

# Social Security for State-Sector Workers in the People's Republic of China: The Reform Decade and Beyond

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This article deals only with social security for workers in China's urban sector. Social security for the state work force, primarily income-security programs for state enterprises, faces unprecedented challenges caused by a decade of policy changes and experiments in social security and in enterprise and labor-force reforms. Serious problems in funding and administering these programs have surfaced. Social security expenditures are rising rapidly. There are also signs of widespread mismanagement and discrepancies between enterprise implementation and local and central government guidelines and between local government guidelines and central government regulations. Recent developments suggest that, while the central government is poised to correct some of these problems, some broad policy issues remain: Can China afford the high price of social security for state-sector workers as its population ages? How will Chinese leaders balance their inclination to placate state-sector workers with social security benefits against the need to control these costs?

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\* Office of International Policy (OIP), Social Security Administration (SSA). The author thanks Christina Harbaugh, Bureau of the Census; Teh-wei Hu, University of California at Berkeley; Anthony Pellechio, World Bank; Robert Myers, consulting actuary; and at SSA, Lois Copeland and Leif Haanes-Olsen, OIP, and John Woods, of the Office of Research and Statistics for their helpful comments. The article was originally published in **China's Economic Dilemmas in the 1990s: The Problems of Reforms, Modernization, and Interdependence**, a 2-volume study for the Joint Economic Committee, Congress of the United States, April 1991.

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In the 1980's, the reformist government in the People's Republic of China seems to have pursued a bifurcated social welfare policy for the country's rural and urban populations. Government reforms have apparently taken the social safety net from under the rural population while, at the same time, they have further enriched state-sector workers and retirees in urban areas. By the decade's end, critics both in China and in the West have pointed to the gross inequity in social welfare treatment between the rural and urban populations. They have especially noted the large sums provided for the welfare of the comparatively small group of state-sector workers and retirees.<sup>1</sup> The "mini-welfare state" (xiao shehui) in state work units (danwei) seems to be alive and well; state employees therefore are far from being weaned from the "iron rice bowl" that is considered by many reformers as a systemic drag on economic efficiency.<sup>2</sup>

Of the employee welfare expenditures (that is, nonwage compensation), the government-regulated social security programs averaged 72.5 percent during 1978-88.<sup>3</sup> Moreover, in late 1989 and early 1990, as China's economy suffered from the government's austerity program of tightened credits and investment, social security programs for the urban work force have become stabilizing wands the government can wield amidst widespread discontent. Yet

all is not well in the freely spending social security programs in the state sector.

## **Pre-1978 Social Security Programs**

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### **General Description**

In 1978, on the eve of the post-Mao reforms, formal income-security programs for the urban labor force were limited primarily to those persons employed in the state sector. The state-sector workers, almost 75 million strong, constituted 78 percent of urban workers, albeit only 19 percent of the country's total civilian labor force. These workers represented two groups: About 80 percent of them worked in state-owned enterprises, and the remainder served in the civil service system that included government and party organizations (jiguan) and cultural, scientific, and educational institutions (siye).<sup>4</sup> These two groups were protected by two formal social security systems providing extensive cash and in-kind benefits as stipulated by two sets of regulations for nationwide application. First, the 1951 Interim Labor Insurance Regulations (as amended in 1953 and 1958, with subsequent instructions for implementation) detailed provisions for those persons working in state-owned enterprises. Second, a

separate set of regulations provided comparable but somewhat more extensive benefits to those employed in the civil service system.<sup>5</sup>

The income-security programs for those in state enterprises or civil service included: retirement pay of at least 60 percent of an individual's last month's standard wage, paid sick leave (up to 6 months per year) and maternity leave at 90 to 100 percent of pay after 6 years' service, and free medical care for employees and pensioners (50 percent of the cost for their dependents). In addition, these programs offered benefits and grants for workers and dependents in case of long-term disability (work or nonwork related) and for dependents upon the death of the worker or pensioner.<sup>6</sup> Employees did not contribute to the funding of the program and their continuing eligibility was contingent on their employment at the work unit, which was guaranteed regardless of performance so long as they adhered to the "correct" political orientation. Finally, benefit payments were guaranteed by the state budget for all state work units. In the case of state enterprises, benefit expenditures were thus ensured regardless of an enterprise's financial solvency.

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## **Incompatibility with Market-Oriented Economy**

Social security programs thus constituted part of a large overall package of nonwage compensation items that characterized the "iron rice bowl" for state-sector employees, a package that also included low-cost housing and extensive food and nonfood allowances. However, these very benefits, that seemed to have worked well under a centrally planned economy designed to reward its workers in the industrial sector and to complement a wage policy of ensuring job security and equal compensation, have been deemed by reformers as antithetical to "market-oriented socialism." Such programs, it is argued, have tended to foster workers' dependence on the enterprise and the state for their well-being without demanding responsibility in return.

Under pre-1978 programs, state-sector employees were tied to their respective work units, which administered all aspects of the social security programs from determination of eligibility to benefit payments.<sup>7</sup> This highly decentralized administration, in the absence of an established mechanism for portability of eligibility and benefits, discouraged labor mobility across enterprises, industries, or sectors—a precondition to an open economy. To reformers, pre-1978 social security programs were also seen as inadequate for preparing workers to face the brave new world of a market-oriented economy. There were no formal provisions for adjusting benefit payments to price changes and no unemployment insurance. The special privilege of

benefits awarded to only state employees were regarded as a disincentive for workers to seek employment outside the state sector, thus indirectly hindering the development of collective and private enterprises.<sup>8</sup>

The move toward an open economy would by definition entail a contracting state sector and expanding collective and private sectors. The so-called "big" urban collective enterprises (or de facto state enterprises) had adopted provisions equivalent to those for state enterprise workers. In addition, some smaller collectives offered modest retirement plans, their finances permitting. For lack of government backing, collective plans were regarded as unstable sources for income maintenance.<sup>9</sup> There was no income-security protection whatsoever for workers in the then negligible private sector.

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## **Major Social Security Policy Initiatives, 1978-89**

Despite the reformers' concerns, the social security programs established in the early 1950's are still operative today. The reformist government has kept most of the program regulations intact, making changes in three respects only. First, it improved many of the retirement benefits including making ad hoc adjustments to pension benefits to offset price changes. Second, in 1986 the government set up a special contract workers' retirement pension system for state employees hired under a newly created labor contract system. Finally, it introduced unemployment insurance for state enterprise workers, also in 1986. All three steps reflected the

government's efforts to prepare the state-sector labor force for the transition to a market-oriented economy.

## **Improvements to Existing Social Security Programs**

Most of the improvements to the existing social security programs have related to retirement pensions. They were designed to retire older workers and help make room for unemployed youths. For example, the 1978 amendments to the retirement regulations and subsequent instructions in the early 1980's (1) enforced, for the first time, the statutory mandatory retirement age of 60 for men and 55 for women (age 50 for female blue-collar workers); (2) allowed retirement 10 years sooner if poor health was a factor; (3) relaxed minimum qualifying conditions for retirement (for example, the continuous service requirement was reduced from 20 to 10 years); (4) raised pension benefits; (5) promised the hiring of retired workers' unemployed offspring; and (6) offered, to middle- and upper-ranking Communist party and technical cadres, a special preferred pension benefit (lixijin)—at full rate of pre-retirement pay plus all the perquisites associated with their position. Since 1985, the government has approved payments by enterprises of periodic ad hoc subsidies to retirement pensions to compensate for inflation. Concurrent with wage increases for state-sector employees in late 1989, benefits for retirees and the disabled were adjusted upward as well.<sup>10</sup>

## **Social Security for Contract Workers**

The State Council's 1986 Interim Regulations for Implementation of the Labor Contract System by State-

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Owned Enterprises support labor force reform by putting new state-sector employees on fixed-term employment contracts.<sup>11</sup> Workers thus employed would have their contracts renewed if they performed satisfactorily; they do not have the protection of life-long employment as permanent workers do. It is expected that the life-tenure system will, over time, phase out of practice as enterprises will be populated by a growing number of contract workers replacing the aging permanent workers.

