
SOME SUGGESTIONS FROM THE U.S. EXPERIENCE ON HOW TO ESTABLISH A SOCIAL PROTECTION SYSTEM WITH CHINESE CHARACTERISTICS

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Abstract

This paper examines the Chinese social protection system within a broader framework. First, it points out some of the valuable U.S. experience. It then discusses policy implications that are 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, this paper suggests that China (1) reform the social protection system gradually, (2) broaden and improve social assistance and welfare programs, (3) encourage the development of private insurance, (4) establish a social protection system with multiple layers, (5) determine insurance benefits based on basic needs, (6) ensure adequate funds for all social protection programs, (7) establish an income record system, (8) establish a poverty-line system, (9) establish a social protection trust fund commission, and (10) unify the management and administration of social protection programs.

Introduction

The social protection system of the United States has been evolving for many years. It has accumulated a vast amount of experience through path-breaking changes and reforms. Some of this experience is general and broad. Although it has emerged in the design of a social protection system of a developed country, it can be used to help formulate social protection

policies for developing countries. Therefore, to the extent that the U.S. experience reflects basic principles of social protection, people in China should be able to learn from this in order to shorten the process of trial and error, and thus save a tremendous amount of time and money. In so doing, we should not ignore the differences in each country's social, political, and cultural backgrounds. We need to examine the development of the U.S. social protection system and selectively recommend those elements that are relevant to the special conditions existing in China.

There is a growing literature on the subject of social security reform in China (Deng et al., 1997; Hussain, 1994; Liu, 1991; Liu et al., 1994; Song et al., 1998; World Bank, 1997). However, most previous articles have focused on pension system and health-care reforms. Little has been done in other social protection areas such as social assistance, welfare programs, and private insurance. In this paper, we examine Chinese social protection within a broader framework. First, we point out some of the valuable U.S. experience that can help develop a better Chinese social protection system. We then discuss policy implications that are relevant to the current reform in China. From the U.S. experience, we propose ten suggestions on how to establish a social protection system with Chinese characteristics.

Reform the Social Protection System Gradually

The U.S. social protection system has evolved gradually over decades. Although politics was involved in the system development and expenditures on some programs at times exerted pressure on government fiscal imbalances, the system has not suffered serious consequences as in many other western countries. This is because the introduction of different types of benefits and the determination of benefit payments in the U.S. have been based on the actual economic status of the country. When the Social Security Act was first promulgated in 1935, for example, retirement benefits were limited to the worker himself/herself. In 1939, the Congress made the Old-Age Insurance system a family program when it added benefits for dependents of retired workers and surviving dependents of deceased workers. Benefits to husbands, wives, and widowers of 65 and over were started in 1950. The scope of the basic national social insurance system was significantly broadened in 1956 through the addition of Disability Insurance. Benefits were provided for severely disabled workers aged 50 or older and for adult disabled children of deceased or retired workers. Benefits to dependents of disabled workers were added in 1958. In 1960, the age-50 requirement for disabled-worker benefits was removed. The 1967 amendments provided disability benefits for widows and

widowers aged 50 or older. The 1972 amendments provided for automatic cost-of-living increases in benefits tied to increases in the consumer price index, and created the delayed retirement credit. The 1977 amendments changed the method of benefit computation to ensure stable replacement rates over time. Earnings included in the computation were to be indexed to account for changes in the economy from the time they were earned. The 1983 amendments made coverage compulsory for federal civilian employees and for employees of nonprofit organizations. State and local governments were prohibited from opting out of the system. The amendments also provided for gradual increases in the age of eligibility for full retirement benefits from 65 to 67, beginning with persons who attain age 62 in the year of 2000. The 1994 amendments raised the threshold for coverage of domestic workers' earnings from \$50 per calendar quarter to \$1,000 per calendar quarter. Adjustments in benefit payments were also made gradually. Retirement benefits are an example. The average monthly payment for retired workers was \$22.60 in 1940, \$43.86 in 1950, \$74.04 in 1960, \$118.10 in 1970, \$341.41 in 1980, \$602.56 in 1990. In December 1995, the average monthly payment was raised to \$745 (Social Security Administration, 1997). It is clear that a well developed social security system like that of the United States has been evolving through a long period of time.

