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# The Relationship Between Social Policy and Economic Policy: Constructing the Public Burden of Welfare in China and the West\*

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*The purpose of this paper is to explore the "public burden" characterization of welfare in two very different economic and cultural settings. Long familiar in the West, its causes, nonetheless, have not been examined. Moreover, as we demonstrate, an identical orientation to welfare is also found in China. To understand this apparently universal construction of a negative relationship between social policy and economic policy, we employ a novel tripartite framework. This analysis starts with economic ideology but concludes that two additional explanatory factors are necessary: institutional or regime differences and, in the case of China, the level of economic development*

**Keywords:** Public Burden of Welfare, Functions of Social Policy, Welfare Ideology, Social Development, Welfare Regimes, Chinese Welfare System.

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## Introduction

This paper considers the issue of whether the welfare system in China differs from those in the West in the treatment of the relationship between economic policy and social policy. Our starting point is the proposition that social policy contributes, directly or indirectly, to economic production and wealth creation — what in the European Union has been called the “productive factor” or investment dimension of social policy (European Commission, 2000; Bonoli, George, and Taylor-Gooby, 2000: 122). In practice, however, there is a persistent tendency to both subordinate social policy to economic policy and to portray the former as a burden on the latter in welfare systems, East and West, regardless of their specific regime. Our aim is to explain this universal tendency.

Literature on the relationship between social policy and economic policy overwhelmingly focuses on the functions of social policy to economy, be it negative, positive, or of a contingency nature (Atkinson, 1997; Atkinson and Stiglitz, 1980; Barr, 1987, 1989, 1992; Bonoli and Taylor-Gooby, 2000; Esping-Andersen, 1994; Gough, 1996; George and Wilding, 1984; Kuznets, 1955; Pfaller, Gough, and Therborn, 1991; Okun, 1975; Korpi, 1989; Rubinson and Browne, 1994). For example, Gough (1996: 228) advances a contingency position: “different welfare regimes exhibit different configurations of effects on performance and structural competitiveness.” This suggests that there might be a trade-off between social equality and economic growth (Okun, 1975; Esping-Andersen, 1999) on some occasions, while on others, such as the contribution of education spending to the development of human capital, there is a beneficial relationship between social policy and economic production (Rubinson and Browne, 1994; Bonoli, George, and Taylor-Gooby, 2000). Despite the fact that regime type moderates capitalist logic, however, this functionalist approach towards relationship between social policy and economic policy does not explain the common tendency to subordinate the former to the latter. Indeed, it was taken for granted in the original welfare regime thesis (Esping-Andersen, 1990).

To explain this conundrum, we need to examine the relationship between social policy and economic policy. Neo-Marxist theory (O’Connor, 1973; Gough, 1979) is a good starting point, despite its well-known deficiencies, because it has examined this relationship extensively. With very few exceptions (Ferge, 1979), moreover, the social policy literature has been concerned mainly with Western capitalist societies until very recently (Walker and Wong, 1996, 2004). Indeed, the neo-Marxists were the guiltiest of neglecting non-capitalist

societies (Klein, 1993: 8-9). China, as a state socialist society, offers a contrasting example for comparative analysis and is of increasing interest to Western scholars. It has a strong tradition of work ethic, which is especially relevant in studying the relationship between social policy and economic policy. Also, unlike the former Soviet bloc countries, China is a developing country. This provides added impetus to revisit some of the fundamental issues concerning the welfare state as an institutional arrangement in the context of social and economic development.

Thus, this paper re-examines the relationship between social policy and economic policy first. Then we look at why social policy is not seen as beneficial to economic growth and explain it with reference to different welfare regimes. The case of Reformed China is then discussed to see whether the same assumptions apply there as in the West. For the purposes of comparison, we emphasize the importance of ideology and economic ideology in particular — in constructing the public burden. But institutional or regime differences and, in the case of China, the level of economic development are also important explanatory factors. This tripartite framework both extends the neo-Marxist account of state expenditure to reveal a hierarchy of legitimacy depending on their functions with regard to production, and helps to answer the criticism that such analyses have ignored state socialist welfare systems.

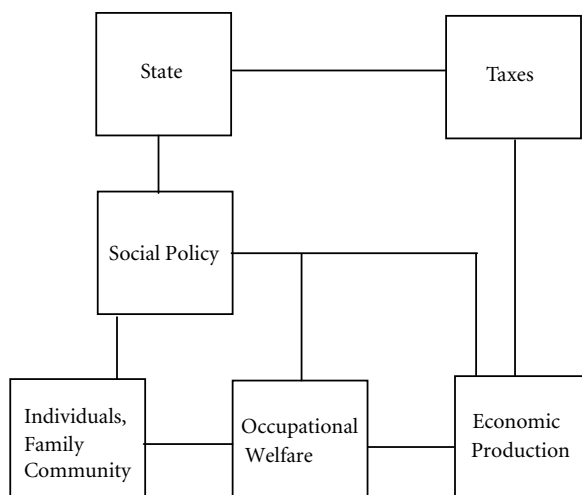
## Is Social Policy Complementary to Economic Policy?

