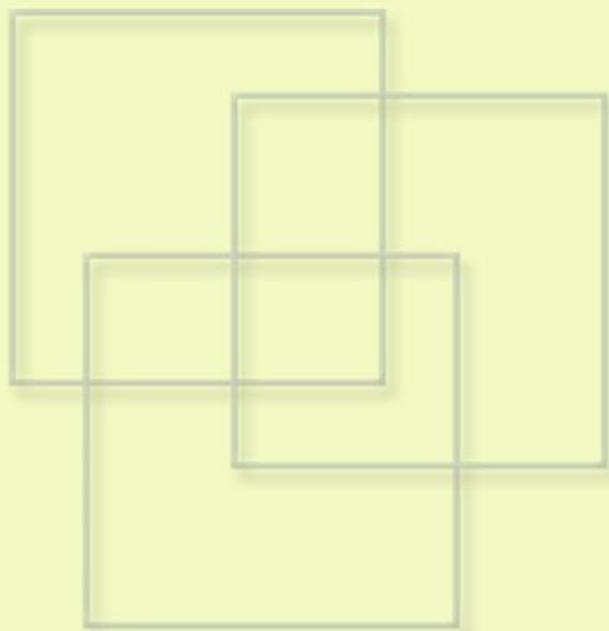


ILO Asia-Pacific Working Paper Series

Global social security and economic development: Retrospect and prospect

Zheng Gongcheng and Wolfgang Scholz
September 2019



ILO Asia-Pacific Working Paper Series

Global social security and economic development: Retrospect and prospect

Zheng Gongcheng and Wolfgang Scholz
September 2019

Copyright © International Labour Organization 2019
First published 2019

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Licensing), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: rights@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with a reproduction rights organization may make copies in accordance with the licences issued to them for this purpose. Visit www.ifro.org to find the reproduction rights organization in your country.

ISSN: 2227-4405 (web pdf)

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

Information on ILO publications and digital products can be found at: www.ilo.org/publns.

Preface

This Working Paper is the result of a joint research project between the China Association of Social Security, the International Labour Organization (ILO) and the Friedrich-Ebert-Stiftung (FES). The China Association of Social Security is a national academic organization bringing together professionals and scholars of social security and related fields, with fairness, justice and shared benefits as its core values. It is devoted to promoting China's social security system and fostering global cooperation and exchanges in the field of social security. The ILO has a global mandate to promote social justice and advance opportunities for women and men to access decent and productive work. Through its tripartite structure involving the governments as well as workers' and employers' organisations of 187 states, the ILO adopts and promotes international labour standards and rights at work, universal and effective social protection systems and improved social dialogue on work-related issues. The FES is a German non-profit organization that promotes social justice, sustainable development and international cooperation.

As a part of the ILO Asia-Pacific Working Paper Series, this Working Paper focuses on the relationship between social security and economic development. It aims at sharing knowledge and stimulating the discussion on the development of social security systems around the globe, especially in developing countries.

Social security is widely recognized as a primary tool in reducing poverty and preventing vulnerability throughout individuals' life cycle. Additionally, the economic impact of effective social security has been proven positive in a variety of context, making it an irreplaceable institutional arrangement of any modern societies. Both the adoption of the ILO Social Protection Floors Recommendation, 2012 (No. 202) and the prominent role of social security in the 2030 Agenda for Sustainable Development reflect a consensus on the imperative of social security, as a matter of human rights and dignity.

Societies across the globe increasingly acknowledge that social security has a role in shaping each nation's economic development. Economic growth creates the material basis for adequate social security benefits, while social security systems contribute to stabilizing economies and often even stimulating economic growth. But despite the inherent stability function of social security, its relationship with and effect on economic growth are complex, and not without controversy. Different systems and schemes can have different effects in specific contexts. Unpacking the complexity of the interactions between social protection and economic growth, will help improve national systems and maximize positive synergies.

Today, most countries have put in place social protection systems that are anchored in national legislation, although in many cases, the schemes only cover a minority of the national population. Starting from the introduction of social security in Europe and moving to recent developments in emerging countries, most prominently in China, this Working Paper offers insights into global experiences of the past century that reflect an overall positive relationship between the expansion of social security and economic development.

This Working Paper provides an assessment of the relationship between social security and the economic development in China, the United States, the United Kingdom, Germany, France, the Nordic countries, Japan and the Republic of Korea. Further, it provides thorough insights on the evolution of China's social security system and its role in the country's recent socioeconomic transformation. Based on the Chinese experience, the Paper argues that, when well adapted to a country's societal and economic fabric, social security can have positive direct and indirect productivity effects and, vice versa, positive economic development can promote the progressive development of social security.

This Working Paper relies on a convergence of views between the China Association of Social Security,

the ILO and FES that in the current context characterized by profound structural changes and global instability, social security is an indispensable part of sustainable development. Economic growth is meant to bring more benefits to people's livelihoods through adequate social security benefits, while social security systems have a positive role in promoting economic development.

We hope that this Working Paper will contribute to a better understanding of these complex relationships and shed the light on the importance of social security systems as an integral element of sustainable development and transformation processes.

Tomoko Nishimoto
Assistant Director-General and Regional Director
for Asia and the Pacific

Contents

Preface.....	iv
Acknowledgements	vii
Executive summary.....	x
Abbreviations	xvi
1. Introduction.....	1
1.1 Research background	1
1.1.1 Background	1
1.1.2 Research purposes and contents	2
1.2 Theoretical hypotheses on the interdependencies between social security and economic development.....	4
1.2.1 Introduction to social security traditions	6
1.2.2 The pros and cons of social security	7
1.2.3 A positive argument for social security	8
1.2.4 Social security as a redistributor of primary income	10
1.2.5 Social security design and economic performance.....	13
2. Social security and economic development from an international perspective: Historical experiences and contemporary challenges.....	15
2.1 Historical experiences of social security and economic development around the globe.....	15
2.1.1 Introduction	15
2.1.2 The distant past: Forerunners of and reasons for causes of modern social security	15
2.1.3 The nineteenth century, the United Kingdom, Germany and the Holy See	16
2.1.4 The twentieth century: Social security between the two great wars	18
2.1.5 The twentieth century: Social security going global after World War II	20
2.1.6 The post-World War II developments in the West	21
2.1.7 Developments in Eastern Europe, Central Asia and other world regions after 1989	35
2.2 Emerging challenges facing social security and economic development around the globe.....	36
2.2.1 Divergent development philosophies underlying the relationship between economic development and social security	36
2.2.2 Uncertainties of globalization	38
2.2.3 Far-reaching influence of rapidly ageing populations on economies and societies	38
2.2.4 The impact of the new technological revolution on traditional industries and the normalization of new business types	39
2.2.5 The paradox of rigid growth of welfare and financial sustainability	40
3. Social security and economic development: China	41
3.1 The contribution of the social security system to economic development: China's historical experience.....	42
3.1.1 China's economic achievements in the past 40 years	42
3.1.2 China's achievements in social security reform and development	46
3.1.3 The contribution of social security to China's economic growth	63
3.1.4 China's experience of the relationship between economic development and social security as guidelines for the future	75
3.2 Major socioeconomic challenges and policy recommendations	79
3.2.1 Challenges confronting China	79
3.2.2 Policy recommendations	82
4. Summary.....	86
4.1 Basic historical experience and theoretical consensus on the relationship between global economic development and social security	86
4.2 Conclusions and policy recommendations	89
References.....	92
Annex 1. Definition of social security	102
Annex 2. Additional tables	105

Tables

Table 1 Years of initial social security legislation and economic development levels.....	18
Table 2 Numbers of participants in basic health insurance in China, 2006–17 (100 million persons).....	55
Table 3 Subsistence allowance scheme, 2000–17.....	60
Table 4 Public budget expenditure in China, 2007–17 (100 million CNY and \$).....	76
Table 5 Structure of health care expenditure in China, 1978–2017 (100 million CNY and \$).....	77
Table A1 China's total GDP and GDP per capita, 1978–2017.....	105
Table A2 Number of participants and pensioners of the basic old-age pension system in China, 1978–2017 (10,000 persons).....	106
Table A3 Accumulated balances of the basic old-age pension system fund in China, 1998–2017 (100 million CNY and \$).....	107
Table A4 Number of basic old-age insurance participants in China, 1978–2017 (10,000 persons).....	108
Table A5 Average per capita fund expenditure under the basic old-age pension scheme in China, 2001–17 (CNY and \$).....	109
Table A6 Poverty line and impoverished population and poverty headcount ratio in China's rural areas, 1985–2017.....	110

Figures

Figure 1 Social protection programmes anchored in national legislation, by branch, from pre-1900 to post-2010 (% of countries).....	20
Figure 2 Total GDP and GDP per capita for China, 1978–2017.....	42
Figure 3 China's transformation of employment: Share of employed people, by industry, 1978–2017.....	44
Figure 4 China's industrial transformation: Share of industry type as a percentage of GDP, 1978–2017.....	44
Figure 5 China's urbanization rate, 1978–2017.....	45
Figure 6 Engel's coefficient* of urban and rural households in China (%).....	46
Figure 7 Number of participants in basic old-age pension system and its changes, 1998–2017 (10,000 persons).....	50
Figure 8 Average per capita fund expenditure under the basic old-age pension scheme, 2009–17 (\$ per month).....	51
Figure 9 Per capita fund expenditure of the health insurance and its changes, 2000–17 (\$ per month).....	56
Figure 10 Poverty line and poverty headcount ratio in rural areas, 1998–2017.....	59
Figure 11 Average per capita fund expenditure of the basic old-age pension scheme for employees and its annual growth rate, 2005–17 (\$ per month).....	68
Figure 12 Accumulated balances of the basic old-age pension system fund (1998–2017).....	69

Boxes

Box 1 Research process.....	4
Box 2 How to define social security and some implications.....	5
Box 3 What is primary income?.....	11
Box 4 China's social security system: A comprehensive list of schemes.....	48
Box 5 The determinants of pension expenditure as a share of GDP.....	53
Box 6 Poverty alleviation and development in rural China: Stronger measures to eliminate poverty.....	59
Box 7 Reform and development of China's housing benefits: Returning from de-welfare to social security.....	72

Acknowledgements

This report is the result of shared effort by the China Association of Social Security (CAOSS), the International Labour Organization (ILO) and Friedrich-Ebert-Stiftung (FES). The executive summary, section 1.1, section 2.2, Chapter 3 and Chapter 4 were written by Zheng Gongcheng, president of CAOSS and professor at Renmin University of China. Wolfgang Scholz, senior consultant to the ILO, was responsible for writing sections 1.2 and 2.1. He Wenjiong, professor at Zhejiang University and Hua Ying, Chinese Academy of Social Sciences, contributed to the writing of section 3.1. All other text is a result of joint efforts of Zheng Gongcheng, Wolfgang Scholz and Hua Ying.

Special thanks go to Hua Jianmin, Honorary President of the CAOSS, former state councillor and vice chairman of the standing committee of the eleventh National People's Congress, for his remarkable and insightful opinions presented at the project launch meeting. The authors are grateful for contributions to discussions received from Zhou Hong, former Director of the Institute of European Studies at Chinese Academy of Social Sciences; Shen Shuguang, professor, Sun Yat-sen University of China; Yang Lixiong, professor, Renmin University of China; and Lu Quan, associate professor at Renmin University of China. The authors are also very grateful for the contributions to discussions received from the authors of the country reports, including John D. Stephens, professor, University of North Carolina (USA); John Hudson, professor, University of York (UK); Wolfgang Schroeder, professor, State University of Kassel (Germany); Pierre Concialdi, researcher, Institute de Recherches Economiques et Sociales (France); Klaus Petersen, professor, University of Southern Denmark (Denmark); Taichi Ono, professor, National Graduate Institute for Policy Studies (Japan); and Kim Yeon-Myung, professor, Chung-Ang University (Republic of Korea).

For the valuable contributions to discussions and various versions of the report, the authors would also like to thank Nuno Cunha, Senior Social Protection Specialist, ILO Regional Office for Asia and the Pacific; Li Qingyi, Programme Officer of the ILO Country Office for China and Mongolia; Christoph Pohlmann, former Resident Representative of the FES Beijing Representative Office; and Zhu Yukun, Senior Social Security Specialist, ISSA. Earlier versions of this report were also presented in various high-level conferences and seminars, and the authors would like to thank the participants for their comments and suggestions, including Athar Hussain, professor, London School of Economics (UK); Francis Kessler, professor, University of Paris 1 (France); Lin Mingang, professor, Nanjing University (China); Shen Jie, professor, Japan Women's University; and Hong Kyung-Zoon, professor, Sungkyunkwan University (Republic of Korea). The authors would also like to thank Tim De Meyer, former Director of the ILO Country Office for China and Mongolia who was involved throughout the research project as well as Christina Behrendt, Head of the Social Policy Unit at the Social Protection Department of the ILO and Sara Elder, Head of the Regional Economic and Social Analysis Unit and Senior Economist, ILO Regional Office for Asia and the Pacific, for their comments and feedback.

It should also be noted that Professor He Wenjiong and Dr Hua Ying not only participated in the writing of Section 3.1, but also were involved in discussions throughout the research process. In addition, by liaising with the authors of the country reports and translating the main report from Chinese into English and English into Chinese, Dr Hua Ying made a unique contribution to this research.

Executive summary

Since the subprime mortgage crisis of 2008, the global economy has been mired in difficulties, and social security¹ has become an increased focus of policy discussions and academic debates. How to interpret and properly handle the relationships between social security and economic development has also become a major issue of international and national debates.

The adoption of the Social Protection Floors Recommendation, 2012 (No. 202) by the International Labour Conference reaffirms that social security is a human right and urges all countries to develop their social security systems. In September 2015, 193 Member States of the United Nations formally adopted the 17 Sustainable Development Goals (SDGs) at the United Nations Sustainable Development Summit in New York.

This report generalizes theoretical considerations on the relationship between social security and economic development and analyses contemporary and future challenges to social security brought about by paradigmatic changes in economic thought and realities. While aiming to clarify possible misconceptions, the report summarizes the relationship between social security and economic development from a historical perspective and explores how synchronized development and positive interaction between the two can be achieved.

The following summarizes the report's main viewpoints.

1. Historically, social security has been important to the socioeconomic, macroeconomic and political development of diverse countries and regions, like the United States and many nations in continental Europe. While, at first, it emerged primarily as a governance mechanism for countering political or economic crises, social security later also helped foster system transformation. There was a recognition that social security can and should also be applied outside of crisis response. Indeed, in many countries it has proven itself a socially effective and economically productive policy tool under “normal” (non-crisis) conditions. Social security systems must therefore be designed so that they are trusted by their stakeholders and function well under both auspices.

For more than a century, well-governed social security reduced social contradictions, enhanced national identity, compensated for market failures and contributed to stabilizing, often even stimulating, economic growth. The growing attention to the importance of building social protection systems in middle- and low-income countries over the past two or three decades is the latest chapter of a century-long history of building social protection systems (ILO, 2017). China has been at the forefront of these latest developments. Today, most countries have in place social protection schemes anchored in national legislation; yet, in many cases, these schemes cover only a minority of their populations. Despite laudable progress, large gaps remain, mainly in parts of Asia and Africa (ILO, 2017).

With the founding of the United Nations, social security became a human right.² Hence, it is generally accepted that social security is not (only) a potentially effective anti-crisis governance tool to counter temporary negative income effects on people, but that it equally represents a body of human rights and entitlements. Rights and entitlements will easily lose their significance if not materially supported. Therefore, policies of joint social security and economic development must be given focused attention. In modern countries, both are mutually dependent cornerstones of political and socioeconomic practice and cannot be separated. Instead, much care must be taken with their complementing each other to

¹ The term “social security” used here has no significant difference with “social protection” as defined and commonly used by the ILO. In this paper, both terms are used interchangeably.

² The human right to social security is enshrined in the Universal Declaration of Human Rights (1948), the International Covenant on Economic, Social and Cultural Rights (1966) and in other major United Nations human rights instruments as well as ILO standards.

achieve a maximum of positive interaction (Scholz, 2015).

2. The international debate on the effects of social security on economic growth is complex, and its results have not always been unanimously accepted. Overall, it is held that once a social security system of sufficient financial size is in place, it can affect production (gross domestic product) and employment, labour productivity, labour market participation, income distribution and international trade, among others (Scholz, 2015). Concrete conclusions of the debate often rest upon the design of the social security system under consideration; for example, whether it is more of a Bismarckian or a Beveridgean or a hybrid system design.

Generally, conclusions appear accepted among specialists that Bismarckian systems are more productivity-oriented, whereas Beveridgean systems lean towards achieving societal equity. With socioeconomic developments evolving, combinations of characteristics of both designs tend to appear more frequently, and it is most likely that in the future, further system hybridization will take place.

3. In modern societies, social security is a structurally complex and financially comprehensive system, taking shares of between 25 per cent and more than 30 per cent of GDP. One third or more of social security revenue is sustained by a government (the public sector), with the system comprising schemes and programmes of income protection in cash and/or in kind, all of which accompany individuals through various stages of their life cycle.³

Despite its inherent stabilizing features, social security and its role in national economies underwent another phase of significant adjustment some 20 to 30 years ago, which can, in a nutshell, be attributed to the post-1989 international spread of the Washington Consensus (Williamson, 2002), the reform and opening up of China and the subsequent commencement of intensified competitive globalization.

In the West, many countries decided to manage the resulting challenges, including demographic ageing, fiscal indebtedness and the complex impacts on labour markets, through cost containment and, after the 2008 subprime crisis, through austerity. Short of accommodating economic and fiscal policy, the Western welfare state as a guiding concept has been on the retreat for several decades.

