

Issues and Options for Social Security Reform in China

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I. Introduction

The purpose of the paper is to summarize what is known (and not known) about reform and reconstruction of social security system and related social welfare programs in China today, the policy options being debated in both official and academic circles, and suggestions for new options for social system reform to be considered in the 12th Five-Years Program. In this paper, social security has a broader sense, referring to social insurance and social welfare (relief) programs such as free education and housing subsidies².

It is widely realized that China is approaching a development stage where social security plays more important role than before in terms of stimulating economic growth, equalizing income distribution, alleviating poverty and maintaining social stability. Moreover, it is also recognized the current system of social security needs to be reformed in order to meet the challenges resulting from transition of the system from one protecting the minority group of urban workers in formal sector to one protecting all the residents in the society (CDRF, 2009). However, there are a lot of debates concerning what kind of social security system can be applied to China given significantly large differences between urban and rural areas in terms of income level, employment structure, fiscal capability of local

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² It is important to note that social security has different coverage of social programs in different countries. For instance, the term is specifically relating to the OASDI programme in USA, while in the UK the term is used to refer to all transfers, both social insurance and social assistance. Moreover, the Nordic countries use the term in a broader sense, covering all measures to combat social insecurity. This paper adopts the concept of social security more consistent to those used in the Nordic countries.

governments and provision of social services (Zhao et al, 2006). The issues in the debates become more complicated when considering what suitable and reasonable social protection is for millions of rural migrant workers, who have low-income, high job and location mobility and unstable employment (Zheng, 2008).

As many other developing countries, China has been struggling to make her economy grow as fast as possible in the last three decades. In terms of growth in GDP and household income, China has achieved the best record in her history. The GDP grew at nearly 10% and household income in urban and rural areas at 8% in the period of 1978-2008. By the end of 2008, the GDP per capita reached to 3100 USD in the exchange rate, becoming one of the low-middle income countries. While China has made a remarkable progress in economic growth, the progress of social development, particularly the reconstruction of social security and welfare system is still lagged behind. The old system of social security was designed to provide a protection for urban workers in formal sector. The transition of social security system is still on its way and the present system has many flaws. As private sectors and self-employment have grown very rapidly, which become main sectors employing informal workers, the majority of whom are not covered by the system. In addition, the rural migrant workers mostly employed in the informal sector in urban areas, are also left out of the system.

Although China has made a great achievement in reducing poverty, she was not so successfully in narrowing income inequality. Income inequality is much wider in urban areas, in rural areas and in China as a whole, compared that at the beginning of economic reform. The Gini coefficient in the whole country at the present time is estimated around 0.47³, reached to a much higher level compared to 0.30 in early 1980s⁴. At the same time, the Gini coefficient in rural China has risen from 0.26 in 1980 to 0.38 in 2007 while the poverty rate has declined from 30% to 3%. Since the mid 1990s, urban poverty has appeared as a new phenomenon due to laid-off workers increased with reconstruction of state-owned enterprises (SOEs) and increasing income inequality. The Gini coefficient increased from 0.16 in 1978 to 0.36 in 2007.

Moreover, the poverty rate has been a considerable decline in the last three decades, but the poverty is still a serious social problem. It is well known that the official poverty lines have been underreported, implying that the actual poverty incidence is higher than the

³ The China Household Income Inequality Project collected data in 2007 and made a preliminary estimation of national income inequality with Gini coefficient being 0.47.

⁴ See Adelman and Sunding, 1987.

officially published figure (The World Bank, 2009). While the official statistics indicate the poor population is less than 15 million in rural areas in 2007, the number of individuals received income allowance from Dibao Program (Minimum Living Standard Guarantee) approached to 43 million at the same time. According to the estimation of the World Bank, the rural poverty rate would risen to over 10% if two-dollars poverty line is applied (The World Bank , 2009).

In addition, the grant inflow of rural migrant workers in cities made a great pressure on employment for urban local workers. Unemployment becomes a big challenge for the governments. In the present time, China meets a special challenge to deal with the problem of unemployment since the global financial crisis has generated a significantly negative impact on growth of export and consequently on employment in China.

Consumption as a proportion of GDP has been decreased constantly since mid 1990s, partly due to share of labour income has declined, and partly due to falling of average propensity of consumption, resulting from uncertainties of expenditures on healthcare, education and housing particularly for the population uncovered by the social security system. Under the impact of the global financial crisis, the governments have made great effort in stimulating domestic demand since the second half of 2008. The measures are focused on increasing investment rather than stimulating consumption. It is believed that to expand the coverage of social security and raising its protection level would help in stimulating household consumption.

Social instability becomes a big concern for the Chinese government since the number of social incidents and riots has been increased rapidly. As Blue Book of China's Society 2005 indicates, the number of social conflicts increased from 10000 in 1993 to 60000 in 2003. It is reported the social conflicts have increasingly intensified in the last four years.

To solve the economic and social problems above, building up a wide coverage and fair system of social security is one, but not only one, of wise options for the Chinese governments in the 12th Five-Years Program. This view has become a wide consensus among the Chinese scholars while there are many debates concerning different approaches to a new system.

The social security system has been under reform, but the process is going behind the economic reform. The problems of the system are very obvious. Its coverage is limited only to urban formal sector, while the majority of employees in informal sector and in rural areas are not covered by the system. The system is segmented, different programs for different

population groups and independently implemented in different provinces, even in cities. The system provides a low-level and weak protection for the poor and low income group.

This paper discusses some strategic objective of social security, attempting to theoretically explain what functions of social security are and why China needs a genuine social security system from now in the next section. The third section of the report describes the major problems of the current system of social security and provides a summary of policy debates concerning establishment of the new system in the next five or ten years. The report gives some conclusions in the final section.

II. Social and economic challenges facing China

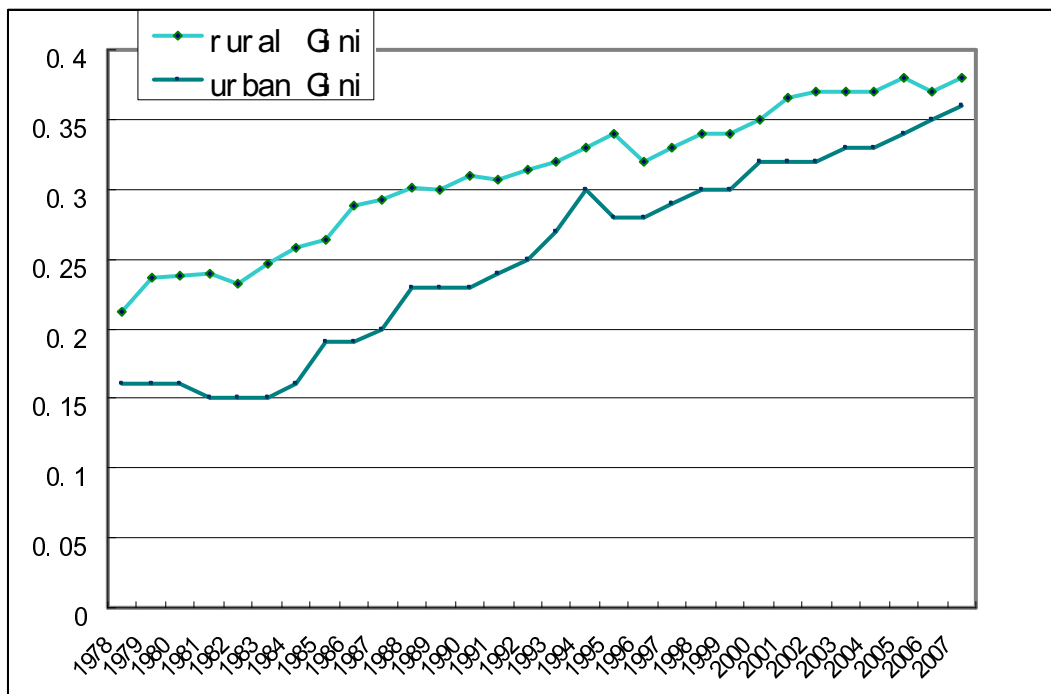
Social and economic challenges facing China include widening income inequality, poverty, unemployment, dramatic declining consumption propensity, rising social conflicts and social instability. These challenges no doubt have to be recognized and dealt with in the 12th Five-Years Program.

1. Widening income inequality.

China was an egalitarian society thirty years ago and has been experiencing sharply increasing income inequality since the beginning of 1980s. As a developing country, China has implemented separate and urban-biased economic and social policies for urban and rural areas, which result in magnificent differences between urban and rural households in terms of income level, accessibility of public services and human development (Riskin et al, 2001; Gustafsson et al, 2008). Looking at income inequality, variant statistics indicate that the income inequality has increased significantly in both urban and rural China. For example, from estimates based on comparable datasets, the Gini coefficient increased from 0.16 in 1978 to 0.36 in 2007 in urban China and from 0.22 to 0.38 in rural China at the same time, as shown in Figure 1. The Gini coefficient in China as a whole is estimated around 0.47 in 2007, reached to a much higher level compared to 0.30 in early 1980s. The income gap between urban and rural households also shows a rising trend in the last decade. As indicated in Figure 2, the income ratio of urban household income per capita to rural one rose from 1.8 times in 1996 to 3.3 time in 2007 in nominal term.

