

Toward Shared Prosperity: China's New Leap Forward in Social Protection

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Abstract: The foundation of the People's Republic of China in 1949 marked the realization of a dream strived for by millions of Chinese people over the preceding hundred years, i.e., the dream of liberation. Since 1949, China has gone through two stages of historical development, in which it realized the dream of self-reliance and the dream of freedom from poverty, respectively. Having entered the third stage of its contemporary history, China is now striving to achieve a new dream of shared prosperity for all. Supported by statistical data, this paper argues that China has made a great leap forward in the field of social protection over the past 10-plus years. This new leap forward has quietly brought about enormous changes to the Chinese society. On one hand, it has stopped inequality from further deteriorating; on the other hand, it has created a benign environment for lessening human insecurity.

Keywords: China dream, social protection, welfare state

THE YEAR 1949, IN WHICH the People's Republic of China was founded, marked the realization of a dream strived for by millions of Chinese people over the preceding hundred years, i.e., the dream of liberation.¹ In the 60-plus years since 1949, China has gone through two stages of historical development, in which it realized the dream of self-reliance and the dream of freedom from poverty, respectively (Wang, 2009). Having entered the third stage of its contemporary history, China is now striving to achieve a new dream of shared prosperity for all (S. Wang, 2012).

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¹ This is described in Mao Zedong's inscription for the Monument to the People's Heroes.

I. China Dreams in Three Different Periods

The first stage as mentioned above can be described as a “stage of subsistence.” During this stage, China’s GDP per capita had been climbing up consistently from US\$400, but had never reached US\$1,000 (see Figure 1). The China dream in this period was to achieve economic and political independence. Despite the hostility from and blockade by Western countries, China still made brilliant achievements. On average, its GDP grew as much as 6.5% annually from 1953 to 1978, not to mention the fact that its economy had quickly recovered to the highest pre-war level by 1952 in merely three years after the founding of the new republic (China even fought and tied the number one world power in the Koreas during this period). What is more important is that China was able to establish a comprehensive modern economic system and laid a solid foundation in both the “hard” (infrastructure) and the “soft” (health and education level of its labor force) senses for its subsequent development (Kueh, 2008).

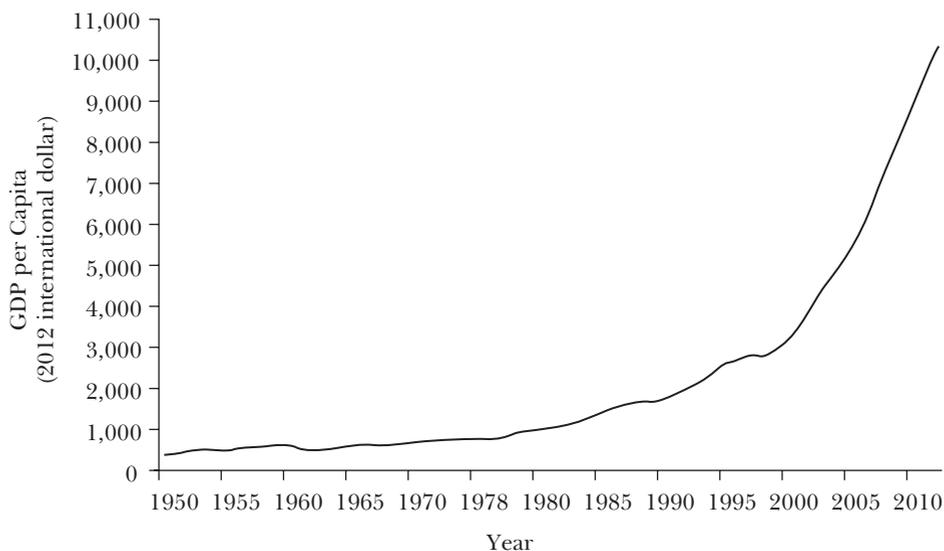


FIGURE 1. China’s GDP per Capita

Data source: The Conference Board Total Economy Database™ (Available at <http://www.conference-board.org/data/economydatabase/>, accessed at October 4, 2013).

In 1979, with its GDP per capita reaching about US\$1,000 (see Figure 1), China entered a stage of “adequately fed and clad.” Coincidentally it was at this point that the government launched “reform and opening up.”

The China dream at this stage was to shake off poverty and modernize its economy. On one hand, China was doing everything possible to relieve poverty and on the other hand, it was striving to promote economic growth and raise the income and consumption level for the vast majority of people. According to a report by the World Bank (2009, iii), between 1981 and 2004, “the absolute number of poor fell from 652 million to 135 million, a decline of over half a billion people.” “To put this in perspective, the absolute number of poor in the developing world as a whole declined from 1.5 to 1.0 billion over the same period; in other words, but for China there would have been no decline in the numbers of poor in the developing world over the last two decades of the 20th century.” No wonder this report said that “a fall in the number of poor of this magnitude over such a short period is without historical precedent.” In terms of economic development, China’s average annual GDP growth was 9.6% from 1978 to 2001, which was much faster than the 6.5% of the previous 30 years. As a gigantic and complex economy, China maintained such a high growth rate for more than 20 years, which was indeed unprecedented and truly a “miracle.”

In the year 2002, China’s GDP per capita reached around US\$4,000, indicating the arrival of the stage of “moderate prosperity.” Ten years later, it crossed the threshold of US\$10,000 (see Figure 1). In 1952, China’s GDP per capita was less than 3% of that of the United States and now the percentage is more than 20% and still rising fast. The China dream at this stage is to achieve shared prosperity for all. For this purpose, China has increased its investment in areas essential for the improvement of the welfare of the general public (such as public health, public education, public housing, public security, public transportation, ecological protection, infrastructure, culture and arts, science and technology) and is striving, through redistribution, to “de-commercialize” areas closely related to the human right to live (Wang, 2008a).

One would be justified in saying that China was a “low-welfare” country in the year 2000.² But it would be totally groundless if one insists that today’s

² “Welfare” here refers to “objective” instead of “subjective” welfare, social welfare instead of the individual welfare. Social welfare is a complicated concept and any disputes about its theory and methodology are beyond the scope of this article. However, no matter how the concept of social welfare is defined, it can be measured in two aspects: inputs (spending on social welfare) and outcomes (such as infant mortality rate and average life expectancy). In social welfare, the proportion of public social spending in GDP is often used to compare the level of social welfare between countries. See Adema, Fron and Ladaique (2011). I have previously proved with solid data that low welfare did exist in the public health area in China around 2000, see Wang (2003). Of course, some scholars disagree about measuring social welfare by the spending level, see Esping-Anderson (1988).

China still has “low welfare,” “zero welfare” or even “negative welfare.”³ Supported by statistical data, this paper argues that China has made a great leap forward in the field of social protection over the past 10 years.⁴ This new leap forward has quietly brought about enormous changes to the Chinese society. On one hand, it has stopped inequality from further deteriorating; on the other hand, it has created a benign environment for lessening human insecurity. Without changes in these two aspects, it is impossible for the people to share the fruits of economic growth. By analyzing these changes, the following sections try to prove that China has indeed witnessed a great leap forward in social protection lately.

II. Reduction of Inequality

In terms of structure, China’s income disparity can be classified further into the urban income disparity, rural income disparity, urban-rural income disparity, and interregional income disparity. Researches show that China’s overall income disparities mostly originate from the disparities between regions and between urban and rural areas (Li and Zhao, 1999; UNDP, 2005). Therefore, the key to the reduction of the overall income disparities lies in the reduction of interregional and urban-rural disparities.

1. Reduction of Interregional Disparities

A major measure to reduce interregional disparities is to increase the central government’s fiscal transfers to the various provinces, particularly the relatively underdeveloped provinces in the central and western regions. Before 1993, China was practicing a fiscal system of the provinces “eating in separate kitchens,” which benefited the more developed provinces in the southeast because they had relatively more abundant financial resources and did not need to share their tax income with other provinces. But the

³ Although such claims as “zero welfare” and “negative welfare” have not been proved by serious academic research, they have been widespread in public opinions and on the internet. See Yuan (2013). In Yang and Song (2012), it is argued that China has undergone “slow welfare growth” since 1978, but this does not mean that China has been a low-welfare state. And in their study, “welfare” is not used in the common sense, but is a special concept of welfare developed from the theory of Amartya Sen.

⁴ Similar analyses can be found in Lin and Sun (2012).

resource-strained provinces in the central and western regions could not afford to provide the same public services to their populations as the coastal provinces did without the fiscal support from the central government, let alone to expand infrastructure construction and industrial investment. Since the mid-1980s, regional disparities had been getting bigger and one of the major reasons lay in the fiscal system of each relying on its own (Wang and Hu, 1999).

In 1994, the Chinese government made significant adjustments to its fiscal system and turned it from a system of each province taking care of itself into a tax-sharing system. These adjustments fundamentally turned around the trend of the continuous decline for 15 years of “two proportions”⁵ and brought about a systemic change that improved the central government’s ability to increase its fiscal transfers to the provinces.

Figure 2 shows clearly that the central government’s gross fiscal transfers to the provinces have been increasing rapidly since 1994; and the trend has been accelerating in particular since 1999. By 2013, it had reached nearly five trillion yuan, 20 times its fiscal transfers of 1994.

