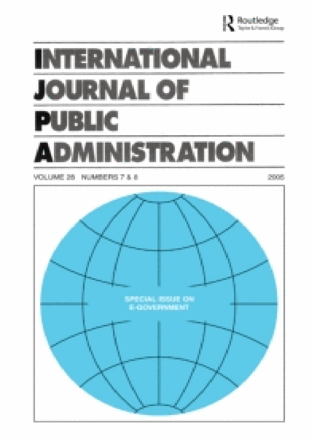

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China's New Social Security System in the Making: Problems and Prospects

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China's New Social Security System in the Making: Problems and Prospects

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Abstract: China's welfare regime has been historically characterized by its structural arrangement, distinguishing itself from that of many other countries. The major difference lies in the efforts made by the Chinese government to build up a social safety-net to be compatible not merely with societal needs but more critically with its unique political structure to ensure its legitimacy and stability are unchallenged. We argue that while ensuring political stability continues to remain as a policy priority, China's current welfare restructuring is being confronted by freed-up market forces that make it more difficult to acheive a delicate balance between where the needs are and how resources are allocated.

Keywords: resource, social security system, institutional constraints, welfare transfer

INTRODUCTION

In the current literature on the welfare state, there has been an increased consensus among social scientists that there is no unified model of social security systems in the world and the European and North American models are found to be unfit to Asian countries, and the cases are even more varied among the developing countries. [1] Social security system is in the making in China — a

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new social institution of public service is emerging as a result of great societal transformation of the past three decades. The Chinese central government's efforts to construct a new social welfare system are apparently motivated by three basic needs. First, China's current transitional economy has made the traditional labor insurance system (from the 1950s to the 1970s) ineffective or even obsolete, as both the capital market and labor market become liberalized.

Second, the state-enforced one-child family planning policy, along with fast-paced economic reforms, led to an unprecedented high velocity of demographic change, making the traditional extended family structure give way to small-size, nuclear households, resulting in a family infrastructure conspicuously losing its once well-established ground for elderly support. Third, economic restructuring has brought with it massive involuntary unemployment (particularly in Northeast region where large sate-owned enterprises concentrated), high medical costs, growing income inequality and stratification, thereby generating an immediate urgency for the state to create a safety-valve mechanism in order to cope with public frustrations and grievances.

From the sociological perspective, the making of social security system in China is not just an economic policy of public service, but more importantly a political choice that is much needed to maintain the state legitimacy and societal stability. Yet, to build up a comprehensive social security system is an arduous task considering China's limited resources, huge population, and the economic disparities between the urban and rural as well as coastal and inland regions. This article is therefore intended to explore what makes China's welfare regime a distinctive institution in historical-comparative context, and where the major problems stand in the way of its restructuring or rebuilding, and what prospects it will hold for the future.

BRIEF HISTORICAL REVIEW: PAST AND PRESENT OF CHINA'S SOCIAL WELFARE STRUCTURES

The first question that needs to be addressed is how China retained its political stability and why it did not experience uncontrollable social turmoil in the pre-economic reform years (before 1980). In other words, on what kind of social welfare system did the Chinese government rely to keep societal stress manageable? The answer to this question is important because it facilitates an understanding of historical context in which the current problems are anchored. China's pre-reform social welfare system was gradually developed in the period from the 1950s through 1960s. The system became workable not because of its own self-sustaining mechanism as a public service sector, but mainly because the system was operated under the highly centralized administrative arrangements that strictly separated urban and rural regions through household registration. Additionally, under the command or planned economy, the state's finance priority was given to industrial urban regions in terms of social security benefits coverage. In contrast, the rural population had no similar coverage guaranteed by the state.

In general, the principal feature of China's old social security system was characterized by "planning" in two subsystems: one was the urban system, and the other the rural system.[2] Under the coverage of the urban system, employees of the government organizations and state-owned enterprises (SOEs) were protected by the labor insurance that provided the benefits of disability, unemployment, maternity, medical care, and old-age pensions. Parallel to the benefits offered to state employees, however, there existed a less generous insurance for employees of urban collectively owned enterprises (COEs), and its benefit coverage was not as comprehensive as employees of SOEs. Yet they both followed "pay-as-you-go" format.