The 1986 regulations offer workers employed under the contract system a package of retirement pensions, medical care, and other social security benefits comparable to that for permanent workers. There are two major differences in the types of plans offered, however. First, contract workers must help finance their retirement pensions (at 3 percent of their wages, while the enterprises contribute 15 percent toward the buildup of a special retirement fund). Second, instead of individual enterprises, local governments—specifically, newly created social insurance agencies (SIAs) under city or county labor bureaus—are charged with the administration and fund management of these programs. Presumably, as workers under labor contract gradually outnumber permanent workers in the state sector, the predominant retirement pension will be one funded with worker-employer contributions together with state subsidies and will be administered by local governments.

### **Unemployment Insurance for Dismissed State Enterprise Employees**

As economic reforms continued in the 1980's, the government anticipated the need to provide

income security for redundant state enterprise employees. These include workers whose employment contracts expire, employees in bankrupt or near-bankrupt enterprises, and workers who are laid off from state enterprises. The 1986 Interim Regulations for State-Owned Enterprise Workers' Waiting-for-Employment Insurance provide compensation for temporary unemployment to these individuals. Unemployment benefits include medical care as well as 65-70 percent of workers' basic wage for 12 to 24 months, depending on the length of service before unemployment. These programs are financed by employers, who contribute 1 percent of the standard wage bill, and by local government subsidies. Employees do not contribute.<sup>12</sup>

Having decided to rely on the pre-reform state institutions and enterprises to carry out modernization initiatives, the reformist government seems intent on protecting the privileges of their employees by keeping the pre-1978 social security programs intact and by improving benefits for retirees and workers. On the one hand, the post-1978 social security provisions have thus further enhanced the image of the state work unit as a "mini-welfare state." On the other hand, they represent the government's attempts to remold social security provisions for transition to a new economic order. Provisions have been made to prepare current state employees for contingencies of reforms such as inflation and unemployment. A retirement program requiring contributions from employees under the contract system has been introduced to gradually phase out the noncontributory program for permanent workers.

### **Program Implementation at the Local Government and Enterprise Levels**

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More important than central government policies to social security developments in the 1980's were the practices of city and county governments and of enterprises where central policies and programs were implemented and "experiments" carried out. The Ministry of Labor, which has the responsibility for policy development and oversight of social security programs, has no local offices to implement or enforce compliance of its regulations by individual enterprises. Labor bureaus at provincial, city, and county levels are subordinate bodies of their respective governments and only indirectly subordinate to the labor ministry in Beijing.

Throughout the 1980's, the central government allowed local governments and individual enterprises to conduct "experiments" in social security as they adjusted to changing conditions induced by enterprise and labor force reforms. In effect, social security programs as stipulated by the central government could best be regarded as the established "national norm" from which local authorities can and still do deviate for their own purposes. The Ministry of Labor appeared far more effective in promoting particular "experiments" deemed constructive to social security developments than in terminating practices that are contrary to its policies.

This decentralized approach may have been necessary in the absence of institutional control from

the Ministry of Labor over local government and enterprise labor officials. It was also in keeping with the reformist government's overall policy of loosening central controls. By the decade's end, it has become apparent that certain earlier improvisations at the enterprise and local government levels have evolved into agendas with broad regional and even nationwide implications. Many practices, however, remained local and isolated with or without central government blessings.

#### **Retirement Pensions and City/County Social Insurance Agencies (SIAs)—Permanent Workers**

A good example of how enterprise and local government experiments evolved out of pressures from labor force and enterprise reforms and became adopted by the central government as its policy agenda is the resource pooling for retirement pensions for state enterprise permanent workers.

**Rapid rise in retirees add to administrative and financial burdens of enterprises.**—In addition to improvements in retirement benefits introduced by the central government, three developments in the 1980's contributed to mass retirement by permanent workers who were middle-aged or older. First, many provincial, city, and county governments took advantage of loosened central control and further improved benefits for retirees under their respective jurisdictions. According to one analyst, by 1988 retirement benefits for workers with 20 years' service ranged from 80 to

95 percent of the pre-retirement basic wage rather than the 75 percent stipulated under the 1978 retirement regulations.<sup>13</sup> Second, since 1978, the increased opportunity for pensioners to earn extra income by working in a "second employment" has made the option of early retirement more attractive. Wage-earning pensioners continue to receive full retirement benefits, complete with free medical care.<sup>14</sup> Third, starting in 1986, a central government initiative to "optimize labor organization" (yihua laodong zhuhe) by urging enterprises to reduce surplus and unproductive workers has also led to early retirement of middle-aged or older workers.

Some enterprises, taking advantage of their prerogative to administer social security programs, have relaxed the "poor health" or "total disability" requirements so that employees may retire 10 years sooner than the statutory retirement age.<sup>15</sup> The total number of pensioned retirees from the state sector increased from 2.8 million in 1978 to 15.4 million in 1988. Expenditures for pensioners—including retirement pensions, health care, and various subsidies—rose from 1.63 billion yuan to 25.7 billion yuan in the interim.<sup>16</sup>

The vast number of retirees has placed unprecedented administrative and financial demands on enterprises. In older industries, where the number of retired workers made up a large proportion of or even outstrips the number of active workers, the administrative burden of processing claims and paying benefits places extra demands on active employees' time and productive energy. Moreover, the large and escalating retirement expenses have precluded any prospect of profits and bonuses—a

disincentive for active employees to work hard, therefore contrary to the overall objective of improving worker productivity.<sup>17</sup>

**Resource pooling and the role of city/county governments.**—The intense pressure on enterprises with an inordinately heavy financial burden for retirement pensions has prompted the government to propose the pooling of retirement funds. Resource pooling, or unified financing (tongchou), began in 1984 as "experiments" in isolated cities and counties when hard-pressed enterprises sought assistance from local labor bureaus to help pay pension benefits to their retirees. By end of 1988, this practice had expanded to 2,141 cities and counties (out of 2,821) and 49 prefectures (out of 334). Local governments have had to overcome the resistance of enterprises with a relatively young work force to take part in the pool often reimbursing them through tax write-offs. As a result of negotiations involving local labor and finance authorities, and considerable promotion efforts by the Ministry of Labor, these city and county governments have adopted compulsory resource pooling for retirement insurance among enterprises across industry lines.<sup>18</sup>

The local labor bureaus have set up subordinate SIAs (the same agencies administering contract workers' pension programs) to take on all the responsibilities involved in carrying out pension pooling for the retirement program for permanent workers—for example, making certain that enterprises keep accurate accounts of their respective total wage bills (the base for computing enterprise contributions to the pool), lists of retirees, and benefit payments due. These agencies must also verify and transact the amount each enterprise owes to the pooled fund or vice versa.<sup>19</sup>

Having begun as an improvisation to pay benefits for enterprises overburdened with a large number of retirees, pension pooling has led to two potentially significant developments that have gone beyond its original purpose. First, the city and county governments have set uniform contribution rates and benefit levels for all participating enterprises under their respective jurisdictions. Furthermore, for the first time, an enterprise's management of its retirement pension program became subject to local government supervision. One report indicates that the trend is heading toward not only expanding the geographic base of pension pooling, but also transferring a part of retirement program administration to local governments. By the end of 1988, one province (Fujian) had begun region-wide pooling in retirement funds. In addition, SIAs in 235 cities and counties (or 11 percent of those practicing resource pooling) assumed the direct responsibility for paying benefits to pensioners.<sup>20</sup>