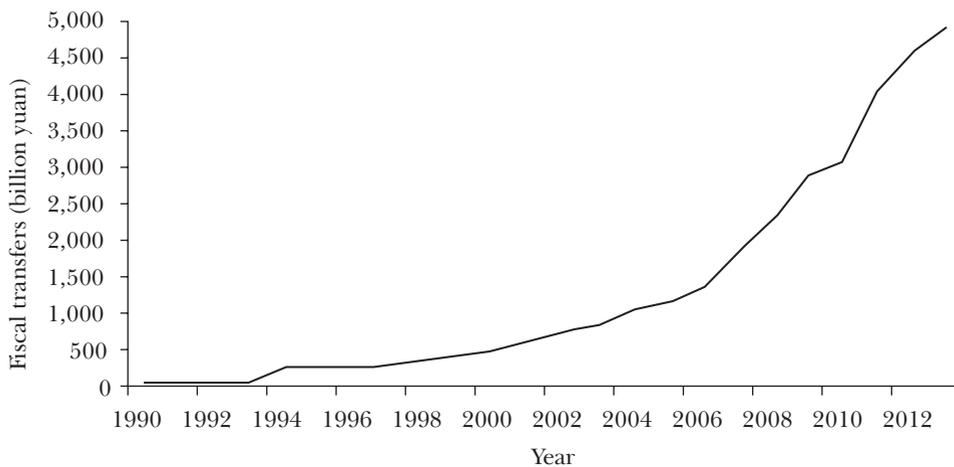


FIGURE 2. The Central Government’s Fiscal Transfers to Provinces

⁵ “The two proportions” refer to the proportion of all the Chinese governments’ total fiscal revenue to GDP and the proportion of the central government’s fiscal revenue to all the governments’ total fiscal revenue.

Although the so-called “refund of taxes” in the fiscal transfers, as the remnants of the old system, continues to benefit the eastern coastal provinces, its proportion in the new tax-sharing system will decline year by year. For instance, its proportion accounted for 73.7% in 1995, but decreased to 10.3% in 2013, and is still declining. Another two major components of the fiscal transfers are the “general transfers” and “special transfers,” whose purpose is to narrow the interregional disparities in their financial resources and whose major beneficiaries are the central and western provinces (MOF, 2010). Without fiscal transfers, the central provinces’ per capita fiscal revenue would be at the level of about 35 and the western provinces at the level of about 40 if we assume the eastern provinces are at a level of 100 in their fiscal strength. After fiscal transfers, however, the western provinces reach the level of 97 and the central provinces the level of about 77 measured by the same benchmark (Guo, 2012). The central government’s massive fiscal transfers have apparently eased the regional fiscal imbalances between income and expenditures, helped equalize public services, and also promoted the coordinated growth of all regions.

Before the implementation of the tax-sharing system, there were big gaps between the GDP growth rates of the four major economic regions, namely the east, the central, the west and the northeast, with the eastern coastal provinces far ahead in the lead, resulting in an expansion of regional disparities. Since 1994, the growth rates of various regions have been getting close to each other (DRC, 2006). In recent years, the growth patterns of China’s various provinces have undergone fundamental reversals with the growth speed of the central and western provinces exceeding that of the eastern coastal provinces, which narrows regional disparities.

There is convincing evidence to show that no matter which dataset is used, whether based on household registered population or resident population, and however inequality is measured (e.g., the coefficient of variation weighted by population, Theil index, Gini Index or Atkinson Index), the GDP per capita disparities between provinces have been declining since 2004 (Hoshino, 2011).⁶ It is truly a miracle for the regional disparities to have decreased significantly within such a short period. Although many factors have played a role, major credit should be given to the massive fiscal transfers made by the central government.

⁶ Researches by many other scholars have arrived at the same or similar conclusions.

2. Reduction of Urban-Rural Income Gap

As is generally known, a big income gap has always existed between China's urban and rural areas. Compared with other developing countries, China's overall income gap is not the widest if measured by the overall Gini coefficient since it is lower than some countries in Latin America and Africa. However, the income gap between China's urban and rural areas may be the widest in the world, which constitutes the most distinctive characteristic of China's income pattern (UNDP, 2005).

To narrow the income gap between urban and rural areas, the Chinese government has adopted two kinds of policies to rural residents: "take less" and "give more." The most obvious demonstration of the "take-less" policy lies in the abolition of agricultural tax, which had been one of the oldest taxes in China and its history can be traced to a few thousand years ago. Since 1978, the proportion of agriculture in China's overall national economy has been declining, but the proportion of the total amount of various agricultural taxes (including agriculture tax, speciality product tax, animal husbandry tax, farmland use tax and deed tax) in the national GDP, instead of going down, had actually risen from 1986 to 1996. In 2004, the Chinese government announced the abolition of taxes on agricultural speciality products excluding tobacco and that it would abolish agricultural tax within five years. As a matter of fact, the goal to thoroughly abolish the agricultural tax was accomplished ahead of schedule in 2006.

Since the "take-less" task was accomplished, efforts in the "give-more" policies have been consistently strengthened. In 1997, the central government's spending, of 15 categories, for the rural issues, including subsidies to agricultural products, spending on secondary and primary education in the rural areas, and spending on rural public health, was merely 70-plus billion yuan (Ding and Zhang, 2005). In the new century, such spending had been increasing rapidly to reach 200 billion yuan in 2003. In the following 10 years, the lowest annual growth rate for such spending was 12% and the highest 38%, with an average growth rate of 20%, much higher than the GDP growth rate during the same time span. In 2013, the central government's budget for rural issues has reached 1,379.9 billion yuan, nearly 20 times the amount in 1997 (see Figure 3).

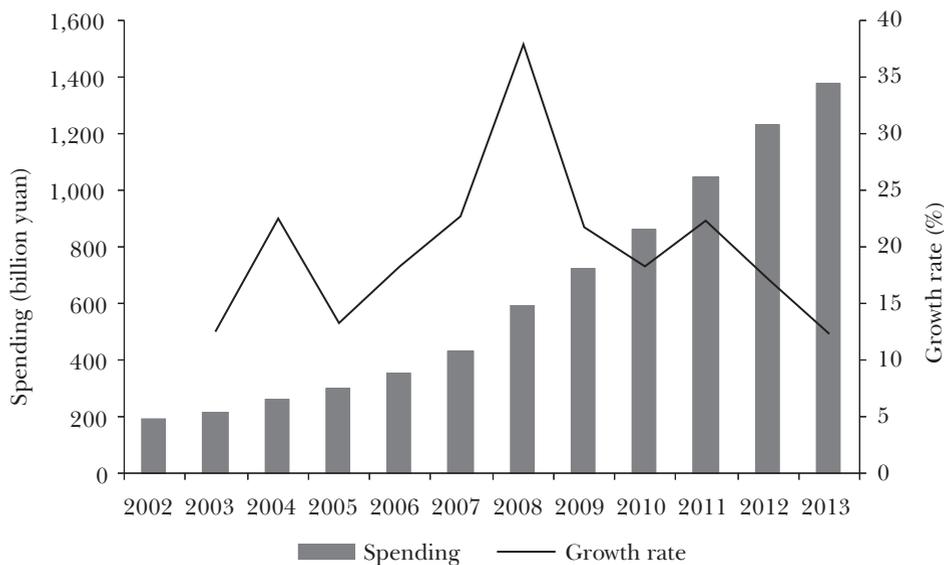


FIGURE 3. Spending on Rural Issues by the Central Government

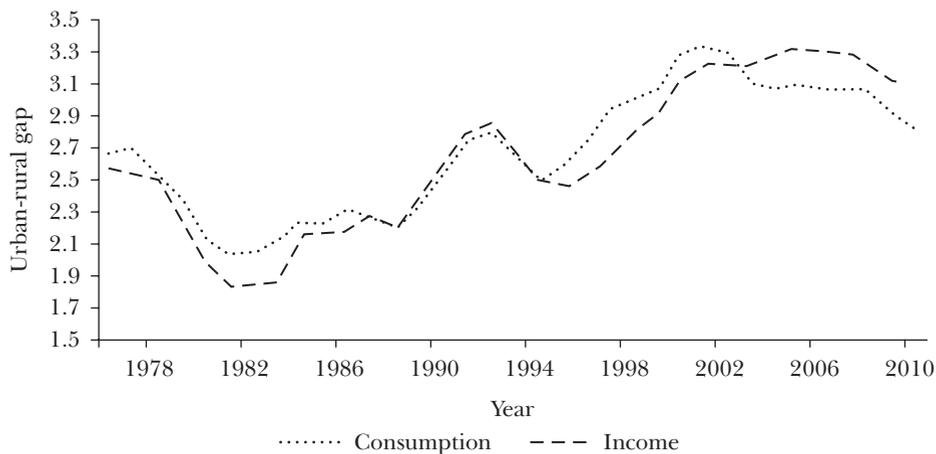


FIGURE 4. Urban-Rural Disparities in Income and Consumption

Note: Both the income and consumption of the rural areas are assumed to be 1.