The institutional arrangements of capitalist societies enable us to identify the structural source of the negative conception of social policy as a burden on the economy. In O'Connor's analysis (1973: 7), nearly every state agency is involved in both accumulation and legitimation functions, and nearly every state expenditure is part social investment, part social consumption and part social expense. Social investment and social consumption both comprise "social capital" — the former enhances productivity of labor through, for example, education, training and employment programs, while the latter decreases the reproduction costs of labor. Thus, in theory, there should not be any contradiction between social policy and economic policy if the former is directly or indirectly supportive of the economy and wealth accumulation. In practice, however, social policy is commonly constructed as a burden on the economy; it is perceived as extracting resources from production and using them for non-productive functions (Titmuss, 1968; Walker, 1984). In other words, social policy does not have its own legitimate and autonomous domain (Beck, van der

Maesen, and Walker, 1997); it is the “poor person’s economic policy” (Miller and Rein, 1975). How can we explain this co-existence of the “public burden” conception of social policy and the contrasting complementary relationship between it and economic policy?

According to O’Connor’s analysis (1973), the contradiction between accumulation and legitimation is structural, which, in Marxist terms, means that its resolution depends on the removal of capitalism. If the accumulation function is seen as having two levels — one societal, and the other individual — then it becomes clear that profit maximization (i.e., wealth accumulation) at the individual level tends to be enhanced by transferring production costs to society. Thus, by the very nature of capital accumulation logic, individual interests act *against* the collective interest (the neo-liberal right asserts the opposite, of course: Friedman, 1962; Murray, 1984). The likely scenario is that, everything being equal, the state has to intervene to promote public welfare and ensure that “externalities” are prevented or shared and that individuals do not become “free-riders.” Therefore, at the individual level capitalists in pursuit of profit maximization are unlikely to pay voluntarily for the cost of wealth accumulation and social legitimation if left alone without coercion from the state or moral sanction by society. In other words, there is an inherent necessity for the state to act to ensure that wealth accumulation and social legitimation are not contradictory to each other at the societal level. These contradictions can be managed in practice if not eliminated (Klein, 1993: 5). It is obvious that state intervention at the societal level is structural; otherwise, we cannot explain acceptance of welfare state programs across all social classes in advanced industrial societies (Ringen, 1987; George and Miller, 1993; Pierson, 1991). Like the convergence theory (Hill, 2006: 24-25; Kennett, 2001: 63-67), however, this structural-functional analysis is unable to account for the variations among different welfare regimes.

Once a welfare state is established, therefore, the logic of its institutions begins to operate. People become accustomed to taxation for transfers and are likely to regard social policy as an important component of social arrangements in advanced societies. In contrast, taxation for redistribution is less likely to be accepted in the pre-welfare state societies due to the lack of experience of the benefits of a welfare state and lack of trust in state institutions. In such societies, social welfare is generally confined to the very deprived on the basis of charity; social services such as health and education are often regarded as non-welfare items and extended to the general population.



**Figure 1.** Welfare Capitalism - Separating Economics from Social Policy.

### *Ideology, development and social policy*

Above is basically an institutional interpretation of the neo-Marxist analysis of the welfare state in relation to the apparent structural contradiction between its accumulation and legitimation functions. According to this perspective, the conception of social policy as a burden on the economy is structural. Would we expect differences between welfare regime types? It might be hypothesized that, because of their provision of welfare on the basis of decommodified citizenship status (Esping-Andersen, 1990, 1999), social democratic welfare regimes would be less likely than others to perceive social policy as a burden on the economy. In contrast, liberal welfare systems tend to employ restrictive criteria as deterrents against “welfare dependency” and, therefore, are more likely to start from the assumption of burden.

Figure 1 illustrates the structural arrangements of the capitalist welfare system that assumes separation of economics from social policy. In theory, the state is separated from the economy; hence, this institutional pattern facilitates the emergence and development of different, and often diverging, objectives (this diagram appears to ignore the social division of welfare thesis, but we are examining institutional relationships within capitalist societies where this separation is commonplace, hence the need for Titmuss’ 1968 analysis). The logic of state institutions is the pursuit of goals and objectives pertaining to the general population such as political unity, social stability and social equity. In

the meantime, the market tends to resist state intervention on the basis of its logic of profit maximization, because state intervention would lessen wealth creation. Therefore, taxation is seen as a “waste” of productive resources. Other things being equal, regulations as well as state and tax expenditures for the maintenance or reproduction of labor would also be regarded as damaging to economic production. In this light, the provision of social welfare is seen as the state’s responsibility, because its primary goal is “social.” In other words, the institutional arrangements of the capitalist welfare system foster the ranking of “economic” over “social” functions. Thus, negative portrayal of state expenditure in terms of extraction of production resources from the economy is institutionally constructed.

Despite the stronger tie between social policy and economic production in the Nordic social democratic model, the thesis that social policy is constructed as a burden on the economy still stands because resources for social expenditure are extracted from the economy. The relatively stronger fusion of social policy and economic policy in Sweden, for example, implies that there is a greater institutional need for labor to be recommodified so that high levels of decommodification in non-labor market policies can be provided. In other words, the combination of social policy and economic policy, in the case of social democratic welfare regimes, exemplifies the institutional paradox of high levels of decommodification to be matched with the correspondingly high level of recommodification. Thus, we can see the value of neo-Marxist theory and its critical analysis of the crisis of capitalism in explaining the universal conception of the burdensome role of social policy, even in the Nordic social democratic welfare regimes.

Nevertheless, regime theory enables us to appreciate differences among welfare regime types. The Nordic model, in terms of the provision of universal services, which treat beneficiaries on the basis of their citizenship status, i.e., citizenship rights, helps to counteract the conception of social policy as a burden. When it comes to active labor market policies, even Esping-Andersen (2001: 358) admits that Nordic social democracies, which are so dedicated to universal services, simultaneously sponsor weaker job rights than the formative Mediterranean regimes.