Labor insurance did not extend to rural areas; state-financed welfare provisions were primarily concentrated on natural-disaster relief, and social assistance to poor villages and destitute households, mostly in emergency situations. Like many other countries in agricultural economy, the extended family structure assumed the major role of old-age support upholding both moral and economic obligations for adult children to take care of their elderly parents. Medical care insurance in rural areas rested merely on collective funds established by villagers themselves, and the supply of such funds depended largely on the financial abilities of localities. In the mid 1960s, attempting to cope with the shortage of rural medical care, China launched a state-financed campaign to train home-grown "barefoot doctors." Because of financial constraints, the campaign, impressive but short-lived, failed to fundamentally narrow the cap between urban and rural areas.

Administratively speaking, the old system functioned as a closed system with welfare programs operating independent of each other along the demarcation lines drawn between the urban and rural regions. As a result of the tilt of resource distribution toward the welfare of industrial-urban regions, the tension between the rural population and urban population increased, and the state finance, while in poor management under a planned economy, became unbearable in supporting urban welfare programs. In addition, the old centralized social welfare system was largely sustained at the expense of personal economic wellbeing. For example, in order to cope with the state's financial strain, an across-the-board salary freeze was imposed against people's will from 1965 until 1978.[3] With the deterioration of national economy, the old social security system was almost on the brink of collapse by the 1970s.

The reforms implemented since 1979 have greatly changed the landscape of China. Economic restructuring, in particular, has greatly freed up the market forces. As a result of decentralization, the old social arrangements were severely weakened, and even in disarray. Along with the change comes the incompatibility of the old social security system with a new socio-economic infrastructure. First of all, the economic reforms have loosened up the house registration barriers between the urban and rural areas. The relocation of rural population to urban labor market led to fast growth of what is called "floating population," a new social category that falls ironically into neither urban nor rural registrations. Secondly, the reorganization of state-owned enterprises that includes the possibility of bankruptcy through open market competition has resulted in massive involuntary unemployment in cities — a new social problem caused by China's transformation from a planned economy to a market economy.

Third, the market dynamics generated through economic reforms released a strong force of privatization in various industries as well as urbanization in coastal regions; and an immediate result of such changes is conspicuous in some rural areas in which peasants are freed from their farming and become employees of local industries (many of them are temporary workers). The shift of the rural labor force to non-agricultural activities has brought with it the risk of unemployment and retirement at a particular age and the rising numbers of migrants. For those peasants, the land on which they traditionally relied for survival would be no longer available to them when they face lay-offs or reach the retirement age.

Because of the growth of this new group, some scholars even claimed that the actual number of China's peasant population should be 250 million instead of the commonly thought 900 million.[4] Full labor insurance to this portion of the population is almost non-existent; so far most of them work as cheap laborers without protection. If the above data are accurate, then the demographic trend caused by structural changes demonstrates the urgent needs for social security to incorporate this growing number of people.

These factors create enormous pressure on the Chinese government to build up a new social security system to ease the social tension. In the past decade, gradual steps have been taken to design new social welfare programs that fit into the new socio-economic infrastructure. The new system is intended to be comprehensive, encompassing all social categories, but focusing on unemployment benefits, medical care, and old-age insurance.

The real change started in 1991 when the state council of China issued an official document on reforming the old pension system for the state employees. The new scheme laid the ground for China's future social security system, shifting its operating format from "pay-as-you-go" system to a combination of social financing with individuals' income contributions. The principal feature of the new social security system lies in a search for multiple sources of funds, involving not only state finances but also other social supportive networks including commercial insurance companies. In contrast to the old system that was operated on the administration shared by more than twenty government agencies, the new system is managed by a new government agency called the Ministry of Labor and Social Security. Established in 1998, the Ministry is designed to eliminate the inefficiency and elusiveness in responsibility and accountability regarding the management of diverse welfare programs so as to facilitate welfare transfer.

To substantiate the move toward a new social security system, in January 1999, China's State Council issued two other important official documents: one was on regulations of social insurance funds, and other on regulation of unemployment benefits. At the same time, the newly established Ministry of Labor and Social Security issued six supplementary regulations pertaining to medical insurance. By the end of 1999, branch offices of labor and Social Security came to be established in all provinces throughout the nation with its task force centering on cities, towns and coastal rural areas.