Nevertheless, the risk sharing is still limited to individual cities and counties, with the exception of the Fujian Province. Cities and counties have made their own arrangements with local enterprises, and they have set their own contribution rates and benefit levels. Also, for most city/county governments, the role of SIAs at present is largely limited to monitoring pension pooling; the eventual takeover of the administrative responsibilities involving millions of workers remains in the distant future. With enterprises operating at losses or at reduced capacity, or even lying idle, as a result of the government's austerity program that started in September 1988, these agencies have had difficulty in ensuring that

participating enterprises make timely payments to the pool, and that there are adequate funds to pay enterprises that stand to benefit from the pool. Under pay-as-you-go financing, SIAs still have to protect the limited reserves (which amount to only 1.9 months of benefit outgo at year-end 1988, nationwide) from erosion in value and from misappropriation. In cases of shortfalls, city/county governments presumably provide subsidies.<sup>21</sup>

#### **Retirement Pensions and City/County Social Insurance Agencies (SIAs)—Contract Workers**

The SIAs monitoring pension pooling for permanent workers are not only responsible for the fund management but also the administration of retirement pensions for contract workers. Because contract workers are comparatively young (typically under age 35) and are years away from retirement, these agencies' primary task at present is the collection of retirement contributions from enterprises and the registration of contract workers in the retirement program. They have not yet begun to process claims or distribute benefits. At year-end 1988, workers under labor contract exceeded 10 million; only 6.5 million were registered to contribute to the program a year later, however.<sup>22</sup> Protection of these pension funds from erosion in value and from mismanagement is especially important because they are established as a partially funded program. Contributions collected are deposited in special accounts to pay contract workers for benefits due in the future.

#### **Unemployment Insurance and City/County Labor Service Companies (LSCs)**

The implementation of unemployment insurance rests with city/county labor service companies (LSCs). These companies were established by city and county labor bureaus as early as 1979. They began by providing job referrals, conducting occupational training, and creating jobs by investing in and setting up collectives for hiring some of the new entrants (who are averaging about 4.7 million per year during the 1980's) in the urban labor market. Their responsibilities have expanded since 1986 to encompass the administration of unemployment insurance for dismissed state enterprise employees, including the collection and management of the unemployment insurance fund and payments to beneficiaries. Benefit levels and implementing procedures are subject to specific provisions determined by provincial, city, and county governments based on the national norm stipulated in the 1986 Interim Regulations.<sup>23</sup> In some locales, these companies set up branch and subbranch offices in districts (qu) and at the street and resident committee level to help register the unemployed, process claims, and make payments to beneficiaries.

By 1989, there were over 3,000 local government LSCs nationwide. With the majority of their services centering on job training and placement, information is scarce on how well these LSCs have been administering unemployment insurance benefits. National totals are not readily available for the

number of state employees who have become unemployed since the 1986 regulations took effect, for those who have since been registered on unemployment rolls, or for those who actually have been receiving benefits. It is believed that, of the average 2.8 million unemployed persons from 1986 to 1988, former state enterprise employees constituted only a small minority. Generally speaking, many enterprises have been reluctant to lay off workers—partly due to the government's lingering commitment to full employment and partly because of the government's belief that keeping workers tied to enterprises can better ease workers' resentment. In late 1989 and early 1990, when, reportedly more than 6,000 enterprises operated at a loss and two-thirds of urban factories were either closed or operating below capacity, many kept their workers on payroll with reduced wages (by 30 to 40 percent), instead of placing them on unemployment rolls.<sup>24</sup>

There are three sources of funding for LSCs: local government appropriations, income generated from affiliated collective enterprises, and contributions to the unemployment insurance fund from enterprises and local governments. Their diverse activities and their major focus on providing jobs for new entrants to the labor force make it difficult to determine whether LSCs have set aside a certain portion of their income for benefit payments to laid-off state enterprise employees. With the central government's rectification campaign in full swing in late 1989, many LSCs have been criticized for laxity in accounting, for widespread misuse and abuse of funds, and for practices such as placing jobs for those persons with connections rather than ability. Besides, many LSCs and their affiliated collectives

have been established as profit-making enterprises with rather unstable existence.<sup>25</sup>

### **Medical Care and Other Social Security Programs**

Besides retirement pensions and unemployment insurance, the central government issued no major policy initiatives in social security throughout the reform decade, except for minor improvements.<sup>26</sup> Whereas retirement pension and unemployment insurance programs have had the benefit of local government agencies (SIAs and LSCs, respectively) in monitoring the funding and, in some cases, in taking over the administration of these programs, this is not the case for the remainder of the social security programs—such as medical care, work-injury compensation, and cash benefits for sickness and maternity leave. For enterprises that have adopted the enterprise contract responsibility system and are accountable for their own profits and losses, the funding and administration of these social security programs depend entirely on enterprise management. The status of these programs, therefore, has become far more fluid, or unstable, than retirement and unemployment programs.

Other than retirement pensions, the medical care program (whether or not work related) has been the most costly and problematic. Total medical care cost for state-sector employees and retirees has constituted a large, if not always the largest, proportion of social security expenditures overall. Medical care costs rose from 2.73 billion yuan in 1978 to 15.24 billion yuan in 1988, and, respectively, constituted 54.6 percent and 40.0 percent of total social security costs. The 1978 per

capita expenditure on medical care for employees and retirees—35.3 yuan, or 66.5 yuan when adjusted to the 1988 price level by the urban consumer price index—almost doubled to 132.3 yuan in 1988.<sup>27</sup>

Attempts to control the rapid increase in health care expenses have met limited success, in part because enterprises have no control over health practitioners and/or hospital administrators who are prone to overcharges, wastes and abuses (often in collusion with state employees and retirees requesting free medicines for themselves and their families, for example).<sup>28</sup> Some cost-conscious factory managers have introduced various measures (or "experiments") to control health expenditures. The most common approaches adopted, for example, have been to impose co-payments from beneficiaries or to pay each employee a pre-determined sum per month for medical expenses regardless of actual costs of medical treatments. This latter policy has become especially popular because of its effectiveness in controlling cost and its simplicity in administration. It nevertheless has created hardship for employees and their family members whose treatment for illnesses far exceeds the allotted sum.<sup>29</sup>

The medical care costs cited earlier represent only the accountable totals of health-related expenditures in social security; paid wages for sick leave, maternity leave, or absence due to work injuries are computed as part of wage totals and not available for inclusion as social security expenditures. Expenses of this type can be substantial, given reports of the widespread practice among workers, who were generally

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underemployed, taking extended sick leave (available for 6 months per year at 90 to 100 percent of pay after working in the state sector for 6 years) to engage in private businesses or consultative ventures outside the state sector. In some cases, enterprise management has awarded underemployed workers extended leave for as long as 5 years at full or reduced pay as it attempts to "optimize labor organization" or "eliminate" or "digest" (xiaohua) surplus and nonproductive workers.<sup>30</sup>

Another problematic aspect in the largely unsupervised enterprise administration of all social security programs is the arbitrary and erratic approach to processing claims. The determination of eligibility and benefit amounts was not always carried out according to central government regulations or local government guidelines, if any. Sometimes there were no observable standards within the same enterprise. Benefit payments were often dependent on the availability of funds, favoritism, or the aggressiveness of the claimant. Such practices have become so prevalent in the administration of compensation for work injuries, for example, that a recent report concluded that government regulations for this program exist only on paper.<sup>31</sup>

Enterprises' disregard for the proper administration of income-security programs became evident by the late 1980's. Reports surfaced that the personnel files—including employee information such as position titles, wage records, and service tenure—upon which enterprise officials determine eligibility and benefit amounts were in disorder and subject to falsification and unauthorized alterations.<sup>32</sup>

Further confounding the breakdown in the administration of social security is the absence of an established appeals system whereby a disgruntled employee can seek redress. The 1987 Interim Regulations for Settlement of Labor Disputes at State Enterprises do not cover disputes regarding social security issues. Written complaints have flooded local and central labor offices reporting nonpayment of benefits and willful reduction in benefits, for example. Many retirees or their offspring visit these offices in person hoping to get better results. The final resolution of these problems often requires the personal intervention of a local labor bureau chief and other government officials having direct jurisdiction over the enterprise.<sup>33</sup> Certainly, the arbitration of disputes is more difficult if only because of the pervasive discrepancies between enterprise "experiments" and local government guidelines and between local government "experiments" and central government regulations.

