

Social security in rural China: Options for reform

Background and objectives

Background

The dismantling of China's collective system and the transition towards a market based system of distribution has changed the configuration of welfare-related need and provision in rural China. Rising wealth and incomes, accompanied by increasing inequalities within and between regions, are well-documented. Less well-documented, but of increasing concern, are the stark inequities in access to, and the ability to pay for, newly privatised social goods and services such as basic health care and education. Rural households have lost many guarantees of security and protection against risk formerly provided by the collective. In some areas, the collective has generated new resources to provide welfare services at varying levels of coverage and quality; in others, financing is generated almost exclusively from households and individuals.

At the start of this research project, social security had become a priority for Chinese policy makers with attention focused firmly on restructuring the urban welfare system. Limited research on rural social security concentrated on the sectoral or programmatic supply of services, or the development of insurance schemes, particularly for pensions. A system of social security was generally regarded as beyond the economic capacity of China's rural economy, and provision depended on locally generated resources with little commitment to redistribution from the centre. In the context of global debates in which welfare systems in the north were perceived to be under threat and fiscally unsustainable, provision in the south was increasingly through residual, targeted and compensatory mechanisms. It was widely recognised, however, that such mechanisms were failing to provide an acceptable level of security to many population groups, particularly in countries in the process of transition or economic adjustment.

Objectives

Within this context, the purpose of the project was to examine the current state of social security provision in China's rural economy, to assess the extent to which existing provision met the needs of the rural population, and to explore the political, institutional and economic feasibility of alternative mechanisms to enhance the security and well-being of China's rural population. We aimed to examine individual, household and community welfare needs and priorities, and to describe the sources of insecurity facing rural households, their main difficulties and their responses or coping mechanisms. We were also concerned with the formal and informal structures of provision and financing – whether state or local government, commercial or community. By evaluating the gaps between need and provision, we hoped to illuminate the appropriateness and effectiveness of existing interventions and to explore alternative policy options and institutional arrangements. We suggested that these would need to be based on both the diverse means through which rural Chinese individuals and households attempt to protect themselves against risk, as well as on existing provision by central and local governments, commercial entities, community or non-governmental organisations. This complexity demanded a broad approach to the research, encompassing a micro level study of household need and behaviour, together with a meso level analysis of the nature and role of institutions and a macro political economy analysis of the policy and socio-economic context.

Methods

Research was undertaken at various levels involving household surveys, interviews and focus group discussions at village and township levels, and a series of institutional interviews with providers or officials in relevant government, commercial or non-governmental agencies. The research was carried out in four counties, across three provinces, in east, central and west China. The small sample size (100 households per county) limits generalisation, and the sites cannot be taken as representative of rural China. Rather, they should be interpreted as four case studies of different areas. Nonetheless, the data illuminate some key issues, problems and challenges which are consistent with, or help to explain, findings from other studies, and from which some generalisations and policy implications can be drawn.

At the micro level, household survey data were collected on household resources, activities, social networks and responses to economic difficulties. Conceptually, we attempted to take a holistic

approach to understanding the complexity of rural livelihoods and the choices and tradeoffs made in order to achieve livelihood security. To this end, a modified livelihood framework was developed to illustrate the links between context, resources, institutions, activities, and outcomes.

Analysis of the supply side of policy decisions and institutional provision was undertaken from a political economy perspective to illuminate the institutional complexities of the system of welfare provision. The methodology was intended to understand welfare provision not just in terms of policy as a 'choice' between alternative institutional sectors of social provision, but rather as the outcome of systems of power, interest and ideology, an understanding of which is essential for making realistic assessments of the desirability and feasibility of alternative forms of social provision.