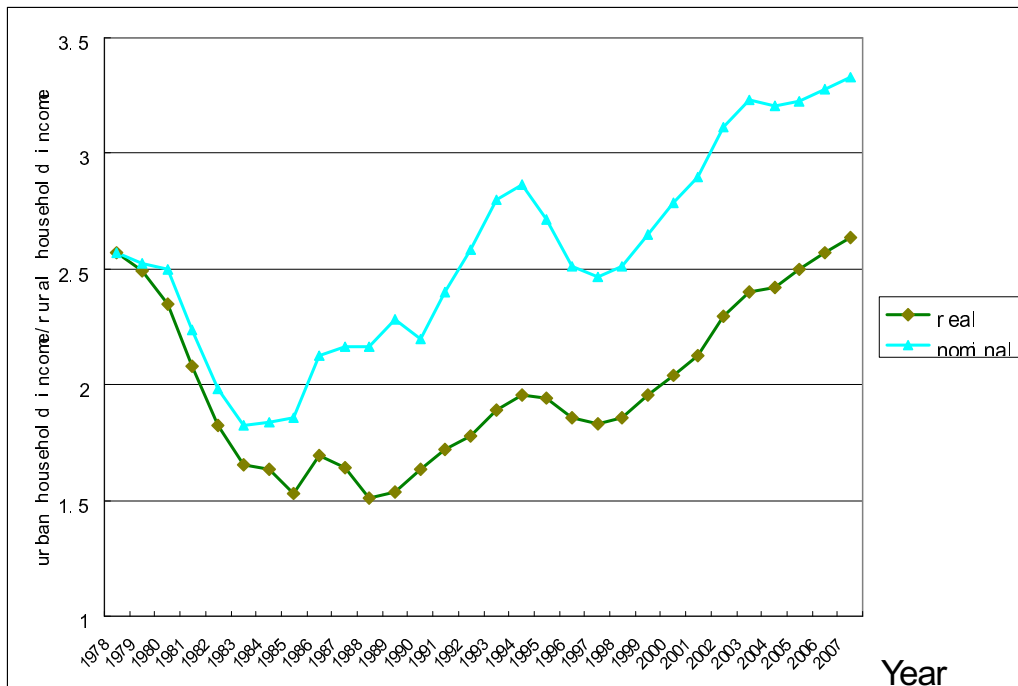
It is no surprising that the income inequality is expected to continue rising in the next 5-10 years since China has limited measures to narrow income inequality. The redistribution policy is much weaker in China, compared to that in other countries.

Figure 1: Changes in income inequality in urban and rural China, 1978-2007



Sources: Annual Report of Household Income Distribution in China, 2008.

Figure 2: China's urban –rural income gap between 1978 and 2007



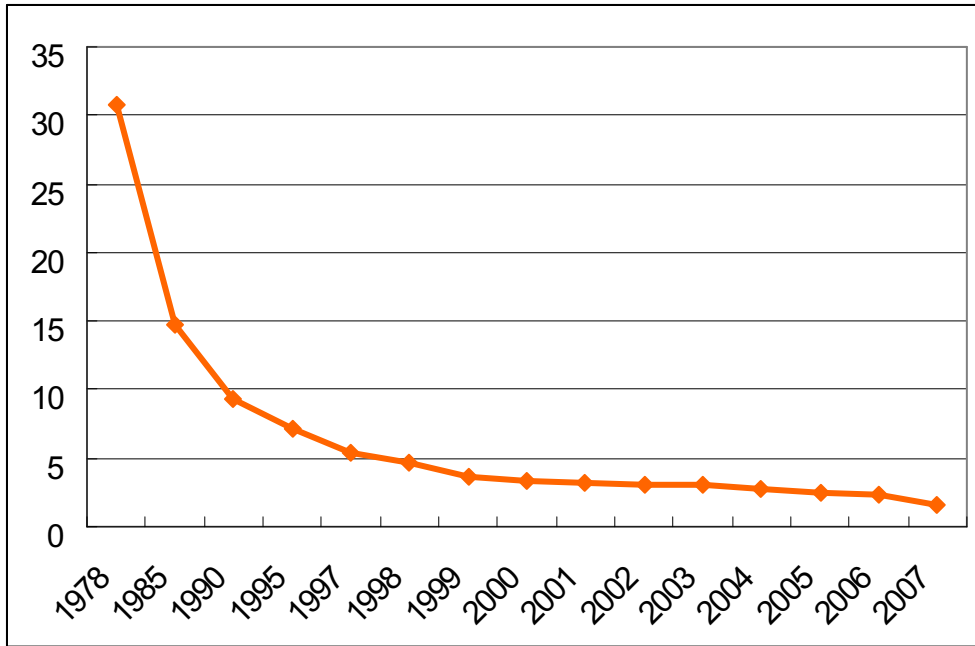
Source: *China Statistics Abstract of 2008*, p101

2. Large scale poverty

There is no doubt that China has achieved a great success in reducing poverty in the last 30 years. Whatever poverty measures to be used, the poor population has decreased by over 90% since the end of 1970s, seeing Figure 3. However, the poverty is still a major social problem in China, especially in rural areas. It is well-known that the present poverty incidence is much underestimated among rural households due to underestimated poverty lines. To adopt a different poverty line, we would get a different poverty incidence. Since a large proportion of low-income population with income slightly higher than the official poverty line, poverty incidence is very sensitive to upward adjustment of the poverty line. Since 2008, the government began to adjust the official line upward by 43% for rural areas. As a result, the poor population increased by over 200% after the adjustment in 2008.⁵

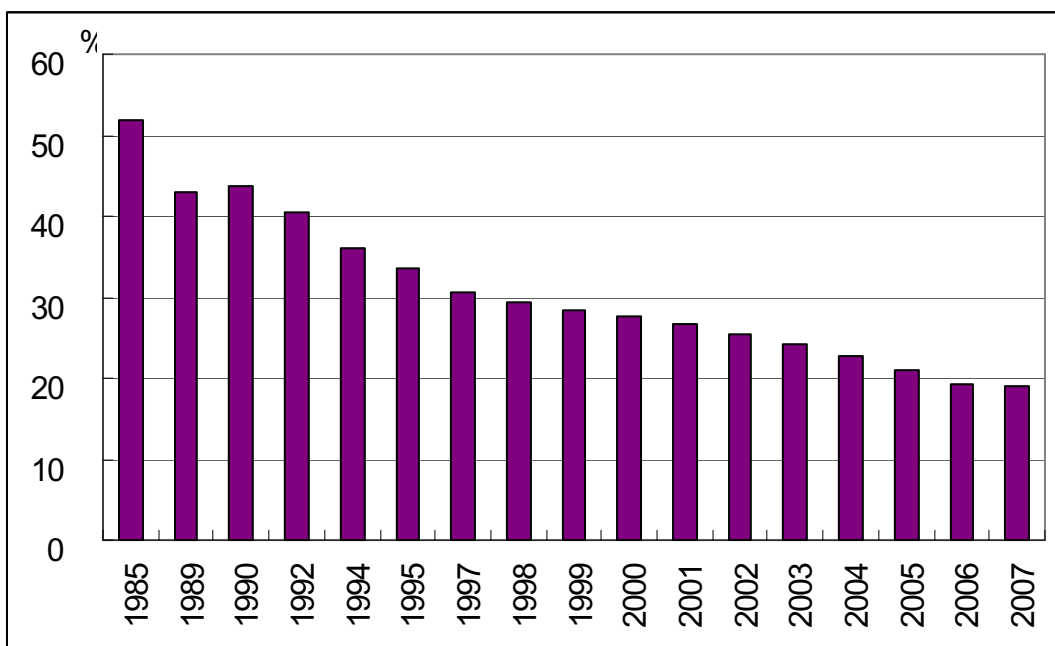
Figure 3: Poverty incidence of rural population based on the official lines

⁵ While the old official line is 836 yuan for rural households in 2008 and the new line is adjusted upward to 1196 yuan, increased by 43%, the rural poor population increased from less than 13 million to 40 million, by 207%. The new line and the corresponding figure of the poor population can be found in NBS (2009).



However, the new official poverty line is still believed underestimated since it is close to one of 1\$ per person per day suggested by the World Bank. As indicated by other studies, if the official line had been raised to 2\$ per person per day, the poverty rate would have increased by two times (World Bank, 2009). That means in 2008, the rural poor population would have reached to around 100 million.

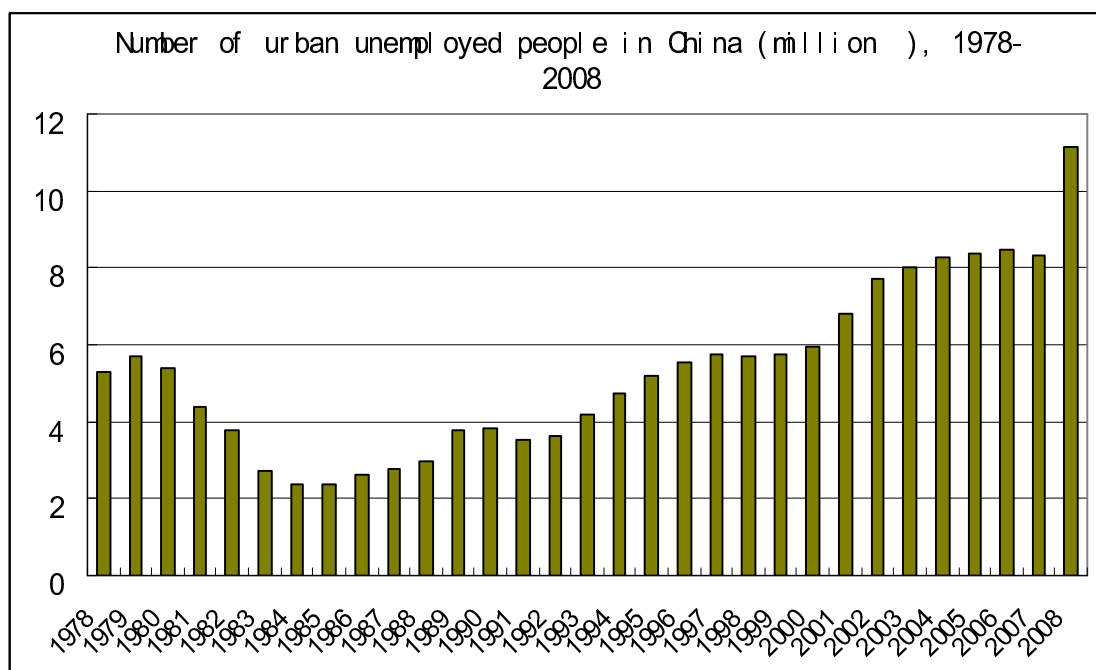
Figure 4: Rural official poverty line as a percentage of household income per capita (%), 1985-2007