And yet since the coordination of various social welfare programs in China has historically involved complex and even intricate relationships that exist across government agencies, it will be no easy task to disentangle such relationships due to the resistance from the self-interests of state bureaucrats who care more about a short-term benefits than a long-term gains. In addition, the existing structural strains that have already slowed down the reform of those less productive SOEs would make resource distribution for proportional welfare transfer more difficult. Lessons learned from the experiences of other countries indicate that whether or not a comprehensive social security scheme can be successfully implemented relies critically on how well a balance can be achieved between the redistribution of the state's resources and welfare transfer in society, and furthermore how well this balance can be maintained without disrupting a long-term economic growth and political stability.

THEORETICAL DISCUSSION: HOW TO ACHIEVE A BALANCE AMONG RESOURCE REDISTIBUTION, WELFARE TRANSFER, AND LONG-TERM ECONOMIC GROWTH AND POLITICAL STABILITY

In a strict political sense, social welfare as a social institution serves as a mechanism of societal integration and political stability. From this perspective, a country, the developed or the developing, is no exception in terms of its efforts to implement social welfare policies. Thus, social security as an institution tailored to social needs plays a crucial role in mitigating societal stress in order to promote political stability because social welfare distributes either direct funds or services in-kind to secure the working people from such contingencies as involuntary unemployment, sickness and injuries, maternal leaves, and old age retirement.

The welfare state as an institutional framework was initially established to build up consensus within the population by way of redistributing resources. Welfare transfers are only one of the many mechanisms that governments posses in redistributing resources. The welfare state as an institutional framework is at the core of the interaction between economic growth and economic equity, reflecting social justice.[5] Despite common beliefs regarding the damaging side-effects of welfare states, there are indications in the literature that equity and efficiency can coexist as goals, and that equity can stimulate long-term economic growth.

In general, as far as the mechanisms of social security system are concerned, sociologists tend to seek approaches to social equity that can be achieved through the redistribution of surplus resources, political scientists regard welfare transfer and social security as a means of political survival for the incumbent, and economists turn to the market for more resources, emphasizing economic efficiency on the supply side as the key to reducing social inequality. The three views, however, are in fact not contradictory but rather complementary to each other, all recognizing that social security system is an indispensable means of reducing social tensions and promoting overall stability. Apparently, this is the rationale behind almost all well-known forerunner welfare programs such as the first social security legislation in Bismarck Germany in 1881 aimed at winning the loyalties of working class, and the Social Security Act in the United States in 1935, designed to cope with rising public grievances as the result of the Great Depression.

The core of the western welfare state has been political and social security, as well as equality. In the modern welfare state, social security has been associated with the expansion of social rights and comprehensive social citizenship. Both elements are associated with social inclusion and policies. The basic assumption of all relevant research is that governments use the welfare state programs to integrate segments of the population under the sweeping concept of "social citizenship." Thus, the most critical function of a social security system is to protect the political system against disruptive changes. Political instability is often the outcome of an unequal distribution of economic and political power within the society.

Welfare institutions intervene and alter the original allocation of resources in the society. The government mitigates social grievances to promote political stability, interfering with the efficient but often socially unacceptable distribution of income in the market.[6] Despite the popular view that welfare payments mainly assist the poor, these payments are only a small portion of government transfers. Thus, in many cases the term "social security spending" is preferred to "welfare state" to delineate the role of social security in maintaining a minimum income level,[7] and social security system itself generally evolves around three primary goals of welfare programs: redistribution, efficiency, and social cohesion.

Redistribution targets the promotion of equality or social justice. Any time that the issue of inequality is embraced, it is presumed that the state is going to intervene in the process of redistributing resources. Ironically, the quest for social security dates back to the liberal arguments for individual freedom and limited action by the state. It is only the state, however, that can provide social security and welfare programs. The state is the only institutional mechanism in modern society that can provide a form of collective intervention to the demands for entitlements. States have the authority and the power to ensure that the redistribution is going to take place.