Other programs also made gradual advances. In 1937, a public housing program was enacted for low-income people. In 1946, the National School Lunch Program was established for students from poor families. For federal civilian employees, programs were enacted providing group life insurance in 1954 and health insurance in 1959. The government started the Medical Assistance Program for the aged in 1960 and the Food Stamp Program for low-income families in 1964. One of the most important pieces of social legislation was the establishment of the Medicare program under the Social Security Amendments of 1965. The program provided for the medical needs of people aged 65 or older, regardless of income. The 1965 legislation also created Medicaid that provides medical assistance for persons with low incomes and resources. Public health insurance and nursing benefits to students were made law in 1965. In 1972, the State-administered cash assistance programs for the aged, blind, and disabled were replaced by the essentially federally administered Supplemental Security Income (SSI) program. The Women, Infant, and Children program was enacted to improve the nutrition of women, infants, and children. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 resulted in significant changes to public assistance programs. The Aid to Families with Dependent Children (AFDC) program has been replaced by block grants to the States for Temporary Assistance for Needy Families.

China is a developing country with the largest population in the world. Its per capita capital accumulation and labor productivity are relatively low. In addition, regional and sector differences exist in the level of economic development. Currently, China is moving towards a socialist market economy. Reform has been proceeding in both the economic and political systems. To develop a workable social protection system for China, Chinese characteristics should be recognized. On one hand, insurance coverage and premiums must consider the “needs” of reasonably protecting people’s livelihood. On the other hand, benefits should depend on what can be supported by economic conditions. Policy makers must bear in mind of the unique situation that China is in currently and learn from the experience of the American system that is relevant to Chinese social protection reform. The U.S. social protection system has been evolving for many years. Chinese policy makers should not expect to establish and reform its social protection system hurriedly.

Broaden and Improve Social Assistance and Welfare Programs

In the United States, social assistance and welfare is one of the most important social protection programs. Benefit recipients are numerous and payment expenditures are huge. Though some benefits have been cut because of fiscal imbalances, in general the size and scope of the programs have been maintained. Take 1995 as an example, payments were \$159.5 billion for Medicaid, \$116.4 billion for Medicare, \$27.6 billion for SSI, \$23.6 billion for AFDC, \$22.8 billion for Food Stamps, and \$22.1 billion for Unemployment Insurance. These payments add up to a total of \$371.9 billion which is 56% of the total expenditure on OASDI (Old-Age, Survivors, and Disability Insurance) (Social Security Administration, 1997). No doubt, the US social assistance and welfare programs are wide in coverage and highly expensive.

In China, social assistance and welfare is not only an important part of the social protection programs, but also an important policy tool for the government to help people overcome hardships and difficulties in their daily lives. It has made considerable strides and achieved admirable results. However, due to various reasons, the extent and level of social assistance are quite limited. In terms of the basic framework, policies, and implementing measures, social assistance and welfare programs are still unsound and incomplete. Many “three-without” (without children and relatives, income, or a home) people are still left out of the program.

Especially in the era of reform, many bottlenecks exist in the economy and society. In many areas the number of “three-without” has been increasing. Even for those who have received relief, the benefit level is quite low. There is an urgent need to improve further the social assistance and welfare program. In this regard, we believe that China should focus on the following areas: First, the coverage of the social assistance program should be broadened and the assistance level should be increased. Although the basic tenet of this program is still based on the community’s mutual support, government within its fiscal capacity should increase its role in this program because community financial resources are usually not adequate.