3. High unemployment pressure

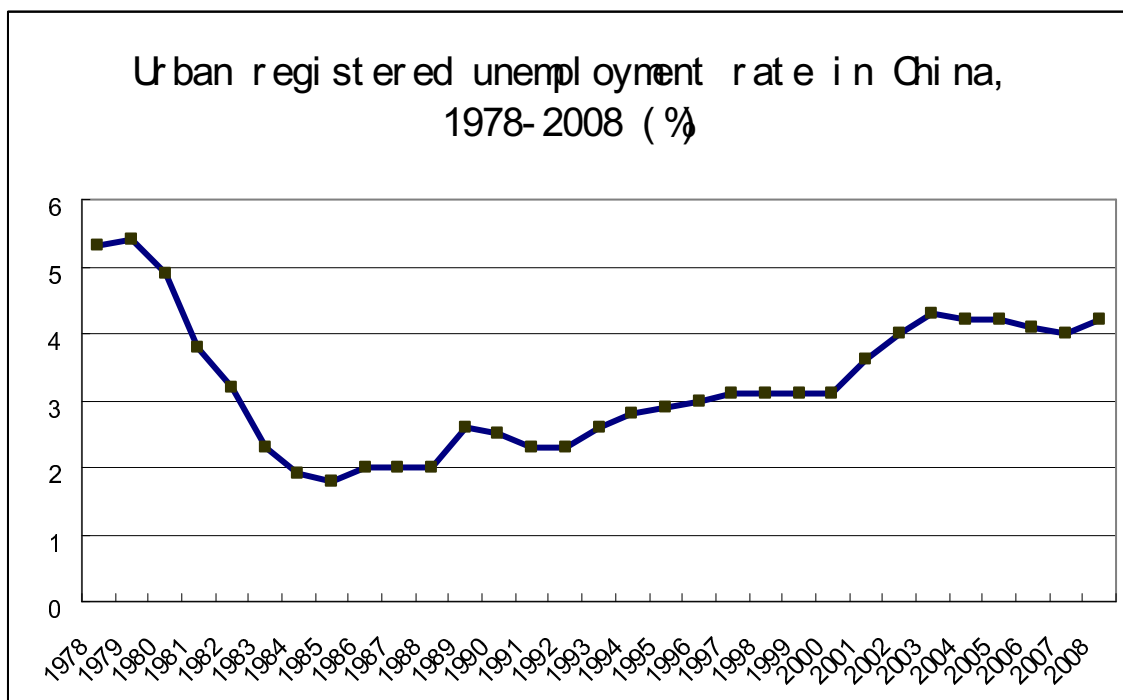
It is very difficult to estimate an accurate unemployment rate for a developing country like China which has millions of rural surplus laborers, rural-urban migrant workers and informal sector workers. Even for urban China, the government has never published reemployment rates comparable to international one, while academic studies have made efforts to make reasonable estimates for urban unemployment rates. Instead, the government just publishes registered unemployment rate for urban areas each year. By the definition the unemployed people registered in labor offices are those covered by unemployment insurance and seeking for employment services from governments. That means that most of rural-urban migrant workers and those in informal sector are unlikely to be registered when they are unemployed. Therefore, the official registered unemployment rate is considerably underestimated. Some studies indicate that the extent of the underestimation is around 2-5 percentage points, depending on whether rural migrant workers are included or not and timing.

Figure 5.



Sources: *China Statistics Abstract of 2008*, p46 and NBS (2009).

Figure 6.



Sources: *China Statistics Abstract of 2008*, p46 and NBS (2009).

4. Increasing labor mobility

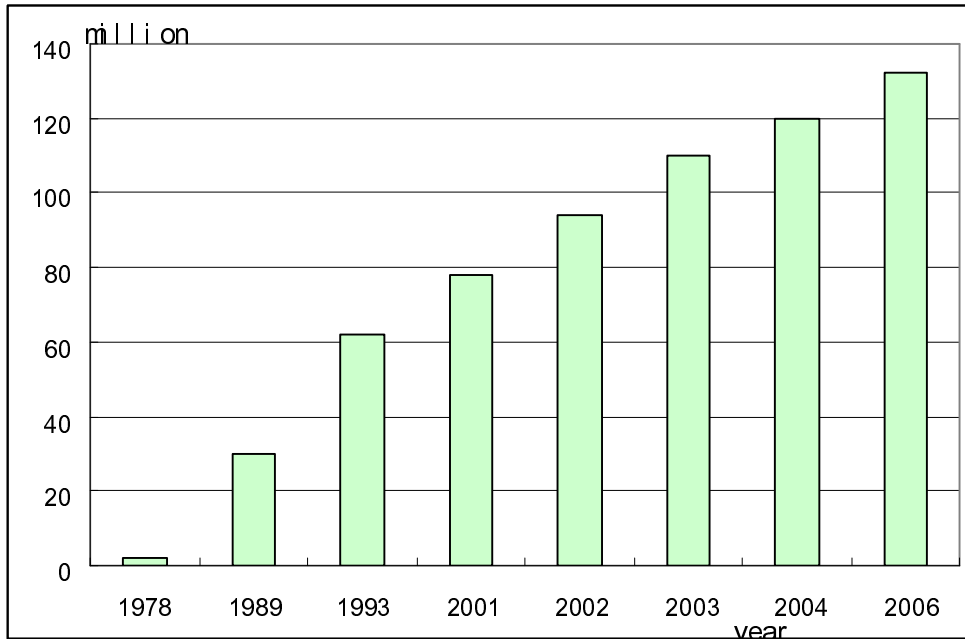
Alike other developing countries, China now is still a labor-surplus economy with a large proportion of labor force engaged in farming activities although the urbanization process has accelerated since the mid-1990s. The latest statistics indicate that there are 480 million of laborers in rural areas in 2007, which account for 62% of the total number of laborers in China⁶. Moreover, nearly a half of rural laborers are on mobility, employed either in rural industry or in urban areas. In particular, the number of rural-urban migrant workers has been increasing and reached to more than 130 million in 2006 as shown in Figure 7. As predicted by experiences in developed countries, the process of rural-urban migration will last in China in the next two decades⁷. The majority of those workers is less-educated, unskilled, high mobile, low-income earners and uncovered by social security (Li, 2008; Deng and Li, 2009). As the migrant workers are registered in rural areas, they are on average in disadvantage in the urban labor market in terms of employment opportunities, payment and accessibility to social security and public

⁶ See *China Statistics Abstract of 2008*, p43.

⁷ There are around 300 million of rural labourers engaged in agriculture in 2007, accounting for 39% of the number of total labourers in China as a whole. Assuming the rural labourers declines by 1 percentage point each year, it will take 20 years when it reaches to 10% of the total labourers.

services. It is really a big challenge for the Chinese government to deal with a large scale of labor mobility in the next decade.

Figure 7: The number of rural-urban migrant workers in China

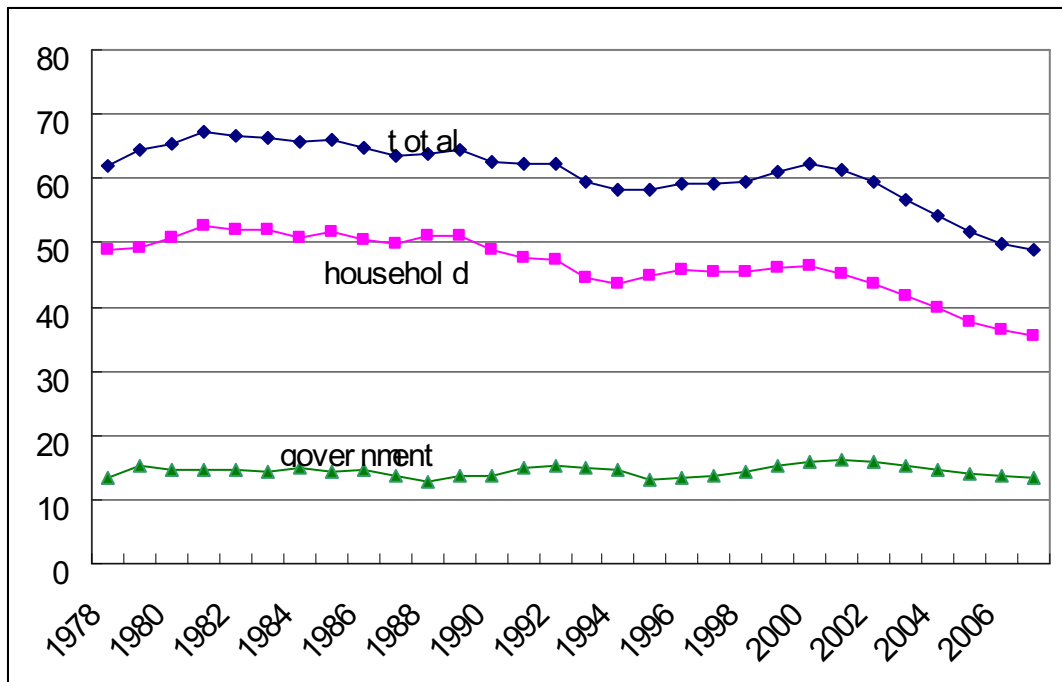


Sources: Li Shi (2008).