4. In principle, globalization offered a number of countries the opportunity to embark on temporary export-led, high-growth development strategies and to simultaneously develop and enhance social security.⁴ However, of the group of developing countries, particularly within the association of Brazil, the Russian Federation, India, China and South Africa (known as the BRICS), it was mainly China that could successfully grasp the opportunity of economic transformation, including through export-oriented trade policy, a process in which the application of significantly enhanced social security had a major supportive role.

Those (temporarily) fast-developing countries (mainly the BRICS), all took steps to improve social security with the intention of having their general populations participate in the fruits of globalization, which otherwise were expected to end in the hands of only a few. Through technical cooperation in social security and other engagements, the International Labour Organization (ILO) has reminded countries worldwide of the fundamental goal of economic development: to enhance people's welfare. The approval of ILO Recommendation No. 202 and adoption of the SDGs demonstrates that social security has become much more implicit in the international agenda, showing the existence of trends with different directions, which are the result of a complex dynamic between different players.

³ In this paper, social security includes benefits for children and families, maternity, unemployment, employment injury, sickness, old-age, disability, survivors, health protection and education benefits.

⁴ This statement must be read with care and needs more explanation that cannot be undertaken in this report: At the global level, trade-surplus countries need trade-deficit countries as counterparts because the global trade balance is, logically, zero. In other words: export-led strategies in the 1990s and after relied on the readiness of (mainly) the United States to run such deficits.

At the same time, a retrenchment of social security has been observed in Western countries, while space for social security increased in some regions (for instance, among member countries of the Association of Southeast Asian Nations, ASEAN), following the similar direction observed in China and the other BRICS.

5. Given this background, countries must find ways to reshape their welfare policies (including social security) as their societies continue (or return to) accepting the new realities of globalization. Western countries and some developing countries should reconsider their current austere social policy and seek to replace it with policies that strengthen income security and narrow down income disparity. It is consistent to counter people's increased insecurities with strengthened social security.

Generally, more proactive social security systems, which are self-adjustable and resilient to keep up with the times, and are able to constantly optimize themselves, should be a necessary ingredient to development in the twenty-first century (Zheng, 2017a). China is a prominent example of adapting social security for a successful economic transformation and contributing to unleashing the country's long-retained growth potential. Yet, with a social expenditure ratio of around 13 per cent⁵, China is still half way from Europe's relative social expenditure levels, and, despite remarkable progress made, its primary income distribution is still unfair.

Therefore, China should systematically further expand its social security system in line with the evolving economic capacities to prepare, at the very least, for the next economic crisis. China should pursue such policy also to maximize the likelihood of success in shifting its economy from an export-led to a domestically driven growth path. This policy requires fostering education and educational benefits, employment measures, housing policies and, most importantly, steady increases in wages, including for low-income workers.

6. In many countries, including China, demographic ageing is seen as triggering social costs that hamper national economic development, including through negative effects on international competitiveness. Such concerns, however, appear to ignore that the populations of almost all world regions are ageing – and all regions are exposed to the expansion of the related costs. Therefore, international agreement should be sought (at least among the Group of Twenty countries) to take the unavoidable additional social costs that are induced through ageing off the international competition agenda. With such agreement at hand, all countries could much more effectively pursue social policies aimed at poverty alleviation, including avoiding old-age poverty, which otherwise will become a growing problem around the globe in the future.

7. China's impressive role in contemporary debates on social security policy stems from it being regarded as an important example of how to use institutionalized social security (among others) to orchestrate institutional adjustments as a means to initiate dynamic growth policy. Indeed, in taking a comprehensive approach, China succeeded in pursuing a policy strategy in which economic reform and problem-focused social security overhaul mutually complemented each other. While social security reforms allowed the unleashing of economic growth, it, in turn, had positive repercussions on social security – in general, a virtuous cycle.

⁵ Authors' estimates based on *China Statistical Yearbook 2018*. This includes expenditures in many policy areas: sickness, health care, disability, old age, survivors, family and children, unemployment, housing and social exclusion (social assistance). In this calculation, the total spending on social security includes fiscal expenditures on social security, public health expenditure, public education expenditure and social insurance expenditure. Fiscal expenditures on social security includes expenditures on social assistance and government-subsidized housing, financial subsidies to social insurance programmes, allowances for people with disabilities and older persons, etc. Social insurance expenditure includes pay-outs of pension scheme, health insurance, employment injury insurance, unemployment insurance and maternity insurance. Public education expenditure includes compulsory education, early childhood education, education for people with disabilities, vocational education and subsidies for higher education. This figure is different from ILO (2017) estimates, which do not include health expenditures.

One deeper reason for the success of this policy was that it provided institutional guarantees to promises of sustained improvement of people's livelihoods (as a result of the reforms) not only in the future but immediately. Although China is in the middle of deepening its reforms towards an upgraded social security system, which requires further overarching redesign, the tremendous progress already achieved is a prime policy example for developing countries around the world of adhering to an effective combination of social security and economic development. From an international perspective, it is not so much the measures that impress (after all, the Chinese Government applied well-known instruments: pension benefits and health insurance nearly covering the whole population, supplemented with unemployment benefits and minimum income guarantees). Rather, it is the speed with which the instruments were institutionalized and made ready to serve.

8. Social security is an effective governance tool for countering negative crisis effects or, more generally, for fostering system transformation. These situations are, however, not the standard cases for which social security is to be designed, nor should social security be applied only in such circumstances. Rather, it should also be socially effective and economically productive under normal (non-crisis) conditions. Social security systems must be designed so that they function well under both auspices. For this to happen, a whole range of various aspects and tools are available. Understanding the socioeconomic functions of different social security programmes is requisite for their proper design and for maximizing, in practice, the positive social and economic functions of the different schemes. Nevertheless, it needs to be emphasized that social security should not be seen predominantly as a means to meet political or economic goals but as a crucial instrument to realize a decent life and human dignity.

With those realities in mind, the following social security challenges loom for many countries covered in this report (as well as many others not included):

- Neoliberal exaggerations of the past must be overcome (for example, labour rights must be re-strengthened) with re-fostering social security's implicit and explicit productivity effects.
- Labour remuneration must be increased. This includes taking the ageing-induced social security costs off the international competitiveness agenda to facilitate national anti-poverty policies.
- Income and wealth inequalities must be reduced (including through more redistributive elements in tax and social security legislation) to strengthen domestic demand, at the least.
- With the accelerated development of the digital economy, social security systems should enhance their adaptability, not only to guarantee the financial basis but also to cover (workers in) new forms of employment brought about by the digital economy.
- People must be provided with more equal access to quality education to ensure the constant improvement of human capital.
- Social security must be strengthened to respond to the continued growth of the world population, to environmental issues and other global challenges, like pollution, the shortage of fresh water and climate change.

In all these cases, social security cannot be the (sole) solution. Given its socioeconomic impact, it is an indispensable prerequisite for providing people (and governments) with the necessary time required to find trustable solutions (ILO, 2017).

9. Economic globalization and regional competition, population ageing, population movement, social structure changes, progress in science and information technology followed by new industries, non-standard forms of employment and lifestyle changes are presenting new challenges to economic and other developments and to social security around the globe.

These changes may have various impacts on social security but are far from affecting its principal resilience and effective capacity to maintain its economic and social roles. Because all countries must cope actively and steadily with the above challenges and changes, they will need to seek new balances in numerous policy fields. Social security should be used proactively in finding such solutions rather than being used as a narrow instrument for cost adjustments in international competition. Also, social security, because of its nature, should neither take the role of economic policies nor be held accountable for the failure of economic policies.

Particularly during the last global financial and economic crises, a certain level of agreement on the importance of social security among multilateral organizations was reached. Even if there might not be agreement on the model and the levels of expenditure, institutions like the International Monetary Fund (IMF) or the World Bank have agreed, to a certain extent, on the importance of social security. For instance, the IMF Independent Evaluation Office stated in a report: “Over the past decade, the IMF has stepped up its attention to social protection as it has dealt with the aftermath of the global financial crisis and addressed concerns from the impact of food and fuel price shocks and broader stresses on low-income groups and the most vulnerable. Thus, the IMF has moved beyond its traditional fiscal-centric approach to recognize that social protection can also be macro-critical for broader reasons including social and political stability concerns” (IMF, 2017b). The World Bank Group and ILO-led Global Partnership for Universal Social Protection, launched in 2016, demonstrates the recognition by the World Bank of the importance of social protection to combat poverty and rising income inequality (World Bank and ILO, 2016).

10. The construction of comprehensive and multilayered social security systems, which are in line with basic social security principles (as stipulated in ILO Conventions and Recommendations), is advisable for minimizing system failures during crises. To improve and maintain social security’s function as a service, the workflows within and between social security agencies should be optimized and modernized, including with the help of information technology. This will fortify social security’s attractiveness in relation to private competitors.

Both social security and economic development in the twenty-first century will require continued innovation and institutional modifications to keep pace with changing times, while social security, through its practice, must be the solid guarantee for its members and its beneficiaries. In this respect, the positive interaction between and joint progress of social security and economic development should be a guideline for all stakeholders, while dependency on immediate and immanent business interests should be avoided.

China's development over the past 30 years is not without flaw but still offers prime evidence of the positive synergy that can be achieved between social security and economic developments.

When well adapted to a country’s societal and economic fabric, social security can have very positive direct and indirect productivity effects, while economic growth is central to enabling the expansion of social security. The long-term experiences of Germany, the United States and the United Kingdom as well as countries of high (social) expenditure, like the Nordic countries, reinforce that enhancing human capital accumulation and productivity, including, prominently, through social security, does not negatively affect economic development. The synchronized economic take-off and establishment of the social security systems in Japan and the Republic of Korea in the second half of the twentieth century point in the same direction.

It appears that in the contemporary world, there is no scientific evidence to attribute economic downturn to a well-managed welfare system. Not only does such misunderstanding impair the sound development of social security, it also hinders the pursuit of a positive way for economic growth.

This report explores and highlights such interlinkages in detail.

About the authors

Zheng Gongcheng is a member of the Standing Committee of the National People's Congress of China, President of the China Association of Social Security and professor at Renmin University of China. He has long been devoted to research in social security, labour and employment. His research provides important theoretical support and references for China's social security reform and legislation.

Wolfgang Scholz is a senior consultant to the ILO and former social security advisor to the Social Security Department of the International Labour Office in Geneva. He has rich experience in social security planning at the national ministerial level and in social policy advice at the international (United Nations) level.

The responsibility for opinions expressed in articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them, or of any products, processes or geographical designations mentioned.

Abbreviations

ASEAN	Association of Southeast Asian Nations
CAOSS	China Association of Social Security, Beijing
CNY	Chinese yuan
ESSPROS	European System of Integrated Social Protection Statistics (manual)
EU	European Union
EUROSTAT	Statistical Office of the European Union
FES	Friedrich-Ebert-Stiftung
GDP	gross domestic product
ILO	International Labour Organization
ISSA	International Social Security Association
MHRSS	Ministry of Human Resources and Social Security, China
OECD	Organisation for Economic Co-operation and Development
SNA	system of national accounts
UN	United Nations
US	United States

All \$ currencies are US dollars.

“Continent” and “continental” signify the European mainland without the United Kingdom and Ireland.

Nordic countries refer to Denmark, Finland, Iceland, Norway and Sweden and their associated territories.

1. Introduction

1.1 Research background

1.1.1 Background

The world is witnessing an era of deepening globalization. This irreversible and unstoppable momentum for change appears to be merging civilizations with diversified cultures, institutions and technology through comparison and identification. Together with the remarkable acceleration of industrialization, information technology and modernization, it has initiated realignments of global political and economic patterns and begun strengthening the possibility of global governance, with high potential to elevate human civilization to a new level. From these developments, the world is experiencing profound impacts while entering a period of deep social and economic reconstruction. The rapid development of China and other developing countries since the 1980s proves that globalization can have positive impact on the progress of human society. However, protectionist tendencies, widening income gaps in combination with growing poverty and the subsequent spreading of unease and unrest indicate that further globalization needs to be pursued with the principles of building a community of a shared future for all humankind and promoting social justice (Zheng, 2017b).

The subprime mortgage crisis of the United States in 2008 triggered the latest global economic downturn. All major economies have since been confronted with new challenges. The United States, Europe, Japan and emerging economies (such as Brazil, the Russian Federation, India and China) are experiencing slowed economic growth and even stagnation or recession. In the aftermath of the 2008 crisis, a range of countries sought remedy through welfare retrenchment, though obviously unpopular, as part of a package of fiscal contraction commonly called “austerity”.

In the less developed countries and developed countries alike, the crisis directly or indirectly triggered further critical income and wealth splits between the few at the top of the income hierarchy and the many at its bottom. It resulted in hunger, migration, economic fragility and political instability, which have further weakened the regional economic basis and thus countries’ ability to maintain and widen effective social security. This has been amalgamated with the tendency to reform social security systems, such that they provide cost advantages in the global and regional market competitions. Some countries with a well-established social security system have faced pressure to reduce welfare expenditure.⁶ In 2016, a major austerity shock of expenditure contraction was initiated globally and is expected to last at least until 2020. In 2018, 124 countries, 81 of them developing countries expected to adjust expenditure, will hover around those levels until 2020 (ILO, 2017).

Some countries have moved in a different direction by introducing structural adaptations to their systems to revert previous reforms and reduce the risks of individualization and marketization of social security and to support the long-term social sustainability of their welfare system. In terms of the rapid development of both social security and an economy, China offers prime evidence (see Chapter 3), whereas most of the less and least developed countries in Southern Asia and Africa thus far maintain only narrowly defined social assistance policies and tax-funded benefits and/or run social insurance, though often with limited coverage. For instance, less than 30 per cent of the population is protected in most of the countries in Africa for which data are available (ILO, 2017).

With this backdrop, it is logical that developed countries need to continue helping those regions develop meaningful social security and help narrow the inequalities, including through the use of North-South transfers. It must be stipulated that social security alone will not solve the problems of those developing

⁶ With respect to issues and use of terminology, see box 1 (definition of social security) and Annex 1.

countries: Without sound primary income distribution, which fairly allocates the fruits of national income generation to persons producing the income, the income basis will be too weak to finance social security.

Building a world in which no one is left behind and poverty is eradicated in all its forms and dimensions is the greatest global challenge and an indispensable requirement for sustainable development. It is also the core of the 2030 Agenda for Sustainable Economic Development. These principles are present in the concept of a shared future for all humankind repeatedly proposed by Chinese President Xi Jinping in recent years.⁷

History has proven that the dual goals of achieving economic growth and a stronger welfare system are inescapable in every country's economic and social development. The social insurance that emerged in Europe in the late nineteenth century helped to improve industrial relations and provided important impetus for the development of modern capitalism. The Social Security Act of 1935 in the United States not only saved the country from economic crisis but also effectively maintained its long-term prosperity. The United Kingdom's welfare state design in the 1940s strengthened consensus views on social solidarity, created jobs and thus was conducive to the transformation of economic growth patterns. The economic take-off in Japan and the Republic of Korea in the second half of the twentieth century was accompanied by the establishment of their respective social security system.

The more or less stringent application of market mechanisms to social security and the introduction of funded pension systems in the 1980s in some countries contributed to capital accumulation to a certain extent, although often with negative results in terms of its impact on the redistributive function of social security. The return of the public solidarity pension to strengthen elements of redistribution in such countries as Argentina and Hungary in the past decade repeatedly demonstrated that the reform towards individualization and marketization has weakened income distribution to the extent that political and social risks are huge. Since the beginning of the current century, China's social security has been developed in all classical dimensions, with similar policy approaches found in such countries as Brazil.

Despite the efforts to assess the relationship between social security and economic growth, the debates around different views are far from being concluded; additional evidence and assessment are still required.⁸ Generally, it is fair to say that the global experiences of the past century show an overall positive relationship between the expansion of social security and economic development. International consensus among political and economic elites in this respect has, however, weakened over the past three decades. It has returned in recent years largely due to worldwide aggravated inequalities and their resulting harmful socioeconomic consequences to the process of globalization (see section 2.1).⁹

1.1.2 Research purpose and content

⁷ The idea of building a community of shared future for all humankind advocated by Chinese President Xi Jinping is aligned with the United Nations values and echoes the Sustainable Development Goals. In November 2012, the concept of "a community of shared future for all humankind" was first proposed in the report of the 18th National Congress of the Communist Party of China. In the following years, Chinese President Xi Jinping mentioned and expounded the concept on various international and domestic occasions. China pursues shared development and advocates for building a community of shared future for all humankind, which is coherent with the global recent developments.

⁸ Some economists have always argued that the welfare system is to blame for economic downturns or, even, more generally, for any restraints on people's productive forces. Others have argued, especially in the context of year-long detrimental developments, that inequality is a prominent trigger as well as driver of political and economic crises and therefore public expenditure and social protection can and should have an important role in propelling countries towards recovery (Cingano, 2014).

⁹ Despite the divergence in the current global debate, institutions like the International Monetary Fund and the Organisation for Economic Co-Operation and Development are presenting research conclusions that point to the negative impact of inequality, that is, the weakening redistributive effects hamper both social justice and economic development (IMF, 2015; Cingano, 2014).