Second, the base of the social welfare program should be shifted from enterprises to society. In the past in China, a worker’s welfare was the responsibility of the enterprise that he/she was working for. It was an enterprise-based insurance, not a social insurance. On the one hand, the welfare program posed a heavy and uneven burden on enterprises. Welfare payments became one of the most important items in an enterprise’s cost calculations. This greatly distorted the price structure and the efficiency of the economy. On the other hand, a worker’s chance of receiving welfare assistance varied depending on the financial situation of each enterprise. Workers in a financially pressed enterprise might not receive any welfare benefits. Therefore, risks were not spread across enterprises but only within an enterprise. The functions of social protection were absent. Look at the American experience. The welfare programs are broadly based. Programs like minimum income assistance, subsidies to families with children, food stamps, energy subsidies to low income families, and Medicaid, are either nationally financed or/and state-financed. Firms are taxed for some programs, such as unemployment insurance and workmen’s compensation. Therefore, little cost-distortions and price-distortions have been created for enterprises. Of course, we do not rule out enterprises offering welfare and assistance programs to their workers. All we are advocating is that the critical elements of welfare and assistance programs should not be mandated to the enterprise level but should be taken up at the society level. Firms and individuals pay taxes to support government programs, that is the fundamental function of social protection - spreading risks among all firms and individuals.

Third, facilities for social assistance and welfare need to be renewed and expanded. Many social assistance and welfare facilities have been wearing down. They need to be renewed or replaced. With productivity and economic conditions improving, China is able to build more and better

social assistance and welfare facilities for its people. The government should work earnestly with communities to accomplish them.

Fourth, China should develop more workfare programs. Assistance and welfare programs may encourage idleness and laziness. In so far as it is possible, it is reasonable to link assistance or welfare payments to certain services to be performed by recipients who are able to work. In so doing, assistance recipients can get the help they need and also contribute their share to economic growth. These kinds of programs have been studied and tested in many cities and states in the United States.

Fifth, it is important to continue developing social welfare enterprises. In the United States, social welfare enterprises have been well developed. The sometimes-called thrifty stores can be found in every city. In China, social welfare enterprises have also existed for many decades. Currently they have reached a considerable scale. By the end of 1995, there were 60,237 social welfare enterprises, employing a total of 2,214,474 of employees, of whom 939,622 were people with disabilities. In 1995, they generated a value-added income of 395.05 million RMB (Deng et al., 1998). With the current economic reform, there is still room for social welfare enterprises to grow and achieve greater economic efficiency. To help social welfare enterprises develop, on the one hand, the government should thoroughly enforce the Disability Protection Act to provide needed assistance, on the other hand, enterprises themselves should also strengthen their management and marketing mechanism, become more cost and price conscious and raise their competitiveness in the emerging market economy.

Sixth, the Chinese government needs to establish more schools for disabled people and provide more qualified teachers for these schools. In the United States, education and vocational training for people with disabilities is called special education. It is one of the most important welfare programs of the federal, state, and local governments. In 1993 there were 5.11 million people with disabilities receiving special education. In 1993, expenditures on special education totaled \$2,564 million at the federal level alone. In 1994, it was raised to \$3,603 million. In China, education for people with disabilities is also an important assistance program. The Chinese Constitution and the Disability Protection Act clearly state that for people with disabilities, education is both a right and an obligation. Every level of governments should regard education for disabled people as an integral part of the national education program. It should be consistently planned and enforced. The Disability Protection Act further stipulates the purpose, objectives, policies, emphasis, principles,

and measures to be applied in special education. However, judging from the current situation of special education, it is clear that what has actually been achieved is far below what is set forth in the Constitution and the Law. Much needs to be done, including building more schools, equipping schools with more and modern facilities, and providing more and better teachers.

Encourage the Development of Private Social Insurance and Private Insurance Business

Private social insurance is also an important area of the social protection system. It exists to complement the public social insurance. In advanced countries such as the United States, private sector finance a considerable portion of the social welfare programs. Furthermore, payments received under social protection programs, such as income-maintenance (private as well as public), industrial injury, annuity, and welfare services programs, are often used to purchase medical care, educational services, or residential care, through private insurance companies. Thus, public insurance and private insurance are complementary. The more developed private social insurance, the greater the complementarity between the public insurance and the private insurance. Viewed as a part of Gross Domestic Product (GDP), private social welfare expenditure has gradually but substantially increased from 7.7% in 1972 to 13.3% in 1994. In the latter year, the total private social welfare expenditure was \$921,456 million. In 1970, the total private social insurance expenditure was 50.1% of the total public social insurance expenditure. In 1990, this ratio increased to 68.9% (Social Security Administration, 1997: p. 114). No doubt, private social insurance has played a crucial role in social protection in the U.S.