5. Declining consumption propensity

Since the 1990s, China has experienced a declining consumption as a percentage of GDP. As indicated in Figure 8, the total consumption as a percentage of GDP declined from 67% in 1981 to 49% in 2007, by 18 percentage points. The decline is largely due to the falling of the share of household consumption. At the same time, the share of household consumption in GDP decreased by 17 percentage points while the share of government consumption has maintained in arrange of 13-16%.

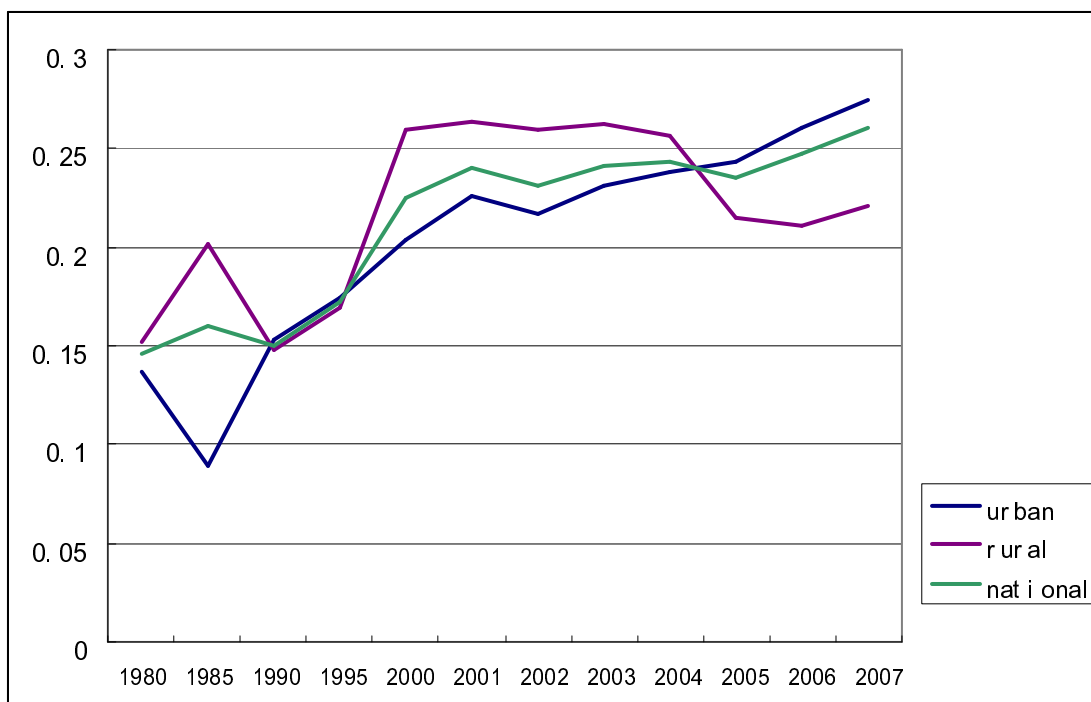
Figure 8. Changes in consumption as a percentage of GDP in China



The data from annual household survey conducted by NBS also indicate that the household saving rates have been increasing since the early 1990s in both urban and rural China. Figure 9 shows that household saving rate sharply increased from 10% in urban China in the mid 1980s to 27% in 2007, while the stunning rise in rural China occurred in the 1990s.

The decrease in consumption propensity and increase in household saving rate have negative impact on macroeconomic growth in China, which has increasingly depended on growth of exports. One of the major reasons for the declining consumption is emerging economic uncertainties and transition of social security. As a result, households form higher expectation for rising unemployment incidence, higher payment from pocket for social security and public services such as medical care and education in the future and so increase saving to deal with these uncertainties.

Figure 9. Saving rate of households in urban, rural areas and China as a whole



Notes: The saving rate is calculated by using data of household income and consumption expenditure from the household survey annually conducted by NBS.

6. *Rising social conflicts*

Social unrests have recently been a major problem for social instability in China. According to diverse sources, the number of social unrests has been increased over the last decade. For example, Lum (2006) indicates that social unrest has grown by nearly 50% during 2004-2005, citing from Chinese Communist Party sources. He also cites that there were 87,000 cases of “public order disturbance” — including protests, demonstrations, picketing, and group petitioning — in 2005 compared to 74,000 reported cases in 2004. Although there is no reliable official statistics the latest situation of social unrest and social conflicts, it is expected the situation has not been changed significantly and even worse in some regions (Peng, 2009; Keidel, 2005).

III. Strategic objectives of social security

For China as a developing country and a transition economy, it is important to establish a desirable social security system to deal with these challenges as described in the previous section when moving to her new development stage in the next 5-10 years. By the nature, social security as well as social welfare has functions of insurance, poverty relief, income redistribution and consumption smoothing. In current China, social security is expected to

play an important role in stimulating domestic demand via reducing saving rates of households, in particular for low-middle income groups and maintaining social stability.

1. Six objectives of social security

The objectives of social security, widely recognized by economists and sociologists (Barr, 2001, 2004; Barr and Diamond, 2008), with their particular application to China, can be summarized as follows.

(a) Insurance. Social security has two major components, i.e., social insurance and social assistances including social relief and financial supports for specific population groups such as aged and children. Social insurance frequently refers to social transfer programs to deal with the risk of unemployment, of health care expenses, and of inadequate income support during retirement (Feldstein, 2005). For China, social security has a very important role in reducing risks especially resulting from uncertainties related to transition process of economy in terms of employment, income mobility and health. The unemployment insurance, minimum income guarantee program and medical insurance provide good examples in this aspect. Social insurance differs from private insurance in that it is mandatory and requires more intervention and obligation of governments, which may lead to disincentive effects on job-seeking, inefficient use of medical resources. It is crucial to design a desirable social security system to provide an optimal combination of insurance and incentive. While most countries in the world, either developed or developing, are seeking a solution with their own conditions, China is not an exceptional (Feldstein, 2005, Barr 2004; Barr and Diamond, 2008).

(b) Poverty relief. As experiences in developing countries as well as in China indicate, without social security and social support, it is difficult for the poor to get out of poverty. As modern poverty theory also indicates, poverty by its nature easily generates poverty and even more poverty when the poor population falls in a poverty trap (Bowles et al, 2006). In the circumstances of lacking public services, poverty and illiteracy and/or illness form a vicious circle. Knight et al (2009) provides strong evidences showing that the children from the poor and low-income households in rural China have higher drop rates in compulsory education than those from more well-off households and they have less chance to seize non-agricultural employment opportunities with higher compensation and decent job when they enter into in labor market. With continuing decline of the poor population in rural China, the poverty

structure has had a significant change in the last decade. One of the features resulting from these changes is the proportion of the rural population falling in poverty due to illness and disability has increased in rural China, reflecting inadequate medical insurance and services accessed by rural population. Minimum Living Standard Guarantee (MLSG) has been quite successful in poverty alleviation in urban China since widely implemented at the beginning of the New Millennium while it plays a very little role in narrowing income inequality (Li and Yang, 2009). Learning experiences of the MLSG from urban areas, the Chinese governments started to implement the MLSG in rural China in 2007, although the income level for households to be qualified for the recipients is much lower compared to that in urban China. It is believed the MLSG to be a more effective measure in poverty reduction in China and also a supplementary measure to the traditional measure, i.e., reducing poverty through supporting economic development in the poor regions⁸.

(c) Income redistribution. Social security has a function of income redistribution, but it is still debatable whether income redistribution should be a priority objective in designing social security system (Feldstein, 2005). Theoretically, social security has direct and indirect redistributive effects in a society. Direct effects may not be so obvious and explicit, but indirect effects can not be ignored. Pension system such as PAYG has a little effect on income redistribution in urban China since pension is closely indexed with the previous wage of recipients, but there is no doubt that PAYG has a indirect effect on intergenerational distribution of income. The indirect effect would become more significant with the population being aging. Medical insurance and compulsory education even have greater indirect effects on income distribution in the long term. Equal opportunities to get access to education are crucial for narrowing income inequality within cohorts and generations. In the last decade, rising returns to education have played an increasingly important role for widening wage inequality in urban China, but a significantly unequal educational attainment among urban employees is another important contributor for this case (Li, 2008). At the same time, social security and welfare, such as income allowance program and free or subsidized education, have generally positive effect on income redistribution, when the low income population benefits more from these systems.

⁸ See detail discussion about the supplemental role of the MLSG in reducing poverty in rural Jiangxi Province, an article with the title of “the rural MLSG and poverty alleviation: the same or supplemental role”. <http://www.fupin.gansu.gov.cn/zwx/1181004710d3661.html>.

(d) Consumption smoothing. Social security such as pension system has an obvious function of consumption smoothing for individuals in the long term, which is also called as the piggy bank function (Barr, 2004). The Chinese households, particularly low-income households in rural areas, frequently experience income fluctuations due to unemployment, volatility of product prices, disease and natural disasters. Income fluctuation is one of major causes for rural people falling into transient poverty (Whalley and Yue, 2009). It is not surprising that income fluctuation inevitably leads to household consumption fluctuation. Therefore, social security such as unemployment insurance, medical insurance, and income support programs like MLSG, has a strong impact on household consumption smoothing, and even stronger effect for low-income households.

