

## **China's Social Protection System of the Elderly**

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**The modernization process China is undergoing has significantly affected the family system and the status of the Chinese elderly. The traditional social structure has been undermined and, as a result, the state's responsibility to ensure the welfare of the elderly has increased. This paper details the reasons for the emergence of the elaborate reform of the social protection system of the elderly that is under way and gives an insight into China's pension system.**

The words of President Hu Jintao on February 23<sup>rd</sup> 2009, who indicated that, China should stimulate domestic consumption and focus more on the improvement of people's living conditions, marked a turning-point in China's economic and social policy. He officially stated that the country could no longer wholly depend on the market, and that it should also rely on social protection and social security, which would stimulate Chinese people to consume more and help China's domestic market thrive. In the past few years, China has started to emphasize that people's livelihood is key to maintain social stability and the social security level has substantially increased.

Filial piety, requiring people to respect and support the elderly, has been one of the most important moral and legal responsibilities. Since the early twentieth century, Western liberalism and individualism have, to some extent, impacted the hegemony of the patriarchal system, which was based on the morality of filial piety. The bottom-up

political revolution led by Mao Zedong and economic reform led by Deng Xiaoping have both forced China to modernize. Such a modernization, on the one hand, greatly endangers the political, economic, ideological, and social foundations of traditional morality, especially filial piety. On the other hand, it shapes the society, produces social risk and thus calls for a social safety net. Furthermore, the Chinese Government, who has enforced the Family Planning Policy, is therefore accountable for the problems brought by the ageing population and the transformation of family structure. In this sense, the reform of the current social protection system of the elderly has become increasingly urgent.

This study analyses why and how the social protection system of the elderly, especially the pension program emerged in China. In this design, it undertakes a comparative study of cases in different regions, departments and social groups to reveal the complexities, disparities and conflicts within the current system. These case studies help us better understand how intricate and difficult reform is in such a vast and complex country as China.

### **The social protection of the elderly stems from political pressures**

China has undergone great changes since the founding of the People's Republic of China. This transformation process cannot be simply regarded as a destruction of the old system and the establishment of a new one. It rather consists in the superposition of different systems, with successive advances and relapses. Therefore, such a process results in the fragmentation of the current social protection system of the elderly. According to China's political tradition, the legitimacy of the Chinese government depends on its ability to guarantee social peace and sustainable development through economic redistribution and improving protection of people's social rights, especially of the weaker social groups. The state maintained the rule of rites and welfare of its subjects encapsulated as filial piety to the family, and loyalty to the state. The anti-patriarchal system is one of the main features of the political

revolution led by the CCP. As a result, for people, social equality matters and younger generations demand equal status with the elders. Nowadays, the official doctrine of the CCP is building socialism with Chinese characteristics, which in turn, requires the Chinese Government to ensure social welfare.

Nevertheless, since the Reform in 1978, the Chinese Government has mistakenly equated the government's withdrawal from the provision of public goods with the transition of the role of the government, which destroyed the traditional equilibrium between legitimacy of authority and social welfare security.<sup>1</sup> Especially since the reform became a zero-sum game in 1990s, the growing social and economic disparities<sup>2</sup> led to social conflicts and protests, which amount to a serious challenge to the government and Party authority. Consequently, starting from the turn of the century due to great public pressure, a social safety net based on Chinese traditions and the official doctrine of the CCP emerged in the country; that is to say, the Chinese Government is now making a concerted effort to re-embed the economy within social relations through de-commercialization<sup>3</sup>, and is gradually performing the function of full-fledged public service.

The problem of the central-provincial nexus is pivotal in China's political reform. The legitimacy of the regime is the core problem of the central government, but not of the local ones. Local governments do not depend on selective elections; therefore, the impulse and pressure for them to establish a social safety net are largely limited. Furthermore, after the tax-sharing Reform carried out since 1994, the local governments' driving force to develop economically no longer is incentives from the financial system, but from reduced revenues and the pressure of increased responsibilities.<sup>4</sup> There is a classic "unfunded mandate" as the central government has

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<sup>1</sup> Xu Yuebin & Zhang Xiulan, "Zhongguo Zhengfu zai Shehui Fuli zhongde Jiaose Chongjian" (中国政府在社会福利中的角色重建, Rebuilding the Role of Chinese Government in Social Welfare), *China Social Science*, 2005, vol. 5, pp. 80-92.