Findings

Household resources and welfare

Levels of social security vary significantly across our research sites, although these sites do not represent the full variation found within China – from the mini-welfare states provided in the wealthiest eastern regions to the relief and poverty alleviation programmes of the poorest provinces. Key findings from household survey data are summarised below:

- ◆ Households have little interaction with formal welfare providers. They meet their needs – whether regular and anticipated, or unexpected, principally through their own means, resources and social networks. These are primarily close relatives, followed by neighbours, friends and other relatives.
- ◆ A major share of regular household budgets are devoted to health (between 5-10%) and education (8-20%). The consequences of ill-health, in terms both of costs and loss of labour, can have a serious impact on household livelihoods. Education fees particularly affect young households, often at a time when they may also have elderly dependants, but may be reduced in response to other difficulties, through withdrawing children from school.
- ◆ The largest expenditures which households undertake on an irregular basis include housing and family events. These are generally planned for and funded largely from savings and borrowing. Large health care costs which are not anticipated put greatest stress on household budgets.
- ◆ In meeting economic difficulties, whether large expenditures or regular costs such as school fees, poorer households rely on borrowing, reducing consumption or substituting cheaper food, sale of livestock or (more rarely) productive assets; wealthier households are better able to self-insure through savings or other mechanisms.
- ◆ The rural population has limited expectations of assistance from the state, and does not view most problems relating to household livelihoods and welfare as the responsibility of the government. They expect to rely on their own resources to meet their needs. Most households view the responsibility of the collective and state as limited to providing assistance to destitute households, to those with no alternative sources of support, or to those affected by natural disaster or other serious and unexpected crisis.
- ◆ While households turn only infrequently to the state for support, they see a more important role of government as creating a supportive environment within which they can generate incomes, accumulate and invest, in order to generate greater security for themselves. This includes more stable policies on agricultural procurement and pricing; reduction of the burden of taxes, fees and levies; containing the costs of health and education; and not adding compulsory contributions such as pension plans and other insurance schemes.

Village resources and welfare provision

Interviews and discussions with villagers and village leaders further illuminate important sources of insecurity. In some cases, village cadres and residents share perceptions of the main problems; in others, the cadres themselves, or the government policies which they implement, are perceived by the villagers to be a major factor contributing to their insecurity. Particular problems identified at this level included:

- ◆ The range of programmes which the village is mandated to provide, or to raise money for, places a direct burden on rural households, and generates tensions between the village committee and

residents. In the absence of any real capacity to raise resources, village leaders may become primarily revenue collectors for higher levels of government.

- ◆ Reporting of household incomes tends to ignore inputs from the village; income levels are determined at higher levels. While the reality in many areas is declining per capita incomes, official incomes have often continued to increase, and therefore also the basis for levying collective funds (which cannot exceed 5% of income).
- ◆ Conflicts and collective action (for example non-payment of fees) arise over issues which directly affect villagers' livelihoods and welfare, such as the location of village schools, or decisions about crops (in one site, tobacco). These decisions are made at township or county levels, and village leaders have little influence over them. As ultimately village cadres wages are also paid through fees, their interests may conflict with those of the villagers.
- ◆ In areas with income from collective enterprises, village leaders were able to provide basic services without directly raising revenues from villagers. However, the problem of dealing with serious health costs was generally beyond the resources of even wealthy villages to resolve. Elsewhere, in the absence of alternative income sources, the lack of resources available to village leaders constrains their capacity to carry out even basic responsibilities for welfare provision.

The township

Detailed budgets from both the village and township levels illustrate the relative powerlessness of the village, and the greater role of the township, in raising resources and providing social assistance. A hypothesis at the start of this research was that the township might be the pivotal level with the potential for developing institutional welfare provision. The village has limited capacity and resources to play such a role, while village relationships with state agencies are mediated through the township. Townships have also shown entrepreneurial capacities to generate resources for local development, at least in some regions. At the same time, the township is the level at which tensions arise as it tries to represent village interests to the government, and to implement government policies.