The two-pronged approach of “take-less” and “give-more” seems to have produced some favorable results. As shown in Figure 4, after a drastic deterioration during the mid-1990s, the urban-rural disparities in per capita income and consumption has been stabilized within a narrow corridor since 2003. Of these, the urban-rural disparities in per capita consumption have

been declining since 2003. Furthermore, the rural residents' income has been growing faster than those of urban residents for three consecutive years since 2010, thus narrowing the urban-rural income gap (NBS, 2012; Xinhua News Agency, 2013).⁷

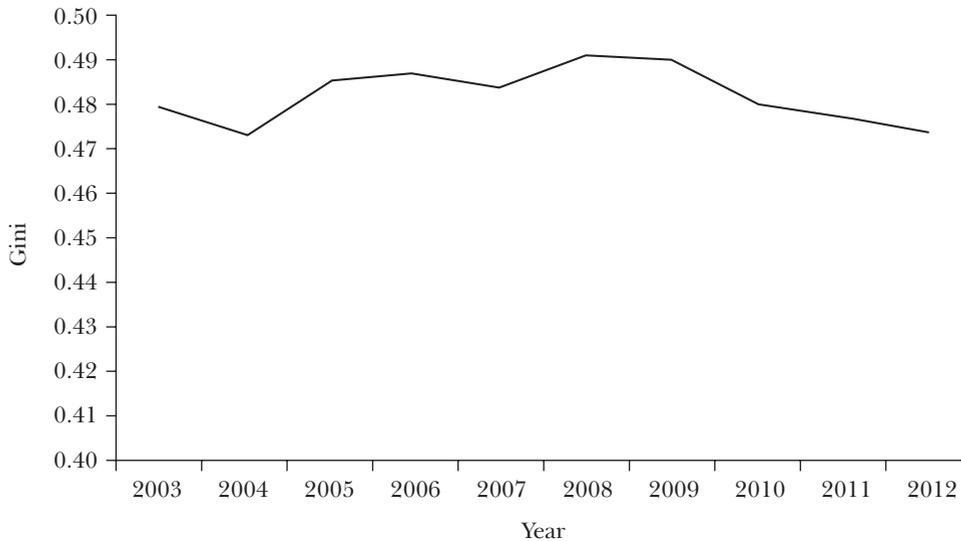


FIGURE 5. The Chinese Gini Coefficients: 2003-2012

As already pointed out, regional disparities and urban-rural disparities are the major components of the overall disparities in China. Since disparities in both aspects have been eased or even narrowed, it can be inferred that the trend of deepening overall disparities of the country has also been curbed. In early 2013, the National Bureau of Statistics released the Chinese Gini coefficients for the overall income of the Chinese people, which proves the above judgment (NBS, 2013). We can see that the Gini coefficient, which reflects the level of income inequality, rose narrowly between 2004 and 2008,⁸ but has gradually declined since 2008 (see Figure 5). Although the level of 0.474 in 2012 is still very high, its consistent decline for five years has been

⁷ In their independent studies of the changing trend in the urban-rural disparities, scholars have reached similar conclusions, but their researches show a lower level of inequality than suggested by the above-mentioned report from the National Bureau of Statistics. See Luo and Sicular (2011, tab. 6.3).

⁸ Li Shi and his collaborators have reached similar conclusions in their research. See Li, Luo, and Sicular (2011). Most research used statistics from before 2007 and did not discuss the changing trend of the overall income gap in recent years. See Xue (2012), and Li, Sato, and Sicular (2013).

rare since the mid-1980s and may herald the coming of a new era.⁹

III. Reduction of Insecurity

In pre-reform China, the “iron rice bowl” and the egalitarian practice of “everybody eating from the same big pot” gave people a sense of security despite the low level of their income and living standards, because the communes and production teams in rural areas and the urban employment “units” provided a shelter against various risks (such as unemployment, illness and old-age problems). Since the reform era started, individual incomes and living standards have indeed been rising constantly; but on the other hand, the rural communes and production teams as well as urban work units disintegrated, and the “iron rice bowl” was broken. In this new situation, even the mid-to-high-income groups felt the threat of various risks, let alone the low-income groups. During the 1980s and 1990s, the Chinese government once misconceived that market-oriented reforms meant the assumption of these risks by individuals and families and therefore neglected its responsibility in these areas. In the new century, this situation has begun to change. In areas involving the minimum subsistence, healthcare, old-age security, housing, work-related injury insurance, and unemployment insurance—all of which are essential for the wellbeing of the vast majority of people—the government has introduced a series of social policies that have provided an increasingly wider coverage, an increasingly higher level of protection and an increasingly robust security system.

1. Minimum Subsistence Security

The urban residents’ minimum subsistence security system (hereafter “minimum security”) was initiated in Shanghai. In 1997, when the massive “reduction of staff to increase efficiency and relocation of laid-off workers” were initiated, the State Council released a Notice on the Establishment of a Nationwide Minimum Subsistence Security System for Urban Residents, and started to implement a minimum security system on a national scale. But the local governments at various levels did not seem to have a sense of urgency.

⁹ As early as 2010, a research from the OECD concluded: “Overall inequality has ceased to increase in recent years, and may even have inched down.” See Herd (2010). In 2012, the OECD released another research report that reached almost the same conclusion as does this section of this article, see OECD (2012, chap. 2).

For the next three years, the minimum security system was expanding very slowly. By 2000, only 4.03 million urban residents received benefits from the system. In the following year, given that the urban poverty resulting from the widespread and consistent laying off of workers had started to cause social unrest,¹⁰ governments at various levels began to expand the coverage for the utterly destitute workers of the large and medium-sized state-owned enterprises. In 2002, the coverage was further expanded and the central government required the “coverage of all qualified people.” By the end of that year, the beneficiaries covered by the minimum security had jumped to 20.65 million people. Within the following 10 years, this system consistently covered around 23 million beneficiaries and basically included all the qualified urban residents (see Figure 6).

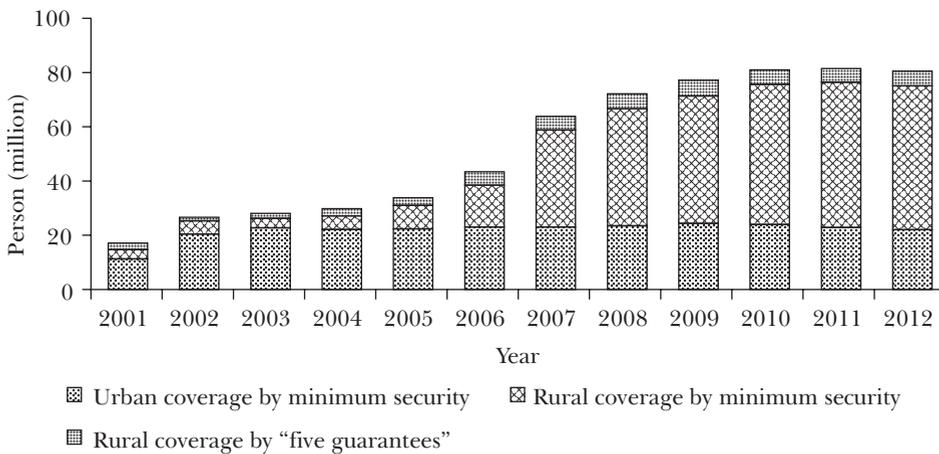


FIGURE 6. Population Covered by Urban and Rural Minimum Security

Urban poverty was certainly troublesome, but the rural poverty was even more so. There was widespread poverty in rural areas before the start of the new century, therefore the Chinese government had to focus its poverty-alleviation efforts on helping the poor areas develop. Such a strategy achieved remarkable results and lifted 500 million people out of poverty

¹⁰ For instance, in September 2001, 1000-plus laid-off and retired workers took to the street in Daqing, Heilongjiang Province (Ren and Qiu, 2007); and in March 2002, 10,000-plus workers protested in public in Liaoyang, Liaoning Province (Liao, 2011).

between 1981 and 2004 (World Bank, 2009).

In the year 2000, the poverty rate dropped to below 3.5% according to the poverty line set by the Chinese government (NBS, 2009, 111). In this situation, the Chinese government, while continuing its poverty-alleviation work in the poor areas, was able to focus on the poor population, including the poor living outside the poor areas.

Starting in 1997, some eastern coastal provinces and cities began to establish the rural minimum security system. However, it was not until 2004 that the central government began to require (in the 2004 No. 1 central document issued on December 31, 2013) the establishment of this system in areas that could afford it. In early 2007, after three years' trials, the CPC Central Committee and the State Council issued a document entitled *Some Opinions on Actively Developing Modern Agriculture and Solidly Pushing Forward the Construction of the New Socialist Countryside*. It specified that the rural minimum security system should be established nationwide to cover all the qualified rural poor, with its focus on the chronically poor, including the sick and/or handicapped, the old and/or infirm, and the disabled, and ensure that they would receive the minimum allowances by the end of the year.¹¹ This was a landmark transition from the "mutual help system" within the rural villages to a system supported by the national finance. As a result, the beneficiaries of this system jumped by more than 20 million within that year to reach a total of 36 million people (MOCA, 2008). From then on, the coverage of rural minimum security has been gradually expanding. If families enjoying the "five guarantees" (i.e., assistance in food, clothing, medical care, housing and burial expenses) were included, the total population enjoying the minimum security had reached nearly 59 million by the end of 2012, and the total population covered by urban and rural minimum security had exceeded 80 million (see Figure 6), equal to the total population of Germany.

The present benefits of the urban and rural minimum security are still very low, but they are growing rapidly. The annual average growth rate of the monthly benefits is 18.7% for the urban minimum security and 21.6% for the rural minimum security, which means a 6.3-fold increase for the former from 2001 to 2012 and a 3.2-fold increase for the latter from 2006 to 2012 (Figure 7). Along with the government's strengthened efforts to increase its financial

¹¹ Local governments play the major role and are held accountable in establishing the rural minimum security system, while the central government subsidizes areas with financial difficulties.

appropriations, the level of urban and rural minimum security will reach a higher level in the future.