Both neo-Marxist theory and the institutional perspective are used here to understand that even the most advanced social democratic welfare regimes in the Nordic model are not exempt from the construction of subsidiary and burdensome roles of social policy to economic development. Despite recent efforts to extend the analysis of regime theory to East Asian welfare systems (Gough, 2004; Hill, 2006: 33-34; Holliday, 2000, 2005; Ku and Finer, 2007;

Walker and Wong, 2005), it is undeniable that the Chinese case offers a serious challenge to comparative analyses of welfare regime theory (Hill, 2006: 35; Kennett, 2001: 87). China lacks a Western-style political democracy and is not a fully capitalist economy; nevertheless, it had managed to provide sufficient social protection for decades to its urban population via the work unit, or *danwei*, welfare. Thus, the Western construction of the welfare state is ethnocentric (Walker and Wong, 1996, 2004). The inability to explain the Chinese case highlights the limitations of welfare regime theory as a universal one applicable to both East and West. The basis of China's exceptional status lies in its once good record of providing comprehensive welfare, akin to the "cradle-to-grave" provision in the idealized Western welfare state, in a non-capitalist developing economic setting.

Figure 2 illustrates a different institutional arrangement in the case of China's pre-reform state socialist welfare system which, even in its reform era, allows a fusion of economic functions with social functions in the form of work units (*danwei*). These are state-owned productive enterprises (SOEs) or government bureaus through which the state decentralizes its tasks of national development and economic growth. Through this institutional arrangement, work units did not have to consider the economics of welfare benefits to their workers and the costs for commodities or services to be sold in the market before economic reform was introduced in 1978 and in the early period of reform. Indeed, even in this non-capitalist system, the social functions of furthering welfare of employees can be socialized and managed by non-economic units outside of the work units; but the lack of the need to consider cost efficiency seems to preclude pressures for the socialization of social welfare.

On this basis, two more factors account for the comprehensive role of work units in molding economic and social functions. First, work units are part of the state apparatus, the administration of socialized welfare is by itself a duplication of state efforts. Secondly, social equality can also be achieved by the state's central planning mechanism. In other words, the use of socialized welfare for the achievement of this social objective is, by definition, also redundant. In practice, "socialized" welfare outside of the work domain (i.e., work units) can be found in two forms. First, there is social relief that is specifically designed to cater to those who do not have a work unit to look after their needs. Second, there is social welfare which is organized under the principle of economies of scale; for instance, establishment of hospitals and tertiary education institutions are necessary because they are unlikely to be within the financial and managerial capacity of most of the individual work units.

This sort of institutional arrangement seems to preclude the need for profit



maximization from the perspective of individual work units. If this is true, we should not expect to find the public burden conception under this welfare system, but, in practice, this is not the case (Dixon, 1981; Leung and Nann, 1995). The legacy of traditional beliefs, such as work ethics, reinforces the public burden construction, as does the allocation of social assistance to those without family or work ability. Moreover, the absence of equivalent levels of welfare benefits being available to *all* Chinese citizens, not just to poverty relief recipients but also to rural peasants, indicates that lack of a profit maximization objective does not preclude a dual approach to welfare distribution. In the first place, work status embodies the societal belief in contribution to welfare. Secondly, the developing status of the economy means that the state does not have sufficient resources to cater to the needs of the rural population at a level similar to that of the urban residents and that it is orientated primarily towards production. This means that social policy is a function of wealth accumulation which, in China, is an urban phenomenon.

In sum, institutional arrangements and ideological preferences are both essential to understand the relationship between social policy and economic policy in different societies. Furthermore, this relationship is also affected by a country's developmental stage. Thus, the construction of the public burden thesis of welfare is not only institutional, it is also part ideological and part developmental. Both neo-Marxist and regime theories fall short of offering convincing explanations of non-capitalist and non-Western welfare systems in terms of the relationship between social policy and economic policy.

Our analysis of the public burden thesis suggests that social reality is normatively interpreted. In theory, social policy either directly or indirectly contributes to economic production through various state expenditures (consumption, investment or expenses). However, three major contextual factors — developmental, ideological and institutional — underpin the public burden thesis and affect the conception of social policy as either contributing to or detracting from economic production.

## The Case Study of Reformed China

A case study of Reformed China illustrates the different developmental, ideological and institutional factors. China is a less developed country with a low per capita GDP, and literature on welfare regimes has focused almost exclusively on post-industrial countries (Jones, 1993; Walker and Wong, 1996, 2004, 2005; Gough, 2004; Hill, 2006: 35). In terms of the ideological factor,

China offers alternative ideas about socialism, ones that contrast with both the Soviet model and the Western conception of “socialism” which, following the collapse of the Soviet bloc, is often equated with social democracy. China’s brand of socialism is not entirely ideological; it is also a practicing socialist country characterized by a centrally planned economy. Now it is under restructuring to incorporate market mechanisms and principles. Thus, China has a somewhat different institutional set-up to those of Western welfare regimes. Its reform process, initiated by Deng Xiao-ping, aims to build a capitalist redistributive mechanism that socializes labor and welfare costs. This transformation from the predominantly centrally planned economy to “market socialism” facilitates a study of the relation between social policy and economic policy in two different systems (welfare capitalism and state socialism in transition) in one country.