The problems of welfare expenditures arise from the supply-side. For instance, who is going to bear the costs? At what point do these costs produce more harm than good? Does the welfare state offer the opportunity for moral hazard and free riding? What remains critical, however, is that the social security system must be based upon a socially defined conception of what amount of welfare is enough. Demarcation lines are drawn by social consensus.[8] The goal of efficiency becomes pertinent, because of market imperfections (e.g. adverse selection and externalities), while social unity (i.e. consensus building) is one of the very initial objectives of the welfare state, through which the social security becomes a contributing factor to social integration. This aspect of the welfare state remains secondary in the literature, although it deserves further exploration as a positive externality of government intervention.

Even though inefficiencies may arise from the price discrimination process (redistribution includes different prices to different segments of the population and may create disincentives), there is no substantive trade-off between redistribution and the other goals of the welfare state.[9] The debate of equity (redistribution of resources to reduce inequalities of wealth) vs. efficiency (maximum production given available resources) remains an important issue for economic theory, since Kuznets[10] and Kaldor[11] reintroduced the topic in the mid-1950s. For any modern industrialized state, the question of economic efficiency and social equity touches upon the nature of the political and economic institutions that are socially acceptable.

In terms of long-term effects, institutional political stability depends on the consensus established between the government and the population. [12] A more egalitarian distribution of resources is conducive to political stability and economic development. Long-term income inequality can be erosive to the stability of the political regime. As a result, long term sustained economic development can be undermined by a severely unequal distribution of income. For example, Malaysia's New Economic Policy (NEP) is an informative illustration of using welfare transfers to reduce long term income inequality among the three ethnic groups and to maintain regime stability in the long run.

The interactive relationship between equity and efficiency enhances the argument that resource redistribution and political consensus building are compatible as well. In the long run, the need to redistribute resources is simple: to avoid political violence caused by economic inequality. In this context social cohesion implies that there is a core of values, perceptions, and beliefs that a critical mass of the population shares. These values permeate different ethnic, social, religious, or any other types of groups that may divide the society. According to the sociological theory of stratification,[13] resource redistribution tends to follow the power structure of stratification, and yet technological innovation is a generator of surplus resources that boost the state's wealth. By enhancing political stability, welfare spending indirectly affects the level of economic growth. Similarly welfare transfers tend to reduce the level of income inequality that is inhibitive for economic growth.

Equity and efficiency may be compatible in the long-run, but not in the short run. Even more important, an effective income distribution is a long-term goal for governments, whereas avoiding political disruptions a shorter-term objective. Nevertheless, welfare transfers can reduce political violence in the short term, while in the long-term maintaining the level of income distribution at an acceptable level allows the welfare state to enhance institutional stability. Malaysia applied welfare programs that improved income distribution in the long term and through that mobilized the population around the common goal of economic development. In contrast, South Korea's welfare policies were more of short-term time span, targeting short-term political consensus to keep the growth momentum going. Hence, efficient redistribution of resources that reduces inequality is a long-term goal.

Welfare states that are sustainable and consistent through time can reduce income inequality and enhance the long-term stability of the political system. In the short-term, however, welfare programs are targeting political instability that can be immediately threatening to the political system. In this case, redistribution may reduce the probability of regime change, but it will not necessarily reduce income inequality. Governments may choose to attract groups that are essential for their survival, thinking about their short-term interest in remaining in power. In this case, inequality may actually increase among the various groups. A welfare system becomes efficient if the short-term goals do not undermine the long-term goals of equity and consensus-building.

It is fairly well established that political stability and economic growth are also interconnected.[14] Very few researchers have actually connected income distribution with political stability. Muller's[15] article deals with regime type, income inequality, and political violence. The critical question is whether income inequality causes political violence, regardless of level of development. If income inequality does not have any significant effect on the level of political violence, then any highly developed country should not consider income inequality a political issue.