<sup>2</sup> In 2007, the Gini Coefficient of China was 0.48.

<sup>3</sup> Wang Shaoguang, "Dazhuanxing: 1980 nian yilai de Shuangxiang Yundong" (大转型: 1980年代以来中国的双向运动, The Great Transformation: The Double Movement in China), *China Social Science*, vol.1, 2008, p. 132.

<sup>4</sup> Zhou Feizhou, "Fenshuizhi Shinian: Zhidu jiqi Yingxiang"(分税制十年: 制度及其影响, A Decade of Tax Sharing: the System and its Evolution), *China Social Science*, 2006, vol.5, pp. 100-15.

assigned new responsibilities, such as the former rural old-age social insurance program, to local government. As a result, the financial capacity of local governments and economic disparities directly condition the level of endowment insurance that local residents receive. Nevertheless, in recent years, the Central Government has begun to give financial aid to the endowment insurance of rural residents. It indicates a major transformation of the central-provincial nexus as to the pension system in China.

Deng Xiaoping famously advocated to “cross the river by feeling for the stones at the bottom of the ford with your feet”. And indeed, China’s reform of the social protection system could not possibly be completed in one go. Having first established the endowment program for urban enterprises, and then for rural residents, the reform is now focusing on the public institutions. In this context, the current social protection system of the elderly in China is a complex combination of various regimes and disciplines.

### **Economic Transformation & Conflicts**

In 1949, the proportion of private enterprises run by Chinese nationals (民族资本主义) accounted for 17% of the total national economy while the share of foreign economic power amounted to less than 20%. Besides them, the majority of the national economy was still small-scale peasant economy, which formed the economic base of the patriarchal system. China was an agrarian country at that time. From 1949 to 1978, corresponding to a government-led model of economic development, China’s economy transformed to public ownership and planned economies, changed the rural economy into a collective economy, and established a relatively complete and independent industrial system and set of infrastructure. Household was no longer the basic production and social unit, which greatly reduced parental authority and partly destroyed the patriarchal system.

Since 1978, after the Chinese Government launched the economic reform, the market principle has dominated the Chinese economy, while the household contract responsibility system in the rural area amounts, to some extent, to a return to small scale peasant economy. When Deng Xiaoping said that “Development is the last word”, what the Chinese Government meant was economic development and the market economy. Nevertheless, the impulse of the market economy inevitably brought pressure and changes to other aspects such as the social structure, family ethics, and so on. Such aspects, in reverse, have threatened the hegemony of the market economy: this has been described as China’s “double movement”<sup>5</sup>. This double movement penetrates into almost all aspects of the country, calls the original understanding of “development” into question, and makes China’s modernization process more complicated.

The Chinese government adopted the market economy without fully realizing and understanding the social risk of it, which has endangered weaker groups while the market economy has made individuals largely depend on society, not family. Such a process of economic transformation and structural reform accompanied with a privatization of welfare functions eventually resulted in the new gaping inequalities, people’s new awareness of their rights and blatant cases of corruption and misconduct among government officials and unfair treatment of certain portions of the population, which reveal the social instability behind the economic prosperity.<sup>6</sup> In this sense, to maintain the social stability crucial to economic development, a social safety net is critically needed.

Since the beginning of 21<sup>st</sup> Century, China has repeatedly stressed the need for boosting domestic consumption. Without a social safety net, especially a well-covered pension system, Chinese people could hardly change their habit of “savings outweighing consumption”. In the face of the serious situation of a sharp decline in

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<sup>5</sup> Wang Shaoguang, “Dazhuanxing: 1980 nian yilai de Shuangxiang Yundong”, 2008, p. 131-48.

<sup>6</sup> Wang Shaoguang, Hu Angang & Ding Yuanzhu, “The Social Instability Behind the Economic Prosperity”, *The Chinese Economy*, Vol. 36, n°5, 2003, p. 5-35.

external demand and growing trade protectionism, China has to depend on domestic consumption, and accordingly, improve its social safety net. Many Chinese scholars have advocated the importance and urgency of building a social safety net and in early 2009, China Development Research Foundation published a famous report, *Building a Social Welfare System Shared by all the People*. It emphasized that the labor revenue should be increased to enable the people to consume and that a social safety net should be established to push the people to consume more. Furthermore, the social safety net can produce more jobs and investments, and thus stimulate domestic consumption.