(e) Consumption stimulation. This objective is particularly important for countries like China with continuing declining consumption propensity in the long term. Under shock of international financial crisis China export sector has been seriously attacked, suffering a striking drop since the end of 2008. Recently, Chinese economists and sociologists appealed the government to expand spending more on social security and public services in order to reduce consumers' risks and uncertainties in their whole life-cycle and raise their propensity to consume (Cai and Du, 2009). Although there is no very strong research evidence showing insufficiency of social security as a major cause of declining consumption in China, some attitudinal surveys indicate to save for child's education, future medical spending, housing purchasing are main answers to the question of saving purposes ⁹.

(f) Social stabilizer. It is also a China-related objective of social security. Many studies indicate that crime rates and social conflicts are high correlated with unemployment, income inequality and poverty (Fajnzylber *et al*, 1998; 2000). The correlation would become closer in countries which have no or inadequate social programs to protect the poor and unemployed. China at the present time is one of these countries. Therefore, to reduce social conflicts and make society more stabilized, it is important for China to expand and strengthen the current system of social security, which helps build a harmonious economic and social environment for implementation of 12th Five-Years Plan.

⁹ See discussion summary of "Why Chinese love saving", in Xinhuanet. http://news.xinhuanet.com/fortune/2006-04/10/content_4405567.html

2. The role of government in social security

It has been debated for long time how governments should contribute to social security in the developed countries and especially in the welfare states. There seems to be no a uniform rule applied to all the countries in the world (Feldstein, 2005). In case of China, the government should play an increasingly important role in provision of social security since those to be benefiting most from the expansion of the social security programs are employees in informal sector, rural population with low income. It does not mean that the government should take full responsibility. There should be a clear division of labor between government and market in provision of public services. Households and individuals are also one of major financial contributors to funding the security programs.

3. Three basic principles

Strategic objectives of China's social security over the coming decade and their relationship with overall development objectives should be clarified. As a desirable system, it should have three following characteristics, also regarded as three basic principals. A. Completed coverage, i.e., all the population, young and old, rural and urban residents, workers in formal and informal sectors, employed and unemployed, covered by the system. B. portability, i.e., personal contribution to social security programs and qualification should be portable with job mobility and migration across regions. C. Sustainability, i.e., the standard of social security can not be maintained at a level beyond government fiscal capability, but should be raised with economic growth. It is widely accepted that expenditures on social protection in China are much lower compared to other countries, even to most developing countries (CDRF, 2009).

IV. Elements of Social Security System in China: Problems and Reform

This section is discussing under each element of social security system, the current situation, emerging issues and problems, and options for new policy and reforms. On policy and reform options, it attempts to include alternative major options being debated in China, including regional experimentations.

1. Minimum Living Standard Guarantee.

Current situation and problems

Minimum Living Standard Guarantee (MLSG) was introduced in the late 1990s, but it expanded rapidly in urban areas since 2001 and in rural areas since 2005¹⁰. The population supported by MLSG since 2000 are shown in Table 1. The population received support from MLSG was 4 million only in 2000 and increased to early 12 million in 2001 and to closely 21 million in 2002. Since 2003, the number of urban residents receiving income allowance has maintained around 22-24 million. The big increase in the number of rural residents supported by MLSG occurred in 2005, the number rose by 70% compared to 2004. The increase accelerated in the following years as indicated in Table 1.

In 2008, among the urban residents receiving income allowance, 3.5% are employed formally, 16.3% are employed informally, 13.6% are aged people, 24.3% are the registered unemployed, 17.2% are unregistered unemployed, 15.3% are students and 9.8% are other children. The average threshold is 205 yuan and average income received 144 yuan per person per month in urban China in 2008, which increased respectively by 13% and 40% compared to that in 2007.

Table 1: Urban and rural population supported by MLSG in China, 2000-2008 (million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Urban	4.0	11.7	20.6	22.5	22.1	22.3	22.4	22.7	23.3
Rural	3.0	3.0	4.1	3.7	4.9	8.3	15.9	35.7	43.1

Sources: Ministry of Civil Affairs of China: Statistical Report of China's Social Development in 2008. <http://cws.mca.gov.cn/article/tjbg/200906/20090600031762.shtml>.

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

The program has another problem excluding some population groups such as migrant households and college graduates. Since the program is implemented by city or county governments, the residents without local *hukou* (registration) are not entitled to the program.

¹⁰ In 1993, a pilot program of Minimum Living Standard Guarantee started in Shanghai. The central government issued in 1997 State Council's Notice on Establishing the Minimum Living Standard Guarantee System for Urban Residents in the Whole of China, and in 1999 Decrees of Urban Minimum Living Standard Guarantee, which then became a nationwide urban relief program.

Debates and policy options

The issues in policy debates for the urban program include: whether rural-urban migrants should be covered or not; differences in protection level across cities should be only based on living costs rather than financial ability of government. The issues in policy debates for the rural program include: the standard is too low; big differences in coverage and protection level across regions.

The program is also worried by some scholars who emphasized disincentive of the program (Xu Yuebin and Zhang Xiulan, 2009; Jiang Limei, 2009). The program, as indicated by them, should become more comprehensive rather than targeting a small group of people. The Program should target to the most needed people and be implemented with employment promotion measures which encourage unemployed people to get back to labour market quickly.

One of the problems of MLSG in urban areas is to exclude rural-urban migrant households from MLSG. This problem is not widely discussed, but some scholars are not thinking it is. The argument is that the program is more likely to generate very strong moral harass for rural-urban migrants. Given much lower income of rural households, the program is more likely to induce rural people moving to urban areas if rural migrants are qualified as MLSG recipients. It is more important to provide employment services such as job training than to provide income allowance to rural migrants in urban areas (Lin Xiaojie, 2006).

The aim of MLSG is to reduce poverty in urban and rural areas, but some less poor people are more likely ignored by the program in less developed areas given that the threshold is set below the poverty line in these areas subject to insufficient government revenue.

It is debated whether college students should be covered by MLSG. Given insufficient amount of scholarships and limited coverage of education loan, some students from poor households can not maintain their basic living standard, who should be targeted by the program (Liu Xiaochun, Liu Baoyuan and Liao Xianming, 2009).

How to maintain the standard of the program in long term? It should be adjusted frequently with considerations of changes in consumer prices and economic growth. For example, the threshold should be indexed with consumer prices and raised with household income growth. It should also be adjusted with changes in minimum wage, unemployment benefit (Song Qichao and Guo Xuejian, 2008).

It is very important for China to narrow regional differences in terms of threshold and coverage of the Program. The differences are mainly due to the financial capacity of local governments. To raise the threshold and coverage in less developed areas, it is crucial for the central government to take more financial responsibility by transferring more funds to less developed areas (Zhao Huizhu, 2008) .

Given the fact that the threshold is underestimated, even much below poverty line, in some areas, all the poor households are not supported by the Program, some missed. It often occurs in some cities and counties with financial difficult. To solve this problem, some local governments should increase thresholds in order to support the households with income just above the threshold. For instances, Anshan City in Liaoning Province started to provide special supports to households with income above the threshold within 20% from 2009. The special supports include subsidies to employment, education, training, medical care, food, heating, etc.

2. Basic medical care –financing and delivery

Current situation and problems

Since the mid 1990s, China has tried to find a more efficient and economic medical care system. In 1998 the State Council issued *Resolution on Establishing the System of Basic Medical Insurance for Workers in Urban Areas*, drawing on the experience of earlier local pilot reforms, indicating a national system of medical insurance to be introduced. Currently, there are three types of medical insurance for the Chinese. The first is Worker Basic Medical Insurance (WBMI) covering urban workers and the retired, which was transformed from public medical care implemented in the planned system. The second is Urban Residents Basic Medical Insurance (URBMI) for urban residents uncovered by the first one, including children, students and aged people without employment history. The third one is New Rural Cooperative Medical Insurance (NRCMI), covering only rural people.

The problems with the current medical care system are incomplete coverage of medical insurance, low contribution by government to funding, high self-payment of individuals for medical services and unbalanced regional allocation of medical resources (CDRF, 2009). Until the end of 2008, there were nearly 150 million of urban workers plus 50 million of the retired people joining WBMI, and 118 million of urban residents joining URBMI and 815

million of rural residents joining NRCMI. However, the coverage for three types of medical insurance was 99%, 60% and 85% respectively.

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

Debates and policy options

The debates in provision of basic medical care are focused on two topics in China. (a) Who should be financial contributors, government, enterprises, or individuals? (b) Should market mechanism be introduced in medical service delivery? These two topics are interrelated. If government finances healthcare by taxation, the option of services provided mainly by public hospitals becomes inevitable. There would be a very limited role for market mechanism to play for this option (like British model). The different argument is that medical insurance, either public or commercial, should be a priority option and public hospitals should be privatized (similar to American model).

For the rural migrant workers, what kinds of medical insurance are proper to them? Zheng Gongcheng (2008) and Du Ping (2009) proposed further classification of migrant workers by categorizing them into three types. Long-term migrant workers settled down in city should be covered by WBMI. The short-term or seasonal migrant workers should be covered by NRCMI. For migrant workers with high mobility needs a special arrangement, but it is difficult to find a good solution because the current system is not transmissible across regions. You Chun (2009) suggested that for the migrant workers with high mobility should be provided a commercial medical insurance subsidized by government.

To encourage migrant workers to join WBMI meets the problem of high self-contribution which is not affordable for low income workers (Luo Wei, 2008; Du Ping, 2009). The regulation of WBMI indicates that workers and their firm should contribute 8% of the total wage to WBMI, the workers' contribution being 2 percentage points and the firm 6 percentage points.