The case study first examines the construction of the public burden thesis in China: how it operates, how it is maintained and if it changes over time especially in the course of economic reforms. Second, it examines how social policy in China contributes or hampers economic production. This is the question about the utility of social policy to economic production. It is particularly interesting to observe why and how reforms conducted in China, are altering the institutional arrangements pertaining to social welfare. Third, we include the role of social policy in family life which is related to economic production. This reflects the welfare mix (Johnson, 1987; Wong, Chau, and Wong, 2002) and the feminist contribution to social policy which emphasizes the relationship between unpaid domestic labor in the family and paid employment (Lewis, 1992: 159-174; Sainsbury, 1994). In response to the latter, welfare state theorists now place greater importance on the role of social policy to the family than they previously did. For instance, Esping-Andersen (1997: 122-123) cites the examples of Spain, Italy and Germany where low levels of female employment rates were most probably due to the almost total absence of care provision for working mothers. Thus, social policy can serve as an effective instrument for shaping family life and for affecting economic production (in this example, labor force participation by gender).

### *The public burden thesis at work*

Surprisingly, the public burden thesis has been in operation in China since the inception of the People’s Republic, regardless of its level of development. For instance, principles of self-reliance and hard work, which underpin the work ethic, were strongly upheld in Mao’s era. The primacy of work is enshrined in

the Chinese constitutions; from the first one (The National People's Congress, PRC, 1954) to the present constitution (The National People's Congress, PRC, 1982), work was and is praised as the glorious duty of every able-bodied citizen. For example, the 1982 Constitution stipulates that "all working people in state enterprises and in urban and rural economic collectives should perform their tasks with an attitude consonant with their status as masters of the country (Leung and Nann, 1995: 38; The National People's Congress, PRC, 1982). Not only for the sake of building a new set of proletariat ethics and facilitating production, but the principles of self-reliance and hard work were also important in keeping grassroots organizations and the poor quiescent, regardless of their relatively inadequate resources which were portrayed as a matter of their own fate (Dixon, 1981: 16; Leung and Nann, 1995: 24; Mok, 1983: 271). In welfare administration, administrators have "the task of avidly seeking out the malingerers in any welfare nook and cranny" (Dixon, 1981: 25) in order to avoid the occurrence of "welfarism." Deng's reforms to socialize labor and welfare costs are often conceptualized as a "historical burden" (Shanghai Academy of Social Sciences, 1997: 69), "social burden" (Guo, 1994) or "economic burden" (Leung, 1992) because they fall on the shoulders of work units, dragging down their competitiveness. This is predominantly the outcome of an institutional pattern which fuses the economy with the state and operates within specific ideological and developmental contexts. Along this line of thinking, we can delineate the operation of the public burden thesis on two levels: institutional arrangements and policy.

Firstly, with the inception of state socialism, unemployment was eradicated because residents in the urban areas were provided with gainful employment by either SOEs or government bureaus, whereas rural peasants were given agricultural land in co-operatives (later communes, before Deng's economic reforms). Private enterprises were rare and on the verge of being nationalized. Access to employment (for peasants or workers) and welfare was basically a function of one's status. This was a rigid system of social and political control, and it performed a social stratification function. Regional migration from rural villages to urban cities and job mobility between work units were difficult to attain. By these systemic arrangements, both agricultural harvests and industrial products were centrally planned. Most important of all, work units provided secure employment, the "iron rice bowl" (Leung and Nann, 1995), and comprehensive welfare, "*danwei* administered society" (Wong, 1999), to their workers. In contrast, peasants in rural villages were only looked after in case of famine or poor harvest. Those who lost their working ability or did not have family fell within the poverty relief category of the "Five Guarantees

Households” and received state assistance at a bare subsistence level.

Given China’s geographical and population sizes, it is undoubtedly a major achievement that the constitutional guarantee of basic needs for its population has been maintained except in the periods of political upheaval (the Great Leap Forward and the Cultural Revolution) (Hussain and Feuchtwang, 1988: 36-37). However, this is not to deny the current existence of pockets of poverty and destitution in the inner and remote provinces in the north-west. It was only just over a decade ago that the central government in Beijing pledged to eradicate absolute poverty by the year 2000 (*China.com.cn*, 2008). Now, however, absolute poverty is no longer a critical issue in China although income inequalities may be. In the early years of the new millennium, the public discourse was about when China would enter the stage of Xiao-kang (“moderately well-off”) and how many Chinese would be included. China achieved it when its annual per capita GDP reached US\$1,000 in 2003. In 2004, the central government was able to provide poverty relief benefits to over 22 million urban residents who were poor according to a new official poverty measure as a result of its enormous tax revenue (Tang, 2005). The new poverty relief scheme, that is, the Minimum Livelihood Security Line (MLSL), has now been extended to most of the counties in the coastal provinces and some of the central and inner provinces.

This shift reflects the developmental factor at work because China has been under-achieving in the area of social expenditure (Table 1). Since the start of the economic reforms, the Chinese government had spent less than 1% of its national wealth on pensions (for veterans and their widows) and social welfare (including poverty relief and personal social services). Even if we take *danwei* welfare into consideration, the Chinese record of social spending has not been impressive. Including price subsidies and subsidies to loss-making enterprises, the largest percentage of social spending as a share of GDP was recorded in 1985 (12.38%) due to the need to finance the restructuring of SOEs at the time (Table 1). By 2005, the share of GDP allocated to social spending had fallen to 4.38%, when the spending on loss-making enterprises was small (this corresponds with the falling share of SOEs as a share of total urban employment — Table 2).