Muller concludes that there is a definite positive relationship between political instability and income inequality. His results confirm that a country cannot emphasize economic growth, while ignoring the macro-economic effects of income inequality. Moreover, intermediary regimes (in terms of responsiveness) are prone to political violence compared to those that have either low or high levels of political violence.[16] The relationship among political violence, income distribution, and welfare expenditures is critical, as it determines the extent to which income inequality causes political violence. The relationship between political instability and income distribution is a rather elaborate one. There is no indication that extreme inequality is the necessary and sufficient condition for political violence to ignite. Perceptions of the actual level of deprivation of the various groups are also critical and they need to be present for an unequal distribution to generate political violence.

For any government, controlling political instability remains a practical goal. Aside from the eradication of the causes of political instability, it is common practice among all types of political systems to mobilize the population around institutions, which are acceptable either to a significant majority or to essential segments of the population. Welfare institutions were created as a response to the likelihood of political violence (Germany) or as an effort to unite the whole population in the common effort of warfare (England). Thus, welfare programs constitute an effort by states to build social cohesion and reduce the possibility of political violence.[17]

If we accept the argument that welfare programs reflect an attempt to create social cohesion, along with redistributing resources, then we can explore how the state uses its programs to promote sustained economic growth. This trend is not unidimensional, but it reflects the capacity of the state to interact with domestic and external economic and demographic factors.

In the long-term, political goals of income distribution and political stability are strongly related to the level of economic development. As the literature indicates, each variable is a critical part of the larger puzzle regarding the choices that governments make. Although trade-offs are present in any system, this line of reasoning does not always circumscribe social choices. The socio-economic theories consider the welfare state a response to both industrialization and democratization.[18] Both processes alter fundamental social structures and create the necessity of a mechanism to integrate the society (modernization argument). The initial role of the welfare state was to build the necessary social cohesion for sustained economic development. To secure the participation of all socio-economic classes in the productive process, the government needs to integrate the population. To that extent, the two functions of the welfare state—resource redistribution and social cohesion — are complimentary rather than antithetical.

REALITY CHECK: PROBELEMS AND CHALLENGES OF CHINA'S NEW SOCIAL SECURITY SYSTEM

Just like many other developing countries, how to reach a relative balance between resource redistribution and welfare transfer to promote a long-term economic growth appears to be a formidable task to China in its effort to build up an ambitious social security system because it is a precondition for the nation's political stability. The most obvious difficulty that lies ahead is how to redistribute the nation's wealth to narrow the gap between resource-rich regions and resource-poor regions. The imbalanced economic development between coastal regions and interior regions in the past decade has already generated inter-regional animosity, and in addition, growing inequality of incomes between occupational groups in cities further stratifies the society and aggravates tensions between social classes. Hence it becomes critical for the state to ensure a justice of resource redistribution for welfare transfer.

From socio-economic perspectives, problems encountered by China stem not merely from lack of sufficient funds, but more importantly from its overall structural strains — a combination of political, economic, and social constraints that hinder resource redistribution. Structurally, there is an incompatibility between liberalized economic forces and resistant political system as the latter itself is in fact in a painful, but reluctant transition in adjustment to the challenges brought up by reforms toward market-oriented capitalist economic system, though being labeled as "socialist system with Chinese characteristics." This incompatibility indicates that the concern over political stability has still remained a priority in the state's policy-making process in welfare transfer — more resources are still being distributed to those less productive SOEs, and on the other hand, the structural incompatibility also leads to waste in resources allocation, and for worse, creates an ample room for official corruption.

Economically, a deepened economic restructuring (for example, the reform allowing for bankruptcy and privatization of state-owned enterprises) results in a dangerously high rate of involuntary unemployment, particularly in urban regions where state enterprises employees had once enjoyed full retirement pensions and medical benefits. In 1997, China's major cities' unemployment rate was 8–9 percent, and quickly passed over 10 percent, and reached about 15 percent by the year 2000.[19] Yet, lack of reemployment training programs, coupled with the not fully opened labor market, makes society more susceptible to instability.

Street protests and workers' strikes are not uncommon as frequently reported by overseas mass media (though not openly reported in China's state media). The nation is also plagued by rising crimes in cities. Because of this vulnerability, the state's resources have been disproportionally allocated to the maintenance a large corps of armed police for social control. Socially, China's decades' long enforcement of one-child family planning policy has produced an unintended social consequence — the withering of traditional family roles as a vital means of elderly support. A young couple, both as the only child of the family, experiences substantial difficulty in bearing the cost of taking care of four aged parents (his or her own parents and parents-in-law). This problem will be more acute in rural areas where social welfare protection is extremely weak.