Economic development and social security are deeply intertwined, constituting elements of the same socioeconomic reality. They should thus not be put into undue contradicting positions so as to avoid the undesirable consequence of policy measures arising from misconceptions. Rather, economic development and social security are two sides of the same coin and should be analysed from a holistic perspective. It is imperative to explore and promote those constellations that have proven reasonable, reliable and productive in their guaranteeing positive interactions between social security and economic development, on the basis of clarifying the historical logic of and the relationship between the two. This does not imply to ignore or hide the unavoidable inherent conflicts between the very interests of enterprises and individuals' claims to be protected through socially organized security. Only transparently addressing such conflicts can solutions be found, which, depending on institutional specifications, may have more or less significant impacts on the productivity of an economy (see section 1.2.5).

Central to this report's research are the relationships between social security and economic development around the globe. The research set out to gain a scientific and theoretical basis for a comprehensive and correct understanding of these relationships and then seek a path to the sustainable development of social security in the context of a new era. The research took a special focus on China's experience as well as several major countries with mature social security systems.

The research encompassed four parts:

1. Global social security and economic development: historical experiences and trends. This touched upon the relationship between social security and economic growth and the relationship between less investment in social security and economic crisis.
2. Theoretical explanation of the relationship between social security and economic development and the effects of different social security patterns on economic development.
3. The evolution of social security and economic development in selected countries, including policy measures to coordinate economic development and social security in the new economy dynamics.
4. Social security and economic development in China: historical experiences and current challenges and trends.

The significance of this research lies in its relevance to current worldwide transformations. The research intended to develop a rational understanding of the historic mission as well as contemporary responsibilities shouldered by social security in promoting the further development of human society. The research also sought to propose a model of social equity-oriented and sustainable social security that would cover the entire population, with adequate protection and clearly defined rights and responsibilities. Such a social security design should be immune to short-sighted solutions (Zheng, 2016a).

This research provides an up-to-date assessment of social security and economic development in China, the United States, the United Kingdom, Germany, France, Scandinavia, Japan and the Republic of Korea. It hopes to serve as an authoritative source to enhance the understanding of the evolution of China's social security system and its active role in the recent socioeconomic transformation in a comprehensive and objective manner.

The Chinese social security system, which provides stable and ever-growing social protection for a population of more than 1.3 billion persons and facilitates the policy of sustainable national economic development, offers useful insights for countries all over the world in their efforts to reshape their respective system.

Box 1

Research process

This project was inspired by a fundamental consensus among the China Association of Social Security (CAOSS), the International Labour Organization (ILO) and Friedrich-Ebert-Stiftung (FES) that the current global economic development and national social security systems are exposed to complex changes and challenges and that, more than ever, it is important to understand the relationships between them.

The report is the outcome of a research process that benefited from rich discussions, inputs and findings from several meetings, high-level conferences and seminars and several rounds of revisions. Between September and October 2015, the president of CAOSS met successively with the ILO senior social protection specialist and the secretary general of the International Social Security Association (ISSA) to discuss the research. As well at that time, the resident representative of the FES China's Beijing Representative Office expressed full support for the research project. They agreed on the importance to conduct an up-to-date piece of research on the relationship between social security and economic development in the modern world.

In September 2016, the CAOSS, the ILO and FES jointly hosted the launch meeting of the Global Social Security and Economic Development Project in Beijing. More than 20 experts and scholars from CAOSS, the ILO, FES, ISSA and from Denmark, France, Germany, Japan, the Republic of Korea, the United Kingdom and the United States participated in the discussion. The conference participants agreed on the framework, developed key viewpoints, assigned tasks and agreed on timelines. Between September and December 2016, the authors of the seven country reports (on France, Germany, Japan, the Nordic countries,* the Republic of Korea, the United Kingdom and the United States) submitted first drafts.

In May 2017, Zheng Gongcheng, Wolfgang Scholz, Nuno Cunha, Li Qingyi, He Wenjiong, Hua Ying, Lu Quan and Christoph Pohlmann organized a seminar in Beijing to exchange views on the first draft of the main body of the report and on the country reports.

In September 2017, CAOSS, ILO and FES arranged the International Conference on Global Social Security and Economic Development at Nanjing University, China. Ideas were exchanged, and further views were collected from a wider audience. Shortly after, Zheng Gongcheng, Wolfgang Scholz, Nuno Cunha, Li Qingyi, He Wenjiong, Hua Ying, Lu Quan and Christoph Pohlmann organized a seminar in Nanjing to discuss the revised country reports and collect views on the further improvements of the main report. Between February and December 2018, the report benefited from further revision by the three collaborating organizations and was finalized by Zheng Gongcheng, Wolfgang Scholz and Hua Ying before its publication in English and Chinese.

*= The Nordic countries cover Denmark, Finland, Iceland, Norway and Sweden and their associated territories.

1.2 Theoretical hypotheses on the interdependencies between social security and economic development

This section introduces the hypotheses that have been used in the literature to explain the interdependencies between social security and economic development. For consistency of argument, we first describe social security traditions that will later help to better understand the current status of interaction between social security and an economy as well as where we stand in contemporary discussions. Specifying these traditions will also help to better understand the situation of China, which has a prominent presence in this report. We then develop a productivity-oriented argument to explain the intrinsic economic reasons for the very existence of social security. The argument is ad hoc but intuitively deceiving and therefore worth inclusion for the context of this report. We also explore the pros and cons of social security that have been developed over decades as a result of worldwide ups and downs of the economic (business) cycle and in reaction to the interplay between social security and exogenous or endogenous crises.

Box 2

How to define social security and some implications

Many definitions of social security exist but not any one of them is definitive: Societies differ and change over time, and so does social security. Sometimes, definitions are relatively vague, using unspecific terminology; sometimes they are specific and detailed. Definitions may be static or take into account dynamic elements. There are numerous definitions between these benchmarks. Most experts would agree on some core elements and characteristics of social security, with a few grey areas of undecidedness that remain around the definition boundaries.

Here we briefly adapt and reflect on a definition that was mainly developed for statistical purposes by the European Union (ESSPROS, 2012) and that is nowadays used by the International Labour Organization and other institutions.

Social security, according to this definition, encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved (see Annex 1). The list of risks or needs is, by convention, as follows:

- | | |
|-----------------------------|------------------------|
| 1. Sickness and health care | 5. Family and children |
| 2. Disability | 6. Unemployment |
| 3. Old age | 7. Housing |
| 4. Survivors | 8. Social exclusion |

The origin of this definition, still in use today as a core reference, is the nomenclature of the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), which enumerates nine branches that provide, on the basis of solidarity-based financing principles and as an individual legal entitlement, support to persons in the event of predefined contingencies occurring through medical care, sickness benefits, unemployment benefits, old-age benefits, employment injury benefits, family benefits, maternity benefits, invalidity benefits and survivor benefits. These benefits must comply with minimum standards (ILO, 1952).

The term “interventions” in the definition indicates that social security is not only considered a financial undertaking but that it might consist of certain social activities; accordingly, the definition separates in-kind from in-cash benefits.

Annex 1 contains more detailed information as to how the European System of Integrated Social Protection Statistics (ESSPROS) defines social security;* the reader will realize that the definition has significant linguistic problems when including private interventions, which implies that the borderline between the definition of publicly organized solidarity schemes and private arrangements is becoming increasingly blurred, not the least as a result of the worldwide trends over the past two to three decades of privatizing social risks.

While the above definition is mainstream, it might be interesting to note that the United Nations’ System of National Accounts (SNA) (and the European Union’s SNA) broadly covers the same needs and risks but includes education as another social need. Depending on the context, we also take education as a social need into account in this report.** Yet, continued payment of wages in the event of sickness is not included in the SNA as social spending; rather, it is part of the gross sum of wages and salaries. There are other differences in the methodologies that render it important to clearly understand the statistical bases of social indicators used in public debate. For example, it is important to know, especially for international comparison, whether a social expenditure ratio was calculated on the basis of ESSPROS-type or SNA-style statistics. Even if the indicators calculated either way came to similar numerical results, they would still represent different content.

Note: *= Actually, ESSPROS uses the term “social protection” instead of social security.

**= There are pros and cons to including and excluding education as a need (rather than an investment) in definitions. Because this report is not about statistical methodologies or legal nomenclature but social policies, the adhering to an exact definition is no priority. An a priori understanding of the term social security should be sufficient for understanding the contents of this report.

Source: Mainly ESSPROS, 2012; United Nations et al., 2009.

Within this report, the social security nomenclature and practice are interpreted and assessed within their economic function, despite any interventions that provide net gains economically, in cash or in kind, that are implemented by the State as prescribed by law. At the core of these interventions lie the schemes for pensions, health insurance, unemployment insurance, social assistance, educational benefits and housing benefits.

1.2.1 Introduction to social security traditions

Social security is deeply rooted in a number of different traditions of thought, which have had different impact on social policy preferences and practices, as follows (adapted from Dixon, 1999).

The **European Poor Laws** tradition of 1597, 1601 and 1834¹⁰ rest upon workhouse elements and are the ideological origin of the modern means-test practices (as opposed to unconditional benefits).

The **master-servant** tradition holds that when a person, who, on their own responsibility for their own profit, sets in motion agencies that create risk for others, should be civilly responsible for the consequences of what they do (Herbert Asquith, 1906, quoted in Dixon, 1999). It is a seemingly reasonable principle that has been all too often misused within enterprises to perpetuate employers' (the "master") superiority over workers (the "servants").

The **occupational provident fund** tradition, if kept as the sole instrument, falls short of modern society's social security requirements but nevertheless continues to attract the interest of policy-makers, especially as an option for an additional layer of income security.

The **(social) insurance** tradition, while resting upon principles of mutual help and actuarial fairness, was the dominant social security success story of the nineteenth and twentieth centuries, mainly in developed countries. It only recently lost some of its attraction among social security planners, especially in development economics.

The **Marxist-Leninist** tradition, by its formal design – strove for a welfare state scenario that appears to have had much overlap with a hybrid Bismarck-Beveridge concept. By contrast, however, it replaced individual with collective entitlement and macro-fiscal employment policy with work discipline, thereby aiming to enforce that daily social practice became directly equivalent to economic growth.

The **welfare state** tradition, while supported by full-employment-oriented macroeconomic and macro-fiscal policy of a government, seeks to humanize capitalism through the pursuance of social stability and societal progress while aiming to remove the social sources of our distress (Sigmund Freud, quoted in Dixon, 1999).

The **marketization** tradition, by contrast, emphasizes and focuses on the virtues of the marketplace. This tradition believes in the Pareto principle¹¹ and that individuals are best judges of their own well-being; it holds that individuals are rational, desirous, calculating and self-interested, with individually known ordered sets of preferences.

The **general minimum income** tradition is a radical completion of neoliberal thought because it endows the State to provide minimal social income guarantees to its citizens while leaving any additional income security to the private sector. In most blueprints, the general minimum income tradition aims at two goals: (i) to remove the necessity of primary income production from individuals, such that they

¹⁰ In a strict sense, the Poor Laws originated in the United Kingdom; however, similar rules and practices were applied at the same time all over Europe. This is why we take the liberty of calling the Poor Laws **European**.

¹¹ The Pareto Principle is a term used in welfare economics. The weak Pareto Principle states that a group of individuals will prefer welfare situation B over A if all individuals have a higher utility in B than in A; the strong Pareto Principle holds that a group of individuals will prefer welfare situation B over A if at least one individual has a higher utility in B than in A, while no one in A is worse off.

are free from the constraints of material want in their daily decisions while enabled to choose freely and voluntarily to work (or not); and/or (ii) to reduce administrative complexities by replacing social security institutions and their unavoidable interactions with minimal administrative units that register births and deaths.

These traditions implicitly or explicitly reflect specific prevailing economic paradigmatic thought, usually complemented with certain political ethics, with risk sharing having a more or less prominent role. In modern full-fledged social welfare states, we usually find many or even all of these traditions in parallel – we just might be calling them differently. If one understands economies as sets of interacting institutions, such as private households, enterprises and government entities, where economic development is a result of their dynamic interacting, then, obviously, interdependencies between social security and the economy occur because social institutions are economic actors intervening in the structure and behaviour of other such acting institutions. From this point of view, it is the role and art of economic policy to set external conditions such that institutions can pursue an optimal development path. How best to set such conditions in concrete (reform) situations very much depends on a solid understanding by policy-makers of the prevailing social security tradition or a mix of such traditions. Missing such understanding can easily result in non-achievement of expected reform results, of which many examples exist in modern history.

1.2.2 The pros and cons of social security

Standard microeconomic theory seeks to formulate conditions (the price and cost levels) that must be fulfilled to clear markets (the markets of goods and services and also labour markets). This approach stands in stark contrast to the Declaration of Philadelphia, which stipulates that labour is not a commodity (ILO, 1944). It usually also ignores social security's potential role in employment maximization, and implicitly (sometimes explicitly) characterizes social security as an obstacle to such market clearance. In other words, as long as full employment is a socioeconomic goal of society, social security is considered an undertaking that should be avoided rather than actively pursued.

The purist microeconomic approach is often criticized from within the economic academic professions but also from other specializations of societal research, such as sociology, the political sciences and psychology. Nevertheless, the approach shows stubborn resistance and thus maintains significance, often in "popularized" versions and in public debates dealing with the pros and cons of social security or, where social security institutions have already been implemented in historical practice, the approach indicates market-type reforms of such institutions.

Reflecting on this analytical and policy framework and very much in a Popperian scientific tradition (Popper, 1977; Frisby, 1972), the available literature includes lists of arguments in favour ("pros") of social security and against it ("cons"), as follows (adapted from Cichon et al., 2004). We paraphrase these arguments here without going into detail concerning their relevance.

Examples of the economic pros to social security:

- Social security stabilizes domestic demand and can help to reduce excessive savings by reducing the existential insecurity of people. It contributes to social peace and creates an environment for profitability and positive rates of return on private investments.
- Unemployment insurance provides unemployed individuals with time to seek out appropriate jobs and thus facilitates labour force adjustments in case of structural economic and labour market changes.
- Social security institutions, more generally, including pension schemes and social assistance, and welfare-oriented institutions can be used as policy instruments to support people's acceptance of economic reforms.
- Health care and work safety schemes maintain and increase individual and collective labour productivity.
- Social security offers a practical societal mechanism to channel positive income effects of globalization to vulnerable persons.

- Social security guarantees equilibrium labour costs at levels lower than in its absence, in which (the latter case) workers, saving individually, would need higher labour income to achieve predefined lifetime income levels.
- Social security provides information to businesses on core variables of domestic competition. When self-governed, the institutionalized social dialogue helps to reduce economic rigidities.

Examples of the **economic cons to social security**:

- Unemployment and social assistance benefits function as benchmarks for workers' reservation wage (the wage level below which they will not be willing to work but prefer to receive an unemployment benefit). This constellation of wages expected and benefits offered increases production costs and hinders certain production from taking place. As a result, total national income falls behind its potential level and unemployment increases. More unemployment benefits must be paid and, thus, social security becomes a reason for itself.
- Pay-as-you-go pension schemes (with predefined standard retirement ages and standard benefit levels, for example, along the lines cited in the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102)) provide incentives for early labour market exit. This constellation reduces the labour force, in comparison to a situation with no such predefined retirement age and benefit. Again, this reduces economic output and thus increases society's social costs in relation to its total available income.
- Sickness benefits reduce labour productivity because they facilitate workers' temporary exit from work without consequence to individual available income.
- Social security generally creates individual dependency on benefit transfers and reduces people's ability to live self-determined and self-confident lives; individuals are distracted from taking the risk of economic failure while the contrary is core to the successful functioning of market economies. It also reduces individual willingness to save, while the contrary is necessary for economic growth. And it increases production costs and therefore reduces international competitiveness and has negative effects on a nation's balance of payments and stability of currency.

Many more such examples exist for social security regulations and benefits. They are typically based on partial analysis, whereby their content depends on implicit or explicit, strong or weak, behavioural and structural assumptions about individuals and economies. The crux with the items listed (including those not listed) is that they may indeed be true or false, depending on the underlying assumptions or empirical material against which those (partial) hypotheses have been tested in reality. From a theoretical analysis point of view, this is unsatisfying because it leaves the nesting of social security in economics as a science quite arbitrary and undecided and strengthens, rather than counters, observers' (and possibly political actors') impression that social security is alien to (rather than an integral element of) modern economies.¹²

One of the strongest arguments against the practice of such positive and negative listings is that they focus only on a limited socioeconomic reality (markets) while showing a tendency to ignore other, equally important and observable economic phenomena. One of the strongest arguments in favour of social security is, after all, that institutions of social security do exist, which the opponents to social security have no choice but to accept. Against all odds of pure economics, societies have obviously decided to implement such social institutions. One of the research questions to be explored by theoretical economics should therefore be: Why?

1.2.3 A positive argument for social security

The question, why does social security exist? can be transformed into, is it possible to spot "objective" conditions that are accessible to "pure" economic reasoning and logically imply the existence of social

¹² Where social security systems have already been implemented, the situation is different in terms of the macroeconomics of aggregate supply and demand, as well as macro- and microeconomic (personal) distribution issues.

security in societies? Indeed, standard economic theory has developed one such argument, which we now explore. Under this reason, social security becomes an intrinsic element of economic theory through its **buy-out or buy-in function** and the resulting positive effects on labour productivity. Basically, the argument is that social security is a societal instrument that buys out of the production process unproductive labour (as well as buys productive labour into the process) to maintain or enhance productivity levels of the resulting (remaining) labour force.¹³

The core of this argument dates back probably to pre-World War I discussions, among and with pension activists (Rodgers, 1998) in the United States (around 30 years before a social pension system was introduced in that country). It was formalized in the 1990s using the mathematical tools of contemporary mainstream marginalism (Sala-i-martin, 1996).