The minimal amount of national wealth for social spending in the pre-reform period and much of the reform era before the mid-1990s can be understood only if viewed from an institutional-developmental perspective. Here, “institutional” implies that the provision of *danwei* welfare for employed urban residents reduces the need for socialized welfare for secondary distribution (i.e., redistribution by social expenditure or conventionally defined social policy). Only the very few (i.e., the Five Guarantees Households) who did

**Table 1.** Social Spending as Percentage of Gross Domestic Product (GDP) in China (selected Years)

Year	GDP (in 100 million yuan)	As Percentage of GDP (in 100 million yuan)				Total social spending as % of GDP
		Spending on culture, education, health care	Spending on pension and social welfare*	Price subsidies	Subsidies to loss- making enterprises	
1978	3,645.2	3.09 (112.66)	0.52 (18.91)	0.31% (11.14)	/	3.92
1980	4,545.6	3.44 (156.26)	0.45 (20.31)	2.59 (117.71)	/	6.48
1985	9,016.0	3.51 (316.70)	0.35 (31.15)	2.90 (261.79)	5.62 (507.02)	12.38
1990	18,667.8	3.31 (617.29)	0.29 (55.04)	2.04 (380.80)	3.10 (578.88)	8.74
1995	60,793.7	2.41 (1,467.06)	0.19 (115.46)	0.60 (364.89)	0.54 (327.77)	3.74
2000	99,214.6	2.76 (2,736.88)	0.21 (213.03)	1.05 (1,042.28)	0.28 (278.78)	4.30
2005	183,084.8	3.33 (6,104.18)	0.39 (716.39)	0.55 (998.47)	0.11 (193.26)	4.38

\*This refers to social relief and personal social services for the orphans, elderly and people with disability.

Source: Calculation based on *Statistics Yearbook of China 2006*, retrieved August 6, 2007 from China data online:

<http://chinadataonline.org/member/yearbook/ybtableview.asp?ID=57575>;

<http://chinadataonline.org/member/yearbook/ybtableview.asp?ID=57575>;

<http://chinadataonline.org/member/yearbook/ybtableview.asp?ID=57433>

not have jobs or a family to rely upon were eligible for social welfare. The new poor, who are former SOE workers and are now unemployed or retirees, have to join the old poor (i.e., the Five Guarantees Households) for state relief. In other words, in line with the social division of welfare thesis, it is essential to include non-traditional items of spending, such as government price subsidies and the subsidies to loss-making enterprises (either as subsidies to wages or as work units expenses on their workers' welfare) as part of social spending by the state when examining welfare in China in terms of its socialist institutions (Table 1). In comparison to welfare capitalism, this institutional arrangement means that

**Table 2.** Employment of State-owned Enterprises (SOEs) as Percentage of Total Urban Employment

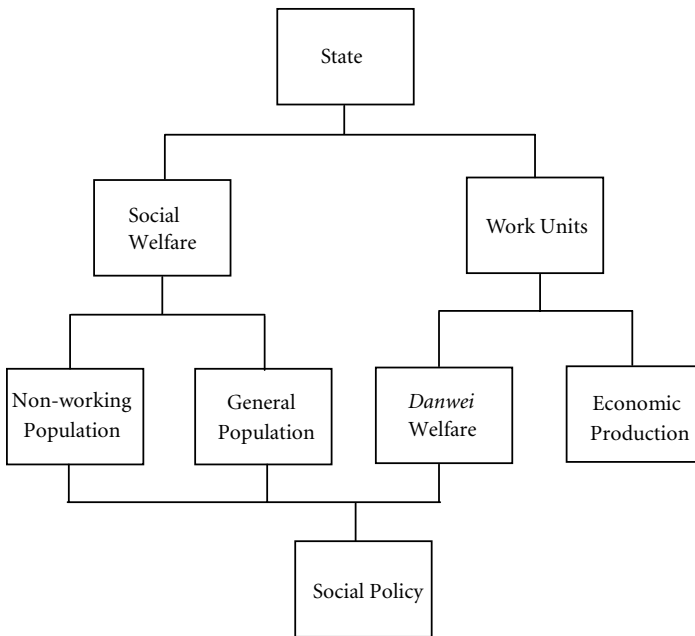
Year	Total urban employment (in thousands)	Employment of SOEs (in thousands)	Employment of SOEs as % of total urban employment
1978	95,140	74,510	78.3
1980	105,250	80,190	76.2
1985	128,080	89,900	70.2
1990	170,410	103,460	60.7
1995	190,400	112,610	59.2
2000	231,510	81,020	35.0
2005	273,310	64,880	23.7

Source: *Statistical Yearbook of China 2006*, retrieved August 6, 2007 from China data online: <http://chinadataonline.org/member/yearbook/ybtableview.asp?ID=57483>

China needs to put less of its national wealth into conventional social welfare. In the pre-reform era and much of the economic era before the mid-1990s, work units were accountable for the well-being of their workers; and everyone was supposed to have a job in Maoist China, albeit less so in China under economic restructuring (Table 2). Hence, the state socialist institutional pattern needs less of a redistributive system requiring the state to extract resources by taxation (Figure 2). In general, work units provide “comprehensive welfare” for their employees, although this is at the level of primary distribution.

But China’s system is also “developmental.” Table 1 shows the spending in both the rural and urban areas, even though schools and hospitals are heavily concentrated in cities. Given the shrinking share of urban employment in SOEs (the major component of *danwei*) since the second half of 1990s until today (Table 2), China appears to need more “socialized” welfare. The Western experience can, perhaps, be indicative. With regard to public social expenditures, the average share to GDP was 20.5 percent in 2001 among 23 OECD countries (OECD, 2005). This emphasizes the importance of the overall level of national wealth for social spending. But social learning and institutional development take time: The Chinese people do not have the experience of paying personal taxes. Their pre-reform state socialist institutions precluded the need to tax individuals for redistribution. Moreover, China in 2007 was still a developing country, with a low-medium income level and just under 60% of its population classified as rural residents.