While the pace of industrialization will inevitably weaken the traditional family structure as evident in many other counties, this transformation would be much harder for China as the social problems stemming from its one-child family planning will require more resources to make its comprehensive social security system sustainable. Another consequence of one-child per family policy is the forthcoming of aging population in China, which means society would have less and less productive population to support more and more retired labor. Hence, the congruence between the short-term and long-term goals of the state's social welfare policies becomes critical to ensure that the welfare transfer is to be carried out to the extent that it will not impede the economic development.

Yet to achieve social justice of resources redistribution hinges upon the logistical support of civil society. China, however, traditionally lacks the infrastructure of civil society. In the relevant literature, a civil society is commonly believed to be the source of societal wealth to be mobilized to bolster social welfare systems. As Mann[20] points out, a strong civil society is key to the power of a strong state to enforce its policy, not vice versa. In the case of China, the near absence of non-governmental charity organizations is a clear sign of a weak civil society. As compared with China, some developing countries such as Malaysia, South Korea, and Taiwan, made a great effort to build a civil society as a stepping stone for a unified social security system.

Although the size of the countries comparatively to China indicates significant differences in the design and the implementation of social security policies, two general rules are available to be a useful reference to China. First, a consistent effort must be made to bring harmony between resource redistribution and social justice. Secondly, a broad tax base must be created to generate resources needed for sustained economic growth, which is the indispensable supply-side of any kind of social welfare programs. Thus, a civil society paves the way for multiple-sources of funding for a social security system, and to achieve this goal, China seems to be left with only one choice: to reform its political system and make it compatible to market economy and representative democracy. Any detour from this goal would only yield short-term gains in return, but at the high cost of long-term benefits.

For China to develop the infrastructure of civil society, there is an urgent need to set up an effective legal system to protect the social justice of resource redistribution. In legality, China currently lacks a powerful legal-rational environment to effectively protect and enforce the implementation of its new social security system. From the 1950s until the end of the 1980s, China had no systematic legal codes relating to social insurance, and even in the past decade, China's legislature has been very slow in making social security and welfare laws.

The answer could be found in the limitation of China's own legal development. As in many other areas, China's legal system is, too, in transition, but whether the reform would bring the system toward formal legalism remains uncertain and questionable,[21] for the existing political system remains resistant to any substantial change of legal codes to replace its conventional control mechanism characterized by top-down "administrative orders," which is considered to be the corner stone of China's social-legal system.

As we have learned from the experiences of many other developing countries, lack of legal-rational protection will make any kind of social security system less effective, and susceptible to politically motivated policy change of the incumbent government,[22] with the result that the system turns out to be a source of reinforcing the existing inequalities rather than alleviating social poverty and tension as originally intended.[23] On the contrary, protective laws ensure the governmental commitment to a social security system to be improved by administrations in succession as clearly revealed in the social security history of many developed countries. Without laws, justice cannot be guaranteed in terms of the management and supervision of investment-based system of individual accounts. Nor can good returns for such investment be promised when market is not fully open.

Due to current structural constraints, China clearly lacks a broad tax base from which to generate revenues needed for the system. Even if China has some resources to start the system, the question is how long it would last. Even for those highly developed countries, it is not uncommon for them to be debt-ridden in financing social security, and the financial burden induced has become a primary motivation for reform in those countries.

Take the United States as an example. Though not labeled as a welfare state in a strict sense, the United States has the similar financial problem with its long-established social security system; in fact, the U.S. social security system is only a government pension system and its supporting resources are mainly acquired through worker payroll taxes, that is, as a worker pays in his/her payroll taxes, he/she accumulates credits toward benefits. The current financial difficulty with the U.S. social security indicates payroll taxation is not sufficient to finance the system in the long run.[24]

As some scholars point out, the financial situation will become worse if those countries are experiencing fast aging population. Therefore, strategies in response to the problems have been proposed to reform the system by tapping more sources of revenues in order to increase economic efficiency and both inte-r and intra-generational equity. These strategies include: partially privatizing the social security system, investing part of the trust funds in the private securities for higher rates of returns, delaying the NRA (the Normal Retirement Age) from its current value of 65 to age 67, replacing social security with individual savings, and instituting employer-provided retirement savings.[25] The strategies aimed to improve social welfare programs in the western countries may well be a good lesson to be learned by China.