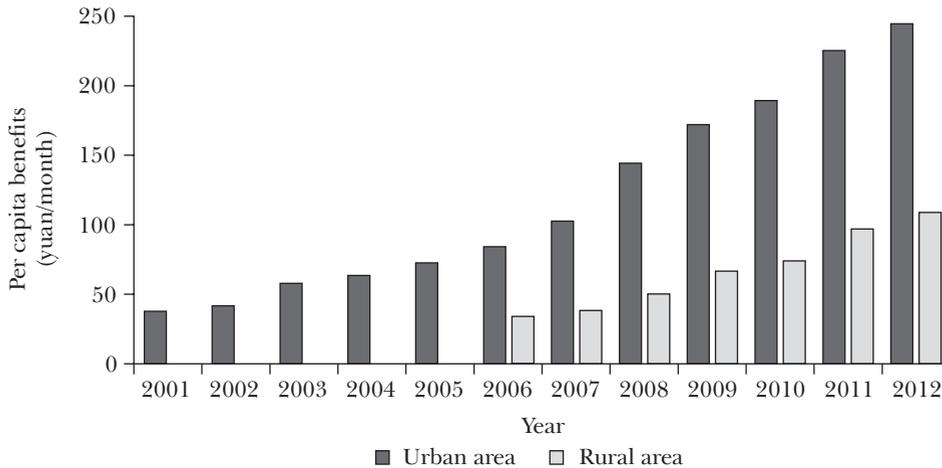


FIGURE 7. Per Capita Benefits from the Urban and Rural Minimum Security System

2. Healthcare Security

Prior to the start of its reform and opening up, China had three sets of healthcare systems: the state-paid healthcare system for government institutions, higher education institutions, and other public institutions, the labor insurance system for state-owned enterprises and some collective enterprises, and the cooperative healthcare system based on communes and production teams in rural areas. These healthcare systems provided inexpensive and equal basic healthcare service for the vast majority of urban and rural residents.

With the disintegration of the people's communes in the early 1980s, the once internationally acclaimed rural cooperative healthcare system quickly collapsed. In the urban areas, the large-scale changes in enterprise ownerships and layoffs shrunk both the state-paid healthcare and labor insurance. As a result, by the turn of the century, over 80% of the rural residents and over half of the urban residents had lost all their healthcare security (MOH, 2008, 17).

To respond to popular concerns with the “inconvenient and expensive

healthcare service,” the Chinese government began to promote a basic medical insurance program for urban workers in 1999, which covered retirees who were in relatively fragile health, but no longer covered the insured’s relatives, nor did it cover self-employed people, workers of informal sectors, and floating population. Therefore, although the new system was growing rapidly, it had covered merely one quarter of the total urban population by 2006. This figure would be even smaller if the floating population were included in the calculations.

And in response to the rural healthcare crisis, the CPC Central Committee and the State Council released the Decision on Further Strengthening Rural Healthcare Service in October 2002, and explicitly required the “gradual establishment of a new rural cooperative healthcare system (abbreviated as New Rural Co-Op),” with a goal “for the new rural cooperative healthcare system to cover all rural residents by 2010.” To achieve this goal, it was decided that starting from 2003, governments at all levels should subsidize farmers who had joined the New Rural Co-Op. The New Rural Co-Op has changed the nature of the cooperative healthcare in that it is no longer a mutual-help system based on villages and towns, but a rural healthcare security system on a higher level and organized, guided and financially supported by the governments (Zhu, 2004).

Despite the above-mentioned efforts in response to the urban and rural healthcare crisis, people were actually not satisfied with their intensity and progress. In March 2005, the project team of the Development Research Center of the State Council published a 160-plus-page report, criticizing harshly the healthcare reforms so far (DRC, 2005). Four months later, this report caught the attention of a newspaper (Wang, 2005), and its coverage of the report quickly caused uproar in the media, and finally led to a new round of healthcare reform. In 2006, under the pressure of the public opinion and the guidance of the top decision-makers, the central government finally established the guiding principle of “resuming the non-profit nature of healthcare and increasing government investment,” which formally kicked off the formulation of healthcare reform policies. Three years later, the CPC Central Committee and the State Council eventually released in March 2009 Opinions on Deepening the Healthcare System Reform and Current Focus in Implementing the Healthcare System Reform (2009-2011). The overall goal of these policies was to “establish and refine the basic healthcare system that can cover all urban and rural residents and provide safe, effective, convenient and inexpensive healthcare for the people.”

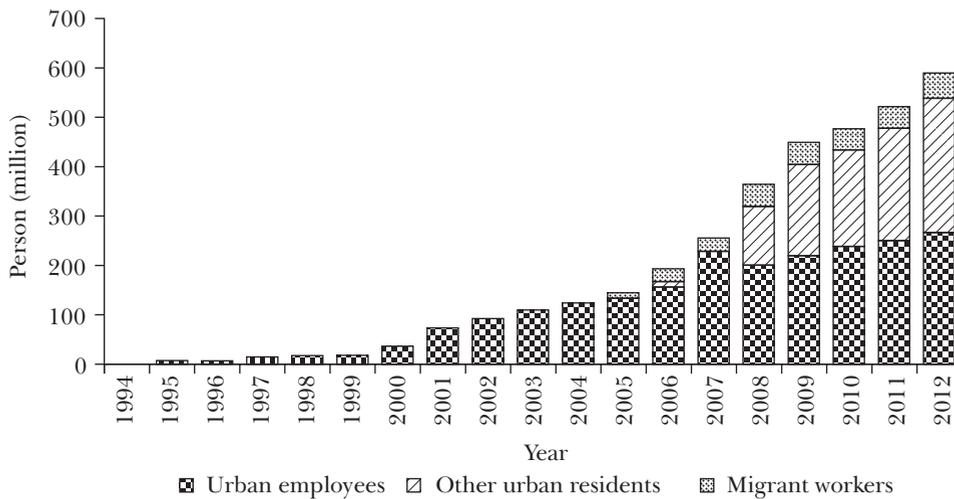


FIGURE 8. Coverage of the Basic Urban Medical Insurance System

Around the start of the new healthcare reform, the coverage of urban and rural healthcare quickly expanded. For urban residents, the State Council released in 2006 a document entitled *Some Opinions on Handling Issues concerning Rural Migrant Workers*, which stressed the “urgency to provide healthcare coverage for serious illnesses of rural migrant workers.” In the following year, the government also started a pilot program to provide medical insurance to urban residents, including infants, school students, and other non-employed urban residents (Meng, 2007). These two measures were meant to provide healthcare for people other than employed urban residents. Figure 8 shows that at the end of 2002, only less than 100 million urban residents enjoyed medical insurance; but by the end of 2012, this number had soared to 600 million, which was almost 90% of the 690 million permanent urban residents and a six-fold increase in 10 years.

In rural areas, the vigorous involvement of public finance promoted the rapid development of the New Rural Co-Op. With the financing from various levels of governments, population participating in the New Rural Co-Op quickly climbed; by 2008, it had exceeded 800 million and then stabilized at around 830 million, standing for an almost full coverage of the rural population (Figure 9).¹²

¹² In 2012, there were 660 million permanent rural residents, which means about 170 million migrant rural workers joined the New Rural Co-Op in their hometowns.

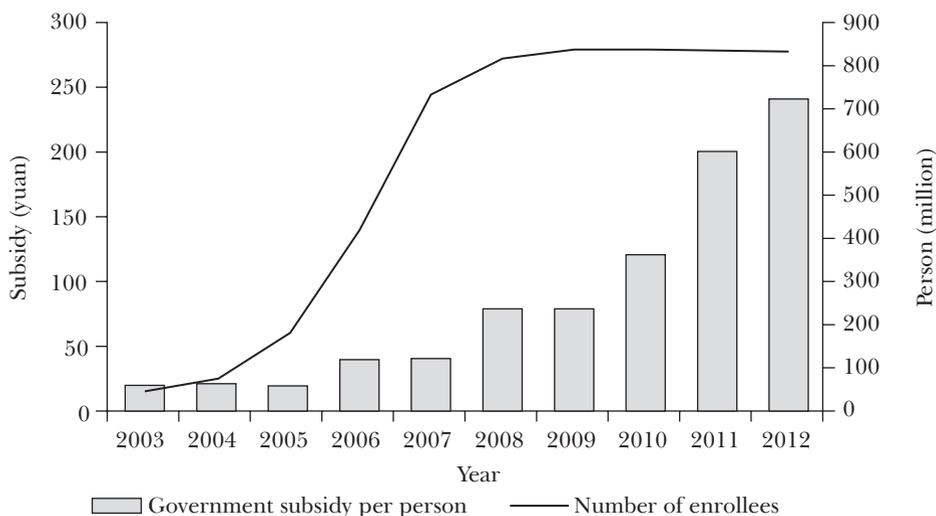


FIGURE 9. Coverage of the New Rural Co-Op and per Capita Government Subsidy

For some poor people, the government also subsidizes their participation in the urban medical insurance or the New Rural Co-Op. In addition, the government provides catastrophic illness funds to those who have fallen into poverty due to serious diseases. As shown in Figure 10, when the healthcare security system was initially established in 2004, merely around 6 million people benefited from the four categories of medical assistance, involving merely 443 million yuan of government spending. However, by the peak period in 2011, the population involved had exceeded 80 million and the government's expenditure in medical assistance was close to 19 billion yuan, about 40 times more than that in 2004.

Figure 11 adds together all the people covered by the various types of urban healthcare insurance and the New Rural Co-Op. It demonstrates that China has built up the world's largest healthcare net within a few years. In 2003, fewer than 15% of the urban and rural residents, or fewer than 200 million people, enjoyed a certain type of healthcare coverage; while by 2012, the beneficiaries covered by the two (namely the urban and rural) large healthcare systems had exceeded the country's total population (because some migrant rural workers participated in both systems).