The argument was initially developed solely with respect to pension systems. It is intuitively convincing to argue that there is a point in everyone's life from which personal (physical) productivity declines. It is a situation probably happening even earlier in terms of individual (workplace-related) "labour productivity" as a result of technological progress and/or deterioration of individual skills or declining health or other detrimental developments affecting individual productivity. Continuous training on the job, work routine and experience might help counterbalance such deterioration, but there are limits. Depending on a society's (the enterprises) production functions, it makes sense to expect that continued employment, in enterprises and administrations, of progressively unproductive labour and thus the growing productivity gap between older persons and younger employees, at some point, negatively affects a company's total productivity and reduces its competitiveness. From this view, an institution, such as the social pension insurance, that "takes over" (or "buys out") the increasingly unproductive older employees is a relief that can be interpreted as a productivity-enhancing institution, which, simultaneously, fulfils a social purpose in that it provides continuation of certain levels of income to those (now retired = bought-out) persons. This situation was obviously well understood by the Chinese Government when it made effective use of social security during its endeavours to expose state-owned enterprises to market conditions (see Chapter 3).

We hold that the argument can be generalized to practically all other social security institutions, whether they provide benefits in cash or in kind. For example:

Child (cash) benefits usually support schooling and enhance the quality of future workforces and prevent child labour, which reduces enterprise productivity (except for pathological cases); **sickness benefits** allow workers to stay home instead of possibly transmitting diseases to the workplace; **hospitalization** is an extreme case whereby sickness-infused labour is bought out of the remaining healthy labour force (a similar argument holds for social occupational injury insurance and social care insurance); and in the case of **unemployment insurance**, the buy-out argument can almost be considered a tautology because unemployed labour is analytically identical with zero-productive labour (two sides of the same coin). In analogy, social security also can have an economic **buy-in function**. This is evident in those cases in which social programmes intend to increase the (productive) labour force, either directly or indirectly. For instance, in contemporary debates concerning the provision of (additional) kindergarten places for children, often the argument is used (next to others) that such policy provides additional space for female (mothers) employment and thus contributes to increasing labour market participation and economic growth.

Another example would be student grants or the subsidizing of homes for underprivileged university students, at least in those cases for which the availability of such grants or places allows them to study and to improve future labour productivity. Of course, the buy-out or buy-in argument for the economic

¹³ The authors of this report are aware that by forwarding this argument for social security they risk being (falsely) criticized as adhering to what has been called the Ricardian Vice (Kurz, 2017; Schumpeter, 1954). Yet, to the same extent as Ricardo's logical invention of the "comparative advantage" provides 200-year-old mainstream economics reason for promoting free and unrestrained international trade, the buy-in or buy-out argument might be similarly taken as offering a theoretical basis to social security.

roots of social protection only holds *cum grano salis*; other economic reasoning, depending on a society's history and value systems, may (and usually do) apply. This view on the economic impacts of social security is not only of a theoretical nature. As a matter of fact, it gained prominence over recent years in the **social policy practice** of many developed countries, whereby governments began adjusting their respective social security system to economic needs, such as by tightening people's accessibility to social benefits to counter the demographically induced decline of the labour force.

China can be taken as another example of how the buy-out function was successfully applied (see Chapter 3). In pursuing buy-out or buy-in policies, governments can easily make mistakes, resulting in suboptimal productivity: If too much labour force is bought out, then the remaining labour force may turn out less productive than before; if too much is bought in, then the same can happen. It is empirically difficult, if not impossible, to find the optimal size of the labour force – it depends on the economy's unknown production function. In other words, there is no objectively correct solution to applying social security's buy-out or buy-in function in the end. Its use can only be legitimized by society's acceptance, which, in turn, is an issue of political and societal practice.

Of course, an economy must be willing to internalize the related buy-out or buy-in costs, otherwise, this explanation for the existence of social security is not valid. It must be assumed that the productivity gains achieved through social security's functionality clearly outpace the related increases in production costs. This assumption would need to be put to the empirical test (which has not been done thus far). There are, however, good reasons to assume that the huge productivity differences between economies worldwide, at regional levels and within nations are highly correlated with accessibility to (more or less developed) social security systems and their application and use in practice. On this basis, the hypothesis appears justified that, at least partially, those internationally observable differences in productivity levels relate to the existence of a social security system's ability (for better or for worse) to perform as a productivity enhancer.

Discussing the buy-out or buy-in function of social security is not only an academic undertaking. More important is that it reminds governments (and, generally, social policy analysts) that, worldwide, contemporary policies of containing or even reducing social spending may unintentionally face economic costs in terms of negative productivity effects. Indeed, it is justified to argue that all those countries that adopted neoliberal policies (see section 2.1) and adjusted their social security parameters to accommodate economic (business) requirements, simultaneously created either additional unemployment or large low-wage sectors with no or only low productivity. Given the insecurities of the coming technological changes and their potential impact on labour markets, governments would be well advised to consider the proactive and productivity-oriented use of the buy-out or buy-in function of social security.

Social security is a human right, but it is also a powerful governance tool for tackling a society's insecurities.

1.2.4 Social security as a redistributor of primary income

In the previous section, we developed an argument to explain social security as a necessary element of modern capital-based means of production mainly for the sake of the long-term survival of this core, constituting characteristic of modern societies. The point we address now is of a different nature: It looks at social security as a (necessary) tool for transferring income (in cash or in kind) to the population that is not directly involved in the production-of-income process (workers who are bought out). Essentially, we argue, capital-based production at a certain stage of development depends on financial flows from persons who gain primary income from their direct involvement in production to persons who do not in order to maximize and maintain the production of goods and services for final consumption (to maximize profits).¹⁴ Social security is a convenient and practical way for societies to

¹⁴ For reasons of better readability, we simplify the argument. It is well understood that maximizing production can take place, and usually does, under preformulated policy conditions; this includes, in developed economies

organize such a flow of funds.

Box 3
What is primary income?

The term "primary income" signifies a core concept of the measurement of income that is produced by an economy (a society) within a certain period, such as one year, and that can be used for final consumption. Often, primary income is called gross domestic product (GDP). GDP is basically calculated as a balancing item, as follows:

total production minus intermediate consumption = value added (= GDP),
where intermediate consumption is that part of total output that must be channelled back into production to keep the process going.

GDP can be regarded as a dual concept: While it is the result of production, GDP is equally a measure of an economy's total (monetary) income that emerges in parallel to production and that is allocated to workers in the form of primary labour income (workers' remuneration) and to the owners of capital (as profits). This allocation on the two production factors (labour and capital) is often called "primary income distribution". This income can be redistributed (via state institutions, including social security) and be used for private consumption, government consumption, for private and public capital formation (investments) and for exports (where imports must be subtracted to avoid double-counting).

Value added (GDP or primary income) is the only source for a society's income redistribution (often called "secondary income" or "secondary distribution"). Societies may also choose to redistribute nationally or internationally accumulated wealth, which – other than GDP – is no income flow but a stock (as a result of accumulated savings).

For more information, see United Nations et al.: *System of National Accounts 2008* (New York, United Nations, 2009).

Production requires effective demand. Growing effective demand is a prerequisite for growing production (resulting in growing labour income and profits).

From an individual country perspective, **external** demand is one obvious source of this additional demand. Relying on external demand can be a temporary and transitional option for countries, but logically, not all countries can rely on external demand because the sum total of the current account balances of all nations is equal to zero. It has been countries like China, Germany, Japan or Switzerland (among others and over periods of time) that traditionally relied on such external demand, while after World War II and to this day, it is mainly the United States that has created this demand by externally indebting itself. Creating additional demand domestically, through social security, would theoretically be easiest if the additional demand coming from social transfers would be for free – they would not affect the costs of production. Contemporary proposals to finance social benefits through "helicopter" money, or through a government's permanent deficit spending, can be regarded as attempts at insinuating that social security can be introduced free of cost. While these proposals might be helpful and possibly also applicable in the short run, to get the world economy out of its current austerity situation, they are here considered **inadequate** to finance social security in the longer run.

We hold that social security transfers must be financed out of current production, that they are a direct cost to the production process and thus can reduce profits or can change the composition of labour

for example, maximizing free time (reducing working time as a result of maximized labour productivity).

income. We provide explanation for this position further on. For simplicity, we assume that gross domestic product (GDP) is equivalent to national income, which is composed of labour income and capital income ("profits") (for details, see United Nations et al., 2009).

Obviously, in static analysis, any additional social security would reduce profits in case labour income (labour costs)¹⁵ is **inflexible** (in its level or amount and its composition (see box 3 and United Nations et al., 2009)). In such a situation, any additional social spending would have to be financed out of profits and would reduce profits, which, in turn, would trigger reactions aimed at reducing labour costs (labour income).

The situation is different if labour income is **flexible in its composition**. In this situation, social security can be financed out of labour income without negatively affecting profits (labour cost levels (amounts) remaining unchanged). Parts of labour income can be set aside for current social security or, with pensions, the pay-out of labour income can be postponed until workers retire from the production process.¹⁶ Many national laws treat earnings-based pensions like postponed wages. This is standard with social **insurance** solutions to social security pensions.

Financing social security out of labour income requires that the labour income net of those amounts tagged for social security (and the net of possibly other deductions from labour income) leave sufficient financial room for a decent living for workers during their time as a participant in the production process.¹⁷

This aspect is one of the core reasons why, according to international principles, the implementation and management of social security should be based on bipartite (or tripartite) principles – that they involve workers and employers. In economic reality, the introduction of social security might require compromises between the income interests of labour and capital because it probably, in the moment of implementation, negatively affects both labour income and profits. Such compromises are easiest to be achieved in growing economies, when the additional costs of social security are least felt. For the implementation of social security, the absolute level of national income at the time is less important than the dynamics of its growth, assuming that labour and capital equally participate in the benefits from growth.

For a historical example, we refer to Germany in the 1880s, when its social security system was introduced in a relatively stable growth period while the country's absolute income levels (per capita) were still significantly lower than its major neighbours and competitors (Maddison, 2016). China's recent transformation has been described as an approach in which economic, labour and social security measures are mutually reinforcing each other to the benefit of the overall population (see Chapter 3).

Although these conditions just described are usually broadly fulfilled in developed countries (with deep and wide capital stock and deep and wide production and labour markets), the same is, by definition, not the case in countries with large informal sectors and only small capital stock, small capital-based production and small formal labour markets – in developing countries. If the formal sector is too small, the production basis might actually turn out to be overstretched when attempting to finance social security for all. Deductions from labour income would thus need to be (prohibitively) high, so much that the remaining net income for the active workers would be insufficient to support their own decent living. Additional indirect taxation of goods and services would contribute to a worsening of workers' net income position. It would then be necessary to find other possibilities of financing (ILO, 2017).

¹⁵ The two terms indicate different viewpoints on the same subject. In accounting terms, labour income and labour costs are identical (United Nations et al., 2009).

¹⁶ In this case, pensions can be understood as postponed payment of labour income.

¹⁷ Not only mandated deductions from gross labour income determine workers consumption levels but also indirect tax on consumer goods and consumed services. For the sake of simplicity, we refrain here from a detailed discussion of this aspect.

Even though the possibilities of a quick, effective implementation of full-fledged social security in developing countries must be viewed with some scepticism,¹⁸ the effective redistributive functioning has repeatedly been proven in most developed countries, mainly in Europe and Japan. In these countries, financially large and mostly well-governed social security systems were able to effectively unfold their demand-stabilizing function during economic crises. The last such functioning was observed during the global financial and economic crises of 2008–10. In Europe, social security provided significant financial-income bolsters to the crisis-affected populations, even though it was not able to fully counterbalance the primary income effects of the economic downswing. The macroeconomic stabilizing effect was more pronounced the more emerging, temporary state deficits were politically accommodated and not reduced through austerity measures.

1.2.5 Social security design and economic performance

For the remainder of this chapter, we turn to the question of whether there are **social security traditions** that are preferential to others in terms of their impact on or interaction with economies. From the point of view of **economic development**, we are interested in the question: How have certain traditions been functioning in reality? In the search for answers, we have made informed choices on options that best fit societies' economic preferences.

In addressing the issue of best choice more concretely, we restrict our analysis to two contemporary generic systems of delivery of social security: contribution-financed social insurance (Bismarckian) and tax-financed social transfer systems (Beveridgean).¹⁹

Otto von Bismarck launched a system that was later called by some analysts a “lucky strike of history” (Ritter, 2014), not the least because of its intrinsic economic features:

The State offers workers income replacement through social insurance in the event of certain contingencies occurring. Under this approach, workers (as well as employers and government) contribute relative to their individual earnings, and benefits are defined relative to (prior) earnings. The system is completed by means-tested social assistance, which guarantees a minimum income at levels (just) preventing individuals from poverty. For a proper economic understanding of Bismarckian systems, it is paramount to realize that finance (revenue) and benefits are intrinsically interwoven. Through this specific feature of the system, workers have an interest to maximize productivity in order to maximize their wages and thus maximize benefits. If workers are unable to lift their wages above a certain minimal level, the earned benefits will be too low to avoid poverty. The system needs (formal) employment **to be administratively able** to pay benefits, and it needs **maximum employment** to emulate **universal coverage**.²⁰

The requirement of maximum employment triggers the need for state-induced macroeconomic pro-growth policy that allows for wage levels, also at the bottom end of the income distribution, to earn sufficiently high social security benefits. Otherwise, if wages are too low, the system is unable to avoid poverty. The longstanding success of the Bismarckian approach in developed countries (which does not mean that the implementation was always successful) can be explained as follows: It has a natural logic and is intuitively easy to understand; it can be pay-as-you-go or prefunded; multiple combinations are possible; it is possible to pay benefits without a prior contribution accumulation period (known as

¹⁸ If one takes China as a benchmark country for a successful social security extension, it should not be forgotten that the process, which is not yet over, has thus far taken around three decades, or one generation.

¹⁹ With respect to the terms, refer to section 2.1. Strictly speaking, Beveridge's proposal was to finance the welfare state out of flat contributions, which can be regarded as equivalent to capitation or a tax.

²⁰ The term “maximum employment” needs to be specified: It means, in the Bismarckian context, that each and every individual must join the labour force, work and pay contributions; individuals not complying with this rule can receive benefits from the system (the system takes care of such persons), but these benefits are only derived from other system's participants and not based on their direct legal entitlements.

grandfathering); it can be technically adjusted to demographic and new economic developments; and it can be made intrinsically redistributive (to some extent) while not losing its economically supportive features.

The last point is important because the Bismarckian system operates well as long as socioeconomic and technological developments allow for a broad middle class. It comes to its limits and becomes socially dysfunctional when the middle class erodes (or remains too small, as is often the case in developing countries), with wages resulting in benefit levels insufficient to avoid poverty. In the case of too low wages, benefits will fall systematically below the poverty line and would need to be topped up systematically by social assistance.

The potential economic power of self-governed Bismarckian systems as a social governance instrument was last demonstrated during the 2008–10 financial and economic crises by some European countries (Austria, Belgium and Germany, for example), when they proactively used social security to prepare for the economic recovery. China, in its much longer and complex transformation process, also successfully applied Bismarckian elements (see Chapter 3).

We now turn to the issue of how Beveridge is nested into economic development. Beveridge proposed a system in which the State guarantees freedom from want for all through the following: All citizens pay (low) flat contributions (capitation tax); all citizens receive sufficient (adequate) cash (and services) in case of need; there is no means test; the State covers any emerging system deficit; and anyone wanting higher protection than freedom from want are referred to the private sector. It is important to understand that under Beveridge's proposal, finance and individual entitlement to benefits are independent of each other (this is the core difference to Bismarck). This implies that the level of benefits depends on a societal definition, which must be decided with every new government budget. Because the system, by design, guarantees freedom from want, no social assistance means testing is required.

The system needs adequate production to generate the taxable resources for redistribution but, strictly speaking, there is, from the individual's point of view, no need of formal or full employment as long as taxes can be collected independently from any employment²¹ that would guarantee government ability to pay benefits. With these features, the Beveridgean system protects itself against the permanent requirement of maximizing productivity and employment to achieve universality (a duress that is immanent in Bismarck's system) and allows individuals to take decisions irrespective of material constraints. In other words, the system is potentially highly redistributive and reacts with the economy only on the demand side, whereas Bismarck's system, while far less redistributive, reacts also with the supply side.

It is the usual case that some countries have hybrid systems that combine Bismarckian and Beveridgean approaches. For example, in China, pensions provided by the scheme for rural and urban non-salaried residents consist of two components: a social pension entirely provided by the Government and an individual savings account pension financed through individual contributions and government subsidies. This scheme has traces of the Bismarckian and the Beveridgean models as well as elements of individual accounts from Singapore and Chile.

²¹ Beveridge's political programme, being of a Keynesian nature, included full employment. However, technically speaking, his system does not need individuals to go through employment to receive benefits.

2. Social security and economic development from an international perspective: Historical experiences and contemporary challenges

2.1 Historical experiences of social security and economic development around the globe

2.1.1 Introduction

It is consensus among experts that the first modern comprehensive social security legislation emerged in Germany in the 1880s, mainly as political reaction to societal impacts of the first industrial revolution, based on the preceding century-long evolvments of socio-philosophical and religious thought and, not the least, in reaction to ruling elites' fears of upheavals similar to the French Revolution (1789–1799).

In the period before World War I, social security ideas and institutions spread over Europe and in the United States. Partial acceleration of that process took place during and immediately after World War I, with some boost in the 1920s and 1930s before culminating under US President Roosevelt's New Deal social security legislation (1935), together with the British Beveridge report (1942). After World War II inspired the unprecedented evolution of the welfare state, which became an instrument in international politics during the period of the so-called Cold War (1945–1989).