### **The Ideological Framework underlying the protection of the elderly**

The family-centered Confucian ethics as well as other traditional philosophies and Legalist politics have deeply influenced Chinese society. The traditional ancestral worship led to the long-standing patriarchal system and developed a respect for authority as well as the sacred family (household) value. The welfare or even privilege of the elderly in traditional China has long been based on Confucian *Sangang Wuchang* (三纲五常)<sup>7</sup>, while the state ensured the supremacy of such a filial ideology and the system of family support of the elderly.

For the sake of China's development, the concept of "right" and liberalism were imported at the end of the Qing Dynasty (1636-1912), then under pressure of foreign invasion. However, the impact of such an imported ideology was basically limited to young elites. Since the early 1950s, even though the politics-oriented government, especially during the Cultural Revolution period, severely criticized traditional thoughts, the ideology of equality and active participation formed in Mao's era and traditional thoughts equally influenced China. However, the traditional political pattern of Family & Country, a Same Structure (家国同构), which assimilates the country to a big family, can no longer continue its sacred role, and the traditional

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<sup>7</sup> *Sangang Wuchang* correspond to the three cardinal guides (ruler guides subject, father guides son and husband guides wife) and the five constant virtues (benevolence; righteousness, propriety, wisdom and fidelity) as specified in the Confucian ethical code.

family ethics is therefore compromised.

Since the economic reforms were launched, the market economy has emphasized economic rationality and self-centered individualism, and as a result, deeply eroded the traditional patriarchal system and family responsibility ethics. The main prevailing ideological trends derive from the Confucian tradition, Maoism, and modern conceptions of liberalism and individualism mainly imported from Western thoughts, and thus form a complex set of different thoughts.

Each of the ideological trends represents certain social classes or social groups: among them, those benefiting less from the economic reform also partly or even fully lost their welfare provision. Such a twofold failure has made the losers, mainly workers and peasants, protest against the rich and even the government; which in turn, has led to instability adverse to economic development and political control. In this sense, regardless of divisions of class, group and ideological claim, the common demand is that the state should be fully responsible for providing welfare to the elderly.

### **Transformation of Social structure**

Even though the Chinese elderly enjoyed privilege, they were subjects of the empire. On the one hand, the elderly (and all individuals) always belonged to a specific collectivity - household, clan or community - where the family-centered welfare mechanisms ensured their privilege. On the other hand, they were subjects of the empire, and ensuring the welfare of the subjects<sup>8</sup> was the responsibility of the Chinese authority to win its legitimacy. The Chinese traditional social structure was “individual-family (household)-state”, which means that, family, or to a larger extent, household and clan, were the key factors combining the individual and the state in

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<sup>8</sup> The state ensures the welfare of the elderly mainly through two ways: the indirect way refers to the fact that the state keeps its peaceful and efficient rule over the society with the purpose of bring richness to its subjects, which in turn, enables the family to afford the welfare of the elderly. The direct way refers to the fact that the state should directly afford welfare to the elderly without family support.

ancient China.

Based on a highly centralized integration of Party and government, a politics-oriented model of government administration dominated China between 1949 and 1978. Mao tried to break away from China's traditional structure and establish a work unit welfare system. It is regarded as a "cradle-to-grave" system as it made state-owned enterprises responsible not only for their employees' life-long employment, but also for providing housing, medical expenses, pension, and even children schooling. In the urban areas, the work-unit, and in the rural area, people's communes, became the basic social units. The nuclear family rapidly grew while the traditional household could hardly keep its function. However, the work unit welfare system never fully replaced the family support system. Then, the "individual-work unit-state" structure only partly replaced the traditional one.

Since 1978, the adoption of a market economy has considerably weakened the traditional welfare ethics and undermined the privilege of the elderly. In this sense, the welfare of the elderly in China has undergone a transformation from privilege to right. As to the majority of the population, they no longer enjoy work-unit welfare. The market economy and the free movement of workers put an end to the long vertical solidarity-dependence structure and produced a horizontal interdependence or individual-state structure, which compelled the state to provide for the welfare of its citizens.