In china, in the near future, due to the limitations of economic development, benefits of public social insurance may not be broad and insurance coverage may be limited. Encouraging more private financing of the social programs and development of private insurance is definitely a meaningful alternative for government policy. China has a tremendous potential for private social insurance and private insurance business to develop and prosper. Take life insurance as an example. First, China has a population of 1.2 billion. In 1995, only 0.37% of the population had life insurance. In 1996, the average premium per capita was a little more than 20 RMB (about \$2.50 at the current exchange rate). Second, the real income of the Chinese people has been increasing since general economic reforms started in the late 1970s. According to Chinese statistics, per

capita disposable income for urban residents was 1826 RMB in 1992. It increased to 4377 RMB in 1996, an average annual growth rate of 6.8%. Per capita disposable income for rural residents was 784 RMB in 1992. It increased to 1926 RMB in 1996, an average annual growth rate of 5.7%. In the mean time, from 1992 to 1996, savings at banks grew by 2,672 billion RMB, an average annual increase of 668 billion RMB (Deng et al., 1998). The significant increase in per capita income has provided an ample basis for private social insurance and private insurance business to grow. Third, as economic reform deepens, people's reliance on government diminishes. Their desire to protect themselves through alternative means grows. The need for life insurance increases. Fourth, in recent years, several national or regional life insurance companies such as Chung Bao, Ping Bao, Tai Bao, Xing Hua, Tai Kang, and Chung Hong have been established. In addition, several foreign life insurance companies such as Yu Bang and Hong Li have also entered the Chinese market. This shows that the time is now ripe for China to develop a full-fledged life insurance industry so that the private personal insurance companies can complement the government's efforts to provide better social protection for the Chinese people.

In order for private insurance to fully and rapidly develop, an adequate environment must be provided. So far as the government is concerned, it should adopt taxation and investment policies that are favorable to the development of the private insurance industry on one hand, and protect the insured through proper supervision and management on the other. On the part of the insurance business, it must establish a pool of professionals with real expertise in private insurance. It must devise special insurance items and design different levels of coverage to meet the needs of the Chinese people. Private insurance must also provide services of high quality and security. It must be able to efficiently utilize the available financial resources to strengthen their ability to pay benefits. Finally, the private insurance market must be made highly competitive in order to achieve both technical and price efficiency.

Establish A Social Protection System with Multiple Layers

Social protection involves broad coverage and huge expenditures. Even in the United States, the richest country in the world, the government alone cannot bear the full fiscal burden. Therefore, western countries have tended to establish multiple-layer systems and to encourage the private sector to enter the social insurance business. A multi-channeled and multi-layered social protection system can better spread the risk and reduce the

fiscal burden on any layer of protection providers. Take the U.S. as an example. The backbone social insurance programs, such as old-age, dependent, and disability insurance are the responsibility of the federal government. Health and unemployment insurance are shared by federal, state, and local governments. Bodily injury insurance is covered by the states. Communities, individuals, and business organizations are encouraged to participate in the social insurance business. This multi-channeled and multi-layered social protection system enables the Americans to share the responsibility of social protection and to meet the different requirements of various localities.

China is a populous developing country. The fiscal capability of the government is quite limited. The cost of social insurance is so high that neither the government nor the enterprises or workers can bear the burden alone. The American experience can help formulate Chinese social insurance policies. Based on the principle of unified management, the central and local governments, collective and private enterprises, and individual citizens, each should become a part of, and join together to form, a social protection system. As to what insurance items should be introduced in certain areas or localities at what time depends on, in addition to the unified plan of the country as a whole, the special situations of those areas or localities. For example, in poor regions, social welfare programs like productive relief, preferential survival payment, and “five guarantees” (the guarantees of food, clothes, shelter, medical care, and a decent burial) should be used as the core, old-age insurance and personal insurance can be adopted as the supplement. In big enterprises, state-owned enterprises, and government organizations, old-age, unemployment, medical care, and bodily injury insurance can be the core, and employees’ welfare programs can be used as the supplement. Additional annuities insurance, medical insurance, and other personal insurance can also be introduced. Or, in big cities or more developed areas, social insurance and personal insurance can be instituted as the basic items, and society can devote more resources to some other higher forms of social welfare programs. In rural areas or town and village enterprises, old-age and personal insurance can be emphasized, cooperative medical insurance can be continued, traditional social relief and welfare programs can be improved.