Although it is possible to identify historical social security trends after World War II, the stories to tell become ever more detailed the more one aims to identify typical tracks of development. And the more one goes international, especially in recent years, the more one wants to distinguish between national, regional and international trends of social security implementation. The more one wants to reflect on international (United Nations and ILO) agreements, the more it is difficult to distinguish the various contemporary lines of social security thought, design and reality. This chapter pursues a narrative at varying levels of abstraction versus concreteness. Much of the content was influenced by background reports that were commissioned for this report. The China-specific results were cursorily taken into account (see section 2.1.8) but are dealt with at length in Chapter 3. This chapter, therefore, aims at comprehensiveness but also unavoidably must allow for omissions; for example, developments in India or within the Association of Southeast Asian Nations region²² had to be left aside.

2.1.2 The distant past: Forerunners of and reasons for modern social security

One of the distant roots of modern social security is ancient Roman law; it constitutes a core base of paternalistic social security that emerged in the nineteenth century (Scholz, 2017; Bleicken, 2015; Manthe, 2011).

Another strand of thought is the European Poor Laws Tradition (Dixon, 1999).²³ The Poor Laws (1597 and 1601) summarized and consolidated various Continental and English legislation. Nowadays, it is considered the first post-medieval legislation consistently addressing the societal treatment of people who are poor. In contrast to Roman law tradition, the Poor Laws of England were more explicitly of a

²² The ILO is preparing a report on old-age income security in Asia, which comprises the ASEAN members and a few other Asian States. Publication will probably be in 2019. The report is expected to take up and deepen some of the issues of this report.

²³ See <http://eh.net/encyclopedia/article/boyer.poor.laws.england> Economic History Association (accessed 14 Dec. 2018).

punitive nature to deter potential applicants rather than proactively provide them with help. The application nowadays is mainly understood as the result of labour shortages stemming from the Black Death's toll in the fourteenth century. The remains of such norms are active today, mainly in Anglo-American social security contexts but also increasingly visible in recent years in the middle and northern regions of the European Continent.

While the Roman law and the Western **institutionalized** (predominantly Catholic and protestant) Christian belief systems and the strong impetus of the Sermon of the Mount probably supported people's acceptance of **impersonalized institutions** providing poverty relief, it was less so in the East.²⁴ Instead, certain obligations of individual income redistribution were developed in ancient times, whereby persons who were rich donated alimony to the ascetics and impoverished confreres in belief. The nobles and the rich households took responsibility for widows and orphans (Weber, 1991 [1920]). The Confucian writings (Confucius, 551–479 B.C.) are an impressive example of laying foundations of early contemplation in respect of addressing duty and commitment relative to the needs of social groups (Konfuzius, 2017; Wang, 2017).

Confucius elaborated the famous concept of "universal harmony" for the ideal society, which still exerts its influence nowadays, nationally as well as internationally. It describes a situation in which "people provide for their own parents as well as other elders and raise their own children as well as those of others. Elders live their full span, adults exert their talents, children are nurtured, and the widowed, orphaned, childless as well as people with disabilities are all taken care of. Instead of being selfish, people are willing to devote themselves to public services. As a result, people feel secure enough to open their house doors (Confucius, n.d.).²⁵

Even though this ideal was developed around 2,500 years ago, early practices of China's social security can be rooted back to the Shang Dynasty (1600–1046 B.C.), during which a disaster relief system came hand in hand with the origination of the State with formal structures. Preferential treatment for soldiers, like in the Roman Empire, was documented in 1046 B.C. In 179 B.C., the Emperor of the Han Dynasty issued a decree stipulating that the State was obligated to provide support to older persons. During the Tang Dynasty (608–907 A.D.), a system of storage and reserve for emergencies was set up, and later, in the Song Dynasty (960–1279 A.D.), a highly developed social system and welfare institutions were established. Along socioeconomic developments and dynastic alterations, both format and substance of these systems underwent certain changes but, nevertheless, the State took responsibility.

Thus, ever since ancient times, social security has been regarded as an important part of public governance, embodying features of state paternalism and family-nation integration as well as shared organizational structures of families and the State as a whole. While providing social security, the State also regulated family-based protection which was closely related to state welfare, and guided mutual help among neighbourhoods and work units' welfare provisions (Zheng, 2014a).

2.1.3 The nineteenth century, the United Kingdom, Germany and the Holy See

In 1834, the Old Poor Law of 1597 and 1601 were streamlined with England's evolving unrestricted market capitalism. The New Poor Law stipulated that no able-bodied person was to receive money or other help from the authorities except when an inmate of a workhouse. Together with the principle that conditions for workhouse inmates had to be worse than those of the poorest free labourer outside, this ruling often led to starvation.²⁶ The New Poor Law was unable to deal with the social consequences of

²⁴ The terms "West" and "East" are used to signify the Western and Eastern hemispheres.

²⁵ The original text in Chinese is: “故人不独亲其亲，不独子其子，使老有所终，壮有所用，幼有所长，鳏寡孤独废疾者皆有所养。……力恶其不出于身也，不必为己。……故外户而不闭”。 See <http://eh.net/encyclopedia/article/boyer.poor.laws.england> Economic History Association (accessed 14 Dec. 2018).

²⁶ This principle is reflected in contemporary rules stipulating that social assistance must be significantly lower than the lowest paid wage; such rules are more questionable the more societies allow for near-poverty wage

locally and cyclically occurring unemployment (the new phenomenon of industrialization). Social security, so designed, not only failed in almost all respects of modern human rights but also fundamentally ran against minimum conditions of fostering labour productivity. As a result of the counterproductive but sustained 1834 legislation, the much later European trend towards capitalism with a human face took nearly a full century before it materialized.

The New Poor Law, one of the most significant UK laws of the time, equally influenced and reflected the country's socioeconomic structures well into the twentieth century. Its underlying laissez-faire philosophy was an intellectually deceiving and powerful governance instrument²⁷ and shaped the attitudes of UK citizens who migrated to the United States. This is one of the reasons why Germany's corporatist social insurance legislation of the 1880s had no success as a model in the United Kingdom and only partially so in the United States.

The nineteenth century debate on the European Continent, at its core, took a different direction from UK practice, not the least as a result of the continued influence of the Holy See, which, while carrying long-term memories of the old Roman law, preached and practised ecclesiastic charity and supported paternal attitudes not only in Germany but also in Austria, France, Italy, Spain and other Continental countries.

From an international perspective, one can argue that it was only by chance that, among all industrializing countries of the time, it was Germany to first legislate modern social security. Nevertheless, it was (and still is in hindsight) impressive that the country, at that time by far not the most advanced economy, implemented a modern set of social laws within a short period of seven years. It took most other countries several decades to accomplish something similar (table 1). In the twentieth century, the design of that legislation was a successful blueprint for other countries to follow suit.

The details of Bismarck's social security legislation have been meticulously and widely documented by German and international research and are, therefore, not discussed here. They nicely illustrate, though, how modern social security policy occasionally was not driven by idealistic motives and how the final outcome of a policy process, once activated, might differ from initial intentions. This observation is not trivial. For Germany, the implemented system was designed such that its population and economy were able and ready to adapt to it most productively. This success story, however, is no guarantee that quasi copies of the same system by other countries, in usually other demographic and socioeconomic contexts, would lead to the same social and economic results.

In 1891, the Vatican published the first Social Encyclical,²⁸ which dealt with the conflictual relations between capital and labour, specifically with such topics as (institutionalized) bipartite cooperation among workers and employers and the social obligations resulting from property ownership. Meanwhile, the Holy See published eight Social Encyclicals²⁹ that covered additional topics, such as workers' codetermination in the management of enterprises, priorities of labour over capital and workers' right to organize in trade unions and a social market economy. The analyses and conclusions of these documents continue to influence public attitudes in relation to social security in predominantly Catholic countries (even if, regrettably, often not very successful in practice).³⁰

levels (precarious work).

²⁷ The idea of a social market economy had not yet gained prominence.

²⁸ *Rerum Novarum* (see Leo XIII, 1891).

²⁹ In 1891, 1931, 1961, 1967, 1981, 1987, 1991 and 2009.

³⁰ There have always been close ties between the Holy See in Rome and German governments and civil society, not the least for financial reasons (Germany's rich Catholic parishes are traditionally major financial contributors to the budget of the Holy See). After all, until 1806 (end of the Napoleonic Wars), the German Empire was officially called the Holy Roman Empire.

Table 1 Years of initial social security legislation and economic development levels

Country						Country rank (by year of first social security legislation)	GDP per capita in the year of first social law of country	GDP per capita 1883 (year of first social law in Germany)
	Work accidents insurance	Health insurance	Pension insurance	Unemploy- ment insurance	Family support			
	Year					Index	International dollars	
	1	2	3	4	5	6	7	8
1	Australia	1902	1948	1908	1944	1941	15	3 823
2	Austria	1887	1888	1907	1920	1948	4	2 404
3	Belgium	1903	1894	1900	1920	1930	3	3 468
4	Canada	1930	1977	1927	1940	-	23	4 847
5	Denmark	1898	1892	1891	1907	1952	2	2 555
6	Finland	1895	1963	1937	1917	1948	17	1 492
7	France	1898	1928	1910	1905	1932	6	2 760
8	Germany	1884	1883	1889	1927	1954	1	2 143
9	Greece	1914	1922	1934	1945	1958	18	1 592
10	Iceland	1925	1936	1909	1936	1946	16	-
11	Ireland	1897	1911	1911	1911	1944	7	2 736
12	Italy	1898	1943	1919	1919	1937	13	1 672
13	Japan	1911	1927	1941	1947	1971	19	837
14	Luxembourg	1902	1901	1911	1921	1947	8	-
15	Netherlands	1901	1931	1919	1916	1939	12	3 440
16	New Zealand	1908	1938	1898	1930	1926	11	3 985
17	Norway	1895	1909	1936	1906	1946	10	1 872
18	Portugal	1913	1935	1935	1975	1942	20	1 250
19	Spain	1900	1942	1919	1919	1938	14	1 654
20	Sweden	1901	1891	1913	1934	1947	9	2 105
21	Switzerland	1918	1911	1946	1982	1952	21	4 378
22	United Kingdom	1897	1911	1908	1911	1945	5	4 264
23	United States	1930	1965	1935	1935	1935	22	6 213
24	Simple average	1903	1920	1918	1925	1945	-	2 949
25	Range	46	94	57	77	45	-	5 376
26	Maximum	1930	1977	1946	1982	1971	-	6 213
27	Minimum	1884	1883	1889	1905	1926	-	837

Note:

Column 1: Selected OECD countries

Columns 8 & 9: Internationally and historically comparable estimates (Maddison, 2003)

Line 25: Difference of lines 26 and 27; indicates, for columns 2 to 6, the time range, in years that it took the selected countries to legislate.

Source: Adapted from Schmidt, 2005, p. 182 [original in German].

2.1.4 The twentieth century: Social security between the two great wars

A major step towards internationalization of social security was made in 1919 with the founding of the ILO (ILO, 2016). Under the tight monetary conditions of the **gold standard**, it was not surprising that the issues of international competition required an international mechanism that allowed mediation on the effects of social security legislation on labour costs.

Even before World War I, European governments and American civil society had adopted laws and activities concerning labour-oriented social security (a detailed account is provided in Rodgers, 1998). Bismarckian approaches were aimed at, received fresh attention, got new momentum and/or were gradually applied also by Germany's Continental neighbours.³¹

At the same time, politicians and social protection activists in the United Kingdom considered Bismarck's state-run social insurance approach un-British (Rodgers, 1998). It turned out that state-organized social insurance (even when coming with self-governance) had no chance of implementation in the United Kingdom.³²

³¹ Germany's neighbours had been impressed by Bismarck's system, not because of the legislation but because of its systemic, focused and modern approach; it was seen as excellent governance while it influenced ongoing and triggered new debates on social security in Europe and beyond.

³² This stance was observed much later again: In the 1970s, a Labour government implemented a more thorough version of (the widely diluted Beveridgean) contribution-financed social insurance, but the system was closed

While the United Kingdom's official reaction to Bismarck's legislation was clear-cut, the situation in the United States was less transparent. Much travelling of delegations between Germany and the United States took place to explore the applicability of the Bismarckian system to the United States or seek alternatives. What actually took place was a combination of hidden mutual-system fertilizations and simultaneous competitive search for best solutions, which have become part of normal international interaction, although the general public usually does not take much notice of it. To cut a long story short, the United States implemented social security in 1935³³ but failed to complete the system with a similar health and unemployment insurance solution, which can be seen as the result of that competitive system fertilization. The Bismarckian solutions were, as in the United Kingdom, not especially popular after World War I. The arguments that won over the social insurance solution for pensions (in 1935) came from the German (heavy) industry's outstanding success in reducing the number of work accidents as a result of its **social work accident insurance** (Rodgers, 1998).

Apart from workers' (accidents) compensation schemes, incrementally implemented over time, US President Roosevelt's social security is the only state-run and nationwide social insurance solution in the United States worth mentioning. Social health insurance was hindered from flourishing as a result of heavy indecent lobbying of private insurance companies (which saw their business endangered).³⁴

Between 1919 and 1939, the ILO issued 67 Conventions and 66 Recommendations.³⁵ Yet, in a context of re-emerging political competition and international mistrust, workers' social situations did not improve much globally. Only a few countries extended or formally completed their respective social security system, among them Germany (1927 with unemployment insurance) and France (1928 with health insurance).³⁶

During those years of international consultancy, legislation and constitutional discussions and concerns between the European Continent, the United Kingdom and the United States, most British participants realized that the UK system was no attractive alternative to Bismarck. Persons in British society of the 1920s and 1930s who lived a modest life as a farmer or a member of the miserably paid working class were always at risk of falling into poverty when sickness, work accident, unemployment or disability at old-age hit.

When the US President Roosevelt added to the New Deal his famous four freedoms,³⁷ the United Kingdom could no longer hold back envisaging major social reforms. Commissioned by the Government, William Henry Beveridge (1879–1963) presented in his 1942 *Social Insurance and Allied Services* report (Beveridge, 1942), which not only turned out to be most influential in conceptualizing the debate and politics within the United Kingdom³⁸ but also inspired the post-World War II welfare state implementations worldwide. In combination with Keynesian economic and fiscal policies, it was for 25 to 30 years, a successful alternative to the Soviet system, which, over the same time, promised freedom from want mainly through state-guaranteed full employment.

a few years later by the Conservative government of Margaret Thatcher (1979–90).

³³ The US Social Security Act (Act of 14 Aug. 1935) [H.R. 7260] was an act to provide for general welfare by establishing a system of federal old-age benefits and by enabling the states to make more adequate provision for aged persons, blind persons, dependant and crippled children, maternal and child welfare, public health and the administration of their unemployment compensation laws; to establish a Social Security Board; to raise revenue; and for other purposes (SSA, 2016).

³⁴ One can get a comprehensive understanding of President Obamas' (2009–17) difficulties in implementing health coverage for all only by going back into the respective debates that took place in the United States before and after World War I.

³⁵ See <http://www.ilo.org/dyn/normlex/en/f?p=1000:12000::NO::> (accessed 23 Nov. 2016).

³⁶ France began implementing a modern social security system only 1945 (Concialdi, 2019).

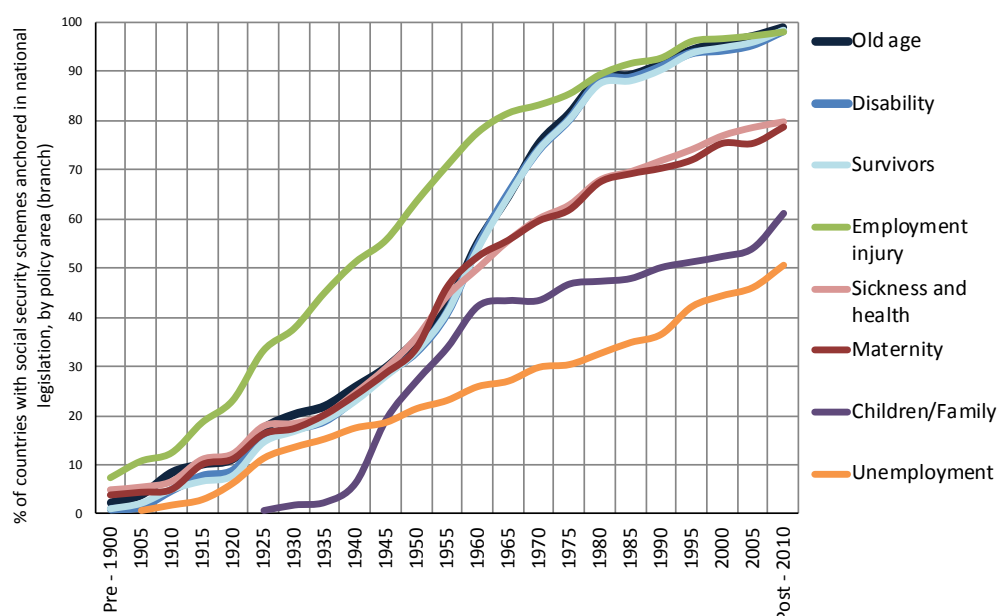
³⁷ The four are freedom of speech, freedom of worship, freedom from want and freedom from fear.

³⁸ The 1942 Beveridge report is definitely a reference document for the welfare states that emerged after World War II in many countries of the West. Its ideas have recently regained international recognition and momentum.