Economic development brings about increase in wealth, and an increased share of it can be assigned for redistribution (Wilensky, 1975; Pampel and



**Figure 2.** State Socialism - Integrating Social Policy with Economics by the Case of Pre-reform China.

Williamson, 1988). This is the trickle-down thesis as advanced by neo-liberal governments in the West (Walker, 1990) and advocated by Deng (1993: 23) in support of the reform process. The recent shift in China's national development approach in favor of the Western region could be regarded as the "second step" in the "trickle-down" of Deng's reform process. The outcome of this "westward" development approach will take time to materialize; but the recent increase in poverty relief efforts by the central government suggests, perhaps, the direction of travel. Because of the increase in the central government's share of national revenue in relation to local governments, it was able to allocate additional resources for urban poverty relief; and this had resulted in a very large increase in the number of state benefits recipients — from 4.03 million in 2000 to 11.71 million in 2001 and 22.01 million in 2004 (Tang, 2005). Thus, poverty relief in China's case illustrates the operation of both institutional and developmental factors. In both theory and practice, economic reform hence speeds up the use of redistribution, as evidenced by an increase in urban poverty relief. Time will tell whether the coverage achieved in the poverty relief program will extend to other social policy programs.

Economic reform is about the use of market principles and mechanisms to restructure the SOEs so as to be more competitive. *Danwei* welfare in the new institutional arrangement is generally seen by the SOEs as a burden on economic production. Therefore, economic reform also means to reduce, if not to shrug off, *danwei* welfare as a production cost on SOEs. The policy goal of reform in this field is to change “*danwei* administers society” to “society administered welfare” (Leung, 1992; Wong, 1999). This means that the former institutional arrangement for fusing work and welfare is to change to one where the two are separated. In other words, the public burden thesis in Reformed China reflects the change in the belief system underlying economic production. Now, it is the individuals’ ability to further maximization of profits rather than the possession of employment status that is the preferred and increasingly used basis of entitlement to welfare. Thus, *danwei* welfare has been relegated to a subsidiary and burdensome position because it is no longer regarded as positive to the economy and, therefore, it must be “socialized.”

#### *The utility of social policy to economic production*

Socialization of *danwei* welfare has not proceeded smoothly. Table 1 shows the very small share of national wealth assigned to culture, education and health care over the reform years; even in 2005 when China could afford more, the respective share was at a minimal 3.33%. To some extent, this can be interpreted as a function of the productionist emphasis of the Chinese state in both pre- and post-reform eras imposed by authoritarian power, which classified it as a “growth state” (Klein, 1980). In absolute terms, China’s GDP had increased by more than fifty times between 1978 and 2005 (from 3,645.2 hundred million yuan to 183,084.8 hundred million yuan, respectively; see Table 1); therefore, the smaller proportionate share of GDP allocated to social consumption reflected a significant increase in absolute terms.

SOEs were the main employers in urban China in 1978, the year that Deng’s economic reforms were introduced, when they employed 78.3% of total urban employment (Table 2). Maoist full employment policy, however, was a thing of the past from the mid-1990s onwards; SOE employment dropped to 23.7% of total urban employment in 2005 (Table 2). Underneath this structural change is the belief that guaranteed, or full, employment resulted in economic inefficiency. The incorporation of market mechanisms has turned the past “positive” into a present “negative” in terms of utility to economic production.

In contrast, in the Maoist era, full employment and its accompanying comprehensive welfare was regarded as part of what was seen as the proper



production costs under a centrally planned economy. Today, *danwei* welfare occupies a residual position, and welfare is now assumed to be managed by “society” rather than by individual work units (Wong, 1999). So far, a larger share of national wealth has not gone to social consumption spending. This article is not concerned with why the state has not brought forth more wealth for redistribution (key factors are the productionist and public burden policy orientations) but with the implications of this policy for the conception of social policy. There are two current problems.

First, lack of resources from the state, in both the Maoist era and the reform period before the mid-1990s, means that the shift of responsibility for *danwei* welfare from individual work units to social welfare (i.e., from social investment to consumption) required redistribution of resources through the institution of taxation. The difficulty facing reform of the retirement insurance system is a case in point. The problem stems from the lack of a state pension covering all citizens regardless of their employment status and residence registration. But the lack of state finance only partly explains this transitional problem, the other part being the lack of a corresponding institutional arrangement (taxation) for the state to redistribute the resources necessary to finance a “new” state pension. Hence, the inadequately funded pay-as-you-go old pension system for providing income security for retirees has to rely upon the younger and profitable enterprises to subsidize older and unprofitable ones. Therefore, the profitable enterprises have the obvious financial incentive not to join a scheme based on intergenerational redistribution. If the “new” pension system were established at a time when the central government had more resources from taxation to fund it as at present, the transition of the pension system would face much less resistance from enterprises which are younger and profitable. Even if more resources are available to the state for the transition project, however, the state pension would nevertheless now be viewed as a burden on production (consumption rather than investment).