Determine Social Insurance Benefits Based on the Basic Need

Social insurance payments should be based on the basic needs of the insured. Those basic needs should be broadly defined. They include not just the biological needs, but also the social needs, and the cultural and religious needs. They vary across countries, across localities in a country, and through time (different economic development stages). They are different for people belonging to broadly defined groups. For example, the basic needs of the American people are quite different from those of the Chinese people. Automobile, telephone, and plumbing are necessities in the United States, but they are luxuries in China. The availability of those items should be considered as a part of the basic needs for the Americans, but not for the Chinese, at least at the current level of economic development. Biologically speaking, if a Chinese family can live without plumbing and automobile, so can the Americans. But in America, people live with no plumbing and automobile is a great concern for the government and society. This concern is primarily social. The same holds for China. For example, in big cities, people generally travel much longer distance to work, they have a greater need to attend cultural events, they have a lot more things to catch up with their neighbor - the Jones or the Wangs - than people living in rural areas. Thus, their basic needs for social and cultural activities are greater than that of the rural population. If their social or cultural needs are not satisfied, their health will be endangered. Therefore, their social and personal insurance premiums and payment must be structured differently from that for rural residents.

Social insurance benefits must also reflect and be consistent with the level of economic development. If the social insurance payment is too low, people can not depend on it to maintain a decent and healthy life. If it is too high, this tends to diminish people's incentive to work. In Canada and many European countries where social welfare benefits are set too high, many people do not want to work because the income they receive from social protection is enough to maintain a comfortable life. Once a high level of benefit payments is set, resistance to lower it is almost impossible to overcome. China must learn from the experience of these countries and set a reasonable payment level in the first place.

Ensure Funding Resources for All Social Protection Programs

All programs in the social protection system should be adequately funded in order to function appropriately. Funding resources, however, may vary from one program to another. In the United States, for example, the Old-Age and Survivors Insurance is financed by mandatory contributions from employees and employers, while many social assistance programs (such as food stamps and public housing programs) are financed by government general tax revenues.

Generally, social protection includes social insurance, social relief, and social welfare. Social insurance is the first layer and the core of the social protection system. It includes old-age insurance and health insurance. Through legislation, all workers should be required to be covered by social insurance so that their basic livelihood and that of their dependents can be protected. The insurance funds should be primarily financed by contributions of workers and enterprises, with the government playing the last supporting role. Government gets its funds from general tax revenues.

Some members of society are encountering livelihood hardships and difficulties due to natural, social, economic, and individual physiological or psychological reasons. Society needs to provide relief, certain financial and material assistance, in order to help people overcome their difficulties. Social relief is the second layer of the social protection system. It includes natural calamity relief, unemployment relief, relief for disabled people and their dependents, and the “five guarantees” relief in rural areas. The need for social relief depends on events and locations. Social relief funds should come primarily from the local and central governments through their general tax revenues.

Social welfare includes all welfare payments other than from social insurance and social relief. It also includes all free or low-fee services provided by individuals, enterprises, and government units. Social welfare is the third layer of the social protection system. The funds should come from the same sources as social relief, i.e., from governments. The actual benefits should depend on the level of economic development.