Shenzhen City is one of the largest cities in China, where the majority of urban workers are rural migrants. To attract more migrant workers to participate in medical insurance, the city initiated new forms of medical insurance suitable for migrants. Meanwhile, the range of medicine covered and reimbursed by the insurance has been extended and the reimbursement

ratio permitted by the system has been increased by more than 10 percentage points¹¹. As a result, there have been over 70% of migrant workers participating in medical insurances by the end of 2008, which is much higher than the national average.

National integrated medical care system. Although most areas have adopted three-types of medical care system, some cities have tried to innovate new system. Yuhang City in Zhejiang Province and Zhuhai City in Guangdong Province, merged URBMI with NRCMI into one system. Dongguan City in Guangdong Province merged three types of medical insurances into one system.

How to deliver medical services to people is still hotly debated in China. At the present time, public hospitals are dominant in medical service sector, accounting for over 90 percent of all healthcare institutions. Since the 1990s, the governments have reduced subsidies to the public hospitals, which have to earn a major part of their revenue from patients and WBMI. Some hospitals receive subsidies from governments as less as 10% of their total income. To maintain their business, the hospitals have to raise medicare fees and induce patients to pay for high-cost medicines and tests which are unnecessary. As a result, the medicare cost has been increased enormously, to the level much beyond the financial capability of ordinary households. High medicare cost leads to high contribution of workers and firms to medical insurance at one hand, and to incapacity of households uncovered by medical insurance, particularly rural households, to enjoy medical services. The problem led to hot debates about how to deliver medical services to individuals. The public hospitals should be subsidized by governments directly or compete with each other for patients. There are two groups of scholars joining the debates. One group is in favour of market mechanism in medical service. Hospitals, either public or private, should have strong incentive to provide economic and efficient medical services to patients. The best way to achieve this goal is to link income of medical staff to their performance, and to give incentive to hospitals to operate more efficiently. This is just one side of a coin. Another side is to limit medical demand by specifying a share of medical cost paid by patients themselves. For this argument, the framework of the medical services is more consistent with that of demand-supply¹². Individuals buy medical insurance from insurance companies. For employees, the contribution comes from three parts, governments, firms, and individuals. For non-employees

¹¹ See a report by Xinhua Agency, March 19, 2009 (www.gov.cn/jrzq/2009-03/19/content_1263218.htm).

¹² A detailed discussion of the argument can be found in Gordon Liu's seminar with the title of "Deepening reform of medicare system, development as hard justification, given in Beijing Unirule Institute, June 22, 2009.

(such as children, unemployed), the contribution comes from two parts, governments and individuals. Insurance companies pay to hospitals for medical services to individuals. As commercial agents, insurance companies have incentive to make hospitals to lower medical cost and to overcome the problem of over-demanding medical services of individuals. Insurance companies can be state-owned, which governments have justification to regulate their business behaviour.

The other argument is in favour of free provision of medical services by government. Government rather than market should more important role in financing and delivering medical service¹³. The extreme argument is that Government gives full financial support to public hospitals, which are required to provide free medical services to patients. The funding of government comes from taxation. In this system, medical insurance is unnecessary, since government is a “Big Medical Insurance Company”. There are two problems to be solved in this arrangement. The first is how to make the public hospitals operate more economically and efficiently. The second is to solve problem of “free rider” for patients.

The Chinese governments have not made final decision which way is right direction for medical care system reform in the future while some pilot reforms are conducted in some areas. However, all the parties have reached a conscience that China needs a strong healthcare system at community level, which should be main responsibility of the governments. So from 2009, the central government started to build up community medical system.

At the beginning of 2009, the State Council issued two documents concerning further reform of medical insurance: Suggestions on Deepening Reform of Medical and Sanitation System, and Implementation Programs of Deepening Reform of Medical and Sanitation System in 2009-2011. The two documents proposed three goals for medical system to reach by 2012 such as basic medical insurance to cover all the residents in both urban and rural China; significant improvement in accessibility and level of medical services; sharp reduction of burden of individuals in receiving medical services¹⁴. To reach these goals, the documents also suggested five measures to be implemented in the next three years, such as the coverage of basic medical insurance for urban and rural residents will be raised to over 90%; at the same time the contribution to NRBMI (from both individuals and governments) will be

¹³ See Li Ling’s article published in Southcn.com with the title of “Thinking on development of medicare and sanitation and reform of medicare system,

<http://www.southcn.com/nflr/zhongxinzu/fdbg/200612200398.htm>.

¹⁴ See a report published in Newspaper of China Labour and Social Security, Jan. 23

increased to 120 yuan per person, a considerable rise compared to 30 yuan in 2005; establishment of medical system at community level; and reforming public hospitals.

3. Education development

(1) Basic education

Current situation and problems

In the first ten years of the New Millennium, China has eventually implemented the 9-Year Compulsory Education Program. Nowadays, all the children in rural and urban areas should have received at least 9 years school education without paying any tuition fees. However, the problem with compulsory education is that there is a significantly large difference between urban and rural areas, and between regions, in terms of education quality (CDRF, 2009).

Due to lower quality of teachers and lack of teaching instruments, the quality of compulsory education in rural areas is much lower than that in urban areas. More striking contrast can be found between remote rural villages and mega cities. This problem has been recognized by the central government and been mitigated somewhat by increasing financial transfer to promote education quality in rural areas and western region. However, the problem can not be solved over night. It should take a long time to solve this problem.

Because of the low quality of compulsory education in rural areas, the low-middle school graduates have no competitive advantage in labor markets when they move into cities. More likely, they are employed by small firms as unskilled workers with low payment. Since they have high incidence to be unemployed, they are more mobile across cities and jobs. Without more human capital accumulated, they are more likely to be low-income group in city in their whole life.

Compared to children in city, children in rural areas have little chances to get pre-school education because of shortage of kindergarten. The problem will cause wider difference in human capital accumulation of children between urban and rural areas, further generating striking gaps between two areas in all dimensions.

Debates and policy options

After the 9-Years Compulsory Education Program has been realized, how should China do for basic education. Whether should China initiate a more ambitious program, i.e., 12-Years Compulsory Education Program as the most developed countries did some years ago,

or should China pay more attention to improving the quality of the present compulsory education, especially in rural areas?

There are two options for the Chinese government to improve basic education in the 12th Five-Years Program.

A great debate in policy for basic education is that the compulsory education should be extended to 12 years or more resources should be put in improvement of the quality of the current 9 years compulsory education. A big issue related is how to improve the quality of compulsory education in rural areas, which is much lower than that in urban areas. There are the following policy options in the next five years. First, there is no doubt that rural primary and secondary education needs more financial support from the governments at all levels. For that in poor areas, the financial support of the central government is crucial. Second, to improve the quality of rural education, it is more crucial to attract more qualified teachers to teach in primary and secondary schools in poor and remote areas. Given over-supply of college graduates at the present time, due to rapid expansion of high education since 1999, the central government may consider to initiate a special program to encourage the college graduates to work in primary and secondary schools in rural areas.

Education of migrant children is another issue stimulating policy debates. There are millions of school-aged rural-migrant children living in cities, but most of them have difficulties to get access to the public schools and had to get into private schools. The conditions of these schools are extremely awful. Most teachers are not qualified and classrooms are not safe. It is widely realized that the quality of education in these schools is much lower than that in urban public schools. Some of these schools are regarded as illegal by local government, but they play an important role in supplying education to migrant children. Since the Chinese current education system is that local governments take main responsibility in financing compulsory education of local children in their communities but migrant children, the governments have not incentive to provide education service to migrant children. As the central government has not a nationwide policy concerning compulsory education of migrant children, a local government would be worried about more migrant children moving into its areas if it would implement policy to allow migrant children easily get into public schools. So for any city government it is dilemma. For the central government it is also dilemma since any change in education system in favor of migrant children in city would stimulate more rural children to flow into cities given a fact that striking differences in education opportunities and quality between rural and urban China.

Although the behavior of city governments in providing compulsory education for migrant children is understandable, the consequence of their policy is unacceptable. Most of migrant children had to get into low-quality private schools. When they grow up, they will be disadvantaged in competition in urban labor market. The intergenerational immobility would be generated among migrants in urban areas. To solve this problem, city governments have no choice but provide public education to migrant children as the same as to urban local children. To coordinate policies across cities, the central government should make a uniform and nationwide instruction in this aspect. Meanwhile, the central government and provincial governments should increase financial transfer to cities which have difficulty to expend their educational capacity to migrant children.

Many studies indicate that early education of children has a significant impact on their performance and income when they enter into labor market. In most areas, children get into primary school at 6-7 years old. The enrollment rate reached to almost 100 percent either in urban areas or in rural areas. However, not all the children have chances to get into kindergarten before they enter into primary school. Some estimates indicate that there are about 30% of children aged 5 have not been in kindergarten in urban areas and the percentage is even much lower in rural areas. Therefore, it is very important option for the Chinese governments to take is to get all the children to received at least one year pre-school education. To encourage the parents have incentive to get their children into kindergarten, the governments should give subsidy to either parents or to kindergartens. In rich areas, it is an option for governments to provide free-charge pre-school education for all the children.

For lower-middle school graduates, they have difficulty to get employed and reasonable income at the beginning of their employment. What they learned from schools is not what employers required since the Chinese middle schools have serious problems in teaching staff and textbook contents which are far from what required by employers. To solve this problem, one way is to provide skill training to these low-middle school graduates. The training program could be six months to one year, and should be free or highly subsidized. In year of 2008, there are about 5 million of lower-middle school graduates stopped schooling and getting into labor market.

(2) Higher education

Tertiary education has expanded rapidly in China in the last decade. The enrolment of college students increased from 1.1 million in 1998 to 6.3 million in 2009¹⁵, with annual growth rate of 17.2% during this period. The gross enrolment rate of tertiary education reached to 23% in 2009. At the same time, the Chinese governments, at the central and local level, have put an increasing amount of money into tertiary education. The spending by the governments increased at 15.5% annually during the period of 1998-2006¹⁶.

