clear. Healthcare reform is to enhance the capital accumulation function of the state in healthcare, albeit in China’s case, it is to rescue the SOEs from loss-making. Therefore, it does not help in terms of political legitimation. Even though healthcare insurance coverage was extended to more private-sector employees, affordability remained a critical issue, for example, in 2003, 85.4 percent of respondents in survey of mid-China city residents agreed at different extents that “[t]he current medical and treatment expenses exceed what the general public can afford” (ibid., p. 101: Table 5.9). In other words, inclusive healthcare protection in terms of social insurance does not enhance any genuine citizen right in healthcare protection. Affordability of medical consultation is still one of the “Three Mountains” in public discourse about their hardship in daily life. The following two examples illustrate the tension due to the application of market mechanism into the operation of public hospitals in China. Reports suggested that public hospital doctors were called “white wolves” by patients3 and some public hospitals had to ask police to be stationed in hospitals due to poor relations with patients.4

Relations between doctors and patients have not improved even after urban healthcare reform in 1998. The underlying problem is in the approach of the reform initiative—it aimed to control the demand for healthcare services without financial subsidy from the state to manage the political legitimation function in healthcare.

The underlying factor of the bad relationship between public hospital doctors and their patients can be traced back to the early 1980s when the central government began to freeze its subsidies to public hospitals (Zeng and Hillier, 1995). This forced hospitals to rely upon profits from two sources: charges on the use of high-end medical equipment and the sale of medicine. This started the decline of the subsidies from government as a share of the total income of public hospitals. For example, in 2008, the comprehensive public hospitals in China had an income of 500,655 million yuan, of which only 6.6 percent came from financial subsidies from the government and 0.79 percent from higher-tier government subsidies, with the remainder coming from income from fee charges, medical examinations, and medicine sales.4

The distribution of health expenses in China’s comprehensive public hospitals indicates the inadequate financial subsidies from the government for healthcare provisions. In other words, this shows the very small role of the state in healthcare in terms of financing. Table 10.3 provides figures from a macro-level on the same vantage point of the distribution of China’s healthcare expenses during reform, from 1980 to 2007.

In 1980, in the early years of Deng Xiaoping’s economic reform, government healthcare expenses as a share of total healthcare expenses were 36.2 percent. They decreased to 25 percent in 1990 and then stabilized from 17 percent in 1995 to 15.6 percent in 1998 when the basic health insurance started. In the same vein, social health expenses (expenses of social insurance systems such as labor insurance and the basic health insurance) took a share of 42.6 percent in 1980, and then fell to 26.6 percent in 1998 when basic health insurance started; it increased to 34.5 percent in 2007, corresponding to the recent slight but continuous increases in government healthcare expenses.

Individual health expenses rose from 21.2 percent in 1980 to 57.8 percent in 1998, topped at 60.6 percent in 2000, and then decreased to 45.2 percent in 2007. Therefore, extending the coverage of basic health insurance, in practice, was not sufficient enough to mitigate the financial burden of individual patients. It was only recently that an increase in government healthcare expenses as a share of total healthcare expenses was correlated with the decline in individual healthcare expenses as a share of total healthcare expenses. For example, in 2007, the former reached 20.3 percent while the latter fell to 45.2 percent in the same year. Nevertheless, the share of individual healthcare expenses was still much larger than that in the early years of economic reform, e.g., 21.1 percent in 1980 compared to 45.2 percent in 2007.
In general, the government has shied away from the financial role that opened the way for using market mechanisms and principles in operating public hospitals, or maximizing profit through medical examination and the sale of medicine.

In summary, the inadequate financial role of the state transforms the structure of finance to the disadvantage of individual citizens. The institutionalization of healthcare provisions, because basic health insurance does not reflect any genuine citizen rights, has not affected the affordability of healthcare for average citizens in reform China. Apparently, the imbalance between capital accumulation and political legitimation, according to the neo-Marxist structural-functional perspective, is likely to create a context of change. Therefore, the Chinese welfare regime is not at its equilibrium—it is still an unfinished project and is evolving.

**Ideological shift**

When Deng Xiaoping launched economic reform in 1978, he followed the developmental state theory by using market forces to catch up with advanced countries in national development. In ideological terms, it is a shift from Mao Zedong’s egalitarianism to market socialism, i.e., an ideology emphasizing “growth first” development and the subordination of social welfare and social development to economic development (Chau and Yu, 1999; Walker and Wong, 2009).