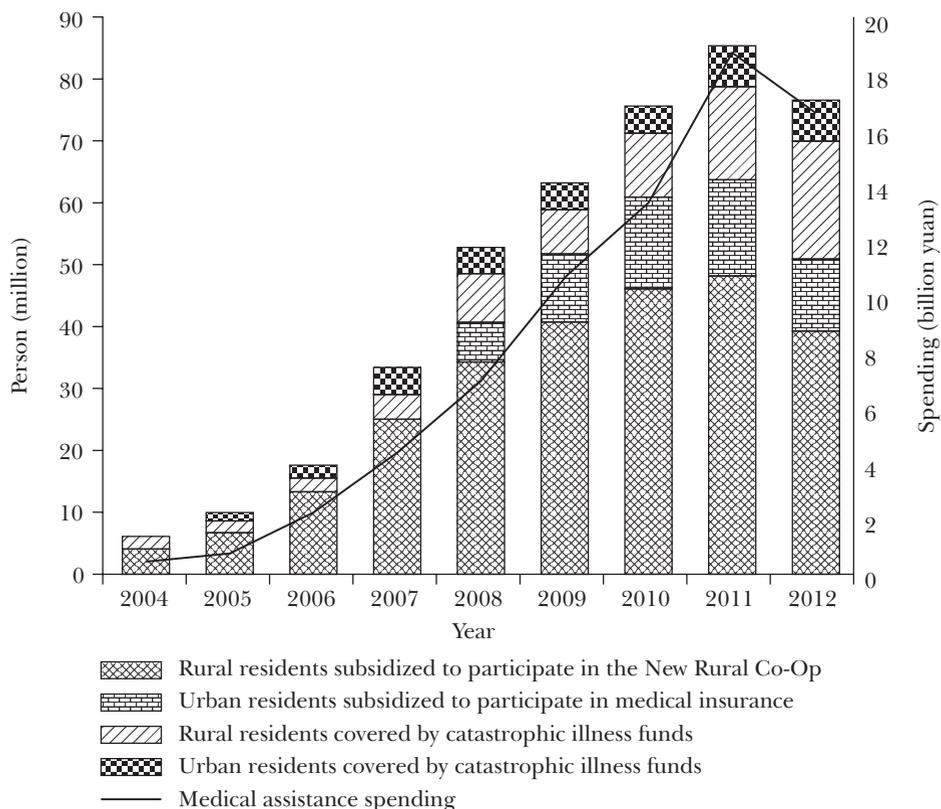


FIGURE 10. Number of Beneficiaries of the Urban and Rural Medical Assistance System

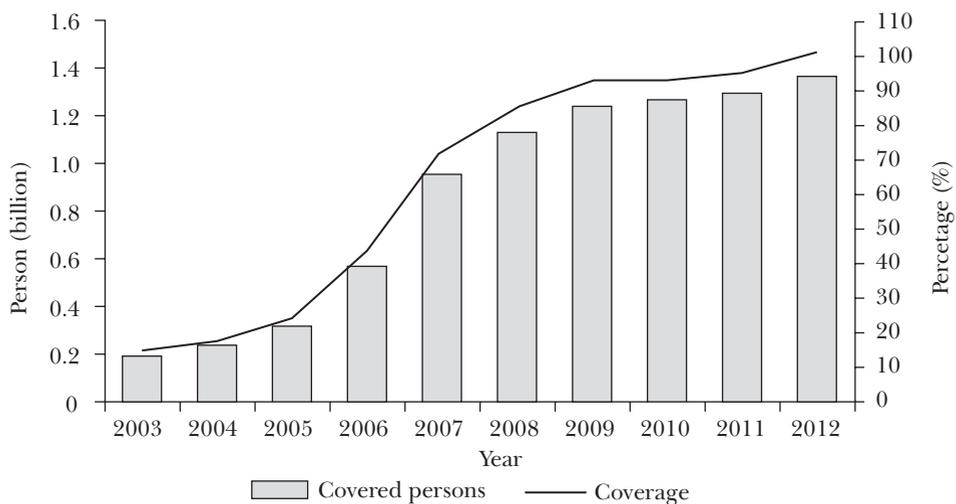


FIGURE 11. Coverage of Urban and Rural Healthcare Insurance

While quickly expanding the coverage, China's healthcare reform is also committed to reducing the portion of the total costs paid by the beneficiaries. Figure 12 shows significant changes in healthcare financing. At the beginning of the new century, 60% of the total healthcare costs were undertaken by patients; no wonder people would generally feel that "healthcare was expensive." This happened because the government abandoned its responsibility to provide healthcare to people during the final 10-plus years of the last century. Conversely, during the past one decade, an eye-catching counter-movement has occurred in the healthcare field: government spending has been increasing while personal spending decreasing. By 2011, the share of personal spending in total healthcare expenditure had fallen to 34.8% (see Figure 12). The Chinese government is trying to further reduce the proportion of personal spending in the total healthcare costs and it is expected to drop below 30% at the end of the 12th Five-year Plan period (2011-2015), according to a news report by Chinanews.com (2012). It should be pointed out that as far as the proportion of personal spending in the total healthcare costs is concerned, China's level is below the world's average (40.8%), although it is still higher than the European countries' (24.8%) and Japan's (17.7%) (WHO, 2012, 142).

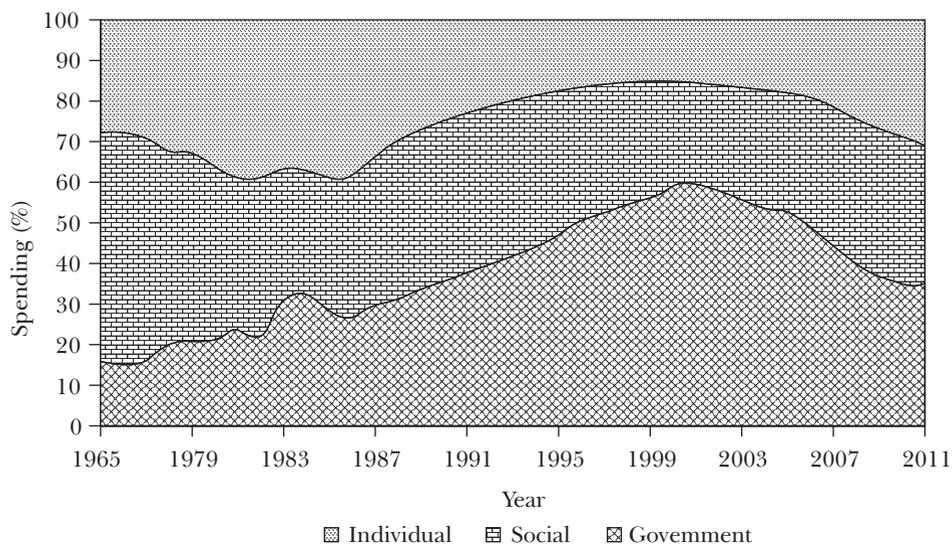


FIGURE 12. Structure of China's Total Healthcare Spending

All indicators show that China is steadily moving toward the goal of “universal access to public healthcare and basic medical service,” which is indeed a remarkable achievement for a developing country with more than 1.3 billion people.

3. Old-age Security

Before its reform and opening up, China provided old-age security through the “units” to employees at the public institutions, state-owned enterprises in urban areas and employees of some collective enterprises. The disintegration of the “unit system” and the diversification of enterprise ownerships have prompted China to explore new types of old-age security.

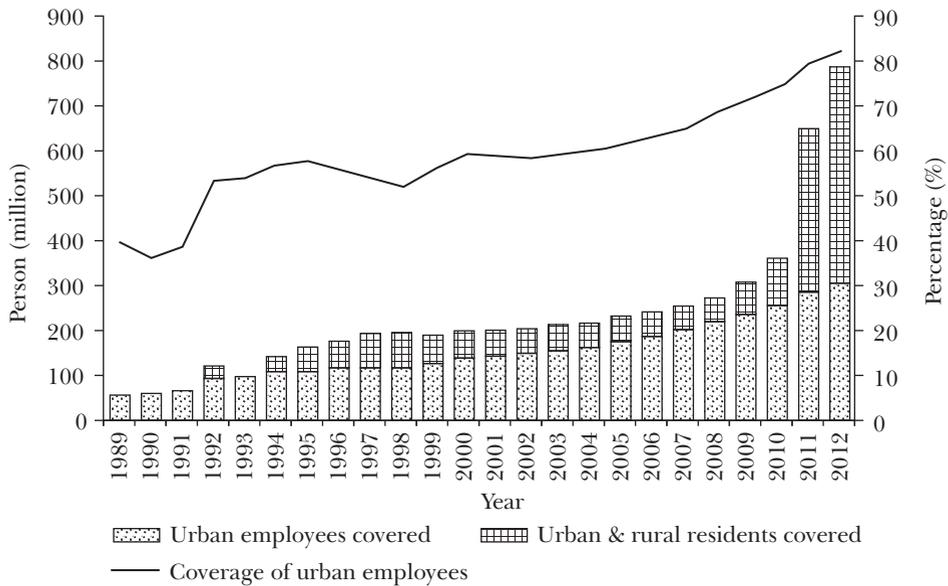


FIGURE 13. Participants of the Old-age Insurance

The Decision to Establish a Unified Basic Old-age Insurance System for Enterprise Workers, a document released by the State Council in 1997, marked the official launch of the modern old-age insurance system for urban employees. Initially, the basic old-age insurance for urban employees (hereafter “basic old-age insurance”) covered the employees of state-owned and collective enterprises, but its goal was to gradually expand to cover all types of enterprises and their employees, and further extend to self-

employed urban residents. In the following 10-plus years, it was one of the major tasks for China's old-age insurance system to expand the coverage of the basic old-age insurance. As is shown in Figure 13, the number of people covered by this insurance increased consistently to reach over 200 million by 2007 and over 300 million by 2012. If urban employees are used as the base to calculate the participation rate, then the rate had exceeded 70% by 2009 and 80% by 2012. It should be stressed that some of the people covered by the "basic urban security" were migrant rural workers and their number had increased to 41.4 million by 2011 from 14.17 million in 2006. At present, the number is around 50 million, about one-sixth of the total number of migrant rural workers.