Therefore, what seems to be the most challenging task for China is how to finance its ambitious social security system. As a new social security system calls for more societal involvement in search for multiple sources of funding, there remains uncertain that how fast China will be able to generate enough founding sources for its new social security system.

The real difficulty lies not so much in cities but in the vast rural areas. For instance, there is a sharp disparity between economically advance coastal regions and economically backward interior regions in terms of peasants' personal income contributions to their old-age pension accounts. According to research data, in 1990, the aging population in China was 9 percent of the total population. The figure is expected to increase to 22 percent and 26 percent by the year 2030 and 2050, respectively.[26] These figures are important because most of aging population are and will still be in rural areas where historically there has been a very slow of welfare transfer. As Ding[27] warns, as one-child family planning shrinks the family size and industrialization attracts more rural young adults to cities, the traditional family-support system (i.e., dependency of aging parents on their adult children for a living) is collapsing. Therefore, if there is no basic social security net, the rural aging population will cause a serious social problem.

Nevertheless, China's peasants have no enthusiasm for incomes contribution to their individual accounts of old-age pensions. Recent statistical data indicate that there are only less than 20 percent of rural population that have participated in the old-age insurance, the majority of which come from four coastal provinces: Jiansu, Zejiang, Guangdong, and Shandong.

Even so, as Yang[28] points out, for those who have already joined the program, their average personal contribution is about 250 RMB out of yearly income 3000 RMB, which is far from what they will actually need to support themselves by the time they are retired from work. For example, if a peasant starts his personal contribution to his retirement account at the age of 40, he would only get 27.5 RMB for his monthly allowance by the age of 60, much lower than the poverty line measured by China's own living standard. The above calculation, however, does not include the inflation factors that would push the living cost even higher. Liang [29] also warns that China's entry into the WTO would add more uncertainty to peasants' social security even in economically advanced rural areas as TVEs, currently the main source of peasants' welfare funds, would inevitably encounter a ruthless competition in the world market and face more risks of being bankrupt. If that happens, resource depletion would be a major setback to not only the welfare transfer process but also to sustainable economic development.

China's peasants' incomes have increased slowly in the past two decades with this growth disrupted by a reverse trend in some years when the nation was hit hard by natural disasters such as flooding along the vast Yangtze River areas. How to raise the incomes of peasants is one of the key topics in China's current research in rural social security system because it has direct association with the future of the new system that is aimed to combine social funding with individual accounts.

One proposed solution is to raise the price of agricultural products, or increase the government subsidies. Chen[30] argues that raising the price of agricultural products would be detrimental to long-term economic development, and he opposes too much government intervention and suggests that a better solution lies in technological innovation and restructuring agricultural production to fit into world market need in the face of globalization. But by citing the "Net Income Stabilization Plan" of Canada, Ding[31] contends that government intervention to protect the peasants' interest is necessary, especially after China's entrance into the WTO.

Yet what we know is that government subsidies and price barriers will be quite limited under the regulations of WTO. Therefore, once peasants' incomes could not be increased to make them able to put more money into their individual accounts, then the amount the state treasury would contribute to keeping up the rural social security programs without risking slowing down overall economic growth is truly a dilemma that can not be resolved easily. Thus, before China's economy is fully developed, a unified social security system, like the one in the western countries, has a long way to go. It is most likely that in the foreseeable future, China's social security programs in most rural areas will still be largely limited to social relief and special assistance.

CONCLUDING REMARKS

Despite the existing problems, China's effort to build up its new social security system has so far been impressive, particularly in urban regions where progress has been made in the extension of labor insurance coverage to both public and private sector workers. Growth of private enterprises and the rise of middle class strata as a new social stratum will push China move further into market-oriented economy to generate more resources to be redistributed in welfare transfer. As discussed previously, the taxation system can be an effective means in accumulating revenues to finance social welfare programs, and China's on-going taxation reform targeted at the new rich is one substantial step toward broadening its tax base.