However, there are many problems with rapid expansion of the tertiary education in China. The Chinese high education has maintained typical features of Soviet-style education system, mixed with the legacy of the Chinese planning economy introduced in the 1950s. These problems with high education system have been criticized widely recently after the query of Premier Wen Jiabao in 2006¹⁷, “Why our education can not foster great academic masters?” The criticisms can be summarized as follows.

- (1) The Chinese universities lack creativity and motivation and mechanism for innovation. There are some evidences showing that even though the publication of academic papers by the Chinese scholars have been increased considerably in the last decade with growing financial supports for research projects, the few of them have appeared in the top journals. The fundamental reason for this situation is that the innovation and innovation-related researches have not been paid enough attention by the Chinese universities and governments (Wang, 2009).
- (2) There are too strong interventions of government into internal activities within universities. Due to too much and strong intervention, control and regulations of the governments for teaching and administrative activities of universities, there is a very limited room for universities to maintain their independence in terms of enrolment of students, employment of teachers and staff, and setting-up disciplines and subjects, selection of courses (Ruan and Hu, 2009).
- (3) There is no good governance structure within universities (Yang, 2008). The current administrative structure in the Chinese universities is so called “the system of president’s responsibility under leadership of the party committee”. The problem with this system is that there is no clear labour-division between president and party secretary in administration and accountability. In most cases, party secretaries are more powerful than presidents, although presidents are also in party committee. Presidents are assigned by

¹⁵ See China Statistical Yearbook 2008, page 415.

¹⁶ See China Statistical Yearbook 2008, page 430.

¹⁷ See a speech of Premier Wen Jiabao in a meeting with six presidents of universities, Nov. 20, 2006 (People Daily, Nov. 28, 2006).

governments such as Ministry of Education or local governments rather than being elected or selected by professors within universities. This leads to a distorted behaviour of presidents which takes more account of requirements of upper level governments and less account of interests of their colleagues. Moreover, although the Law of Education, which was past in 1995, stipulates that Chinese universities should make up University Charter specifying their responsibility and accountability, actually there are almost no universities having actually followed this stipulation(Yang, 2008; Zhu, 2009).

- (4) Professors have little autonomy in administration and even in choosing curriculum and textbooks within universities. The Chinese professors and teaching staff act like employees in a firm with little role in decision-making process. Some universities have Professor Committee, which was supposed to a decision-making organization within colleges and universities, but the roles of the Committee in practice are very limited (Zhu, 2009). As a result, professors have less incentive to work hard and perform well.
- (5) There is no innovation-based evaluation system for performance of Chinese universities. The current evaluations on performance of universities are exercised by Ministry of Education or local governments, which emphasize quantitative indicators in teams of number of students, teaching staff, published papers, organized academic meetings, ongoing and completed research projects, and so on. The evaluations pay little attention to activities and outcome associated with innovation, misleading allocation of financial and human resources to activities and projects irrelevant to innovation. Promotion of teaching staff is based more on seniority and quantity of publication in most Chinese universities. The creative research and new ideas are often ignored in professional promotion.
- (6) There are many restrictions on development of private universities. Public universities account for a majority of high education institutions in China. There are no political and social environments for private universities to form, for instance, many difficulties for private high-education institutions to get approval from governments.
- (7) Supply of graduates from universities can not meet the demand of labor market for them because of outdated subjects and disciplines. As a result the employment rate of the college graduates in the first year after graduation has been declining with expansion of high education. Partly due to the impact of financial crisis and partly due to the mismatching of demand for and supply of college graduates in labor market, the employment rate of the college graduates in the first year after graduation was slight

above 85% in 2008¹⁸. It means that nearly 15 percent of the new college graduates were unemployed, implying over 750 thousand of the new college graduates could not find job and looking for job. Moreover, among the college graduates employed in the first year in 2008, nearly one thirds found jobs which required subjects (majors) completely different from what they had learnt (Li and Wang, 2009)..

The Chinese economy is reaching a stage in which the growth is much dependent on improvement of product quality and efficiency of enterprises. This stage is more likely to take place during the 12th Five Years Planning. The innovation will play a very important role in this stage. The Chinese universities should take the responsibility in production and promotion of innovation. To meet this challenge, the following reforms are needed for the Chinese tertiary education.

- (1) To set up effective mechanisms to encourage innovation and creative research in Chinese universities. The financial resources either from governments or from other sources should be allocated in principle to innovative researches. Especially the projects supported by governments should emphasize more innovation, originality, and new ideas. Researchers are provided with sufficient funds for their innovative work and sufficiently rewarded for their contribution to academic and technology innovation.
- (2) To reduce intervention of governments in internal affairs of universities. It is crucial for the Chinese universities to be independent academically and administratively if they are expected to become more innovative institutions. The governments should realize that too many interventions in universities lead to inefficiency and low productivity of high-education institutions. Therefore, the best way is for governments to reduce their intervention into universities.
- (3) To establish an appropriate governance structure within universities, including rearranging leadership of the Communist Party. Under the current political system, it is too naïve to withdraw power of the Party in universities. However, there is still some room for redefining the role of the Party in high education by reorganizing the party committees in universities (Yang, 2008).
- (4) More autonomy should be given to professors by designing and reorganizing Professor Committee in the Chinese universities and colleges. The Committee should

¹⁸ Report of Employment of College Graduates in China 2009, page 7.

be granted as one of major decision-makers allocation of human and financial resources within universities. The members of the Committee should be elected by professors and teaching staff and take primary responsibility for their voters.

- (5) Set up an authorized and innovation-guided evaluation system for performance of the Chinese universities. The system should be independent from government and from political intervention, and from interest-nested groups. The evaluation outcome should become one of the bases for governments to allocate research funds among universities.
- (6) Special and preferential policy for development of private high education institutions, apart from some needs for a clear set of regulations that do not discriminate against private providers of high education. The policy includes simple approval procedures for private universities to get registered legally, no barriers for them for get credit, and tax-reduction or tax-exemption for charity funds contributed to high education institutions.
- (7) It is important and necessary to give more autonomy to universities in enrolment of students. The current national contests for university entrance can be considered one of the means for universities to enroll new students, but are not only choice for them. Universities should be allowed to choose what the best ways are for them to select new students. Universities are given freedom to organize exams for enrolling new students and determinate the form of examination, so that students with potential creativity are more likely to be enrolled.
- (8) Reforming teaching contents in order to meet the expectation from employers for knowledge and skill of college graduates (Ren , 2009) . A World Bank (2009) project on skills development in Guangdong Province, stresses that a balance needs to be struck between facilities and equipment for education and the need for software, including curriculum, textbooks and instructional materials, and trained teachers. This emphasis can also be applied to the Chinese universities and colleges. It is also very important to change the learning environment from one that is teacher-centered to one that is learner-centered for Chinese universities particularly. Changing the student's role in the classroom can help the student become proficient in problem solving, team work, and communications, skills that are actively sought by employers.

4. Housing security

Current situation and problems

To provide a decent housing condition to the poor and low-income group of people has been a big challenge for governments in all the countries in the world. China is not exceptional. Since the housing reform launched in 1990s, the large part of public housing has been privatized, through selling apartments to the previous tenants. Between 1988 and 2002, the urban households living in public housing as a percent of all the households in surveys between the two years decreased from over 80% to less than 20%. Along with housing privatization, commercial housing markets have developed rapidly. In 2008, the total revenue in housing and estate industry accounted for over 5 percent of the national GDP, becoming one of the major driving forces for fast economic growth in China. However, the rapid growth of housing and estate industry results in unexpectedly rising housing price, especially in large cities. The local governments stopped to provide subsidized housing to urban households since the late 1990s, as a stimulus for housing market development. As a result, the poor and low-income households, plus millions of rural migrant households, can not afford to buy apartments in housing market. With further rising of housing price, even the middle income households in cities have financial difficulty to improve their housing condition through housing markets. To some sense, the housing markets become places of speculation of the rich people in urban China.

The problem is very clear: High housing prices drives the poor and low-income households out of housing market and rules out their any possibility to improve housing condition. Moreover, it is not so simple when it is discussed how to solve this problem. One solution is that housing prices are put down to a level that the poor can afford. Even though this solution is technically and economically feasible, it can not be implemented politically. The local governments would be strongly against this solution because their revenue from selling land would be decline with falling housing prices. The second solution is that the governments take responsibility to provide low-rent or low-price housing for the poor and low-income households, even for middle income households. Lots of housing policy debates are focusing on how the governments should take this responsibility.

Debates and policy options

There are three alternative solutions widely discussed today for the housing problem of the poor and low-income group in urban China (CDRF, 2009). (a) Jingji shiyong fang, JSF, (Price-subsidized housing), restricted to be sold to low-middle-income households. Housing are sold to households qualified as most needed and with income below the threshold set by

local governments at lower prices than market prices. The contribution of local governments to this program is to provide free land to estate developers and set housing prices. However, the current situation is that in the large cities such as Beijing, Shanghai, Shenzhen, price-subsidized housing prices have been rising with market prices and much beyond the level the low-income group can afford.

(b) Lianzu fang, LZF, (Rent- subsidized public housing), which is provided only to the poor households but the migrant households are not entitled to. This program has not attracted much attention from city governments. The major reason is that city governments need to spend more resources, both financial and land, to provide LZF than to provide JSF. The costs for managing and maintaining LZF are relatively higher.

(c) Zhufang xianjin butie, ZXB (Housing cash-subsidy), housing subsidy in cash to households already bought housing or rented apartments in the market. This is not a widely implemented program and has some pilot programs in developed areas.