A bigger challenge in trying to expand the coverage of old-age insurance lay in how to include residents other than urban employees, the rural residents in particular. In the early 1990s, some areas of China began to try various ways to promote old-age insurance in rural areas. But only a limited number of areas were able to provide limited public financial assistance, and the number of rural participants of the old-age insurance was hovering around 54 million for many years.

Such a situation did not start to change until 2009, when the central government decided to try a new type of social old-age insurance in rural areas. Rural residents aged 16 years or above (not including school students) without being covered by the urban basic old-age insurance were qualified to participate, of their free will, in the new rural old-age insurance in their hometowns. The most prominent feature of this program lies in its explicit confirmation of the government's responsibility towards rural residents, as shown by government investment for that very purpose. The goal at the time was to fully cover all qualified rural residents before 2020. This program won support from the public and was therefore accelerated. By 2011, it had put 326 million rural residents under coverage.

Against such a background, the central government decided in 2011 to initiate the pilot social old-age insurance for urban residents, with the same financial subsidy as that of the new social old-age insurance for rural residents. All those non-employed urban residents aged 16 years or over (not including enrolled students) could choose to participate in this program in their hometowns. The goal set at the time was to basically achieve the complete coverage of all qualified urban residents by 2012.

In very generous moves during the three years from 2009 to 2011, the governments at various levels appropriated 170 billion yuan to subsidize these two old-age insurance programs (Wen, 2012). What is more important

is that during the first half of 2012, the central government decided to promote the two programs across the country with the aim of covering all regions during the same year, which was way ahead of its scheduled completion time by 2020. By now, it can be said that the social old-age insurance system that covers both urban and rural residents has on the whole been established in China. Besides the urban and rural minimum subsistence security and the basic healthcare security, this is another nationwide social security system, and constitutes a milestone in the history of China's social security system. Of course, the formation of these systems doesn't mean that every qualified person is covered. From Figure 13, it can be seen that the population covered by the new social old-age insurance for urban and rural residents and those participating in the basic old-age insurance for urban employees had soared since 2010 to reach 788 million by 2012. Given that there were about 1 billion adults aged 16 years or above in China, the participation rate was close to 80% for the old-age insurance programs (B. Wang, 2012). China's old-age insurance system has undoubtedly become the largest in the world.

Since 2009, the Australian Centre for Financial Studies has published the Melbourne Mercer Global Pension Index every year, which employs over 40 index values to assess and rank the old-age security systems of various countries. Its 2012 index covers only 18 countries but half of the world's population. China was listed at the fifteenth place, which provided an excuse for some media to hype the notion that "China is at the fourth place from the bottom in the rankings of the major nations' pension systems." As a matter of fact, both China's total score and ranking were higher than those of Korea (16th place) and Japan (17th place) (ACFS, 2012), despite the fact that these two countries enjoy higher levels of economic development than China. Similarly, the Global AgeWatch Index 2013, a UN-backed study of the quality of life of the elderly in 91 nations, places China 35th, ahead of many countries with higher GDP per capita, including most of Eastern European countries, Mexico, Greece, South Africa, South Korea, Turkey, and Russia (HelpAge International, 2013).

4. Housing Security

At the beginning of China's reform and opening up, housing conditions were poor in both urban and rural areas. In 1978, the average per capita living space was merely 6.7 square meters for urban residents and 8.1 square meters for rural residents. At that time, the focus in housing security was geared toward improving living conditions for the vast majority of urban

and rural residents. During the past 30-plus years, China's economy has undergone rapid development and the general living conditions of both urban and rural residents have been greatly improved. By the end of 2010, housing ownership rate had reached 89.3% (NBS, 2011) for urban residents and per capita living space had jumped to 32.7 square meters. In rural areas, housing ownership was almost 100% and per capita living space had reached 36.2 square meters (see Figure 14).

However, since housing commercialization was started in 1998, the quickly climbing housing price has become a major block preventing some urban residents from further improving their housing conditions. For that reason, the Chinese government adopted multiple measures to explore how to ensure housing security.

First of all, focusing on employees with stable jobs in formal sectors, the government requested all government institutions, state-owned enterprises, collective urban enterprises, foreign-invested enterprises, urban private enterprises, and other urban enterprises and institutions as well as their current employees to pay into their own housing provident funds under their individual escrow accounts for their future housing-related expenses. By the end of 2011, a total of 133 million working people had deposited into their housing funds, the accumulated housing funds had reached a total value as high as 4.06 trillion yuan and helped 81.12 million families realize their housing dreams (Wu and Fu, 2013).

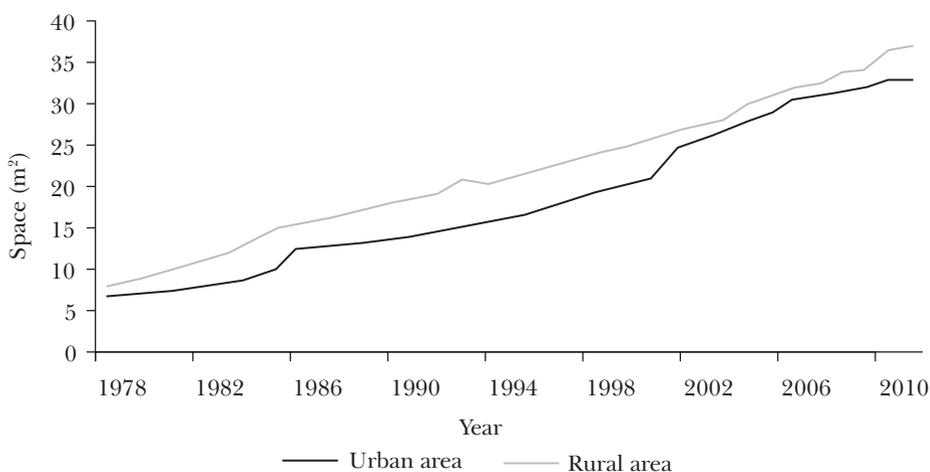


FIGURE 14. Improvement of Urban and Rural Living Conditions: Per Capita Floor Space

Secondly, to help with the housing needs of those in utter poverty, the government appropriated funds to improve conditions in shantytowns and to renovate old and unsafe buildings in the rural areas. Efforts were also devoted to helping herdsmen settle down.¹³

Shantytowns mainly exist in mining areas, forest areas and reclamation areas as well as in those “villages in the middle of cities.” From 2006 to the end of 2012, a total of about 13 million shantytown dwellings were renovated or rebuilt, but over 10 million low-income families still lived in shantytowns in the late 2012 (Du, 2012). In 2013, the State Council decided (through a document entitled the Notice on Advancing Urban Welfare Housing Projects in 2013) to rebuild more than 10 million dwellings in various types of shantytowns and strive to basically complete the rebuilding of shantytowns by the end of the 12th Five-year Plan period.

The main targeted beneficiaries of the renovation of unsafe rural dwellings are families enjoying the “five guarantees,” minimum-security families, the handicapped people in poverty, and other poor families. During the five years from 2008 to 2012, the government assisted 10.33 million poor families in the rebuilding of their dwellings. And in 2013 itself, the government added the renovation of around 3 million unsafe rural dwellings into its agenda, which is far higher than 1.5 million, the goal set for the 12th Five-year Plan period (Du, 2013).

The reason for the government to help the herdsmen settle down was that until the year 2000, there were still about 2 million people of around 440,000 herder families suffering from their backward production means and harsh living conditions as well as natural disasters by keeping their traditional nomadic life style without fixed dwellings in the Tibetan regions in Qinghai, Sichuan, Gansu and Yunnan Province, and also in other remote pastoral areas in the autonomous regions of Tibet, Xinjiang and Inner Mongolia. The government started the pilot program in Tibet in 2001 to resettle herder families and stepped up its efforts for the project after 2008. By the end of 2010, the central government had invested 4.84 billion yuan in the project and resettled about 850,000 people of 194,000 families. According to the National 12th Five-year Plan for the Settlement of Herder Families in China released in May 2012, the remaining 1.157 million people of 246,000 herder families will be resettled by 2015. To achieve this goal, the central government will invest about 7.98 billion yuan, which is to be joined with nearly 4.3 billion yuan in support from the local governments.

¹³ “Renovate” here often means repairs and updates on the existing structure; it does not necessarily mean the provision of new homes.

Thirdly, to satisfy the housing needs of low-income urban families, the government has worked out policies to establish a welfare housing system that consists of affordable housing, the “double-restriction” housing (restriction on size and restriction on price), low-rent housing and public rental housing.

During the period from 1994 to 2002, the welfare housing mainly consisted of affordable housing supplemented by low-rent housing. Affordable housing was growing rapidly to account for a larger proportion of the total living spaces built during this period than the regular commercial housing. However, the welfare housing policy began to deviate in 2003, during which a State Council document (the 18th document)—Notice on Improving the Healthy and Sustained Growth of the Housing Market—changed the goal of the housing reform to “gradually let the majority of families buy or rent regular commercial housing and at the same time rationally determine the income level and income range of families as the beneficiaries of the affordable housing and low-rent housing.” It resulted in a drastic drop in the affordable and low-rent housing projects, and drove families badly needing better housing to the regular commercial housing market featuring wildly accelerating prices.