To ensure funding resources, the Chinese government needs to specify responsibilities clearly for different groups. For example, pension contributions to the old-age insurance from workers and enterprises should

be clearly stated. In addition, contribution rates should be uniform across various types of enterprises, including state-owned, collective-owned, private, joint, and foreign-owned enterprises. It is also important for the government to have policies to encourage contributions to social protection. For some social protection programs such as old-age and health insurance, benefits should depend on contributions. An individual is entitled to receive a higher pension or greater medical benefits if he/she has made more contributions to this insurance. To encourage contributions, tax incentives could be used. For individual workers, contributions should become tax deductible. For enterprises, contributions should be considered as an item of production costs.

Establish an Income Record System

By income record we mean to register and to establish a unified account of all income of beneficiaries such that social protection agencies can use this information to determine benefits. In the United States, some social protection programs are not means tested. For example, retirement benefits are an earned right and are paid regardless of income from savings, pensions, private insurance, or other forms of nonwork income. The benefit level, however, is still related to earnings in covered work. Therefore, the Social Security Administration needs information on worker's past earnings to determine the entitled retirement benefits. There are many welfare programs that are means tested, including Medicaid, SSI (Supplemental Security Income), Food and Nutrition Assistance, Public Housing, and Low-Income Home Energy Assistance. For these programs, both eligibility and benefits are determined on the basis of income. The social welfare administration, based on the documents provided by the beneficiary and information gathered from other sources—mainly taxes, determines the annual income of a beneficiary. If the annual income is higher, his/her benefit payment will be reduced according to a certain formula or he or she must pay a certain amount of income tax. In so doing, on the one hand, the principle of social justice is well served, on the other hand, people's work incentive is not impaired. This is experience that China should pay special attention to and learn from.

Establish a Minimum Life Protection System (MLPS)

The minimum life protection system means that governments provide social relief to people who are in poverty and who are not covered by the social insurance system so that they can maintain their livelihood.

In the United States, the government, based on the level of economic development and people's basic needs, determines a "poverty line". Specifically, the government estimates a minimum food budget for each type of household and multiplies the food budget by three to get the official poverty line. In 1996, the poverty line for a one-person household was \$7,740. The poverty line rose in increment to \$2,620 for any additional person in the household. A household with income less than the official poverty line is considered poor. In 1994, 14.5% of Americans were considered poor (Social Security Administration, 1996: pp. 170-172).

Providing minimum protection to people below the poverty line is one of the most important social protection policies. To those who have been determined, through investigation (including income and property), to be below the poverty line, governments provide relief. Relief takes many forms, including cash subsidies, material supplies, food stamps, free or low charge medical care, housing subsidies, job training, and employment arrangements. For example, to be eligible for the Food Stamp Program, households may have no more than \$2,000 in countable resources such as bank accounts and net income must be 100% or less of the federal poverty line (\$20,280 for a family of four in 1997). A family is issued a monthly food stamp allotment that is equal to the maximum allotment for that household's size, less 30% of the household's net income. MLPS is the last defense in the social protection system and has provided a high degree of stability to the American society.

Social protection has not been well developed in China. The coverage of social protection is still quite limited, especially in small cities or towns and in rural areas. As the Chinese economy continues to grow, more should be done in this area. In broadening social protection in this direction, the following considerations must be specially noted. (1) Beneficiaries of the minimum life protection programs are people who are not covered by the social insurance system. When natural, social, and other events occurs, these people are fully exposed and completely helpless. It is the responsibility of various governments to provide this relief. (2) The funds to provide such relief should generally come from local governments. In some special cases when a local government is facing fiscal difficulties, the central government should provide the funds. (3) The relief standard for the minimum life protection program should be set according to the actual situation of each locality. It should be enough for a person in that locality to maintain his/her basic needs. (4) The forms of relief should be broad. They may include cash, food, cooking oil, fuel, clothing, or other materials that can enhance productivity. If possible, medical and health assistance should be provided. (5) The MLPS should be efficiently managed

and strictly supervised. Objective criteria should be adhered to in providing relief.