### Summary Comments

In the 1980's, as the central government adhered to social security programs established in the early 1950's, social security developments in the reform decade have been driven primarily by local government initiatives and enterprise "experiments." The most significant development has been the evolution of resource pooling of retirement pensions because it has made social security less dependent on individual enterprises for funding and administration. However, this development has not reached other social security programs. Also important, but with limited impact, were experiments in social security cost cutting (as in medical care) carried out by some local governments.

Two critical problems have surfaced. First, the 1980's witnessed the unprecedented rise in social security costs at the expense of enterprises and, ultimately, of the state tax revenues because social security expenditures are operating costs before tax. Total social security expenditures multiplied from 5 billion yuan in 1978 to 38.18 billion yuan 10 years later, or 1.4 percent and 2.7 percent of the gross national product for the respective years. Annual social security expenditures per covered employee and retiree rose from 77.4 yuan to 331.4 yuan during the same period. The 1988 figure is more than twice the 1978 amount adjusted for inflation (145.8 yuan).<sup>34</sup>

Second, the arbitrary and capricious practices of enterprises in implementing social security programs have made them a less-than-reliable mechanism for income protection. At a time when these programs could have served as effective tools to mollify worker discontent during the 1989-90 economic downturn, the lack of reliability in social security programs may have in itself become a cause of worker frustration. From the perspective of workers, reform-minded experiments such as cutting benefits and imposing co-payments to medical care were regarded as unwelcome violations of central government regulations by enterprises and/or local governments, and as such, they became causes for appeals.

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## Recent Developments and Remaining Policy Issues

### Recent Developments, 1989-90

Central and local government measures in 1989-90 have focused on shoring up financing and



administration and revisions of central government regulations of social security programs. In financing retirement pensions, some local governments have merged the pension pools for permanent workers and for contract workers, hitherto set up as separate accounts. As a result, shortfalls in pension pools for permanent workers (which are financed on a pay-as-you-go scheme and are thus vulnerable to enterprise losses and shutdowns) can be made up, albeit temporarily, by the accumulated retirement reserves for contract workers.<sup>35</sup> These city and county governments, therefore, have moved another step toward transforming an enterprise-managed retirement system into a social insurance system by broadening the base of risk sharing.

Proposals for setting up reserve funds through resource pooling to finance medical care programs and workers' compensation (cash benefits for work-related injuries) have emerged as well. Whether this practice, following the development of retirement pension pools, will take hold and give rise to localized standardization in programs and to city/county government supervision and control over the administration of these programs remains to be seen. Medical care and workers' compensation programs are more difficult to administer than retirement pensions because of the complicating role of health care providers. The lack of established standards for determining the degree of injury and disability as well as the level of reimbursable care and compensation also causes administrative problems.<sup>36</sup>

Local governments and central government agencies have taken steps to improve the administration

of SIAs and their linkages with the Ministry of Labor. Some city and county labor bureaus have announced their plans to acquire computer technology to enhance the SIAs' ability to monitor resource pooling for pension programs. Presumably, automation will also facilitate the SIAs' gradual takeover from enterprises of the administration of the retirement pension programs. Similarly, the Ministry of Labor has announced its support for the general application of computer technology to the management of social security, including the development of a networking capability between local SIAs and a newly established information retrieval center at the Ministry in Beijing. Moreover, the State Bureau of Technological Assessment (Guojia Jishu Jianduju) has approved the issuance of social security numbers to workers beginning in April 1990, another step toward facilitating administrative control of social security programs.<sup>37</sup> Mindful of the inadequacy in the existing institutional setup for asserting centralized control over social security administration the Ministry of Labor has proposed the creation of a separate agency under its auspices at the central government level. It is not clear, though, whether this agency will have its own subordinate branches and subbranches throughout the country.<sup>38</sup>

There are even indications that the central government at last is poised to revise the existing regulations for the retirement pension and work-injury programs. Details are not yet available. The government's intention seems to reassure workers that the established benefit levels will at least continue, if not be improved. Permanent workers in state

enterprises, however, may be expected to contribute to the funding of the retirement program. This would represent a major breakthrough for making workers responsible for part of the costs. There is no sign of reforming the medical care program or of revising the much-abused practice of paid sick leave for extended periods, however.<sup>39</sup>

All these developments seem to follow the general trend of spreading risk sharing among enterprises and shifting administration of the retirement programs to local governments, instead of depending on individual enterprises for funding and administration. Significant as these developments are in the long-term evolution of a social security system suited for a market-oriented economy, short-term necessities have led to expedient practices that might blunt, if not subvert, this general trend—in particular, practices that reinforce employee dependency on enterprises for their social and economic well-being or make government funding readily available for social security payments.

As layoffs in late 1989 created resentment among those who became unemployed, the government decided to retain workers in factories at reduced pay in order to avert social disorder. In a January 1990 speech, Premier Li Peng specifically lauded the enterprise's function as a "mini-welfare state," responding to workers' social and economic needs.<sup>40</sup> Thus, the practice of the enterprise's functioning as a "mini-welfare state" has regained official sanction. Efforts to lessen workers' dependence on enterprises in order to facilitate labor mobility appear to have taken a back seat to concerns over social stability.

When the general economic downturn in late 1989 and early 1990 caused two-thirds of urban factories to shut down or operate at a reduced capacity, it also exposed the weak financial base of resource pooling in the permanent workers' retirement pension programs that are funded on a pay-as-you-go basis. Dipping into the reserve funds for contract workers has helped to alleviate the shortfall somewhat. But these reserve funds can be easily exhausted given the large number of retirees and the relatively small number of contract workers contributing into the funds. Information is not available regarding the extent to which retirees have been paid during this period of economic hardship nationwide. Some local governments have issued directives that retirees be paid in full regardless of financial status of their former employers (that is, regardless of an enterprise's ability to contribute to pension pools). They have also offered government funding to make up for enterprise shortfalls.<sup>41</sup> It is likely that local and possibly central government funds have been tapped as a last resort to pay retirement pensions.