- ◆ A primary message from the township interviews – even in the wealthier areas – is the nature of local finance as payroll budgeting (*chifan caizheng*). Particularly in poorer areas, local finances are insufficient to cover even the basic salaries of cadres, with little remaining for developmental or welfare activities.
- ◆ The common concern is the need for more transfers from higher levels to support basic welfare provision – whether relief and social assistance, health and education or social preference schemes. Relatedly, townships are under pressure from higher levels to take on additional personnel such as demobilised soldiers and college graduates who require employment, further constraining their budgets.
- ◆ At the township level, we see the emergence of competition between sectors and departments as well as levels of administration. As welfare provision becomes the responsibility of different sectors (health, education and civil affairs, for example), competition arises for the control and management of limited resources - between the sectoral departments, and the finance and planning agencies.
- ◆ Also apparent at the township levels are the risks of pursuing some of the policies and responsibilities imposed from above. The case of insurance highlights how distrust of government and of specific programmes can be generated. In cases where local governments have associated themselves closely with commercial insurance companies to promote insurance, unmet claims have led to a general suspicion of both commercial and social insurance.
- ◆ Old age insurance illustrates the ways in which departmental interests distort welfare programmes and priorities. Insurance programmes generate funds, but also generate conflicts to control these resources. In the absence of adequate supervision, resources may be diverted for other purposes, giving the local government further incentive to implement such schemes, regardless of whether they meet real needs. In Hubei, the proliferation of such insurance schemes has significantly raised the overall burden on farmers, while generating tensions between relevant departments.
- ◆ Only one of the four research sites has a strong collective economy, and none are comparable to the most successful cases of township economic development reported in studies of township and

village enterprises. Our sites show the severe constraints to any redistributive welfare system in the absence of alternative collective income sources. Given the decline in rural industrialisation in many parts of China, the problems faced by several townships in this research are likely to become more widespread and acute without counter-veiling interventions.

In many respects, local governments continue to be entrepreneurial in their pursuit of extra-budgetary funds. However, these funds are increasingly necessary merely to maintain the basic administrative infrastructure and provide few resources for development or welfare. Meaningful economic decisions are thus increasingly outside the scope of many township governments, and the resources available to local states for welfare purposes appear to be threatened. The potential for the township to play a significant role in rural welfare, in the absence of a commitment from higher levels of government to redistributive budgeting, thus appears limited.

Provincial and central government

Despite this somewhat pessimistic scenario, the examination of higher levels of government and administration still suggests that the township remains pivotal in local development and welfare provision, particularly in terms of translating government policies into locally appropriate practice. Interviews with welfare related agencies were designed to understand the gap between real needs and provision, as well as thinking about what a system of rural welfare should or could provide. Analysed in terms of the interests, power and resources, we can identify the ideological differences, and social and institutional conflicts, surrounding welfare policy. The choice of programmes can be interpreted as the outcome of departmental interests, rather than welfare priorities. They may also reflect priorities which have emerged in more developed areas, thus not fitting the realities of need and financing in poorer regions.

The adoption of, and contestation over, rural pensions schemes illustrates this point. In the context of China's ageing population, old age security has become a political issue – particularly in urban areas. As the Ministry of Civil Affairs attempted to define its role as the principal provider of rural welfare, support for the elderly through a contributory insurance scheme became a hallmark programme. At the time of this research, the programme was being transferred to the newly established Ministry of Labour and Social Security. For Civil Affairs, this implied a loss of funds controlled for the most part by the civil affair's system. Competition over such programmes and resources increases the dispersion of welfare resources, as well as their likely diversion to non-welfare purposes, and makes effective accountability difficult. The interpretation of some other agencies, as well as of many of the people from whom these insurance fees are collected, is that – in the name of social welfare and security – additional burdens are being imposed which serve to increase economic insecurity rather than enhance security.

There are differing views about what *should* be included within the scope of social security provision – across levels of government and ministry or sector, between providers and funders, and by region. Consensus generally exists that it must remain family-based; government interventions are to assist specific targeted population groups. The rural population is often described by central officials as lacking the basic awareness of, and therefore the demand for, social security, thus justifying a minimalist, residual approach. In terms of specific interventions, a commonly held view among central government officials is that the programmes most urgently needed in poorer areas are support for the elderly (old age pensions) and medical-care insurance. While health care is clearly an identified issue at all levels and across all regions, the focus on pensions contrasts to some extent with the views from the sub-county levels, and in particular with the priorities of rural households in all but the most developed areas.