The current situation is that most cities are implementing both JSF and LZF programs at the same time, although the two programs are not balanced in these cities. The relevant policy debates include: Solution (a) or (b) should become priority housing policy of city governments. Some scholars strongly argue for abolishment of Solution (a). The argument that JSF Program should be abolished is based on the following rationales. (1) The Program is not justified by fairness. One qualification for a buyer of JSF is his or her current income rather than permanent income. It is possible that some buyers are not really low-income group from the long-term prospective. To obtain a JSF apartment means a life benefit. (2) The Program leads to corruption. Because of a large gain resulting from huge differences in prices between commercial housing and JSF, rent-seeking activities become common phenomena in allocation of JSF. The implication for this argument is that the LZF Program should be a priority of urban housing policy in the future. The merits of the LZF Program are morally acceptable.

There is still a strong voice in favor of the JSF Program. The reason is that the Program is firstly more acceptable for city governments and so quickly implemented. The second is that the Program can meet the housing needs of middle income households.

Another housing policy debate is how to provide housing for migrant households in cities. Currently, the majority of rural migrants are living in either factory dormitories, or in temporary dormitories on construction sites, or basements of high buildings in communities or in suburb areas of cities. Some case studies indicate that housing condition of rural migrants is much worse than that of their urban counterparts, and even worse than that of

rural people left behind in their hometown (Li, 2008). Since rural migrants are low-income earners, they have no financial ability to buy apartments in estate market, and even to afford housing from the JSF Program, only one solution for them is to entitle them for LZF. Some cities recently initiated some pilot projects providing LZF for rural migrant households.

Zhufang Gongjijin (Housing accumulation fund) should be reformed because of its lack of fairness. The current arrangement is that each employee in formal sector such as civil servant and worker in SOEs holds an individual account of housing accumulation fund. It is stipulated that both employee and employer should contribute 10 percent of his/her wage to the account as accumulation fund. It is very similar to housing subsidy, but having a regressively distributional function. That means higher income earners obtain more subsidy from this program. There are two options for reforming Zhufang Gongjijin. One option is to completely abolish this program, ending payment of housing subsidies to relatively higher wage earners. Secondly, if the program is maintained in its name, it can be transformed into one program specific for low-middle-income employees with urgent need for improvement of their housing condition.

5. Unemployment insurance and employment assistance

Current situation and problems

China is a developing country with a large quantity of surplus labor in rural areas. China is also a transition economy with a large quantity of the unemployed workers laid-off from state-owned enterprises. Therefore, China has been met a big challenge in deal with unemployment in urban areas and underemployment in rural areas. Ironically, the official unemployment rates are not as high as one expected and believed to be underestimated. Nevertheless, the pressure of unemployment has been experienced by the Chinese governments. One of the major motivations of the governments to maintain high economic growth is to increase employment and alleviate the pressure of unemployment. After the ten years of fast economic growth, the problem of unemployment and underemployment nowadays is not as serious as it was in late 1990s, when a large number of workers were laid off from state-owned and urban collective enterprises. However, the recently global financial crisis is no doubt intensifying the problem of unemployment in China as many export-oriented enterprises employing labor-intensive technology closed down in the coast areas.

In the next five years, the pressure of unemployment can not be significantly mitigated. One reason is that there will be about 25 million of middle-school and college graduates entering into labor markets each year during 2011-2015. This was due to a baby boom

occurred in late 1990s. With this scenario in mind, the Chinese governments are aware of two-fold tasks to deal with unemployment. First, it is important to reform and improve the current unemployment insurance to extend its coverage and raise its efficiency. Second, it is even more important to initiate new policies to encourage firms to create new employment opportunities and graduates to actively look for jobs and the unemployed to quickly go back to labor market. To deal with unemployment, it is widely accepted that state institutions rather than private insurance are very essential and should play more important role. As Nicholas Barr (2003) points out, even in developed countries, more important is how to design unemployment insurance which provides genuine protection and an incentive to the unemployed to find work. While the Chinese government is facing the same problem, the issue of protection is more important than the issue of incentive at the present time.

The major problem of the current unemployment insurance system covers only workers in urban formal sector. In 2008, the number of urban workers joining unemployment insurance reached to 124 million, but it was only 41% of the total number of urban employees. At the same time, the number of rural migrant workers covered by unemployment insurance was 15.5 million, accounting for only less than 12% of the total number of rural migrant workers in urban areas (see Ministry of Human Resources and Social Security and National Bureau of Statistics, 2009). This implies that majority of workers in informal sectors such as rural migrant workers and workers in small private firms are uncovered by the current unemployment insurance system. To expand the coverage of unemployment insurance had to be one of the priority options for the Chinese governments to choose in the 12th Five Years Program.

Debates and policy options

The policy debates in this aspect include: Whether migrant workers and workers in informal sector should be covered by unemployment insurance? If yes, they should be covered by the current system or an alternative system which is more suitable for them? It has been reached a conscience by the Chinese governments at all levels that the migrant workers should not be ignored by unemployment insurance system¹⁹. However, it has not reached an agreement how to provide a system for migrant workers. Since migrant workers are a group having high mobility from one job to another, from one employer to another, from one city to

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

another, it is obvious that the current insurance system is not suitable for them. One option proposed in the annual development report 2009 is that the unemployment insurance system for migrant workers should be transmittable between cities and provinces. The contribution of migrant workers to the system should be as low as possible and the governments should be a major contributor.

College graduates are more and more likely to become unemployed in recent years. It has become a social and even political problem faced by the Chinese governments. A debate arising from this problem is that unemployed graduates should be covered by unemployment insurance. If yes, who should be main financial contributors to the insurance?

Employment assistance includes various training programs, targeting different population groups, such as the Sunshine Project for migrant workers. The policy debates include effectiveness of training projects and what is the role of the government can play in assisting the unemployed and job-seekers.

Concerning the training projects for rural migrant workers, the current programs mainly provide short-term (two-three weeks) training (so-called urban-life-guide training), which is helpful for migrant workers to get used to urban life, but may not be so very useful for them to find job. What migrant workers actually expect is skill or professional training. Therefore, the governments should provide more opportunities to migrant workers to get access to skill or professional training.

Free and instant information on job opportunities is mostly needed by migrant workers. Therefore, the Chinese governments may consider setting up a national information network collecting and disseminating information on labor demand and supply in labor markets such as job opportunities, wage and social security, and labor protection.

V. Conclusion

China has made a great achievement in economic growth, but been lagged behind in terms of social protection and public services provision in the last three decades. As a result, China is facing a number of social and economic challenges like widening income inequality, large-scale poverty, high unemployment pressure, increasing labour mobility, declining consumption propensity and rising social conflicts and unrests.

Many studies and experiences from other countries indicate that a desirable system of social security has strategic objectives for economic development and social stability. The

objectives especially for China include functions of insurance, poverty relief, income redistribution, consumption smoothing and stimulation, and social stabilizer.

Fortunately, the importance and necessity of a new system of social security with wider coverage, more efficiency and sustainability have been recognized by the Chinese governments at all levels (CDRF, 2009; Zheng, 2008). Moreover, China is financially able to provide a system benefiting all the people rather than urban workers in formal sector. The challenges China is facing are how to quickly and equally transform the current system to a new system accepted by all the parties.

Specifically speaking, it was a remarkable achievement for China to have established a nationwide poverty relief system, Minimum Living Standard Guarantee, in less than ten years, which is now supporting nearly 70 million of the poor individuals in urban and rural areas. The system needs to be improved in terms of targeting accuracy, wider coverage and higher thresholds (poverty lines), particularly in rural areas.

China is making a great effort to reform the current medical system, including financing mechanism and delivery of medical services. Some consciences and agreements have been reached and some are in debates. One agreement is that the governments should take more responsibility in managing medical insurance system and make more financial contribution to the system. The medical relief of government should be focused on the poorest people, especially in rural areas.

Compulsory education is inevitable responsibility of government. The problems with the compulsory education in China are its low quality in rural areas, bias in allocation of financial resources in favour of urban schools and less attention to pre-school education of children. To deal with these problems, it is very necessary for the central government to centralize allocation of financial resources by increasing transfer funding to rural education and to education in less developed areas. Moreover, the governments should have a plan to provide free pre-school education to children in order to encourage early development of children's cognitive ability. The plan is more important for children in rural areas. In addition, a post-school training program is proposed for the governments. That is six-months to one-year professional training program should be freely provided for middle-school graduates as they have difficulties to find jobs in labour markets.

It is also important to reform higher education in China. The main problem with the higher education is insufficient incentive for professional staff to make innovation. The reason behind is too much intervention of the governments in the internal affairs of universities. Therefore, to reform higher education system can start by reducing the

government's intervention into internal affairs of university and giving full authority to universities.

Housing problems have been arising with the advance of housing reform which the governments retreated from provision of public housing to urban residents. A big problem is that giving constantly rising housing prices, how to guarantee basic housing condition for the poor and low-income households, even middle-income ones in urban areas. There are three alternative solutions the city governments have to deal with this problem: JSF, LZF and ZXB. From the long-term perspective, JSF should be gradually getting out of policy options and LZF have more advantages to solve the housing problems of the poor urban households.

To extend the coverage of unemployment insurance to workers in informal sector and rural migrant workers is necessary for maintaining social stability in China. While offering income support to the unemployed is one approach, another is to help them to find employment or self-employment opportunities (Barr, 2003). To some extent, employment assistance plays a more important role in helping the people without job and protect the employed from losing their job, especially in developing countries. The provision of employment information and skill training program are actually helpful for the unemployed and migrant workers with high job mobility.

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