It remains to be seen whether this practice of government subsidies to make up enterprise shortfalls is merely a stopgap measure, or whether it will evolve into a routine procedure as during pre-reform days. The pooling mechanism evolved in the last decade would then become one of channeling local and central government funding to retirement pension payments (or even to medical care and workers' compensation), rather than bona fide pooling of contributions from enterprises.<sup>42</sup>

Recent central and local government measures and proposals have only addressed

issues related to developing resources to fund social security (for example, employee contributions to social security and resource pooling for medical care and work injury programs). No proposals have been put forward to control rapidly rising expenditures. This approach follows the central government's tendency to raise rather than lower benefit levels as evidenced in the 1980's, and probably is also prompted by the current climate of appeasing workers to maintain social stability.<sup>43</sup>

### **Implications for Transition to a Market-Oriented Economy**

During the 1980's, the central government enhanced the social security programs designed in a bygone era and made them the operative programs of today. Only limited progress has been made to adjust social security to a market economy. Both the newly established contract workers' retirement pension program and unemployment insurance program are yet to withstand the test of time. At present, state-sector permanent workers still do not contribute to the funding of social security programs and they remain tied to their enterprises for receiving social security benefits. As long as resource pooling (for both permanent and contract workers) is limited to retirement pensions at the city/county level, and as long as city and county SIAs operate primarily as clearinghouses for funding rather than administrators of social security programs, the prospect for labor mobility across enterprises even within the jurisdiction of the same city or county will be remote.<sup>44</sup> More important, the central government has yet to set up any government-regulated

income-security programs for workers in urban collective and private sectors, even though such programs would make these sectors more attractive to new entrants to the urban labor force so not to overload the state sector.<sup>45</sup>

Meanwhile, the skyrocketing cost of providing social security to state-sector employees—a relatively small group of the country's labor force—and its drain on the financial health of enterprises and of the state, is expected to have an adverse impact on the country's national economy. The cost issue will become especially acute as China's population ages and as some 40 percent of its current urban workers retire within the next 20 years. It is estimated that the ratio of employed urban workers to retirees will change from 6.4:1 in 1988 to 4:1 by the year 2000. During the same period, China's resources will also be needed for investment in economic development and to meet the vast social and economic demands of the rapidly aging rural population who at present must rely on their own resources or family members for support.<sup>46</sup>

### **Remaining Policy Issues**

How the government will resolve this dilemma of allocating China's resources among contending population groups and between social versus economic priorities remains the key social security policy issue. The government might begin with reviewing policy alternatives for state-sector social security programs. A continuation of the current arrangements—that is, reliance on local governments and enterprises to initiate "experiments"

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conducive to the transition to a market-oriented economy—will probably exacerbate ongoing problems of waste and abuse and will perpetuate the workers' perception that the social security programs are unreliable.

Should the central government, then, begin to assert leadership in social security policy, as it has begun to recentralize management of state enterprises, prices, and investment? If so, it may choose to follow the 1980's policy of adhering to the existing programs, all the while expecting that tightened supervision and control from the center will curb waste and abuse. By taking this approach, the government will be putting an end to a decade of local cost-control "experiments," especially in medical care. Besides, given both the lack of an institutional framework for central supervision and control in social security matters, as well as the limited administrative experience of

SIAAs and LSCs in cities and counties, the savings that can be achieved through regulating administrative procedures, even with the help of computer technology, may be too little and too late to significantly diminish the heavy financial burden in social security over the next two decades.

As an alternative, will the central government decide to reexamine the existing programs and initiate cost-cutting measures as national policy? Will the government overcome its overriding concern for social stability and roll back privileges that state-sector employees and retirees have grown accustomed to expect, especially just after it raised their wages for the purpose of mollifying discontent? Even if that is the direction it takes, to what extent can the central government expect or enforce compliance from enterprise administration?

In sum, at the onset of the 1990's, China's leadership faces two policy alternatives. Neither promises easy answers. First, it may continue to use the existing social security system (destabilized as it is) to placate state-sector workers who are disheartened by recent political and economic policies. This will probably drain the country's resources at the expense of meeting the needs of a vast working population outside the state sector and of further economic development. The second policy alternative is for the central government to decisively control social security costs by modifying existing program provisions and instilling discipline in administration. Meanwhile, it can hold out the hope that an improved economic outlook, as the country deepens its economic reforms, will help alleviate restlessness among its workers.

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## Notes

<sup>1</sup> D. Davis, "Chinese Social Welfare: Policies and Outcomes," *China Quarterly*, September 1989, pp. 579-97; W. Han, "Woguo zhigongfuli ji qi dui guomin sherufenpei de yingxiang (Welfare for urban workers and its impact on national income distribution, hereafter cited as 'Sherufenpei')," *Jinji Kexue*, March 1990, pp. 12-9; C. Liu, "Lun zhongguo de eryuan shehui jiegou (On the dualistic structure of the Chinese society)," *Shehui*, August 1989, pp. 20-5; *Ibid.*, September 1989, pp. 22-7; *Ibid.*, October 1989, pp. 13-6; and *Ibid.*, November 1989, pp. 4-9. For a contrary view see, M. K. Whyte, "Social Trends in China: The Triumph of Inequality?" in *Modernizing China*, A. Doak Barnett and R. Clough (eds.), Westview: Boulder, CO., 1986, pp. 103-23. For impact of reform on rural social welfare programs, see D. Davis, "The Provision of Essential Services in Rural China," in *Rural Public Services: International Comparisons*, R. E. Lonsdale and G. Enyedi (eds.), Westview: Boulder, CO., 1984, pp. 205-24.

<sup>2</sup> For a brief summary of debates on the culpability of the "iron rice bowl" between reformers and defenders of the system, see G. White, "Labor Contract System," *China Quarterly*, September 1987, pp. 365-89; and comments on "mini-welfare state," *Ibid.*, 366-7. For more recent criticism of enterprises as "xiao shehui," see Z. Wang, "Xiao shehui (Mini-welfare state)," *Shehui*, January 1988, pp. 31-2.

<sup>3</sup> Social security for purposes of this paper refers to government-regulated cash and in-kind compensation for lost income and for medical care in old age, sickness, disability (work or nonwork related), unemployment, or upon death of the bread winner. This definition is in general agreement with that adopted by the International Labor Organization for comparative studies; it is, however, much broader than the U.S. usage of the term. In the United States, "Social Security" refers only to cash benefits for old age, survivors, and disability.

Social security expenditures in this paper include only old-age and disability pensions and subsidies; costs of free medical care to retirees, employees (whether or not work-related) and their dependents; funeral grants to retirees and employees; and emergency relief grants to employees. Although cash benefits for sick leave, maternity leave, and temporary disability due to work injury are part of social security programs, they are paid out of enterprise budgets for wages and thus are not available for inclusion in social security expenditure. *Zhongguo Laodong Gongzi Tongji Nianjian, 1989* (Chinese Statistical Yearbook of Labor Wages, hereafter, *Laodong Nianjian*), pp. 372-3.

Besides social security, employee nonwage compensation items include, among others, allowances for transportation and personal hygiene; expenses for educational, cultural, and athletic events, and for employee welfare facilities such as canteens and nurseries.

<sup>4</sup>By 1988, 74 percent of state-sector workers were employed in enterprises and 26 percent in civil services. See **Zhongguo Laodong Gongzi Tongji Ziliao, 1949-85** (Statistics of labor wages in China, hereafter, **Gongzi Ziliao, 1987**, pp. 26-7 and **Zhongguo Tongji Nianjian, 1989** (Chinese statistical yearbook, hereafter, **TJNJ**), 1990, p. 111. For purposes of this paper, jiguan and siye are referred to collectively as civil service for lack of a better term. J. P. Burns refers to jiguan and siye as administrative units and service units, respectively. See his "Chinese Civil Service Reform: The 13th Party Congress Proposals," **China Quarterly**, December 1989, p. 740.

<sup>5</sup>For a legislative history of state-sector social security provisions, see K. Wang, et al, **Dangdai Zhongguo de Zhigong Gongzi Fuli he Shehui Baoxian** (Employee Wages, Welfare Benefits and Social Insurance in Contemporary China), hereafter, **Dangdai**, 1987, pp. 302-18; an English summary is in N. Chow's **The Administration and Financing of Social Security in China** University of Hong Kong: Hong Kong, 1988, pp. 22-7.