Nevertheless, Deng Xiaoping envisioned a stage-development in his “xiaokang” (small or moderate welfare) societal goal. When China reached the threshold of US$1,000 GNP per capita by the end of the twentieth century, it would have the resources necessary to tackle the rich–poor gap and regional disparity. In fact, the goal of building a “xiaokang” society was modified to the building of a “comprehensive xiaokang society” in 2002 by the Chinese Communist Party under the leadership of Jiang Zemin (2002); not only economic development was targeted, but also higher levels of democracy, culture, science and education, social harmony, and people’s standard of living. However, Jiang’s major ideological advancement was the “Three Represents,” which includes the capitalist class as people, and not an ideological shift with direct implication on welfare development.

In late 2002, Hu Jintao became the Party Chief Secretary and the concept of social harmony was put forward. In his speech to the Party’s high-level cadres on February 19, 2005, the six essential components of the concept of social harmony were presented; among them, the component of fairness and justice implied the reconciliation of the interests and relations of all parties concerned, under which people’s internal and other social conflicts are properly settled and social equity and justice were implemented (Hu, 2005).

The discourse of social harmony by the new Chinese leadership indicates an ideological shift in developmental strategy from the growth-first development to a better coordination of economic and social development. This is
also evident in the discourse of the “Five Co-ordinations” that Hu presented in 2003. They are the coordination of rural and urban development, regional development, economic and social development, humans and nature, and internal national development and the need to open China’s door to the outside world in the 3rd Plenum of the 16th Central Committee of CCP (Central Committee of CCP, 2003).

Both constructing a harmonious society and the “Five Co-ordinations” indicate a shift from the trickle-down neo-liberal ideology of the market’s unequal distribution—a few get rich first—to striking a proper balance between economic growth and social development and an emphasis on getting rich both in either the market’s primary distribution or the welfare state’s secondary distribution. It is evident in the recent ideological shift in the public discourse: in other words, the ideology of China’s developmental elite is important in explaining the change as indicated in the empirical statistical data we presented above.

**Developmental dimension**

As we mentioned above, development means more resources available for redistribution. It is only when a developmental state has more social resources for redistribution that it can respond to society-led demands in terms of the increase in social expenditures. Of course, it is necessary but not sufficient to explain the shift in welfare development. It is necessary in the sense that insufficient social resources would limit the extent of the welfare coverage for all citizens in a developing country such as Maoist China, and will result in a dual welfare system.

In 2009, China’s GDP was equivalent to US$4.985 trillion, making China the third largest economy in the world after the USA and Japan (Wall Street Journal, 2 July 2010). However, China is still a developing lower-medium income nation at best if its aggregate national wealth figure is divided by the vast population of 1.3 billion. Nevertheless, the sustained growth rate of up to 8–10 percent per year over a period of 30 years is phenomenal and has enabled the country to accumulate sufficient wealth for redistribution. This was especially the case after 1994 when the central government reformed the tax system and allowed the central government to have a greater share of tax money for redistribution. Table 10.4 illustrates this important turning point in terms of shares in tax money. The share of total fiscal income was 22.0 percent for central government and 78 percent for local governments in 1993. After the tax reform, it was reversed to 55.7 percent for central government and 44.3 percent for local governments. In other words, the central government had, from then on, a larger share of the revenue for redistribution for regional and social equitable purposes.

In this light, when Hu Jintao came to power, the ratio of central-local government in fiscal expenses declined from a 30.1/69.9 pattern in 2003 to a 21.3/78.7 pattern in 2008. This indicates that more social resources are

<table>
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<th>Year</th>
<th>Revenue (100 million yuan)</th>
<th>Expenditure (100 million yuan)</th>
<th>Revenue (%)</th>
<th>Expenditure (%)</th>
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</thead>
<tbody>
<tr>
<td>1998</td>
<td>1122.26</td>
<td>1757.77</td>
<td>64.5</td>
<td>47.4</td>
</tr>
<tr>
<td>1999</td>
<td>1194.62</td>
<td>1896.33</td>
<td>62.8</td>
<td>45.3</td>
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<tr>
<td>2000</td>
<td>1343.17</td>
<td>1892.48</td>
<td>74.5</td>
<td>47.4</td>
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<tr>
<td>2001</td>
<td>1385.32</td>
<td>1989.17</td>
<td>70.6</td>
<td>47.4</td>
</tr>
<tr>
<td>2002</td>
<td>1383.05</td>
<td>1906.01</td>
<td>72.0</td>
<td>47.4</td>
</tr>
<tr>
<td>2003</td>
<td>1383.05</td>
<td>1906.01</td>
<td>72.0</td>
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<td>2004</td>
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<tr>
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<td>1383.05</td>
<td>1906.01</td>
<td>72.0</td>
<td>47.4</td>
</tr>
</tbody>
</table>