### **Demographic Difficulty**

The demographic dividend played a major part in the rapid economic development of China. However, the One-Child policy has rapidly led not only to the decline of the number of births but also to the aging of the population. The National

sample survey shows that the total fertility rate of the population is below 1.5.<sup>9</sup> It is also estimated that, by 2020, the proportion of the elderly population will increase from the current 7% to 11.8%. The aging population in China will continue to increase and will growingly affect the working-age population. The One-child Policy resulted in the 421-type family structure (4 grandparents – 2 parents – one child) and made the support-from-family approach unsustainable. China is now entering an era of aging society, low fertility, and aging population, and the development of the social security system significantly lags behind.

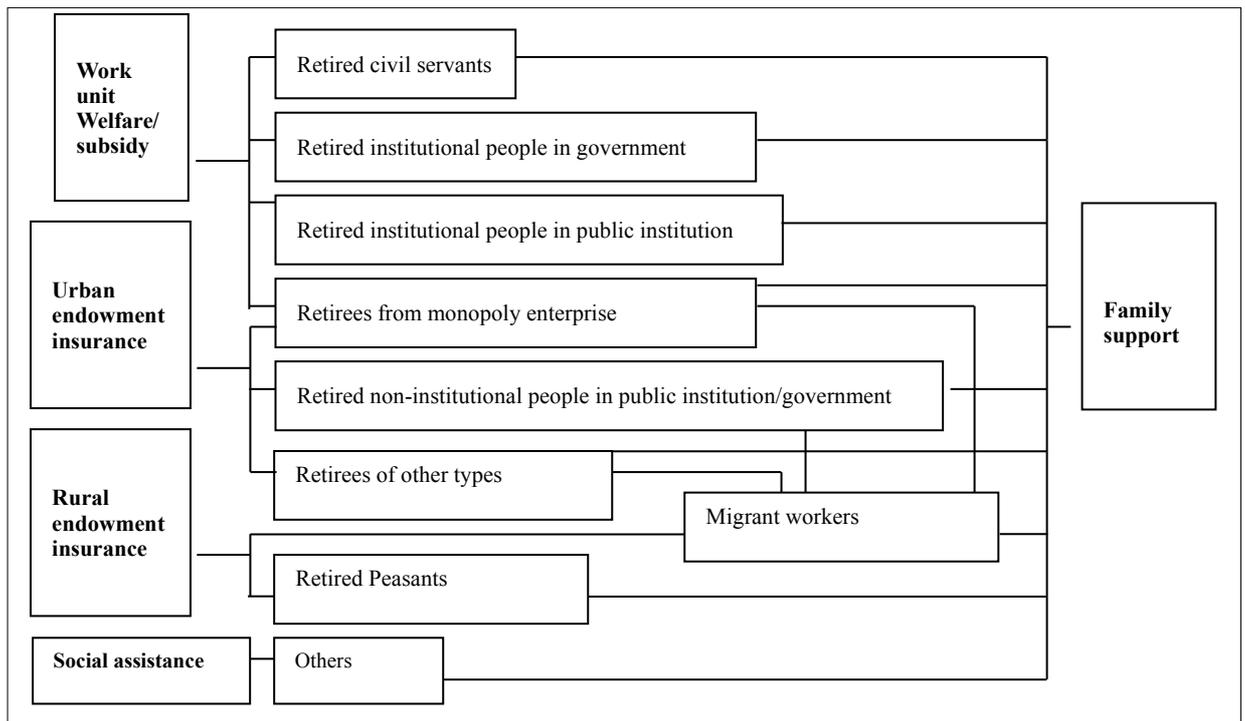
Moreover, Family Planning and urbanization have changed family ethics. The urbanization process has led to higher accommodation and children education expenses, and so on. In the cities, more and more people in the prime of life are unable to support themselves. The One-child Policy forced parents to cherish their only child, and changed the former pattern: instead of parents bringing up children for the purpose of being looked after in old age (养儿防老), young adults now tend to live off their parents (啃老). Instead of being supported, many people have to pay for their adult child and such a phenomenon has brought about tremendous social risks and stressed the need for a full-fledged social safety net.

### **Realities of the system**

To explain the fragmentation and complexity of the current social protection system of the elderly, and the pension system in China in particular, I'd like to use the following chart as a general introduction. It gives an insight into the profound discrepancies of the current pension system in China stemming from the urban / rural divide, regional disparities, subsidies provided only by certain work units, and gradual reforms.