Establish a Social Protection Trust Fund Commission

In the United States there is an agency in charge of the Social Security Trust Fund, the Board of Trustees (the Secretary of the Treasury as the Managing Trustee). Social security taxes are collected from employees and employers and deposited into trust funds. Benefits are paid from the trust funds. The Board manages and invests the social security trust fund for the Social Security Administration. Any money not required for current benefit payments is loaned to the federal government, which issues interest-bearing bonds to the trust funds. The government pays interest on the bonds and redeems the bonds when they mature. Interest earnings, as well as proceeds from maturing bonds, that are not required for benefit payments are invested in additional bonds. In future years when then-current Social Security taxes are inadequate to pay benefits, interest earnings and the proceeds from the maturing bonds will be used to make benefit payments. Such investment produces tens of billions of dollars revenue from the hundreds of billions dollars in the trust funds every year. In 1995, for example, investment of Old-Age and Survivors Insurance Trust Funds produced a net interest of \$32.82 billion and the accumulated trust fund was \$458.52 billion at the end of 1995 (Social Security Administration, 1996: p. 178).

In China, a similar organization should be established. The purpose is to put the huge trust fund into productive uses such that it grows through time. Investment of social security funds must be based on the principle of security, liquidity, high yield, and public interest. In addition to the traditional ways of depositing it in government banks and buying government bonds, funds can be invested in some high-yield and secure projects, like real estate and large-scale infrastructure (Song and Chu, 1997). They can also be invested in some higher-yield and higher-risk options, like domestic corporate bonds and securities, and even in international financial markets. To make these investments more efficiently, the Chinese government needs not only to provide a better investment environment but also to attract and train more professionals. The latter should be considered as an important government task. China needs more professionals who have expertise financial disciplines.

Unify the Management of Social Protection Programs

The core of the social protection programs is important actions that a government takes to protect its people. Coverage is very broad and contents are quite comprehensive. Management is complicated. Implementation is sophisticated. Therefore, social protection programs need a specific government agency to plan, enforce, coordinate, guide, and administer the various programs. In China, the social protection programs have emerged from the bottom. In the past, state and private enterprises, government agencies, party organizations, labor unions, each initiated its own protection programs. The management and administration of these programs was fragmented among five groups: labor, personnel, administration, insurance companies, and professions and trades. There were overlaps, omissions, and competitions. The whole social protection system was ineffective and inefficient. In view of this, the government established a Ministry of Labor and Social Security in 1998. Its main purpose is to coordinate and consolidate the various social protection programs into a unified network to improve the effectiveness and to reduce inefficiencies in the programs. This is a milestone in the Chinese social protection history.

Drawing on the experience of the United States, we would like to offer the following organizational recommendation. Under the Ministry of Labor and Social Security, three agencies should be established: (1) a Social Security Reform Commission (or Bureau), whose primary responsibility is to provide vision, enact and revise social protection laws and regulations, engage in long term and short term plans, and guide and coordinate various programs and among various groups; (2) a Social Security Administration, whose primary responsibility is to administer the various programs, and (3) a Social Security Trust Fund Commission (or Bureau) whose primary responsibility is to gather, invest, and manage the social protection trust funds. With these three agencies, policy making, administration, and fund investment can be separated. This separation, in turn, would make each of them function more effectively and efficiently.

Conclusions

As Chinese economic reform proceeds, Chinese economic development is advancing. The Chinese government has been increasing its attention to the social protection of its people. It has determined to adopt an old-age and medical insurance system that combines both social pooling

and individual accounts, to improve and broaden its unemployment insurance and social relief programs. Yet, the Chinese social protection system is still in a formulation stage. There is a long way to go in order to achieve a meaningful, workable, effective, and efficient social protection system.

In this paper, we have examined the U.S. experience in this field to offer some suggestions to the Chinese authorities in formulating their social protection policies. Specifically, this paper suggests that China (1) reform the social protection system gradually, (2) broaden and improve social assistance and welfare programs, (3) encourage the development of private insurance, (4) establish a social protection system with multiple layers, (5) determine insurance benefits based on the basic need, (6) ensure funding resources for all social protection programs, (7) establish an income record system, (8) establish a poverty-line system, (9) establish a social protection trust fund commission, and (10) unify the management and administration of social protection programs. We believe that these suggestions can help China establish a better social protection system.

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Biographical Sketches

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