2.1.5 The twentieth century: Social security going global after World War II

After World War II, social security began to boom on a global scale. Both capitalist and socialist countries institutionalized their respective social security system. The evolution of the welfare state and its interaction with people and economies has been extensively described in numerous books and articles with various viewpoints and where political, fiscal economic and social analyses dominated. The United Nations, especially the ILO, has increasingly dealt with issues of social security and massively expanded research, analysis and advocacy. The concept of social protection has metamorphosed into an integral part of most governments' general policy portfolio and thus near impossible to withdraw from (figure 1). This does not imply that all people around the globe are covered by social security. Although impressive at first glance, it must be understood that figure 1 reflects the percentage of countries that have anchored social security of some sort in their national legislation – it does not reflect to what extent social security, as acknowledged in the legislation, has transformed materially into reality. It also does not distinguish schemes legislated to cover all populations from schemes covering (deliberately or not) only small groups of population.

Figure 1 Social protection programmes anchored in national legislation, by branch, from pre-1900 to post-2010 (% of countries)



Source: ILO, 2017, based on ILO World Social Protection Database and ISSA and SSA: *Social Security Programs Throughout the World*.

Nor does figure 1 reflect to what extent social security covers people legally and/or materially. As a matter of fact, 4 billion people, or 55 per cent of the world's population, are not covered by any social security benefit, and only 29 per cent of the global population has access to comprehensive social security (ILO, 2017).

While these facts are not seriously challenged, the reasons for the still unsatisfactory implementation of social security globally can be seen in social policy's inevitable interaction with other policy fields and developments, of which some favour (while others disfavour) the extension of social security coverage.

2.1.6 The post-World War II developments in the West

In the West,³⁹ the welfare state, as a concept as well as in socioeconomic reality, experienced various phases, ranging from strong political support and expansion over what might be called consolidation to its crisis and marketization during the past two to three decades. Its European variants recently lost much of their earlier emancipating thrust and dynamics (Vaughan-Whitehead, 2015a and 2015b). What remains of the welfare state is now predominantly understood as a means to support economic growth rather than a fruit to be harvested from positive economic development (Vaughan-Whitehead, 2015a). In adapting Hudson (2006), we distinguish in this section four trends (phases) of post-World War II development of the welfare state (also see Judt, 2010):

- implementation and expansion of the welfare state (post-1945 to mid-1970s);
- retrenchment of the welfare state (mid-1970s to mid-1990s); and
- welfare state as investment (after the mid-1990s).
- New reforms and reform needs ahead (in the mid-2010s and beyond)

This section elaborates on those four phases, based on the detailed background reports covering France, Germany, Japan, the Republic of Korea, the Nordic countries, the United Kingdom and the United States. With respect to the four European cases, the narratives differ. This is not only a result of the different analytical views of the contributing authors but also because the European Union, from its beginnings,⁴⁰ deliberately excluded social security policy from its agenda of subject matters to be regulated by common rules and regulations.⁴¹

The four phased trends are evident in all cases covered in this section, with the Korean and US trends differing more while the Japanese situation differs less from the Europeans. China's commencing journey towards completing its socialist market economy with more comprehensive social security began in a phase in which most comparable countries conceptually pursued an approach of social security as investment – where the welfare state is expected to serve economic purposes. But, as we see from history, this is not the only possibility to interpret role and functions of the welfare state.

Under a global perspective, one might argue that the West is searching for a new, paradigmatically consolidated welfare state model, with China, in its reflecting on international typical models and their developments, is seen as joining that search. If things go right, the participants in the search process might find a new (old?) paradigm that not only satisfies, in a narrower sense, the social needs of people but also helps to stabilize future inherently volatile and imbalanced global economic developments (including trade relations).

Implementation and expansion of the welfare state (post-1945 to mid-1970s)

This initial post-World War II phase of the welfare state was characterized by high economic growth, a fast decline of unemployment, strong wage increases and little resistance against income tax and social contribution rate increases. Labour rights were improved, and capital accepted social obligations. Social expenditure as well as social revenue ratios were initially low but increased as a result of redistributive legislation. Internationally, this policy was generously supported by the United States as provider of the anchor currency in a fixed exchange rate regime (Bretton Woods system) (DeLong, 2002) and, not the least, by wide consensus among state leaders of Keynesian macroeconomic policies (Samuelson, 1983). The political and (Keynesian) macroeconomic supporting role of the United States cannot be

³⁹ The term “West” is understood as comprising mainly the group of countries that are OECD members but not only. Many countries that belonged to the East before the fall of the Soviet system are now considered part of the Western hemisphere.

⁴⁰ See the Treaty of Rome, 1956, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:11957E/TXT> (accessed 16 Feb. 2018).

⁴¹ Keep in mind that many significant national differences in many regulatory and behavioural details remained undisclosed when grouping the European countries in this report.

overestimated during this expansionary period of the welfare state. At the same time, in terms of concrete realization of social security, the United States remained modestly in the background.

Although widely alien to the United States' societal and economic constitution, the European States were free to keep significant numbers of structurally important enterprises in public ownership (France, Germany and the United Kingdom, for example). Trade unions had a significant role in the organization of the economies at large and in extending labour rights and working conditions specifically: Directly or indirectly, trade unions explicitly assumed a political role (next to political parties), often with direct influence on political decisions.

During the 1960s, Denmark and Sweden dramatically changed their societal fabric and went from being relative spending laggards to the top of the class. Japan followed suit (DeLong, 2002).

European countries began striving to maximize social security coverage (to leave no citizen behind), but this was never an explicit goal of social policy in the post-World War II **United States**. Accordingly, improvements in social security were limited. The United States had been a leader for the century and a half up to the mid-1970s in the development of social right to education⁴² but a laggard in the development of social rights to income transfers and health care, only making leaps forward in the Great Depression and again in the 1960s but still lagging behind other industrial democracies. This pattern of social development could be one of the influencing factors for why the United States was a leader in the nineteenth and early twentieth centuries in economic development but lagged in growth levels after World War II.

The New Deal was a turning point for the American welfare state, but it was only short lived. On one hand, the Social Security Act (1935) provided basic pensions, unemployment and disability insurance, and social assistance was complemented with a federal minimum wage (1938). With these measures, the United States became, transitorily (during the Depression), a world leader in public social spending on the basis of work and relief. On the other hand, the Social Security Act's achievements were permanent while the work and relief schemes were allowed to lapse. Plans to complement the Social Security Act with comprehensive health care provision were unsuccessful. The administration only managed covering the aged (Medicare) and the poor (Medicaid) (1965).⁴³ In addition, the Great Society social programmes of the 1960s provided for poverty relief, established a preschool programme and greatly increased aid to education at all levels. In 1970, public spending on education was 7.4 per cent of GDP, second only to Canada (at 8.5 per cent) and tied with Sweden among the country members of the Organisation for Economic Co-operation and Development (OECD).

Thus, while the American expansionary social security policy came to a halt after World War II, it gained much momentum in Western Europe, which enjoyed high economic growth rates for 25 years, ending in 1973. One might argue, with some effort, that Europe's expansionary social policy contributed to the economic growth during this period (for example, the trade unions' working time and wage policy contributed to labour productivity and the system of co-determination eased dynamic structural change during growth). But there is wide agreement among scholars that this argument must be used with care because it can easily overstretch the perception of the significance of the role and impact of social security during this period.

In fact, it was predominantly investment, consumption and (partially) export-driven economic growth that offered, not the least through the increasing (non-adjusted) wage share in primary income, increasingly affluent middle-class conditions and opportunities for social policy. There is also agreement, however, that social security policy was no cause for hampering or limiting economic growth. The costs of social security were not the reason for the 1973 crisis – this conservative argument

⁴² Education is not included as part of the welfare state in many early studies, but more recently, particularly after the European Union's turn to social investment, it has more often been included.

⁴³ It was not until the recent Patient Protection and Affordable Care Act was introduced (2010) that the United States approached comprehensive health coverage

emerged only after the first oil price crisis.

Right after World War II, **France** began to create the General Scheme (Regime general), aiming to rapidly cover the entire population. It started as an occupational scheme limited to private sector employees, which is still the case today for pensions and unemployment benefits. Family benefits and health insurance now cover the whole population.

Social expenditure grew in line with the general economic trend, except during two periods (1949–1953 and 1961–68) when paid cash benefits dynamically surpassed economic growth, while (much lower) health services continued growing gradually. Together, this explains the stepwise increase of France's social expenditure ratio, from initially less than 15 per cent of net national income to around 20 per cent by 1973 (Concialdi, 2019).

West Germany's immediate social post-war problem was to absorb a total of around 12 million refugees (at a total population of slightly more than 50 million) from the lost territories in the East and other displaced persons (BMAS and BArch, 2006). This was supported by social programmes (unemployment insurance and social assistance) and other measures, like temporary rationing of housing. But it was mainly solved by the buoyant recovery and investment process of the 1950s, which was supported through US aid: As with the other European countries, employment grew fast and unemployment rates declined rapidly. The system of collective bargaining enforced companies' organizational productivity. Labour rights were further strengthened through a system of workers' co-determination at the management level,⁴⁴ which also helped to integrate surplus labour.

Until around 1960, the social expenditure ratio (social expenditure as a percentage of GDP) remained at less than 20 per cent.⁴⁵ Then it began continuously increasing, hitting 26.3 per cent in 1975 (BMAS and BArch, 2017) in technical reaction to the economic recession in the aftermath of the first oil price crisis. The legal expansion was mainly driven by several extensions of social insurance coverage and other non-means-tested benefits. It was complemented (at the end of the 1960s) by a modern social assistance system that aimed at preventing poverty among the few persons not employed or having no other entitlements (see the Japan discussion further on) (Schroeder, 2019).

The **Nordic countries** initially showed relatively low public expenditure ratios, partly associated with the common criticism that extended social rights would hamper economic growth and generate idleness. This changed dramatically during the 1960s (mainly in Denmark and Sweden) through reforms that gradually introduced new social rights, included more people and legislated higher benefits and more state regulation. During this period, a revolution took place that resulted in the emergence of what is nowadays called the Nordic welfare state, which is characterized by: universalism (one system for everybody versus scattered systems, such as in Germany or the United Kingdom); social rights (based on citizenship in all EU countries); state regulation (in all EU countries, with variance); tax financing (a dominant principle other than in countries pursuing Bismarckian systems); a large public sector (other than in countries like Germany and United Kingdom); a local community approach (small room for variation); highly organized labour markets (more than in Germany and much more than in the United Kingdom) and a focus on redistribution and equality (class and gender, like in the British public health service; other than Germany, for example, where the focus is more on efficiency).

These features emerged under specific political constellations and through incremental change and a window of opportunity created by the economic growth of the 1960s. In the corresponding Nordic political debates, economic development was meant to secure the goals of inclusion, social security, equality and the opportunity for all citizens to live a better life (Petersen, 2019).

⁴⁴ This feature of cooperation between labour and capital was actually triggered by the Western Allied Forces holding (West) Germany occupied after World War II. It took up ideas that had been intensely discussed for a short period in the United Kingdom after World War I but that had not been implemented (Rodgers, 1998).

⁴⁵ Consolidated time series statistics began only in 1960.

In the 1960s, the **United Kingdom** became an international exemplar in terms of welfare capitalism through social reforms that were inspired by the Beveridge report and implemented from 1945 to 1951. The country missed, however, the opportunity to move progressively forward towards a Nordic design. Instead, it appears the United Kingdom moved from a temporary welfare state leader to a more laggard position in the decades that followed. This early step off the general welfare bandwagon was mainly a result of the disputes over costs that were a constant feature of the political debates and of funding issues that often produced compromises that diluted the Beveridge model, while Keynesian macroeconomic policy missed incorporating social protection into its theoretical reasoning and fiscal practice. As a result, successive governments used cheaper targeted benefits for economizing on social spending. Also, although in large parts financed out of employer and employee contributions, the British social security system never established a routine of formal assessment of the relationships between contributions paid and benefits received while, at the same time, many, if not all, privately managed (occupational) schemes for the middle classes were controlled by such techniques.⁴⁶

As a consequence, even if spending was steadily growing,⁴⁷ the United Kingdom could only suboptimally harvest the macroeconomically stabilizing and productivity-enhancing functions of social security (in case it would have been implemented more in line with the applications in the other European countries), which most probably contributed to the failed macroeconomic stabilization later in the 1970s.

Japan had to first take on emergency measures to support its suffering population after World War II and then to re-establish its system from scratch, including administration. This included social assistance (completely reformed in 1950 and put under State responsibility) and the universalization of pension and health care coverage in the 1950s, which was achieved for both in 1961. Both schemes were based on social insurance principles, with the municipalities taking organizational responsibility for the National Health Insurance. In the 1960s, cash benefit levels were significantly improved for public pensions and for social assistance. Similar to Western Europe, legislation aimed to enhance social welfare for disadvantaged groups, such as intellectually challenged persons. Limitations on medical treatment were removed; as of 1972, a child allowance was paid, and in 1973, older persons were given free access to medical care consultations. As well, Japan's labour relations were modernized through several laws.

Nevertheless and as a result of high post-war economic growth, the social expenditure ratio remained low, at less than 5 per cent, until the early 1970s – well below the levels of France or Germany, for example. As a result, Japan's macroeconomic supply-side and demand-side functions of social security could not unfold its growth-enhancing and stabilizing fiscal effects on the economy. However, social security functioned well by establishing social stability, which constituted the basis for Japan's sound economic growth after the war (Ono, 2019).

The Republic of Korea pursued socioeconomic policies under a paradigm of compressed growth with equity (this policy was maintained until the late 1980s), through which it achieved remarkable social equity, mainly at the level of primary income distribution – without major (redistributive) social security programmes. This unique historical experience contributed to a deep conviction in the Korean society of a predominantly negative interrelationship between economic growth and institutionalized social security, which was paraphrased as economic growth first, distribution second. The general policy orientation is that all societal resources should be invested only into economic growth because social

⁴⁶ Actuarial methods consist of applied mathematical techniques but are most influential in political debates because it is often assumed that they automatically guarantee financial fairness between those who pay and those who receive social benefits or between individually paid-in contributions and individually received annuities. The term actuarial fairness is, however, of a shimmering nature because fairness is multidimensional and must therefore be used with care. See Plamondon (2002) for an overview of actuarial methods used in practice.

⁴⁷ Social security and health care, respectively, amounted to 4.8 per cent and 3.3 per cent of GDP in 1950; 5.6 per cent and 3.1 per cent in 1960; 7.3 per cent and 3.5 per cent in 1970; and 9 per cent and 4.4 per cent in 1980.

spending would hinder economic development. Accordingly, the Government focused its social spending on education (which resembled features of the United States).

The Republic of Korea's Industrial Accident Compensation Insurance Act was implemented only in 1964, with low coverage at the time. A national health insurance was introduced in 1977, when the urban population had nearly reached 50 per cent of the total (the scheme became universal in 1988) (Kim, 2019). No public pension scheme has yet been introduced.

Not surprising, the social expenditure ratio was extremely low (at one-digit levels), when compared with other OECD countries.

At the end of this phase (1973), the oil price crisis hit. The psychological effects in the Western economies (including Japan and the Republic of Korea) were deeper than recessions retrospectively measured by statistical offices. Social security, where financially of sufficient size, at first contributed effectively to stabilizing aggregate domestic demand and individual expectations well into 1974 and 1975. However, most governments began postponing planned improvements until further notice.⁴⁸ The main psychological effect was that people's (and government's) belief in never-ending growth was broken and that the new Chicago School of thought, with its trust in the rationale of markets (at minimal State involvement), gained prominence.⁴⁹ In short, the neoliberal counter-revolution was looming.

Consolidation (retrenchment) of the welfare state (mid-1970s to mid-1990s)⁵⁰

This phase began in the aftermath of the break-up of the Bretton Woods system (1971) and the first oil price crisis (1973), which, together, resulted in a major global economic recession. In Europe, the Deutsche mark became the new anchor currency to which European currencies were pegged and the German central bank pursued its (in-)famous price stability policy⁵¹ with repercussions on the other European economies. The Keynesian consensus broke up and was gradually replaced with the new paradigm of monetarism (Friedman and Bordo, 2005). (Costly) unemployment increased and remained high, trade unions fell to defensive positions. Improvements of social security stalled. Together, these developments resulted in the year-long new phenomenon of stagflation (stagnating real growth and inflation). After the second oil price crisis (1981), the labour income share in GDP began falling in many countries, and financing social security became more difficult. With respect to welfare, governments significantly reduced expansionary plans and gradually began to reverse earlier social security and labour rights legislation, with Japan and the Republic of Korea becoming outliers.

Interesting enough, during this period (mid 1980s-mid 1990s), China also cut welfare provisions in order to prepare and support economic structural reforms (see Chapter 3 for details).

The **United Kingdom** finally began ending the remains of its Beveridgean welfare state regime with the 1976 balance of payments crisis, high inflation and growing unemployment, to which the International Monetary Fund gave relief in return for a social adjustment programme.

⁴⁸ France is a prominent outlier in that respect. Significant improvements were made to social security schemes in the 1970s and up to the early 1980s. Cost-containment policies started to be implemented after 1983, not the least after the Bundesbank exerted its dominant influence in the European monetary system.

⁴⁹ The Chicago School had ideologically been prepared by August Hayek, an Austrian economist, of whom Milton Friedman (Chicago) was a student and follower. Hayek had been the long-standing antagonist to Keynes. While Keynesian economics was core condition for a successful welfare state, Hayek's economics relied on markets alone, allowing only for minimal social protection. Contemporary proposals of general minimum income are consistent with the Hayekian paradigm.