In the identification of need, and appropriate provision, the rural population, or lower levels of collective government, have little political voice. In contrast to urban areas, where entrenched interests demand that issues of social security are prioritised in the interests of social stability, rural areas remain marginal to the discussions of social security. On a regional basis, too, divisions emerge – with general opposition to the notion of comprehensive, institutional provision which would require more redistributive fiscal policies. Wealthier regions resist contributing to programmes in support of poor areas, except through charitable donations and relief activities.

There is in fact little explicit discussion of, or consensus around, what 'should' be provided or of minimum standards that should be achieved. The barrier to such discussions is the lack of any commitment to funding from the central government. Without the clear commitment to some level of

redistributive welfare at the centre, normative visions become meaningless. The focus is thus on the reality of what can be provided, and hence on a minimalist and welfarist approach.

Issues for policy and further research

Based on the above findings, the following key issues for policy emerge:

- ◆ In the development of welfare interventions, an important starting point is the identification of insecurities and needs, and the design of policies which respond to these needs.
- ◆ More recognition needs to be given to the unintended or negative consequences of public and social policies – in particular the imposition of financial burdens on households which generate greater insecurities in the name of social security provision. The other side of this issue is the need to understand ways in which non-welfare policies promote security – through a more secure policy environment and responsive local institutions.
- ◆ The main emphasis is thus on a supportive policy environment – what might be termed ‘indirect’ as opposed to direct welfare provision. The government can play a significant role in reducing insecurities generated by its own policies, which will better enable households to meet their own needs.
- ◆ These points suggest the need for an approach to social security and welfare that does not start from the sectoral divisions entrenched in bureaucratic structures. Mechanisms for internalising the competition between sectors over programmes and resources need to be found.
- ◆ In terms of the provision of basic services, current initiatives of various ministries within a highly decentralised fiscal structure will remain inadequate particularly for poor areas. Local government finances in rural areas are reaching a crisis point. Current government responses to reduce the size of township government, and translate fees to a single tax (*feigaishui*) will not resolve the fundamental problem of the effective bankruptcy of many localities, and their incapacity to meet even basic welfare needs. Clearer analysis of the impact of the current decentralised structures of finance, and of the actual costs of a basic level of service provision, is needed.

Dissemination

Outputs from the research include household survey data (in both EXCEL and STATA formats), the variable list (in English and Chinese – Annex I of attached report), full transcripts (in Chinese) of the institutional interviews, and a number of publications and draft papers in both English and Chinese (see Annex III of attached report for full details).

In the process of the research, a workshop was held in Beijing (September 1998), with officials from different levels of government and a number of relevant government agencies and research institutes to discuss the preliminary findings. In addition a number of seminars in China and the UK, and follow up visits to two of the research sites have provided opportunities for discussion and dissemination of findings. The papers from the workshop, together with other pieces of analysis drawing on the household survey data, will be edited into a volume for publication in Chinese. In addition, a Chinese report is also in preparation (of which a preliminary draft is also attached – Annex III) with plans to expand this into a Chinese monograph (by Zhu Yong and Sarah Cook).

The long report (attached) provides a more detailed overview of the research, including the methodology and conceptual framework, basic results from the household survey data, and from the institutional interviews. It is intended that this will form the basis of a monograph. Areas where the data and analysis have not yet been fully integrated include more detailed work on the taxes and fees levied at sub county level, and analysis of household social connections. Additional papers are planned on these topics.

To date one Ph.D. thesis and one M.Sc. thesis (both from Huazhong Agricultural University) have been obtained using the data from this research project – both focusing on issues relating to rural pensions and support for the elderly.