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<sup>9</sup> Guo Zhigang, "Jinnian Shengyulv Xianzhu Huisheng de Youlai" (近年生育率显著"回升"的由来——对 2006 年人口和计划生育调查的评价研究, How Come the Notable "Pick Up" of the Fertility-rates in Recent Years: Evaluation on the 2006 National Population and Family Planning Survey), *Chinese Journal of Population Science*, 2009, Vol. 2, pp. 2 - 15.



### **Family Support**

According to the stipulations of China’s Marriage Law, Succession Law and Criminal Law, all the old-age Chinese citizens are entitled to obtain support from their family. As to the Marriage Law, Article 20 stipulates that, “...children shall have the duty to support and assist their parents...If children fail to perform their duty, parents who are unable to work or have difficulties in providing for themselves shall have the right to demand support payments from their children.”<sup>10</sup> Even grandchildren have obligations according to Article 28, which stipulates that, “Grandchildren or maternal grandchildren who can support them shall have the duty to support their grandparents or maternal grandparents whose children are dead or cannot support them.” As to the Succession Law, Article 7 stipulates that, “A successor shall be disinherited upon his/her commission of a serious act of abandoning or mistreating the decedent.” Article 13 stipulates that, “At the time of distributing the estate, successors who have made the predominant contributions in maintaining the decedent or have lived with

<sup>10</sup> Such a stipulation has a long history. Early in Han Dynasty (206 BCE–220 CE), when a man did not support their parents and grandparents, he should be punished to death according to the criminal code at that time. According to the Marriage Law issued in 1950, the children had legal duty to support their parents.

the decedent may be given a larger share. At the time of distributing the estate, successors who had the ability and were in a position to maintain the decedent but failed to fulfill their duties shall be given no share or a smaller share of the estate.” Furthermore, there is such a thing as a Crime of Abandonment under China’s active criminal law system. Article 261 of the Criminal Law stipulates that, “whoever refuses to fulfill his duty to support an aged person, minor, sick person or any other person who cannot live independently, if the circumstances are flagrant, shall be sentenced to a fixed-term imprisonment of not more than five years, criminal detention or public surveillance.” Therefore, China’s legal system protects the right of the elderly to get support from their children : the morality of filial piety is legally recognized.

Because of the variation of the basic economy, social structure, and ideological framework, the ethics of filial piety has lost its moral hegemony. A large number of Chinese elderly, especially those living in poor rural areas, face difficulties as they live alone, suffer from disease, lack family support or social security, and so on. Even though abandonment is a private prosecution case of crime, the elderly rarely prosecute their children for such a crime. Indeed, even legally recognized, morality of filial piety can hardly prevail any longer.

### **Work Unit Welfare/Subsidy**

Three groups of retirees enjoy work unit welfare. They are publicly recognized as being privileged in the pension system. Their relation with their work unit is not regulated by China’s Labor Contract Law. The first group consists of retired civil servants, whose retirement payment is fully paid for by public finance according to the Regulations on National Civil Servants. The second group corresponds to retired institutional people (*shiye bianzhi ren yuan*, 事业编制人员) in government, whose retirement treatment is similar to that of the civil servants. The third group comprises retired institutional people in public institution (*shiye danwei*, 事业单位). Since 2009,

because of the reform of the retirement program of the public institution, the retirees of this group will enter the urban endowment insurance program. Besides, although they participate in the urban endowment insurance program, the retirees from the monopoly enterprises<sup>11</sup> frequently receive subsidies from their work units. However, such kind of subsidy will decline as the 2009 reform aims at a united, universalist and relatively equal urban endowment insurance.

### **Urban Endowment Insurance**

Retirees entering the urban endowment insurance program mainly include three categories: 1) Retirees from monopoly enterprises; 2) Retired non-institutional people (*qiye bianzhi ren yuan*, 企业编制人员) in public institutions /government<sup>12</sup>; and 3) Retirees from other companies/organs (including urban companies, individual economic organizations, private non-enterprise units, and self-employed individuals). The urban endowment insurance program was not established until 1997<sup>13</sup>, when the Chinese Government issued the Decision of the State Council on Establishing a Unified Basic Endowment Insurance System for Enterprises Employees (关于建立统一的企业职工基本养老保险制度的决定, hereafter Decision). Besides the basic pension, China's endowment insurance comprises two other parts: enterprise supplementary pension insurance<sup>14</sup> and personal savings for old-age insurance.