Also, an impressive progress has been made in resource-rich coastal rural areas in terms of social security coverage. In the past two decades, China's private enterprises increased dramatically in number, among which township and village-based enterprises (TVEs) play a crucial role in contributing to social security net. According to China's 2000 *Year Book of Statistics*, there are more than twenty million TVEs in China.[32] Wealth generated from these enterprises has become a vital source of funding for local peasants' welfare. Since the bulk of profits are retained within the community, most benefits of TVEs growth remain in the community.

But concerns are now expressed about how to manage social security funding more efficiently without creating burden for local enterprises to jeopardizing economic incentives,[33] and how to convert local resources into an income stream to maximize the interests of peasants. Critics also point to problems arising form local governments intervention in TVEs to undermine their effective incentive structures.[34] With these concerns, Zhou Xiaochuan, currently president of People's Bank of China contends that less government involvement in managing the social security fund is key to the guarantee of efficiency and he proposes that there is a need to establish a "quasi-government administrative agency responsible for the administration of social security fund."[35]

Since the early 1990s, China has gradually transformed its unique "pay-as-you-go" system to a partially funded system based on individual accounts. The success of such transition toward investment-based system requires the future growth of aggregate wages for workers as well as the growth of capital market. Thus China's reform in its financial market will be critical in the future for a high return of investment which would make a partially funded system more sustainable.

According to Dai's[36] research, there is an ample room for development of commercial insurance in China's medical care market. According to his research statistics, in the late 1990s, there was a 200 billion RMB market for medical care in China, of which 30 percent came from social insurance, and only 1 percent from commercial insurance. It is therefore reasonable to expect that if China's economic growth could be sustainable, more individual incomes would stream into commercial insurance.

As Feldstein[37] comments, in a paper presented at the Beijing conference of the Chinese Economics Society, as more countries are shifting from "pay-as-you-go" system to funded system, China appears to be on the right track in social security reform. Feldstein makes an optimistic estimation about the future of such old age pensions system in China. When China's whole real aggregate wages grow at approximately 7 percent per year in the future decades, which is possible according to the World Bank,[38] along with the savings in a funded system with a 12 percent rate of return, then "one dollar saved at age 45 will grow to $30 at age 75, about four times as much as in a PAYGO system in an economy;" therefore, "the funded system can provide the same level of benefits with a saving rate equal to only one fourth of the rate of tax required in the PAYGO system. If the PAYGO system requires a tax equal to 20 percent of wages to provide a given level of benefits (e.g., benefits equal to 60 percent of concurrent wages), a funded system with a 12 percent rate of return on capital (in comparison to the 7 percent rate of growth of aggregate real wage) can provide the same benefits with savings equal to 5 percent of wages."[39]

Clearly, one direct benefit of funded system is to relieve the financial burden of the state and tax burden of society, thereby helping stimulate a long-term economic growth (but the problem is how to raise the funds). Yet the question remains as to whether China is able to keep up with the current economic momentum. However, if the funded system is primarily based on investment in government bonds and bank deposits (as China is currently doing), a high rate of return would be questionable in the long run. Thus opening financial market is essential in China's ongoing social security reform.

Chu, Song, and Deng,[40] too, expressed an optimistic about the enormous potential for China's commercial insurance market, and believe that the significant increase in per capita income of China by predicting its annual growth rate of no less than 6–7 percent would provide an ample room for the development of citizens' life insurance in private insurance sectors.

Song and Chu[41] suggest that the way to ensure the funding sources for a social security system, as in the case of the United States, is to explore an international financial market of risk options for high return. But they seem to forget that by most accounts, China is incomparable to the United States in terms of its history and political arrangements. So the future of China's effort to fully develop its new social security system will again depend upon both the sustainable economic growth and the reform on its political infrastructure, because to successfully manage huge social security fund investment and make it grow over time requires a strictly supervised administration in addition to a group of professional experts.[42] Without these preconditions, any attempt for China in the future to explore high-yield, but risky international financial market would be unlikely to succeed.

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