Second, the inadequate state finance for social policy (consumption) has pushed up charges for social services such as health care and education. There are two sides to this issue. Take the case of health care. On the service demand side, work units with aging work forces often find themselves unable to pay the medical bills of their ailing workers (Wong, Lo and Tang, 2006). As health care is part of the life-long comprehensive welfare, retirees are also taken care of by their work units. Medical expenses may vary from light to heavy between work units because of the different age structures of their workforces and in the sectors they operate. This is making productive enterprises with heavy medical expenses less competitive than those with younger work force. On the supply

side, hospitals have long suffered from insufficient central government funding. As a result, they have to rely upon user charges for drugs and medical investigations to make up the shortfall. The adoption of this strategy of cost recovery means that medical expenses are transferred to the patients. It is not entirely facetious to say that the problem for patients nowadays is not to get into hospitals but to get out of them because of their inability, or the inability of their work units, to settle the bill! For example, a survey in mid-China in 2003 found an overwhelming majority of urban residents (90 percent of respondents) worried that they could not afford their medical expenses in case of serious illness (Wong, Lo, and Tang, 2006:105). The reform process has transformed health care from social investment to social consumption and, in this process, it has become a more explicit burden to economic production.

Let us turn to the relationship between social expenses and economic production in the Chinese case. In theory, social expenses are indirectly related to economic production because they are public expenditures used to maintain social harmony and to cultivate a suitable environment for wealth accumulation. A typical example is poverty relief for those without a job. In the context of Chinese reform, there is an additional factor to be taken into account. Traditionally, the conception of poverty in the urban setting in China is about those without the ability to work or those without a family to rely upon. This is why there are so few people on the dole in urban China. For example, in a city like Shanghai with 6 million people who have urban resident registration status, there were only about 7,000 households in 1996 on poverty relief provided by the Civil Affairs Bureau (Wong, 1997: 41). But this situation has changed when economic reform succeeded and turned many laid-off workers to the status of new poor. This reflects in the surging figure benefiting from the new poverty relief scheme (i.e., MLSL) in Shanghai — it was 227.1 thousand households, or 3.3% of the urban population of Shanghai in 2005 (Shanghai Municipal Government, 2006). In other words, the Chinese government has come to recognize the need to pay the cost for social harmony and the indirect relationship between social expenses and economic production. As mentioned earlier, the central government once planned to extend MLSL to all rural areas. This intention reflects the role of economic development — the state, i.e., the central government in Beijing, has benefited from wealth accumulation and the newly established resource extraction mechanism — it can get a larger share of revenues in relation to local governments. This suggests that the newly established poverty relief scheme is closely related to the economic restructuring of the SOEs; but its core value lies in social harmony and forms part of the institutional transformation from state to market socialism. In other words,

social expenses are seen as structural components of economic production in Reformed China; they are functional to economic restructuring. But economic restructuring can only partly explain the change in poverty relief; we must also include developmental and institutional factors.

*Social policy in relation to the productive roles of the family and women*

Western academics have long had a high regard for China's efforts in enhancing the status of women (Croll, 1983). Even in the reform era, China has maintained one of the highest levels of female labor force participation in the world: 72.5% compared with 56.7% as the average for other medium human development countries and 51.5% for the OECD; and it also has one of the highest ratios of female to male earnings (0.66%) — although it ranks 71<sup>st</sup> out of 144 countries in the gender-related development index (UNDP, 2004). Because of China's developing country status, the study of social policy in relation to the family and women for the purposes of economic production is best approached by the tripartite framework — institutional, ideological and developmental.

The Chinese state under Mao played down the importance of the family in its attempt to construct his ideal society in the form of communes. In other words, in Maoist China, women, unlike their counterparts in capitalist countries, were not regarded as a reserve army of labor. Instead, Mao's new socialist men and women were not constrained by the market logic and could be loyal to the party and the state rather than the market or the family. Nevertheless, the family remained a strong social institution in Maoist China; the legacy of the traditional feudal past, which comprised a few thousand years' history, could not be eradicated within a short period of time. In this regard, the enhancement of women's status both inside the family and in the work domain served to lessen individuals' reliance on the family. This seems to have been ideologically driven even if the reality of women's domestic labor and the gender division, entrenched by filial piety, was not denounced.

Nevertheless, we can also take a functional approach to Mao's vision of women's new role and status in socialist China: women were seen by Mao as valuable human capital for the construction of socialism. They could "hold half of the sky" in the new socialist China (Chi, 1977). For this human capital function to operate properly, day nurseries became part of workfare benefits in any work units of significant size. Access to baby feeding rooms in work places had become a right of women and was enacted into law in 1992 (The Central People's Government of the People's Republic of China, 1992). Women could

rely upon the state through their contribution to economic production in exchange for higher status and power within the family and in society. This functional approach, however, is unable to fully explain the comparative advantages attained by Chinese women within the context of China's developing economy. Mao's ideological drive to build the new socialist men and women outside the family must also be taken into account.

This ideological drive had lost its steam when China came to Deng's era. Here, it is clear that an institutional theory, on its own, cannot capture the policy change initiated out of ideological preference. Nonetheless, economic reform means that the state has a vested interest in endorsing the family because, as a social institution, it can share the fiscal "burden" of social welfare spending. For example, lack of family support is the precondition for access to social relief in traditional rural and urban poverty relief systems despite the fact that the right to social security benefits is written in the Constitution of the People's Republic of China (1982). Both the family law and the elderly rights protection law stipulate that children and family respectively have the obligation to care for their parents and elderly members (The Standing Committee of the National People's Congress, 1996; The National People's Congress, 1980). Apparently, the laws are on the side of the state in placing the caring responsibility on the family; and this means that women with lower incomes and poor education, especially those in the older age groups, would be in disadvantaged positions in their search for status and power equality. In addition, an inadequate state fiscal capacity, at least in the initial stage of the economic reform, means that intervention in the Chinese case relies on regulatory powers for the protection of female workers from being exploited (Ngai, 1997). In this regard, the Chinese state under economic restructuring is handicapped in development terms by the inadequacy of its resources for redistribution and even for the financing of the enforcement of regulations. A return to the support for family values and the family institution has a practical function to lessen the demand for social care. However, the legacy of gender equality from the pre-reform era, akin to path dependency in the institutional theory, has prevented the Chinese state from an overt break with the past. Hence, the impacts on women in the family and the work domain are rather mixed. Gender equality is still upheld as a national goal and enshrined in laws for the protection of women. For example, China published a White Paper entitled "Gender Equality and Women's Development in China" in 2005 (The State Council Information Office, 2005) to discuss the progress made in promoting gender equality and women's development. In principle, female workers still have an equal right to benefits with regard to housing, health care and retirement in the course of welfare distribution.