<sup>6</sup>For texts of 1951 Provisional Labor Insurance Regulations as amended in 1953, and 1958 together with implementing regulations, see **Laodong Gongzi Wenjian Xuanbian** (Selected documents of labor and wages), 1973, pp. 275-306, 407-18, and 447-9.

<sup>7</sup>For a detailed listing of various subsidies and allowances in English, see Chow, **Administration and Financing**, pp. 92-4. A. Walder has discussed extensively the predominant role of enterprises in all aspects of workers' lives. See his **Communist Neo-Traditionalism: Work and Authority in Chinese Industry**, University of California Press: Berkeley, CA., 1986.

<sup>8</sup>See, for example, "Article Urges Establishment of Comprehensive Labor Insurance System," **JPRS Report: China**, no. 89, 1989.

<sup>9</sup>In 1978, about two-thirds of collective workers were covered by some form of income security programs. See, **Zhongguo Shehui Tongji Ziliao, 1987** (Chinese Social Statistics, hereafter, **Shehui ziliao**), 1987, pp. 111-2.

<sup>10</sup>For a full discussion on the liberalization of retirement regulations in the state-sector income security programs for both government institutions and enterprise workers, see D. Davis, "Unequal Chances, Unequal Outcomes: Pension Reform and Urban Inequality," **China Quarterly**, June 1988, pp. 230-7. For texts of 1978 retirement regulations and subsequent amendments to retirement and social security programs, see **Shehui Wenjiao Xingzheng Caiwu Zhidu Zhaibian** (Selections on social, educational, administrative and financial systems), 1979; **Zhonghua Renmin Gongheguo Guowuyuan Gongbao** (hereafter, **Guowuyuan Gongbao**), no. 27, 1989, pp. 973-82; **Xinbian Laodongzhengce Wentilieda** (A new compilation of Q and A to labor policies, hereafter, **Xinbian**), 1989, pp. 242-54. Improvements to other programs included extending the paid maternity leave from 56 days to 90 days, for example. Senior professional women may now retire at age 60 rather than age 55. "Nugaozhi tui(li)xiu de singuiding (New regulations regarding the retirement of senior professional women)," **Zhongguo Funu**, September 1990, p. 39.

<sup>11</sup>G. White, "Labor Contract System," **China Quarterly**, September 1987, pp. 365-89. For text of the Interim Regulations, see **Renmin Ribao**, 10 September 1986, p. 2.

<sup>12</sup>For text of Regulations, see **Ibid**.

<sup>13</sup>X. Wei, "Chengshi yanglaojin zhidu gaige chuxin chutan (Preliminary discussions on urban retirement pension system reform)," (unpublished manuscript, Beijing, 1988), p. 2.

<sup>14</sup>Some 3.6 million out of 22 million state-sector pensioners are earning wages through "second employment." "Laodong bowen (Labor news)," **Zhongguo Laodong Kexue**, hereafter, **ZLK**, April 1990, p. 10

<sup>15</sup>For examples, see X. Wang, "Henansheng anzhi qiye fuyu renyuan de qingkuang (Making arrangements for surplus workers in Henan province)," **ZLK**, January 1989, pp. 46; "Guanyu funu shixing jieduan jiuye de jizhong yijian (Thoughts on the practice of phased-employment for women)," **ZLK**, January 1989, pp. 38-9; and "Gaohao laodong zhidu gaige, tuoshan anzhi fuyu renyuan (Improve labor reform, make proper arrangements for surplus workers)," **ZLK**, December 1988, pp. 33-5.

<sup>16</sup>**TJNJ**, 1989, p. 152. Separate totals for state enterprise and civil service retirees are not readily available. In 1988, the number of pensioned retirees from all urban employment, including those from collective enterprises, was 21.2 million, receiving 32.1 billion yuan in benefits. By the end of 1989, the totals were 22 million urban retirees receiving 37.5 billion yuan in benefits. C. Gu, "Insurance to Benefit All Chinese Employees," **China Daily**, 10 August 1990, p. 1. One yuan equaled 61.3 U.S. cents at year-end 1978, and equaled 26.9 U.S. cents at year-end 1988.

<sup>17</sup>S. Pei, "Guanyu gaige tuixiujin zhidu de sikao (Thoughts on the reform of retirement pension system)," **Jingji yu Guanli Yanjiu** (Economics and Management Research), no. 5, 1986, pp. 36-8 and H. Feng, "Shanghaishi quanmin suoyouzhi qiye shixing tuixiufei tongchoude qingkuang (The implementation of resource pooling in state enterprises in Shanghai municipality)," **ZLK**, June 1987, pp. 12-5.

<sup>18</sup>**Guoying qiye zhigong tuixiu feiyong shehui tongchou banfa huiji** (Collection of resource pooling arrangements for state enterprise retirement pension funds, hereafter, **Guoyin**) 1987; G. Zhang, "Guangdong shixian quansheng yi shixian wei danwei tongchou tuixiujijin de tihui (Understanding the city and county-based resource pooling of retirement pension funds in Guangdong Province," in **Guangdongsheng shehuilaodong baoxian ziliao xuanbian** (Selected documents on socialized labor insurance in Guangdong Province), vol. 8, 1988, pp. 256-66. "Yijiubababian quanguo tuixiufei yun shehui tongchou de jiben qingkuang (Status of resource pooling of retirement expenditures in China in 1988, hereafter, **Yijiubababian tongchou**)," **ZLK**, November 1989, p. 41; and L. Han, "Nuli tuijin shehui baoxian zhidu gaige (Diligently promote the reform of social insurance system, hereafter 'Nuli')," **ZLK**, May 1990, pp. 10-2. Generally speaking, only state enterprises under the jurisdiction of city and county governments must participate in the pool. Provincial-level or national ministry enterprises (such as railway, post, and telecommunications) are exempt.

<sup>19</sup>For descriptions of the duties and responsibilities of these resource pooling agencies, see **Guoying**.

<sup>20</sup> For example, see Jimo County Labor Bureau, "Women shi ruhe dui lituixiu zhihong shixing yanglao baoxian shehuihua guanli de (How we implemented socialized management of old-age insurance for retired workers)," in **Qingdao Municipal Labor Bureau's Qingdaoshi shehui laodong baoxian zhidu gaige calliao huibian** (Collection of documents regarding socialized labor insurance system reform, hereafter, **Qingdao calliao huibian**, 1988, pp. 103-15; and H. Li, "Women shi jenyang yunhao tongchou jijin de (How we effectively manage the pooled fund)," **Dandong Diaoyen**, September 1988, pp. 13-5. See also, "Yijiubanian tongchou," **ZLK**, November 1989, p. 41; and **TJNJ**, 1989, p. 3.

<sup>21</sup> M. Fang, "Weishemo zhihong tuixiu yanglaojin shoujiao nan (Why is it difficult to collect contributions to the retirement pension fund)," **ZLK**, April 1990, pp. 32; "Laodong bumen huyu wanshan yanglaojin shehui tongchou (The labor administration appeals for perfecting resource pooling of retirement pension)," **Jingji Cankao** (Economic Information), 22 June 1990, p. 1; Z. Shi, "Wei baozheng tingchan qiye lituixiu zhihong shenghuo (To guarantee the livelihood of retired workers of non-operative enterprises)," **ZLK**, April 1990, p. 47; and unpublished data, Ministry of Labor.

<sup>22</sup> C. Song, "Yijiubajunian shangbannian quanguo laodong gongzi qingkuang ji quannian zhanwang (Nationwide labor wages during the first half of 1989 and prospects for the entire year)," **ZLK**, December 1989, p. 12 and L. Han, "Nuli," pp. 10-11.