Source: Calculations based on Statistical Yearbook of China 2009. 2009 data are hard copies.
available for the use of the local government. The substantial rise in social expenditure as a share of GDP and in absolute terms, as indicated in Table 10.1, suggests that the role of the state, as it was interpreted differently by China's developmental elite—between Jiang and Hu—is associated with the change in policy toward primary and secondary distribution in recent years. Of course, when we compare the share of social expenditure (excluding education) to GDP in mature Western welfare capitalism (e.g., OECD countries on average spent 20.5 percent of their GDP in 2005, and China's corresponding figure was 3.83 percent in 2005, and 6.66 percent in 2008), in terms of social expenditure, China as a whole is still far from a mature welfare regime. Nevertheless, the enormous amount of wealth generated from China's growth state is impressive. The GDP in 2003 was 2,171.53 billion yuan. In 2008, it jumped to 6,133.04 billion yuan an enormous rise of 282 percent (Table 10.4). It is fair to say that China has the financial capacity to increase the extent of reallocation to local governments for equitable redistribution for welfare development for the political legitimation of the state.

Conclusion

China's welfare regime, the socio-political, legal, and organizational features in terms of the relations between state, economy and society, still favor the state and economy, and society needs the state for its protection. Prevalent Western welfare theories are inadequate in explaining the welfare development of China. China has a different institutional logic from that of the Western welfare capitalism because it is still a developmental state without political democracy; in other words, the society-led theory cannot explain welfare development and the Chinese welfare regime. Apparently, the developmental elite have the liberty to decide how welfare should be developed.

China's low social expenditure as a share of its national wealth is a clear indicator of its immaturity. But welfare reform is conducted to enhance capital accumulation and the cost of welfare is distributed unevenly to the disadvantaged groups. In this regard, the increasing share of non-SOE employment suggests that a larger share of urban employees receive second-class remuneration and welfare packages compared to their SOE counterparts. In principle, their poor conditions in primary distribution should be compensated by secondary distribution in welfare for the sake of the political legitimation of the state. On the contrary, welfare reform is found to shift the financial cost of state welfare to society as in the case of the basic health insurance for urban employment—the citizens included did not benefit from the reform initiative until the government increased its share in healthcare expenses.

Since the developmental elite is still in command, the shift of its ideology is significant to explain any shift in national and welfare development. The leadership of Hu Jintao, with the new discourse of constructing social harmony and the "Five Co-ordinations," indicates a departure from the "growth-first" developmental strategy and trickle-down neo-liberal ideology. This indicates that China has moved, at least ideologically, beyond welfare developmentalism, which is about the domination of social development by economic development. The ideological shift to a fine balance between economic development and social development coincided with a slow but continuous process of a rise in social expenditures in general and government healthcare expenses in particular. In relative terms, the social expenditure of the Chinese welfare regime is still small compared to Western welfare capitalism, but in absolute terms, the recent increases were substantial and a greater share of national revenue was channeled to local governments for redistribution after Hu Jintao took office in 2003. In other words, the developmental factor, i.e., resources, is also important. Of course, the size of social expenditure is not necessarily associated with citizen rights or affordability of healthcare protection, as demonstrated in the case of the United States (Lindert, 2004). But increase in social expenditure of a growth state is a necessary condition for welfare development—the basic tenet of the modernization theory (Hill, 1996).

Of course, we do not eliminate the possibility that the shift was due to structural factors as theorized by the need for political legitimation according to the neo-Marxist perspective. Accordingly, the ideological shift is reactive and a second-stage factor. Evidently, the public discourse of the "Three Mountains" and the establishment of the "stability maintenance offices" indicate the weak welfare state and insufficient political legitimation function of the state. Therefore, institutional and ideological are inter-related; this is the rationale that we use to study China's evolving welfare regime with a tripartite framework.

As a typical developmental state, welfare development in China and the well-being of its citizens depend very much on the ruling ideology and the transformative power of the developmental elite—the powerful political elite and the competent experts and bureaucrats in the design of a welfare regime and particular policy arrangement, on behalf of the society, with social settlements that are fair to the labor and common people. In this regard, abandoning the use of marketization in China's welfare reform is significant in enhancing the political legitimation function of the state. If China wants to lessen the social miseries resulting from capital accumulation and enhance its political legitimacy, the model of Singapore's non-typical developmental state seems a viable alternative, as social development is not at all subordinated to economic development.

Notes

1 See "China should be able to model after Japan on doubling its citizens' income." Available at: http://news.cctv.com/tw/cnyes/money/201006/201006404588412.html (accessed July 16, 2010).
2 Doctors are "white wolves" or 'angels': the debate amongst members of the People's Political Consultative Conference." Available at: http://eppcc.people.com.cn/GB/34952/4089344.html (accessed 9 July 2010).
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