⁵⁰ See previous footnote (France as an outlier).

⁵¹ According to federal law, guaranteeing price stability was the main task of the Deutsche Bundesbank (the German central bank). Whether the Bundesbank used the right indicators and policies to fulfil its task has been debated at length in the German as well as international literature. Suggestions to make low unemployment an equally important goal of the Bundesbank's policy never made it even close to realization (legislation).

After 1979, rolling back the State became the leitmotif of a radical neoliberal programme of free market-driven reforms, which looked to reverse the gradual move towards collectivism that had characterized the period from 1945 to 1975. The programme included high-profile privatization (including large parts of the social housing stock), the marketization of some public services and a push to reduce tax rates and the overall level of public spending.⁵²

The social security focus was on cutting unemployment benefits to trigger incentives for taking up work.⁵³ The replacement rate of benefits for a single unemployed person (with average earnings) fell from 50 per cent in 1979 to just 25 per cent by 1983 (Hudson, 2016). These cuts came despite the rapidly rising and unprecedented post-World War II unemployment rate resulting from the escalating economic problems in the early years of the reform process.

This was one of the reasons that the social spending ratio, while initially around 8 percentage points lower than (West) Germany's of the time, continued growing.

West Germany, the economic heavyweight in the European Union, financially consolidated its social security schemes by increasing contribution rates and government transfers and by containing benefits. The cost of social security was increasingly seen as the main cause for the rise of the unemployment rate, from 0.7 per cent at the beginning of the 1970s to 9 per cent by the decade's end (BMA, 2016). Social security coverage was still extended in some areas but generally an embargo on additional programmes was put in place while access to certain benefits was tightened. In 1989, just before German unification, the social expenditure ratio had dropped to 24.6 per cent, a low ratio at that time, due to temporarily accelerated GDP growth rates (and not as a result of overall benefit cuts) (BMAS, 2015).

Unified Germany (since 1990) briefly interrupted the process of social security consolidation during the short economic unification boom between 1990 and 1992: East German social benefit levels had to be increased significantly, and fast, to adjust them (partially) to increased price levels; economic echo-effects resulted in slightly higher adjustments also in West Germany (BMAS and BArch, 2008; BMG and BArch, 2004). Together with an effective use of labour market instruments countering massive underemployment and unemployment in the East and the introduction of a newly introduced care insurance (1994), these policies lifted the country's overall social expenditure ratio in the 1990s to just only 1.5 percentage points above the (West German) ratio of the 1980s.⁵⁴

France used social security in 1973 as a macroeconomic stabilizer and also as an indirect reaction to the Bundesbank's tight monetary policy of the time. The country's social security systems' capacities to function alike were increasingly questioned during subsequent years. As in Germany and the United Kingdom, social expenditure was increasingly seen as a problem for regaining dynamic economic growth rather than part of the solution. After the mid-1980s, the social expenditure ratio reached levels between 25 per cent and 30 per cent, which, under the given financial regime of labour-based contributions, were considered economically unsustainable. During this time, France, like Germany, resisted the United Kingdom's market radicalism, although it did not fully ignore it. In the 1990s, France began to significantly reduce the share of contributions in financing its social security system while replacing them with general tax revenue, private household fees for service and the like.⁵⁵ In other words,

⁵² As indicated before, the policy had been long before prepared ideologically, mainly through the works of August Hayek.

⁵³ An adapted version of this policy, including housing privatization and unemployment benefit cuts, was implemented in Germany a decade later. This is an interesting case and confirmation of the fact that social policies in Europe keep fertilizing each other, sometimes to the better, sometimes to the worse.

⁵⁴ Although politically unified as of October 1990, with subsequent fast extension of West Germany's social security legislation to the East, both former territories were administratively (and statistically!) kept separate to allow for a rational adjustment of East German living conditions to those of the West. As was foreseeable, this transition process took social security broadly one generation; it has just now come to a (successful) halt.

⁵⁵ Under the conditions of the European monetary system (allowing only little flexibility within a managed x-rate regime), this policy was also a lagged reaction to Germany's additional competitiveness as achieved through its preceding consolidation process. Regrettably, social security has always been seen in the European Union as an

the expenditure ratio was kept at historical levels, but the financing regime was changed to support business competitiveness.

The **Nordic countries** survived the economic (oil price) crises of the 1970s and 1980s better than most other European welfare States. The high acceptance of the welfare state concept in the Nordic populations, together with its effective administration, contributed to the Nordic countries' high resilience against external shocks and major changes. Careful analysis of the interaction between social security and the economy, and labour markets especially, allowed them to prepare better for challenges in the future. In fact, in the world of social models, the Nordic countries were highly influential in preparing the contemporary paradigmatic understanding of social security as investment into people.

The **United States** pursued policies resulting in steeply rising inequality. Increases in social spending came mainly in the form of tax expenditures – tax deductions given for social ends. The ratio of social tax expenditures to ordinary federal social spending rose, from 5 per cent in 1975 to 30 per cent in 2010 (Faricy, 2015). These tax expenditures accrued overwhelmingly to upper-income groups and thus increased income inequality.^{56,57} At the same time, education expenditure declined, from its high in 1970 (at 7.4 per cent) to a low of 5.2 per cent of GDP in the mid-1990s, where it stabilized (Stephens, 2019). And the minimum wage continued falling: From the late 1960s to 2010, the real minimum wage fell by about one third.

Japan shifted its fiscal policy towards austerity with the clear intention to avoid tax increases. Here, also, growing social expenditure was more and more considered unsustainable. To counter accelerating health care costs (resulting from the free medical care consultation policy instituted in 1973), fixed rate co-payments for older persons were introduced, paralleled by a new 10 per cent co-payment of the insured under the employment-based health insurance scheme. In the mid-1980s, fiscal adjustments aimed to equalize the various health insurance schemes' cost-burden in relation to their covered older persons.⁵⁸

Also, to achieve better cost control (as well as to enhance equity among members), a unified first-tier (basic pension) was implemented in all public pension schemes.

In response to continued concerns about the ageing of the population, the Government initiated in the late 1980s policies in preparation for the aged society. A huge multiannual public investment programme (the Gold Plan) was launched to establish welfare services for older persons, such as day-care centres or nursing homes. The programme was financed by levying a 3 per cent consumption tax. It came to a preliminary completion in 2000, when a public long-term care insurance (presumably resting upon the results of the incomplete Gold Plan) was started. It appears that Japan is the only industrialized country with such a prominent focus on ageing in its social (health and services) policies.

The Republic of Korea continued concentrating on "employment first, redistribution second" policies,

instrumental variable of competition among Member States rather than a policy field requiring close coordination. The implications for people have become more visible under the euro, where x-rate adjustments are impossible.

⁵⁶ European Union Member States equally use the instrument of tax expenditure for social purposes. The European Union has decided not to include these anymore in its ESSPROS due to the difficulties of estimating the amount of tax foregone (see ESSPROS).

⁵⁷ In the same period in Germany, tax relief gained importance as an instrument in the field of family benefits, because the higher-income classes profit more from child-related tax deductions than families with low or no taxable income (who, instead, receive direct flat cash benefits per child). Proponents of this policy argued that it is in full compliance with fair and redistributive income tax rules; opponents argued that the same policy implies that children of high-income households are of a higher absolute value to the State than children of low-income households.

⁵⁸ Similar policies had been introduced in Germany and are being pursued. Cost containment in health appears to be a never-ending task for governments everywhere in the world.

but, nevertheless, made national health insurance universal in 1988. In the same year, it implemented a general public pension scheme that became universal ten years later. The scheme was very conservative, however: It was partially funded and accumulated a huge reserve because initially only a few pensions were paid out. Additionally, the fund was only of minimal financial burden to the State because it was run as a social insurance system financed by employers and employees. The option was to keep a relatively low contribution rate, with also a low replacement rate. Generally, social expenditure is still at low levels. In its decision for (Bismarckian) social insurance, the Republic of Korea joined the group of countries aiming to take advantage of the labour productivity-enhancing effects of social security.

Towards the end of this period, the international social security debate, including in Europe and in China and promoted by the World Bank and the German financial industry, was massively influenced by the aggressive promotion of pension reform in Chile, which took place in the early 1980s (World Bank, 1994). This reform, which cannot be laid out in further detail in this report (but which has been extensively described and analysed in numerous publications, such as Gillion et al., 2000), incorporated all ingredients of the post-Keynesian state perception: minimal tax-financed social security provision by the State, with higher protection (for individuals who could afford it) provided through competing and profit-oriented private agencies, where financial risks were shifted from solidarity financing to individuals and employer obligations were minimized. The impact of this reform on the international debate and social policy developments, although often absent in national debates, cannot be overestimated because decision-makers in many countries, especially in Eastern Europe, felt highly attracted to its features.⁵⁹

At the same time, the Western welfare States – most of them in a process of adapting to the ageing of their covered populations – saw themselves more generally confronted with dramatically changed positions in the world economy. The Soviet system of Eastern Europe had collapsed, and China had begun opening itself internationally. China's opening posed challenges as the country adapted fast to modern technology, expanded production enormously and seized opportunities to export at low prices to the open Western consumer markets. A protectionist reaction of the West was neither thought of in practice nor judged compliant with policies of decent international cooperation nor considered consistent with the market paradigm that had evolved in the West since the 1970s. The further retrenchment of the welfare state and the emergence of the notion of social security as investment in people (see the following section) can be seen as a potentially transitory reaction to China's opening, which could be argued will come to an end once its average labour costs have reached Western levels. One might argue, in a generalizing way and as is done in the context of contemporary Chinese social security policy (see Chapter 3), that conflicts between social security and economic requirements might be unavoidable in some periods, but that overall and measured over long periods, the relationship between the two is positive, with mutually reinforcing elements.

Welfare state as investment (after the mid-1990s): From the welfare state to the competition state

After the fall of the Soviet system (around 1989), social security sceptics and proponents alike, in a sort of *alliance impie*, developed language explaining social security as an investment (into human productivity and the economy). In this period, the Nordic countries, somewhat paradoxically, became the superheroes in the world of social models.⁶⁰ This took place not so much because of their (continued) high social benefits, equality or low poverty levels but rather as illustrating the **changed logic of the social security and economic growth nexus**, whereby the welfare state was no longer the goal but a means to strengthen economic performance.

Some researchers labelled the new paradigm the “competition state”, which, like in Germany and the

⁵⁹ The Chilean finance minister is now struggling with the late repercussions of the reform (see section 2.1.7).

⁶⁰ Paradoxically, their practice of interweaving social security with the economy had always been highly esteemed among left-leaning politicians and social security specialists but, due to being perceived as Nordic-specific, never achieved an international breakthrough.

United Kingdom, emerged in reaction to globalization. A new conventional wisdom emerged that social policy was a public investment that should strengthen economic growth and national competitiveness in world markets. Indeed, in the (classical) social security logic, economic development is a precondition for expanding social security. Here, the ultimate goals are social inclusion, no poverty, redistribution, equality and the creation of equal opportunities. In the (new) growth-competition-innovation logic, social security is instrumental to promoting the national economy. The Nordic welfare State started out as the first model, but has over the past decades gradually transformed into the second. While institutions were formally left unchanged, their content changed: Social contingencies more and more shifted from solidarity financing onto individuals' shoulders; public social security spending was reduced (or even ceased) and replaced with voluntary or mandated individual private arrangements, with increased reliance on financial markets; and social security scheme members became customers rather than citizens with rights-based public benefits entitlements. It was around this time that the international community gradually replaced the earlier term of "social security" with "social protection", the former more perceived as comprising social insurance language and the requirements of the middle classes, while the latter more echoed safety-net language and addressing the poor.

A major (and internationally highly successful) ideological player during this period was the World Bank, which aggressively promoted the (highly sophisticated) Swedish pension model as an alternative for those countries that were not ready to follow the Chilean way (World Bank, 1994). The success of this policy was supported by the so-called Washington Consensus (Williamson, 2002; Mueller, 1999; see also section 2.1.7), the coincidental fall of the Berlin Wall and the resulting political turmoil, especially in the countries of the former Soviet Union, prompted governments to ignore reasonable arguments against immature social security marketization experiments (Hagemejer and Scholz, 2004). Since the international financial and economic crises of 2008–10, social security policies have been further tightened through **fiscal austerity**.

As a result, the welfare state as it existed up to the mid-1990s (structurally and in its dynamics) has lost most of its earlier emancipating features, such that the descriptive use of the term "welfare state" appears no longer justified. Social security in the West less and less secures people on a solidarity basis but, rather, increasingly transfers risk to individuals and, thus, quite paradoxically, contributes towards people's insecurity (Judt, 2010).

In pre-empting the China-specific findings of this report (see mainly Chapter 3), one can conclude that during the same period, a similar perception of social security was put into practice in China, where the impact vector took a direction different from the Western countries' trends. The similarity is to be seen in the fact that China, since the onset of its transformation process that began in the 1980s, has used social security as a governance tool explicitly serving the requirements of the country's intended modernization and economic growth process.⁶¹ At the same time, the psychology for the population was probably very different: While social reforms in the West were usually imposing harsh conditionality and, in consequence, perceived as policies that erased former societal achievements, China's policy helped to unleash economic growth forces and (later) provided, for the first time, room to extend social security coverage to all. Indeed, reforms could be perceived by China's population as gaining simultaneously a combination of security and economic progress unknown before (see Chapter 3). These developments need to be assessed taking into consideration the different departure points, with the levels of social spending in the 1980s and social security development being extremely different between the West and China. This gap is, however, narrowing down.

Since the beginning of this phase, the **United Kingdom**, after 1997, pursued a third-way agenda consisting of a supply-side approach to social policy aimed to boost human capital and the knowledge economy (with a time lag of a few years, this agenda inspired similar reforms in Germany, see below).

The social investment agenda placed strong emphasis on the development of active labour market

⁶¹ It would be interesting to explore whether an exchange of ideas took place at that time between, for example, Chinese and Nordic scholars.

policies offering innovative services and one-to-one discussions between jobseekers and personal advisors. Some of these new deals included sanction regimes for those not participating. Under these regimes, individual jobseekers were monitored in their obligation of active job search, with social security payments increasingly being made conditional and sanctioning becoming more commonplace. These and other changes also aimed to improve support for jobseekers through integration of job search support and benefit payment functions providing individualized one-stop service.

This policy of penalization through social security was combined with attempts to make work pay. A national minimum wage was introduced for the first time, and there was a significant increase in the use of in-work income top-ups to boost the incomes of persons in low-paid work.⁶² In this respect, there was particular focus on families with children (eventually quite successfully) aiming to eliminate relative child poverty. In this period, social spending rose more quickly than across the OECD countries, with family-related spending rising from 2.1 per cent of GDP in 1997 to 4 per cent in 2010, accompanied by a marked spending increase in health. Economic performance was strong during 1997–2007, when unemployment dropped to around 5 per cent while inflation remained at a low of around 3 per cent for a prolonged period for the first time since the 1960s. Inequality remained high, but its growth was halted.

In the aftermath of the global financial crisis, growing public concerns over the state of the economy and public finances triggered ensuing (conservative-liberal and conservative) governments' responses to the social investment model and the global financial crisis. Instead of addressing the imperfections and possible detrimental aspects of the new labour market and anti-poverty policies, a kind of rollback took place to radical spending cuts, paralleled with further tightening of the punitive conditions of the system, the impacts of which are still in a process of unfolding. Firm conclusions would be premature at this moment, not the least because the consequences of the British exit from the European Union are difficult to judge.⁶³

Germany took bold steps (in the early 2000s) in the marketization of its social security. The reform process concerned mainly the labour market, pensions and health system reforms⁶⁴ – echoing distantly the reforms undertaken in the United Kingdom in 1997 and after. Reform measures included, among others, new rules stipulating that after the entitlement of employable persons to (strictly limited) earnings-related unemployment insurance benefits ceases, only (meagre) basic (flat) support is being offered. Recipients of basic support are no longer covered by statutory pension insurance, although they are still offered access to basic health services. Jobseekers see themselves commodified through legalized, highly flexible forms of labour contracts (Pusch, 2017; Amlinger, Bispinck and Schulten, 2016). Strong penalizing elements accompany the relation between the individual jobseeker and their case manager at the employment exchange (see the discussion on the United Kingdom); and the trade unions' role in bargaining tariff agreements has been significantly weakened.

With respect to pensions, new rules reduced the link of social security pensions with their economic source (their contributable wages) in favour of occupational and private pensions. The statutory retirement age was increased to 67 years, and the standard replacement rate legislated to fall by around one third (BMAS and BArch, 2016b).⁶⁵

⁶² In Germany also, a top-up scheme for low-paid workers was introduced, less generous though. A national minimum wage was introduced much later, where recent research indicates that it is partially still dysfunctional (Pusch, 2017).

⁶³ On 23 June 2016, the British people voted with a majority of almost 52 per cent of voters in favour of leaving the European Union. The formal exit process was initiated by the British Government on 29 Mar. 2017. A period of two years is stipulated in the European Treaty for the exit-process – during this period, the details of the exit consequences must be negotiated between the (remaining) EU Members and the United Kingdom. This period ends on 28 Mar. 2019. All parliaments of the remaining 27 EU Member States must agree to the results of those negotiations (within the stipulated two-year period).

⁶⁴ This policy of a third way had been inspired and to some extent politically coordinated by or with developments in the United Kingdom (Blair, 1999).

⁶⁵ Both measures to be completed by 2030; transition is on its way.

In terms of **health insurance**, social or private, new rules make coverage universal (obligatory for all). Since 2004, redundant (financially ailing) hospitals have closed, and many remaining hospitals have privatized in the name of efficiency.

