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# **SOCIAL SECURITY AND ECONOMIC DEVELOPMENT: LESSONS FROM OTHER COUNTRIES AND EMERGENCE OF A MODERN SOCIAL SECURITY SYSTEM IN CHINA – AN INTRODUCTION**

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## **Abstract**

*This symposium focuses on the social security and welfare system in China. The essays in this collective research study various aspects of the change and reform of China's social security as a result of economic transformation in the nation. The authors cover a wide spectrum of issues, such as the social and political rationale of social security reform in China, the Western experience and lessons for China, pension and unemployment insurance, old age family insurance, labor migration and social security, and urban health care. These studies intend to help understand the process and problem in China's social security reform as well as revealing policy implications.*

This symposium focuses on the needs and implications of social security and welfare systems in China. The economic transformation in China during the past two decades has been one of the most important development experiences in the twentieth century. Since its inception in 1978, China's economic reform has been quite successful until this moment. Currently, the problems within the social security system have become a focal point in the reform, particularly when unemployment and bankruptcies are on the rise. The reform in the next phase may encounter political and economic challenges that the country has not known yet. The establishment of a sound social security system is critical for the ultimate success of China's economic reform. Without such a system, as discussed in this volume, the fruits of reforms would be foreclosed and the transition

toward an efficient market would be aborted in the presence of political and economic instability.

In this collection, *Yi Feng, Ismene Gizelis, and Jielie Li* deal with the political, economic and social rationale of welfare and social security. They argue that institutional stability depends on the consensus established between the government and the population. A relatively egalitarian distribution of resources is conducive to political stability and economic development. By contrast, long-term economic development can be undermined by skewed wealth distribution. Equity and efficiency may be compatible under a growth-oriented government, but not quite so under a government that focuses on its short-term survival strategies. A welfare system becomes efficient if the short-term political goals do not undermine the long-run goals of economic development. The cases of China and Malaysia are further compared and analyzed in this theoretical framework.

*George S-F Chu, Shunfeng Song and Dasong Deng* examine the Chinese social protection system within a broader framework. They review valuable U.S. experience and discuss policy implications relevant to the current reform in China. From the U.S. experience, ten suggestions are proposed on how to establish a social protection system with Chinese characteristics. Specially, they suggest the following. China should reform the social protection system gradually, broaden and improve social assistance and welfare programs, and encourage the development of private insurance. China should also establish a social protection system with multiple layers, determine insurance benefits based on basic needs, and ensure adequate funds for all social protection programs. Furthermore, China needs to establish an income record system, a poverty-line system, and a social protection trust fund commission. Finally, China must unify the management and administration of social protection programs.

*Wei Yu* examines problems in financing pension and unemployment insurance under China's economic transition. Before the economic reform, the state government provided many social programs that were financed through an economic plan. Contributions to these social programs were implicitly transferred to the State through the profit of state-owned-enterprises (SOEs). The economic reform shifts financial responsibility of these programs from the government to enterprises. Because many SOEs are unable to finance pension and unemployment insurance, middle-aged and retired SOE employees lost these programs although they contributed before the economic reform. He demonstrates that this historical debt is the key to solving financing problems in unemployment insurance and pension.

Without wealth redistribution through both central and local governments, middle-aged and retired SOE employees would become victims of the economic reform.

*Ling Li* analyzes the old age family insurance and social insurance from an economic and social development perspective. Her essay provides a general analysis of the trade-off between these two systems. Based upon the theory and experiences of other countries' old age insurance systems, she argues that when a nation's average income level is high enough, the social benefits of a properly designed social insurance program outweigh its social costs. Therefore, it is inevitable that a social insurance will replace the family insurance, as the economy and society develop. Based on the theory and experience of Western countries' social security systems, she provides a number of policy options for the on-going social security reform in China.

*Shuanglin Lin* bases his study on the fact that China is in the process of industrialization with a large portion of labor force migrating from the agricultural sector to industrial ones. An expansion of the pay-as-you-go social security system benefits current urban retirees, and may solve the social security payment problem faced by many state enterprises. Also, despite facing a declining population growth rate, China may not have a social security crisis under a pay-as-you-go social security system that covers the wage earners only. However, he argues that the expansion of the pay-as-you-go social security system may have an adverse effect on capital accumulation in the long run, hurting the rural old. Meanwhile, such a process either benefits or harms wage earners in urban areas before the completion of industrialization, and is likely to reduce wage earners' welfare after industrialization.

*Jing J. Xiao, Shunfeng Song and Yinzhou Xu* investigate workers' responses to the current reform of social security in China. Their findings based on a survey conducted in June, 1998, among 500 workers in Guangzhou are as follows. First, over eighty percent of workers support the reform. Second, there is a consensus that the responsibility for providing old-age insurance should be shared among individuals, society, and the government. Third, workers prefer a partially-funded pension system to either the pay-as-you-go system or a fully-funded system. Fourth, most workers do not want the government to increase the legal retirement age at the present time. Fifth, a majority of workers worry about their future retirement income adequacy and consider it a potentially serious social problem. Sixth, workers perceive that state-owned

enterprises offer the best pension plans while foreign-owned companies provide the worst. Finally, the survey shows that most workers desire and would participate in a program that would educate them about investment alternatives. These findings provide important insights for both Chinese policy-makers and future research into China's social security reform.

*Gordon G. Liu* and his group that includes *Renhua Cai, Zhongyun Zhao, Peter Yuen, Xianjun Xiong, Schumarry Chao, and Boqing Wang* present a preliminary assessment of China's urban health care reform experiment. In reforming its existing national health care programs for urban employees, the Chinese government initiated a new community-based insurance plan, which was implemented in a pilot experiment in 1994. Data for this study were derived from the first post-experiment survey. Their major findings suggest that the new insurance plan has led to some significant changes in cost and utilization measures, as compared to the previous health care programs. First, the incidence of seeking any care (versus no care) increased by 12 percent among the general population (users and non-users) under the new insurance plan. Second, when looking into changes in the composition of difference services, their study identifies a shift from the likelihood of using inpatient care to outpatient care. Third, total health care expenditures decreased by 8 percent among the general population and 18 percent among users. And fourth, among respective service-specific users, the utilization rates consistently decreased by 14 percent for outpatient visits, 11 percent for inpatient admissions, and 17 percent for length of stay (LOS) per admission.

The seven essays in this volume deal with the progress, problems and prospects of China's social security system from different angles. The findings in them are insightful and form a general guideline for the study in the social security system and welfare transfers in the largest developing economy in the world. Furthermore, the authors discuss policy implications and provide suggestions that have relevance for the formation of appropriate policy responses. Finally, the authors raise important questions that are not answered in this collection but will be, hopefully, tackled by the scholars who read this symposium.