Therefore, state socialist China, even in its reform era, is not likely to fit a bread-winning model of welfare regime (Sainsbury, 1994; Lewis, 1992).

Economic restructuring and the developmental nature of the Chinese economy have placed constraints on the role of women in the work domain, but these are not purely one-sided. Economic restructuring offers enhanced job opportunities for some working women, especially the young and the educated, to gain independent incomes. Equally important is that China's developmental status has not deprived it of the use of the state's regulatory powers to ensure gender equality. Ideology, partly a legacy of the Maoist vision of socialist new women and partly a reflection of institutional inertia, plays a key part in counteracting the capitalist logic of wealth accumulation in China's productionist development which, otherwise, would perceive of social policy for women as a burden on economic production.

## Conclusion

This paper has focused on the ideological, institutional and developmental foundations of the construction of the public burden of welfare by extending the analysis of Western welfare regimes to the case of China. It is clear that in both the West and Reformed China, the dominant ideology is an economic one, although other ideologies also held sway under pre-reform China (the Maoist era). While we started with this ideological dimension, it is clear that it is not sufficient in explaining the processes whereby the burden is constructed and, therefore, we took into account the institutional logics of both capitalism, as illustrated by Western welfare regimes, and state socialism. Despite the explanatory power of these two factors — ideological and institutional — it is essential in the case of China to make reference to the level of economic development, for example, to understand the emphasis on production, the massive differences between rural and urban areas, the inadequacy of resources for redistribution and the immature tax system.

This analysis of the relationship between economic and social policy started with the neo-Marxist account of the functions of social policy and added to it by showing that, in both Western societies and Reformed China, the institutional logic of wealth accumulation is inherent, and social policy is perceived as extracting precious resources from it even when it is directly or indirectly supportive to the economy in practice. Even the social democratic welfare regimes of the Nordic model cannot resist this institutional logic of capitalism. It leads to a hierarchy of economic legitimacy in social spending, from social

investment at the top to social expenses at the bottom. There are occasions, however, when this capitalist logic is the dominant influence in the construction of the public burden of welfare. The non-capitalist system of pre-reform China was able to distance itself from both a consideration of cost efficiency and the contradiction between wealth accumulation and social legitimation that underlie capitalism. Then, it was the combination of ideology and China's development status which produced the subsidiary position of social policy to economic policy and the idea of public burden. The addition of authorized state power enabled the imposition of its production-orientated development program.

The paper has illustrated the value of a tripartite ideological, institutional and developmental framework to understand the subordination of social policy and the construction of the public burden. Even if the ideological, institutional and developmental factors vary in importance, the fact is that social policy has been made subordinate to economic policy in both the East and the West except when it is institutionalized as a citizens' social right and when it has a non-capitalist institutional context. The comprehensive *danwei* welfare and women's enhanced status are examples. Perhaps these are instances of a "premature welfare state" (Kornai, 1997) where the communist economic system, free from the capitalist institutional logic, provided universal entitlements to its people out of all proportion of a country's national resources and the fiscal capacity of the state. Nonetheless, this illustrates the dominant acceptance of a narrow conception of social policy as both subordinate to economic policy and a negative drain on growth that limits state redistributive actions. There are variations in the extent of this constraint between welfare regimes, of course, but the fundamental logic remains the same.

More attention should be paid to the positive potential of institutional arrangements in social policy to mediate the macro-structural influences of capitalism or socialism, ideology and economic development. As in the Nordic case, strong citizenship rights might lessen the power of the public burden conception to stigmatize welfare recipients. Citizenship rights, however, cannot explain the lack of, or inadequate, social protection for the rural population and migrant workers who are also "citizens" in the People's Republic of China. China is not an exception in neglecting citizenship rights. Race, age, sex and ability are common aspects of discrimination in affluent and developing countries, both East and West. According to our tripartite framework, citizenship rights need to have a compatible ideological and institutional framework, backed up by administrative and financial resources (i.e., development). As in the case of the establishment and possible extension of the

new poverty relief system in China, it is only when the central government has control over sufficient resources for poverty relief that it has a chance to become a citizen entitlement despite the fact that it has long been stipulated in China's constitution that citizens have the right to social protection. It would undoubtedly help, too, if such social expenses could be reinterpreted as social investment, thereby constructing a more positive role for social policy. For example, Chinese authorities are always proud of announcing the achievement in alleviating some rural poor from poverty by "creating blood" — providing loans, skills training and sales advice for enhancing production and earning capacity of the poor — than "donating blood," hence injecting a positive meaning to poverty alleviation. Other more radical approaches such as structural social planning according to the need (Walker, 1984: 189) of the relationship between social and economic policy are beyond the scope of this paper.

We have argued that the welfare regime in China does not differ from those in the West in its treatment of the relationship between economic and social policies. However, the outcome for social policy is not entirely dictated by its economic functions — in practice, the tripartite framework of institutions, ideology and economic development operates to moderate the construction of the public burden.

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