Such a deviation in commercializing housing began to be corrected in 2005, when the State Council promulgated a series of policies to stress the importance of building welfare housing and clearly requested that low-rent housing be the main source for low-income families’ housing needs as the affordable housing system was further improved. During the following few years, the government stepped up its efforts in correcting the deviation. For instance, the State Council released a document entitled *Some Opinions on Solving the Housing Difficulties of Low-income Urban Families* in August 2007, which required that an important job in safeguarding people’s interests and in the housing reform was to solve the housing difficulties of low-income urban families. The document also discussed, for the first time ever, the gradual improvement of housing conditions for migrant rural workers and other groups in poor housing conditions.

In 2010, as the *Guiding Principle for Speeding Up the Growth of Public Rental Housing* was released, the focus of welfare housing was adjusted once again and public rental housing became the major form to provide welfare housing. However the focus was adjusted, China was able to solve housing difficulties for the country’s 11.4 million low-income and 3.6 million lower-medium-income urban families during the 11th Five-year Plan period (2006-2010) through various welfare housing projects (Zhang, 2011).

The 12th Five-year Plan set a more ambitious goal of building 36 million welfare housing units during the five years from 2011 to 2015 and raising the coverage rate of urban welfare housing of the country to over 20% at the end of 2015 from 7-8% in 2011 (Zhang, 2011). Based on the progress during the first three years of the 12th Five-year Plan (see Figure 15), it seems that this goal can be accomplished.

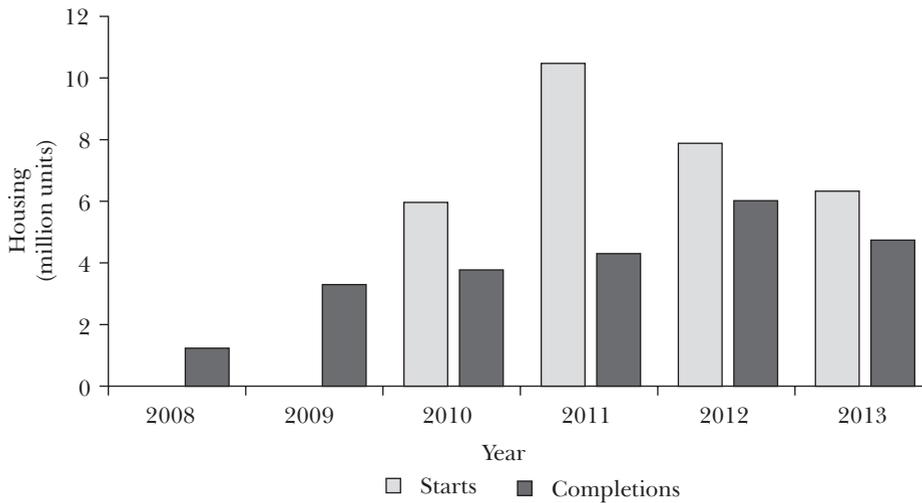


FIGURE 15. The Progress of Welfare Housing Construction

Note: The figures for 2013 are planned figures.

If the Chinese government can realize this goal in 2015, then it means that China will have solved the housing difficulties for 51 million urban families during the decade from 2006 to 2015. At an average of three people per family, the beneficiaries of China's welfare housing will reach 150 million, more than the total population of Japan, or equal to half of the population of the United States.

5. Other Types of Security

Minimum subsistence, healthcare and old-age security are applicable to all the people, but there are a few other types of social insurance that only apply (at least at present) to employed urban residents, namely unemployment insurance, work-related injury insurance, and maternity insurance.

Before China's reform and opening up, the employed urban residents

held “iron rice bowls” and did not have unemployment risks. After 1986, when the contract-labor system was adopted and the “bankruptcy law” was introduced, unemployment of workers from state-owned enterprises emerged. The government at the time was only concerned with the insurance for these laid-off employees.¹⁴

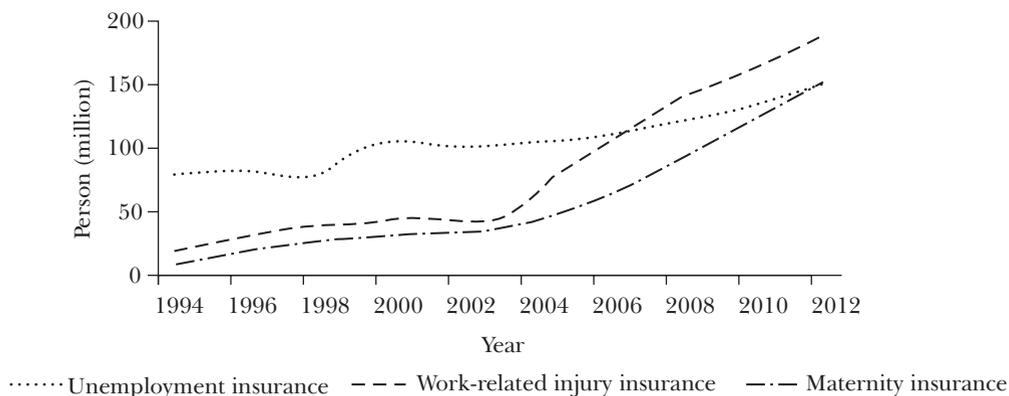


FIGURE 16. Participants of Unemployment Insurance, Work-related Injury Insurance and Maternity Insurance

During the mid to late 1990s, tens of millions of employees of state-owned and collective enterprises were laid off. At the same time, the rapidly expanding private economy did not provide “iron rice bowls” from the very beginning. These developments brought the problem of unemployment into the spotlight. In early 1999, the State Council promulgated the Regulations on Unemployment Insurance, which extended the coverage of unemployment insurance from state-owned enterprises to collective enterprises, foreign-invested enterprises, Hong Kong-, Macau- and Taiwan-invested enterprises, and other private enterprises and public institutions.¹⁵ As shown in Figure 16, the promulgation of this regulation raised the number of people covered by unemployment insurance from 79.28 million in 1998 to 104 million in 2000. However, after 2000, the development

¹⁴ See the Temporary Rules about the Unemployment Insurance of State-run Enterprises issued in 1986 and the Rules of Unemployment Insurance of State-owned Enterprises issued in 1993.

¹⁵ It was left for the provincial governments to decide whether social organizations and their employees, private non-enterprise units and their employees, and individual business owners and their employees should participate in the unemployment insurance.

of unemployment insurance seemed to have lost its momentum. At the end of 2012, unemployment insurance was merely covering 152 million people, which reflected an increase of only 48.17 million people over 2000. The reason for its lack of momentum was that the insurance benefit was just a tiny bit higher than the minimum living standard. In addition, the insurance could only cover the insured for 24 months (Zhang, 2007). When the urban minimum security almost covered all those qualified in 2002, the function of the current unemployment insurance could only get eclipsed. The regulations required both employers and employees to pay the unemployment insurance premiums; therefore it was not appealing to urban residents, let alone to the highly mobile migrant rural workers.

Work-related injury insurance is the social insurance by which the employees can obtain financial compensation and material assistance in accordance with the relevant laws if they become injured, sick, handicapped, or even die while on duty. The work-related injury insurance adopts the principle of “no-fault compensation” and its premiums are paid by employers instead of employees. Article 73 of the Labor Law of China, coming into effect in 1995, stipulates that employees should be able to enjoy social insurance if they get injured or handicapped or developed occupational diseases. To enforce the Labor Law, the Ministry of Labor promulgated Tentative Rules for Work-related Injury Insurance for Enterprise Employees on August 12, 1996, stipulating that work-related injury insurance should be applied to all types of enterprises and their employees, and that individual business entities should refer to these rules in dealing with such issues. However, during the following seven years, this insurance did not make much progress in its coverage. It was not until 2004, when the State Council promulgated the Regulations on Work-related Injury Insurance, that things were turned around. Since then, the number of participants jumped to 190 million (about half of urban employees) at the end of 2012, up from 45.75 million in late 2003, representing 4.15-fold increase during a decade (see Figure 16).

What is worth special attention is the proportion of migrant rural workers in the total number of participants in such insurance, because their jobs (such as construction and mining) are the most likely to get them hurt. During recent years, the Chinese government has adopted a series of measures to push employers to include migrant rural workers in their work-related injury insurance and has achieved significant progress. At the end of 2005, there were only 12.52 million insured migrant rural workers; while at the end of

2012, this number had reached 71.73 million. It was over 20 million more than the total number of migrant rural workers participating in medical insurance and that of those participating in old-age insurance (each claims about 50 million participants).

The purpose of establishing maternity insurance is to provide birth subsidies, healthcare and maternity leave to employed women and to help them get back to work after they give birth. The premiums for maternity insurance are paid by employers instead of the insured. Figure 16 shows that maternity insurance had been the most undeveloped among all types of social insurance. It was not until the end of 2012 that the number of its participants reached 155 million, a little more than participants of unemployment insurance. This slow progress might have been a result of the fact that its beneficiaries are only part of the population (women). Recently, some scholars have suggested that birth-related medical expenses covered by the maternity insurance be included in medical insurance so that the maternity subsidy can be turned into a government-funded social welfare that can benefit all women in China (Zhang and Yang, 2013).

IV. Concluding Remarks

The statistical data shown above prove that to achieve the dream of shared prosperity, China has indeed undergone an unprecedented leap forward during the past 10-plus years in social protection. To illustrate this leap forward, Figure 17 presents two sets of data from 2000 to 2012. One is China's public spending on social protection,¹⁶ while the other shows the proportion of such spending in GDP. We can see that during as short a period as 13 years, the social protection spending increased from 500 billion to 5.5 trillion yuan, which is a nearly 11-fold increase. Some may say that the high growth rate was due to the rapid growth of the Chinese economy during this period. This argument is reasonable because China's economy has indeed grown a few times bigger; but the fact is that this public spending has grown at a much higher rate than the already fast-growing economy. Consequently, the proportion of social protection spending to China's GDP

¹⁶ Public spending on social security = spending on social security within the fiscal budget (including income and employment security, medical security and housing security) + spending on social insurance + spending on healthcare – fiscal subsidies from social security funds. Please note that public education spending is not included.

soared from 5% in 2000 to 10.5% in 2012.