<sup>23</sup> **TJNJ**, 1989, p. 123 and **Xinbian**, pp. 283-4.

<sup>24</sup> Z. Ren, "Guanyu jie jue qiye fuyu renyuan wenti de sikao (Considerations regarding the resolution of enterprise surplus workers)," **ZLK**, November 1988, pp. 21-3; G. Yao and M. Fang, "Qiyejia de kunao (Entrepreneurs' dilemmas)," **Shehui**, May 1989, pp. 28-31; "Li Boyong fubuzhang zhai quangou laodong fuwu gongshe gongzho huyeyi ji zhongguo laodong fuwugongshi yenjiuhui lishihuiyi shang de jianghua (Deputy Minister Li Boyong's speech at the conference of work of All-China Labor Service Companies and the board meeting of the Research Committee of China Labor Service Companies, hereafter, Li Boyong)," **ZLK**, April 1989, pp. 3-5; U.S. Central Intelligence Agency, "The Chinese Economy in 1989 and 1990: Trying to Revive

Growth While Maintaining Social Stability," report presented to the Subcommittee on Technology and National Security, Joint Economic Committee, 28 June 1990; and **TJNJ**, 1989, p. 123. In 1989, the unemployed were reported to total 3.78 million; see **Zhongguo Tongji Zhaiyao**, 1990 (A Statistical Survey of China, 1990), 1990, p. 18.

<sup>25</sup> **ZLK**, March 1990, pp. 36-7; "Guanyu laodong fuwugongsi fazhan he jianshezong rogan wentide yijian (Thoughts on issues regarding the development of labor service companies)," **ZLK**, April 1989, pp. 47-8; S. Ni, "Shinian laodong jiuye de huigu yu zhanwang (Review of a decade of labor force employment and its future prospects)," **ZLK**, March 1989, pp. 3-7; "Zhongda tanwuan beichachu (A serious case of embezzlement under investigation)," **Zhongguo Laodong Bao** (hereafter, **ZLB**) 6 December 1989, p. 1; "Ankang diqu qingli zhengdun laodongfuwu gongsi chengji kexi (Rectification of labor service companies in Ankang prefecture brings good results)," **ZLB**, 24 March 1990, p. 3; and "Jichen laodongfuwu gongsi ganbuzhihong 'bapan' ('Eight wishes' of the low-level employees at labor service companies)," **ZLB**, 10 January 1990, p. 3.

It is also difficult to assess the effectiveness of these LSCs because reports about these companies do not distinguish the local government LSCs that have the mandate to administer unemployment insurance from some 50,000 other LSCs created by and affiliated with large state or collective enterprises. Enterprise funded and managed LSCs generally engage in profit-making activities to provide job opportunities for their surplus workers and offspring of enterprise employees. Together, all LSCs have 700,000 employees, more than 4,000 vocational schools, and 230,000 service "points" (dian) extending to districts, and street and resident committee levels in cities and towns and even to rural towns.

<sup>26</sup> In 1988, the paid maternity leave was extended from 56 days to 90 days, for example. **Xinbian**, p. 254.

<sup>27</sup> Derived from data in **Gongzi zilliao**, 1949-85, p. 191; **Shehui zilliao**, 1987, p. 114; and **TJNJ**, 1989, p. 101, pp. 151-2, and p. 688. Separate totals for civil service and enterprises are not available for the years 1978 through 1985.

<sup>28</sup> For examples, see Y. Xie, et al, "Guanyu guoyin qiye laobao yiliao zhidu gaige de jige wenti (Problems in reforming the enterprise labor insurance medical care system)," **ZLK**, November 1988, pp. 10-3; "Minister Urges Better Medical Care, Lower Costs," **FBIS Daily Report: China**, 14 March 1990, p. 27.

<sup>29</sup> In one city, some 83 percent of sampled enterprises have taken some cost-cutting measures in medical care expenditures. Xie, et al, pp. 10-1; "Woguo gongfei yiliao he laobao yiliaozhidu de gaige (Reform of civil service medical care and labor insurance medical care systems in China)," in **Gaige he wanshan woguo de shehui baozhang zhidu** (Reform and make perfect China's social security system) 1988, pp. 80-8; and S. Gui, "Renko laolinghua yu gaige yiliao shoufei (Population aging and reform of co-payment for medical care)," **Shehui**, April 1987, pp. 18-20.

<sup>30</sup> Qingdaoshi jiaqiang dui 'changqi binhao' guanli (Qingdao city strengthens its management of 'long-term sick leaves')," **ZLB**, 10 January, 1990 1; Xie, et al, pp. 10-3; and "Gaohao," p. 34. It is estimated that, nationwide, about 15 million urban workers engage in a second employment. See Z. Sun, "Guanyu gongzi shenhua gaige mianlinde wenti he duice (Problems and policies regarding wage reform)," **ZLK**, May 1990, pp. 3-9.

<sup>31</sup> "Mudanjiangshi laodongju (Mudanjiang city labor bureau)," **ZLB**, 8 November 1989, p. 2; "Dandongshi jiuzheng jiangdi, quxiaozhihong baoxian fuli daiyu de wenti (Dandong city corrects problems in lowering and eliminating workers' welfare insurance benefits)," **ZLB**, 8 October 1989, p. 1; "Chengbao buke diulao (The adoption of enterprise) contract system should not condone negligence of the aged)," **Ibid.**, p. 2; "Qiye zhihong fuli jijin chaozhi yin yinqi zhongshi (Attention should be paid to shortfalls in enterprise employee welfare funds)," **ZLB**, 13 January 1990, p. 1; "Zhigong siwang sangzangfei chaozhi wenti jidai jie jue (Problems of deficits in death and funeral grants for workers urgently await resolutions)," **ZLB**, 22 November 1989, p. 2; X. Zheng and W. Ju, "Xinde gongshang baoxianfagui ying jingkuai chutai (New regulations on workers' compensation should be issued as soon as possible)," **ZLK**, June 1990, pp. 19-21.

<sup>32</sup> H. Cai, "Jiaqiang zhigong dangan guanli, wei gaohuo qiye fuwu (Strengthen the management of employee personnel files, facilitate enterprise services)," *ZLK*, November 1989, pp. 23-4; "Zhigaizhong geren dangan zaojia xianxiang yenzhong (The phenomenon of falsifying individual personnel files in the process of revising position titles is considered serious)," *ZLB*, 5 May 1990, p. 3.

<sup>33</sup> "Wanshan wuoguo laodong zhengyi chuli lifa ruogan wenti (Several issues concerning the improvement of legislation for settling labor disputes in our country)" *ZLK*, 3 March 1990, pp. 20-1; "Anshanshi Laodong Ju (Anshan city labor bureau)," *ZLB*, 8 November 1989, p. 2. For additional reports of complaints in recent years against arbitrary practices of the Labor Insurance Regulations, see items for Shanghai municipal labor bureau, Hebei provincial labor bureau, Mudanjiang city labor bureau, and Hubei provincial labor bureau, respectively. *Ibid.* Apparently, civil service retirees were also suffering from administrative problems. In one case, it took a retired cadre 10 years (from June 1979 to May 1989) to finally settle his appeal to correct his service tenure from 28 to 31 years. *ZLB*, 6 December 1989, p. 3.

<sup>34</sup> *Gongzi ziliao*, 1949-85, p. 191; *Shehui ziliao*, p. 114; and *TJNJ*, 1989, p. 17, 101, pp. 151-2, and p. 688.