Apparent regional disparities came forth first because the provincial or even city administrations separately controlled their own endowment insurance funds and secondly because the local economic capacity decided the level of social contribution and pension as well as the coverage of endowment insurance. For example, since

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<sup>11</sup> The largest and most powerful enterprises in China are mostly monopoly ones (垄断企业). They are in the industries such as oil, electricity, steel, telecom, and so on. They are under government control.

<sup>12</sup> Article 2 of the *Labor Contract Law* stipulates that, "...The establishment of labor relationships, and conclusion, fulfillment, amendment, termination and expiration of labor contracts by the state departments, public institutions, social organizations and their contracted employees shall be handled pursuant to this Law."

<sup>13</sup> Until 1990s, Chinese companies had not saved (or created accumulation) for social security purposes: the state stipulated that all profits from state-owned and state-operated enterprises had to be surrendered upward to the state in their entirety, and that the workers' pensions or retirement funds would have to be listed as costs for those companies. Zhang Zhuoji, "On the Question of the Construction of a Social Security System", *The Chinese Economy*, vol. 36, No.5, September-October 2003, pp. 45-76.

<sup>14</sup> The number of capable companies establishing an annuity system so that their employees could live a better life after retirement is growing.

January 2009, Beijing has realized the integration of a rural-urban endowment insurance program, and thus, has become the first city in China where all registered permanent residents receive endowment insurance. However, the retirees of the collective enterprises in Gansu Province only entered the endowment insurance program in November 2009. On Dec. 22<sup>nd</sup> 2009, the State Council issued the Interim Measures on Transferring Basic Old-age Pension Accounts for Workers of Urban Enterprises between Different Provinces (城镇企业职工基本养老保险关系转移接续暂行办法), which marks a major breakthrough in the building China's national social insurance system of the elderly. It also greatly benefits the free movement of labor and reduces the regional and departmental disparities of the retirement treatment.

### **Rural Endowment Insurance**

Since 2009, the New Rural Old-age Social Security System Reform has been implemented in several provinces. The reform aims at covering all rural residents before 2020. As to the rural endowment insurance, peasants can be divided into two categories: migrant workers and retired peasants. According to the Draft Scheme of Farmer workers ' Participation in Basic Endowment Insurance, issued by the Ministry of Human Resources and Social Security on February 1<sup>st</sup> 2009, migrant workers can enjoy “low payment, portable personal account, and pension benefits similar to urban permanent residents”. As to retired Peasants, all the rural residents over 60 can get basic pension from new rural endowment insurance funds, provided they do not get pension from the urban retirement program. On September 1<sup>st</sup> 2009, the State Council issued Regulations on the New Rural Social Endowment Insurance, which stipulate that the State Council determines a unified basic part of the pension of the insured peasants, then, the central government subsidizes the basic pension. Subsequently, the local governments will give subsidy to the insured peasants according to their financial capacity.

## **Social assistance**

The poor elderly who never enter any endowment insurance program can benefit from the minimum income security program. There is social assistance for the elderly without family support and belonging to “households enjoying the five guarantees” (*wubaohu*) in both rural and urban areas. Moreover, there is old-age allowance to the oldest people (for example, people over 70 in Gansu Province). As to those elderly with only one child, they can obtain special allowance. The standard and coverage of all the above social assistance or public allowance depend on the policy and capacity of the local governments.

The social protection of the elderly in China is a crucial issue. The modernization process China is undergoing has significantly affected the family system and the status of the Chinese elderly. The endowment insurance systems vary greatly from one country to another. As a result, it is hard for us to estimate which model China is most likely to adopt after its complex and formidable social reform. The regional, departmental and sectional disparities in today’s system show that the process of reform, and especially the reform of public institutions, is ridden with conflicts of interests, ideologies, and economic, political and social forces. It can be further explained as a process of striving for distributing the benefits brought by economic development between and within different social groups. What we can say for sure is that the Chinese traditional social structure has been undermined, if not shattered, and, as a result, the state’s responsibility to ensure the welfare of the elderly has increased.

## **Further reading**

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