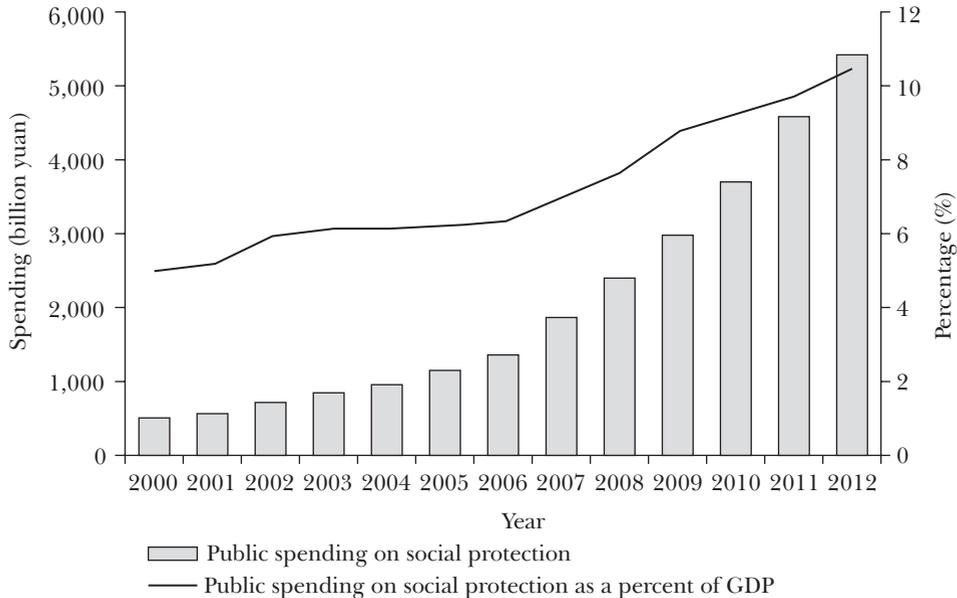


FIGURE 17. Public Spending on Social Protection (including health expenditure)

Figure 17 illustrates the progress over the last 10-plus years in China and shows that it has undergone an impressive leap forward in social protection. This leap forward can also be demonstrated by a comparison with other countries. Figure 18 shows that in 2000, China's social protection spending accounted for a proportion in GDP similar to that of present India; in 2005, it was already higher than the average level of the present Asia-Pacific region; in 2010, it was higher than the current world average; by 2012, it had exceeded the average level of Latin America and the Caribbean as well as that of the Middle East. During the past 10-plus years, China has crossed three thresholds and now is eager to catch up with Russia and Brazil. With very rare exceptions, China's spending on social protection is only lower than two types of economies, namely the developed economies in Europe and North America as well as the economies in the former Soviet-Union and Eastern European countries. Among the 138 economies for which data are available, China can be ranked at around the 60th place.

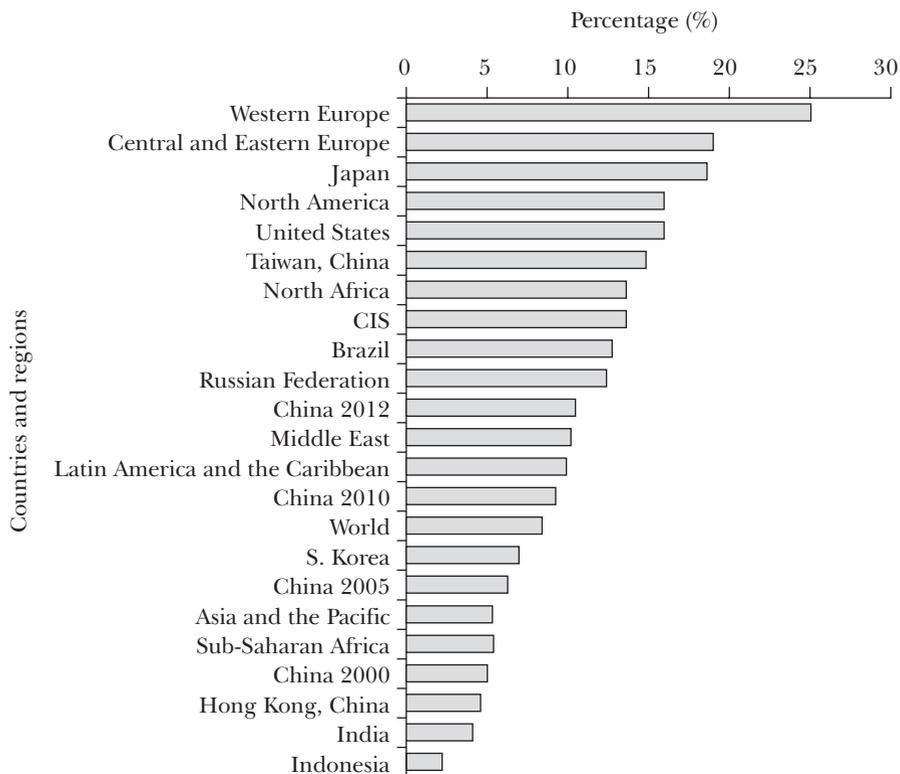


FIGURE 18. Proportions in GDP of Public Spending on Social Protection (including health expenditure)

Note: The data of China are based on the author’s calculations, and the data of other countries or regions come from ILO (2010, 258-262).

It can be seen that however the comparison is made, whether it is done historically with China’s own past or horizontally with other countries, it is indisputable that China has experienced a magnificent leap forward in social protection. It did make sense when some people commented around the year 2000 that China was a “low-welfare” state, because at that time China’s public spending on social protection was indeed lower than that of many other countries. However, if insisting on the same comments now, they would essentially be saying that most of the countries of this world have “low welfare.” How low should it be to be considered low? And how high should it be to be considered high? “High” and “low” are relative concepts, and clear definitions and criteria are necessary before we make any comments about whether a country has “high” or “low” welfare.

Some people in the West unfamiliar with China may take it for granted that China is a “low-welfare” state, because the Western research in social security and welfare usually regards competitive elections as key factors in determining the breadth and depth of social security, as if only under the system of competitive elections would it be possible for the government to respond to voters’ calls and as if only by introducing competitive elections would the necessary conditions be available for the strengthening of social security.¹⁷ Figure 18 has proved that such views are groundless. Otherwise, it cannot be explained why, as far as social protection spending is concerned, a large number of countries labeled as “democratic” (such as India, the Philippines, Indonesia, and South Korea) are falling behind China. Since they cannot negate the progress in China’s social protection, those who think along the mainstream Western views may argue that the Chinese government, by doing so, is merely trying to maintain their power. Remaining in power is certainly very important to all forms of government. However, if it is the only purpose, then the rational choice for the government should have been to improve the level of social protection slowly, because once the people are used to a certain degree of social protection, it would be difficult for them to accept any lower standard. Such views that social security is used to provide support to government’s power may be used to explain the cases in which social security is developed at a snail’s pace, but cannot explain China’s magnificent leap forward in social protection during the past 10-plus years.

In fact, as long as one thinks independently, it is not difficult to explain this great leap forward. Social security is the inherent need for the humankind (Polanyi, 2001), and is also highly expected by the Chinese people. An important component of the current “China dream” is that “students can attend school, workers are compensated for their work, patients can afford to see doctors, old-aged people are supported, and people can have a place to live in.” The low welfare before 2000 was by no means characteristic of China’s political system, as some people have claimed. In fact, it was only because neo-liberalism had deviated China’s

¹⁷ For instance, Habibi (1994), and the highly regarded Lindert (2004). However, not in concord with such mainstream views, some empirical researches have drawn different conclusions. Some of them have found that forms of government and the degree of social security are not correlated. For instance, Mulligan, Gil, and Sala-i-martin (2004). Some other researches have found that the so-called “authoritarian countries,” socialist countries in particular, are doing better than other countries, at least in certain aspects of social security (such as basic healthcare and basic education), see Lott (1999), and Gauri and Khaleghian (2002). Regarding the various empirical researches about the correlation between forms of government and social security, please see Haggard and Kaufman (2008, 365-369).

policy for a while that China briefly experienced the nightmare of “market society” during the 1990s, which led to the emergence of the “low-welfare” situation. However, the “low-welfare” situation also spawned the vibrant counter-movement.¹⁸ Since the beginning of the new century, China, a vast country with a large population and great internal differences, has managed to push, within such a short time, for widespread and deep changes in response to the public’s will. This fact demonstrates that China’s political system has been quite adaptive to the changing environments¹⁹ and highly responsive to people’s needs. Today, China still faces many serious problems in social protection and people strongly demand its improvement. As long as such pressure exists and the adaptability and responsiveness of China’s political system do not degenerate, it can be expected that the China dream will become, step by step, the reality benefiting hundreds of millions of Chinese people.

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¹⁸ See Wang (2008a). Statistics show that the mid-to-late 1990s was the period when the percentage of public spending on social security in GDP dropped to the bottom, because, during this period, ownership changed for numerous state-owned and collective enterprises, leading to tens of millions of their employees getting laid off. As a result, many of them and their families were thrown out of the net of social security.

¹⁹ About the resilience of China’s political system, please see Wang (2008b).

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