<sup>35</sup> For examples, see J. Mao and Y. Zhang, "Tuixiu feiyong shehuitongchou jitifangshi chutan (Preliminary investigations into methods for computing contributions to resource pooling for retirement expenditures)," *ZLB*, 20 January 1990, p. 3; "Yenchengshi shixing tuixiu yanglao baoxian yitihua tongchou (Yencheng city implements unitary resource pooling for retirement pensions)," *ZLB*, 28 April 1990, p. 1.

<sup>36</sup> "Sichuansheng zhigong dabai yiliaofei tongchou shidian shouhuanying (Experiments in resource pooling for catastrophic medical care expenditures in Sichuan Province are well received)," *ZLB*, 28 March 1990, p. 2; "Litixiu zhigong yilaio feiyong shehuitongchou yibi (A look at resource pooling of medical expenditures for retirees)," *ZLB*, 14 October 1989, p. 4; G. Li and Z. Zhang, "Jianli juyou zhongguo tese de gongshang shehui baoxian zhidu (To establish a social insurance system with Chinese characteristics for workers' compensation)," *ZLK*, June 1990, pp. 17-8; and X. Zheng, and W. Ju, pp. 19-21.

<sup>37</sup> For examples, see "Chengdushi shehuibaoxian jigou shixing jisuanjiwanglou guanli chuju guimo (Chengdu city social insurance agency's implementation of computerized management takes shape)," *ZLK*, June 1990, pp. 47; "Laodongbu jiu jisuanji guanli tuixiu yanglao baoxianjijin tichu jutai yaoqiu (Ministry of Labor announces requirements for computerized management of retirement pension funds)," *ZLB*, 7 October 1989, p. 1; and Y. Liao, "Woguo shishi shehui baozhang haoma zhidu (China implements social security enumeration system)," *Liaowang*, no. 24, 1990, pp. 19-20. The report does not indicate which agency is assigning these numbers or how the adoption of the social security enumeration system is expected to improve the administration of these programs. The author admits that the effective application of the system depends mostly on the pace of automation. At present, individual enterprises keep their own files on employees and retirees manually, and they do not follow any standard procedures or numbering system.

<sup>38</sup> This was proposed by the Director of the Department of Social Insurance and Welfare. See, L. Han, "Nuli," pp. 10-1. In late 1988, a State Taxation Administration was established as an independent agency with direct authority over provincial, municipal and county branches. Former Minister of Labor Luo Gan envisioned the resource pooling of retirement pensions at the national level, with a unified system for budgeting, accounting, and auditing. "Renzen zhili, zhendun, jiji wentoudi tuijin laodong, gongzi, baoxian zhidu gaige (To seriously manage and rectify reforms in labor, wages and insurance systems and to promote them actively but at a steady pace)," *ZLK* January 1989, pp. 3-9.

<sup>39</sup> J. Zhang, "Dui qiye yanglao baoxian zhidu gaige de rogan sikao (Considerations on reforming the enterprise old-age insurance system)," *Jingji Cankao*, 14 August 1990, p. 4 (Mr. Zhang is the director of the Office of Retirement, Department of Social Insurance and Welfare, Ministry of Labor); C. Gu, "Insurance," p. 1; C. Gu, "Pension System to Undergo Overhaul," *JPRS Report: China*, no. 40, p. 56; J. Wen, "Reform of worker's insurance under way," *China Daily*, 5 September 1989, p. 1; G. Li and Z. Zhang, 17-8; X. Zheng, and W. Ju, pp. 19-21 and "Zhongguo laodong fazhi jianshe ji qushi (The establishment and trends in labor legislation in China)," *ZLK*, March 1990, pp. 3-5. This last reference

specifically mentions retirement pension and workers' compensation as among several pieces of legislative proposals already submitted to the State Council for review; labor insurance regulations that stipulate cash benefits for sickness and maternity and medical care are not included.

<sup>40</sup> See P. Li, "Gaike kaifang yao yenzhe jiankangde guidao qianjin (Reform and open policy must march along healthful tracks)," *Guowuyuan Gongbao*, no. 4, 1990, pp. 99-106. In the same speech, Premier Li Peng also supported a labor insurance system financed by contributions from employees, employers, and the government, *Ibid.*, p. 105.

<sup>41</sup> U.S. Central Intelligence Agency, "The Chinese Economy." (Unpublished report to Congress, 1990.) In Guangzhou city, for example, the government directive instructed the full payment of retirement pensions to beneficiaries of hardship enterprises, and promised making up for shortfalls. "Guangzhoushi shehuibaoxian jigou caiqu liudian yingji chuoshi (Guangzhou city social insurance agency adopts six-point emergency measures)," *ZLK*, April 1990, p. 47.

<sup>42</sup> An alternative route to city and county government funding for enterprise shortfalls and central government subsidies for a specific local pension fund would be expanding the base of pooling to the provincial or even national level. If necessary, the central government would make up the deficit for the national fund, raise contribution rates by enterprises and/or employees, or reduce benefit expenditures. However, it may take years to develop provincial or national pooling because each city or county has negotiated (with local enterprises) its own standards of enterprise contribution rate, retiree benefit level, and various subsidies included in the pension payment. These differences are not easily harmonized.

<sup>43</sup> A related question, given the present economic hardship, is whether the government still considers it appropriate to make workers themselves contribute to social security funding as planned and, if so, whether workers will be compensated with higher wages to cushion the blow.

<sup>44</sup> Employees also depend on their enterprises for housing and many cash and in-kind allowances in addition to social security provisions. Of the reported total nonwage compensation items, the non-social security portion has been about 28 percent of the total during years 1978-88; the social security portion, 72 percent. See footnote 4.

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<sup>45</sup> This is not to overlook that about two-thirds of urban collective workers are reported as having access to some income-security programs which depend mostly on the collective's financial solvency. In addition, the People's Insurance Company of China has begun to offer voluntary retirement plans for collective and private sector employees since mid-1980's. None of these programs can compare with the scope and generosity of state-sector plans. At year-end 1988, 99.8 million workers were employed in the state sector, 35.3 million in urban collectives, and 6.6 million in the private sector. **TJNJ**, 1989, p. 101.

<sup>46</sup> According to one Chinese analyst, the total cost of the benefit package for state-sector employees and retirees, including the reported total of nonwage compensation items (that is, social security, and cash and in-kind allowances), plus unaccounted subsidies (such as housing, fuel, personal use of government vehicles) amounted to 129.6 billion yuan in 1988, or 9.2 percent of China's gross national product for the same year. W. Han, "Sherufenpei," 14; **TJNJ**, 1989, p. 17.

S. Zheng and C. Chen, "Zhongguo xianxin shehui baozhang zhidude chulu (A way out for the existing social security system in China)," **Shehui**, February 1990, pp. 6-8; and C. Gu, "Pension System to Undergo Overhaul," **China Daily**, 10 August 1990, p. 1, reprinted in **JPRS Report: China**, no. 40, 1990, p. 56. The worker/retiree ratios are based on total urban workers and retirees; the 1988 worker/retiree ratio for the state sector was 6.5:1. **TJNJ**, 1989, p. 101 and 152.

J. Banister estimates that given the current population policy and restrictions on rural migration to cities, "the proportion of the rural population ages 65 or older would rise from 6 percent in 1990 to 7 percent in the year 2000, 13 percent in 2030, 19 percent in 2040." In comparison, "the proportion of urban population ages 65 and above would increase from 5 percent in 1990 to 8 percent in the year 2000, 27 percent in 2030, 33 percent in 2040." See J. Banister, "The Aging of China's Urban and Rural Populations," paper presented at the International Academic Conference on China's Population Aging, Beijing, December 1989, pp. 10-1.