In all three areas of social security, new rules trimmed administration for cost-efficiency purposes.

The reforms resulted in (inter alia) establishing a large low-wages sector with precarious working conditions: For persons remaining over long periods in this sector, a significant future old-age poverty risk evolved.

Macroeconomically, the same policy achieved a significant reduction of average labour unit costs vis-à-vis Germany's main European competitors (France and Italy, for example). An unprecedented triple surplus in the private household sector (with growing income inequalities), the enterprises and corporation sector and the government sector evolved, resulting in large and growing trade surpluses.⁶⁶

Germany's corporatist social features functioned well between 2008 and 2010, in a coordinated tripartite effort of government, employers and trade unions, in making large-scale use of the Federal Employment Agency's appropriate instruments to counter the destabilizing macroeconomic effects of the global financial crisis. As a consequence, the social expenditure ratio increased in 2009 dynamically by 2.7 percentage points,⁶⁷ excellently proving social security's role as a macroeconomic income stabilizer. Later, the ratio gradually fell again as a result of economic recovery.

From 1993 to 2008, **France** maintained a relatively steady real social spending growth of around 2 per cent per annum, which is now generally considered also the economic long-term real growth rate of the country. Accordingly, the social protection to net national income ratio broadly stabilized; since the 2008 crisis, the economy has been stagnating, which explains the recent increase of the ratio. France did not pursue similar comprehensive reforms as in Germany and the United Kingdom. Nevertheless, the country gradually adapted its social security system to the needs of the national economy, such that the system is now characterized by much greater heterogeneity than, say, 30 years ago – with a growing segmentation of social rights and, on average, decreasing real values of benefits, which contributed to replacing earlier labour-friendly trends with more inequality and poverty. Therefore, although France has not officially joined the new internationally dominant narrative, it has adjusted in a piecemeal approach to the international trends.

Japan experienced its economy stepping into stagnation. Social policy has since been dominated by fiscal constraints: The financial situation of the National Health Insurance, already worse than that of other employment-based schemes because of different age compositions and occupational backgrounds, was exacerbated by the upsurge of enrolment of marginalized persons with no regular employment. Therefore, health insurance (subsidized by public transfers for some schemes) was further rationalized:

- Co-payment was increased from 10 per cent to 20 per cent, and transfers to hospitals and clinics were reduced in an unprecedented manner in 2006.
- The basic pension scheme is in a similar financial situation; therefore, the national treasury's subsidy was increased in 2009.
- To cope with continued population ageing, a new health insurance scheme for older persons was introduced in 2008.

⁶⁶ For a country's economy, the following accounts-based macroeconomic equation always holds: private household sector balance + enterprises sector balance + state sector balance + balance vis-à-vis the rest of the world = 0. It follows that a national economy, like Germany's which is running a triple surplus, must run a trade surplus. Another implication is that investments (I) create savings (S), not the other way around – savings are no prerequisite for investments (Lindner, 2012).

⁶⁷ Official figures show an increase of 3.4 percentage points. But 0.7 percentage points of that increase are the technical result of incorporation of private health insurance into Germany's 2009 social budget due to changes in the social legislation.

- Long-term care insurance, which had been introduced in 2000, was overhauled in 2005 to focus more on preventive care.
- Public pension insurance begun applying macroeconomic indexation.

Policies reacting to the issues associated with the declining birth rate remain high on Japan's political agenda. Childcare cash benefits and in-kind support to child-rearing families became top of the agenda of the social security policy. Under the impact of the 2008 financial crisis, the general public began to realize and accept the precarious employment conditions of the youth and young adults as a problem.

Policies that strengthen the financial and organizational bases of Japan's social security system have become inevitable. The Comprehensive Reform of Tax and Social Security Initiative also climbed to the top of the political agenda in the late 2000s.

The Republic of Korea has begun gradually altering its economic growth-first paradigm. The earlier high economic growth was acknowledged as unsustainable and replaced with the perception of long-term moderate growth, in conjunction with increased labour market flexibility. Respective measures were introduced after the global financial crisis, which increased the number of non-regular jobs and accelerated labour market dualization with increasingly visible detrimental effects on the Korean society's income and wealth distribution. The rapidly declining birth rates and the ageing of the population are now high on the agenda of public debate. These developments appear to have improved the society's perception of social security.

The **United States** finally took a bold step towards comprehensive health coverage (with the Patient Protection and Affordable Care Act introduced in 2010). Otherwise, no changes in the American social fabric has occurred. With the short interludes of the 1930s and 1960s, it appears to be outside the realm of US polity to use and instrumentalize social security measures for concerted action to enhance the society's overall (economic) well-being. Social tax expenditures continued accruing overwhelmingly to upper-income groups and thus increasing income inequality. The real minimum wage continued falling, and income inequality further increased due to the failure to invest evenly in education. The most important reason for both the rise over time in the Gini index and in the top 1 per cent income share has been workers' declining degree of unionization and the related loss of the bargaining power and political impact of labour unions, which is a development occurring around the globe.

It is difficult to judge whether the new paradigm of the competition state will continue to shape a new world order of social security. Countries that have adjusted their economies and social security systems to an export-led (trade surplus) model will sooner or later have to adapt, like China already has, to the reactions of those trade partners in deficit, with inevitable impacts on social security. In the next section, we address some possible new reforms and reform needs that, with good reason, can be seen ahead.

Over the past few years, Western societies have shown growing concern about the increasing role of social security serving business demands. This is because the hope that social security could be a redistributive tool to let people effectively participate in the economic gains from globalization has not come true, with no signal that it will occur in the future. Whether both strands of development will achieve critical mass to trigger momentum for change must, for the time being, remain an open question.

New reforms and reform needs ahead (in the mid-2010s and beyond)

In some sense, the West's social security policy is currently at a crossroads: It appears that social security policy has been moved towards a position where it intrinsically serves exogenously defined business needs. Rules and incentives have been adjusted, such that persons often gain effective access to coverage only in the event of proven accommodating behaviour, including acquiescing to the efficiency requirements of an anonymous system that is mastered by economic command. Under this perspective, it is to be expected that people will be less and less willing to exert loyalty to a social security system that has lost much of its earlier emancipating approach, which had evolved up until the late 1970s or early 1980s (Bosch, 2015; Gauthi, 2015; Grimshaw, 2015; Vaughan-Whitehead, 2015a). To regain public

support, social policy must turn away from this auxiliary role of social security and take a more independent posture (again) – one that actively seeks to close the (national) inequality gaps that otherwise will continue to expand due to globalization.

This task, which can only be insufficiently sketched in passing, implies changing the academic, professional and public discourse about social security and its beneficiaries. Hope that this will happen might come from the role of the Nordic countries over the past two decades, which had a prominent role in co-shaping the world's current social security paradigm. First, it must be admitted that the developments in the Nordic countries might sooner or later lead to legitimacy problems. An important part of this development is the ongoing change in paradigm from economic development for social security to social security for economic development. Where this will lead to in the Nordic countries is difficult to say. For the time being, one can see a change in the normative compass, away from collective concerns and towards more individual interest. As a small group of small nations (in international comparison) and despite their frequent taking on of a social role model, the Nordic countries have only limited choice to stem their welfare state policies against the big tides. That Sweden was most successful in influencing international pension reforms in the past two decades and that Denmark influenced discussions surrounding labour market flexicurity (Auer, 2010) are positive signals.

At the same time, as the remainder of this section shows, all countries covered in this report have reason and ample room for reforming their social security systems to the better in practice. For instance, there is high potential to combine the required change of the social security narrative with tangible progress in reality. Concrete fields of social policy improvement range from the new (old, classical) wage issue which is prevalent in five countries included in this report – France, Germany, the United Kingdom and less so in Japan and the Republic of Korea (but still significant and which is nested in more general issues of rectifying the worldwide deteriorating distribution of income and wealth) to a set of required policies addressing the situation of (precarious) employment and unemployment, children and families, health care, pensions, care systems and housing. France, Germany and the United Kingdom suffer from large (or growing) sectors of sub-poverty-level wages, with immanent direct repercussions on social benefits. In other words, substantial wage increases are overdue, not the least of which is minimum wages.⁶⁸

More specifically:

- In the United Kingdom as well as in Germany (probably also in the Nordic countries), the operation of the conditionality regime must be reviewed. Removing the penalizing elements of respective legislation is overdue. There is growing evidence that the increasingly harsh policy approach of recent years has denied many citizens their basic social rights and helped fuel the rise of low-paid and extremely insecure contracts.
- Urgent action is required to address the **high cost of housing** in the United Kingdom as well as in France, with the same problem now occurring, with some time lag, also in Germany. And in Germany, the massive privatization of public housing in the 1990s and 2000s left municipalities with little means to counter market rent rates. Ultimately, this means a revert to policies that facilitate the construction of more social housing. Stronger regulation of private sector rent levels could be an option, too. Housing in Japan should also become an integral part of social policy. Especially given the changing household size and structures, housing, in conjunction with social security, should aim to support economically vulnerable families of any generation. In Japan,

⁶⁸ In this respect, France and Germany are intrinsically tied under the euro (while the United Kingdom can adjust its exchange rate, if so required). For instance, France cannot solve its too-low-wage-level problems without Germany's accommodation. If France, as has been suggested, pursues policies of enhanced wage increases, Germany will have to increase its wage levels even faster. Otherwise, Germany's competitiveness, compared with France, would be further strengthened, with additional pressure on France's employment (Flassbeck, 2017). Germany needs significant wage-level increases to ease the growing tensions in the euro area and to provide space for their own required increases of benefits and wage levels. Otherwise, Germany's export-led economic model will sooner or later fail.

community structures must adjust to situations in which the majority of residents are aged 65 or older.

- As in the United Kingdom, **childcare** is an issue in Germany, where every fifth to sixth child is currently considered living in poverty (Bertelsmann Stiftung, 2016). Direct state provision of a universal childcare service appears to be an effective way forward. A second option would be greater state subsidy of childcare provision, whereby delivery is left to the market. Either way, the exceptionally high costs of childcare require action. The same focus must be pursued in Japan.

The United Kingdom still suffers from the policy of de-industrialization of the 1980s in many of its former industrial heartlands. A rebooting of national insurance along the lines that Beveridge had intended could help all persons see just how much they benefit from what they are (and should be) asked to pay in. *Mutatis mutandis*, more honesty in respect of the costs of social security (but also its returns to societies) applies to all countries, including China.

- In Germany, as in France, building a universal layer into social security appears overdue. It could be achieved in France by first enlarging the safety nets and increasing the minimum benefits and in Germany by gradually giving up the principle of actuarial fairness in the public pension insurance and replacing it with a redistributive design (BMAS and BArch, 2016a; Scholz, 2009). In both countries, financing of social security should be sought through larger shares of taxation. Otherwise, income inequality among people will continue to grow with detrimental economic effects (Cingano, 2014) and undesirable social and political implications (see Nordic countries further on).
- Discussions in the Republic of Korea go in the same direction, where a general basic income for all has been proposed⁶⁹ in reaction to the strong trends of jobless growth, increased non-regular work and increasing youth unemployment. Because the country's social expenditure ratio, at 10 per cent, is still very low, this measure would be a most effective method to expand domestic demand. Due to the high fiscal costs involved, the discussions currently focus on (limited) demogrants, such as expanding the basic pension and establishing age-dependent social allowances, like child and youth benefits. Also under debate in the Republic of Korea are issues of improving the country's health infrastructure, investment in economical public (social) housing to stimulate birth rates and reduction of childcare and health care costs, especially for the generations in reproductive ages.
- To counter the detrimental implications for old age of the current labour market dualization, Japan is looking to improve public pension benefit levels without additional burden to the younger generation, which could be achieved through (i) coverage of employees with short working hours and of employees in microenterprises; (ii) voluntary extension of contribution years consistent with the extension of working years; and (iii) the full application of macroeconomic indexation so as to improve the benefit of future pension recipients. Whether such policy would be suitable for Japan remains a question for the time being, given the Government's fiscal constraints. In any case, there is urgent need in all countries to improve pension coverage for persons in precarious work; otherwise, system loyalty will be undermined.
- In Germany, changing pension finance would probably have (positive) implications on health financing, which could help to overcome the problem that, despite obligatory health coverage for all (since 2007 and 2009), Germany may have up to 1 per cent of its population left uninsured (Koschnitzke, 2015).⁷⁰ This situation could be tackled through an all-citizens health insurance, a reform that would leave private health insurance with a complementary role.
- Where the United States will go after the last elections is unpredictable at this moment. Republican governments always pursue conservative policies – essentially no social policies (except for tax

⁶⁹ Similar proposals were made in other countries, including Germany.

⁷⁰ There are no official statistics on the non-insured; estimates draw information from contribution arrears and other indirect indicators.

benefits). Whether the new administration finally dismantles the Patient Protection and Affordable Care Act (known as Obamacare), the attempts of which have been unsuccessful thus far, remained an open question at the time this report was written. From the point of view of the international community expertise, the intended policy goes in the wrong direction and stands in contrast to international recommendations and conventions.

How China fits into these developments is explored in greater detail in Chapter 3.

It is obvious that all countries covered in this report, including China, must seek to consolidate or enhance their policies in relation to long-term care for older persons, in which municipalities and local organizations should be given prime responsibility. Enhancing health care and social services at home (rather than in institutional facilities) should be a priority. Households should be supported in their engagement in preventive measures and mutual help that enable older persons to remain active as long as possible. Working conditions for care workers for frail older persons must be enhanced and their salaries increased.

2.1.7 Developments in Eastern Europe, Central Asia and other world regions after 1989

Social reforms have taken place in other regions of the world as well, although they are not or only cursorily covered by this report. They are party to the overall global socioeconomic process but also have their own peculiarities. For example, some countries that had moved towards privatization of their public pension systems in the pre- and post-1990 period have begun re-reforming. Since 2000, for instance:

- Reforms in some Latin American countries have been judged failures (including by the World Bank), were annulled or declared counter-constitutional (Ecuador and Nicaragua), and the public pension systems were finally kept. Systems were partially or fully reinstituted in Argentina (2008), Bolivia (2010), Hungary (2010), Poland (2013), Bulgaria (2014) and Kazakhstan (2013).
- More countries are investigating into re-reforming: Chile, El Salvador and the Russian Federation. Whether these reversals improve the material situation of scheme members remains to be seen; many complex issues need to be addressed. In any case, these reactions clearly signal that societies have limits in accepting "de-solidarization".

The following briefly deals with the developments in Eastern Europe and Central Asia after 1989 as background explanation for why the paradigmatic changes of the (Western) welfare state concept after 1989 were successful.

The revolutionary developments in the former Soviet Union, including the states of the Council for Mutual Economic Assistance, placed social security under enormous stress. Collapsing capital stock, hyperinflation, massive unemployment and underemployment, wage arrears, inefficient and non-trusted state institutions (including lack of functioning statistics) and other detrimental developments made it enormously difficult (to continue) providing social security, especially to collect the required resources. The problems were augmented by the fact that under the Soviet system, as in China (see Chapter 3), most social security was delivered through enterprises. Other than China, however, Eastern European and Central Asian countries were, as a result of the revolution, deprived of the governance means that would have helped transform state-owned enterprises towards market conditions in an organized and rational way. All of a sudden, enterprises and other institutions were exposed to radical market shocks and thus had to cease operations, temporarily or for good, or continued for some while only formally on a no-revenue basis, heavily subsidized out of rapidly ailing state coffers.

With collapsing enterprises, social security collapsed. Despite these dramatic developments in most countries, certain categories of benefits and services were steadily delivered. Pensions continued to be paid, and health services were maintained at minimal levels, despite the most difficult financial and administrative circumstances. It cannot be overappreciated how fast social security institutions, now made independent from earlier enterprises, were installed and regionalized to deliver social benefit payments. This process was accompanied by international financial support, such as by the World Bank,

and by international and bilateral technical advice, not the least through twinning programmes that linked technocrats from Western social security institutions (mainly from Europe and the United States) with those from the East. This process was superseded by conceptual debates for best solutions between the World Bank and the ILO, between Sweden and France, between proponents of market economy solutions and those of social market economy solutions (among others).

The financial industry had a most influential role in promoting the privatization of social security. Not surprising, governments and civil societies, after just having overcome a state-run system, were curious and eager to enjoy the (promised) delights from market solutions. Only a few had an understanding of the time-consuming complexities of decent state administration (to be established) under market conditions based on private property rights, including the resulting legal and administrative obligations and chores of enterprises and the respective interlinkages with social security. The difficulties stemming from the simultaneous implementation of a new legal regime can explain why, by contrast, the Chinese transformation was more easily handled – China could concentrate on managing the structural change while no legal system change was necessary. The discussions and reforms that took place in the East after 1989 made their way into Western Europe's institutions, universities, civil societies and lobby groups, including through an East-West brain drain of young gifted people (for example, into EU institutions and the World Bank). It was also through these influences that the traditional Western welfare state concept was suddenly challenged.

Some of these developments have been described and analysed in detail (Mueller, 1999). However, the greater bulk of the respective developments and influences, structurally and personally, are still to be uncovered by historians and other researchers.

2.2 Emerging challenges facing social security and economic development around the globe

Since the beginning of the twenty-first century, along with the accelerating globalization and thriving of the Internet, the global socioeconomic context has undergone tremendous changes that are gaining momentum in both depth and breadth and posing new challenges to the context of social security and economic development. The issue of how to tackle these challenges has constituted a major policy agenda with strategic significance for countries around the world to achieve their national development goals.

In this section, we depict five aspects considered critical to this policy agenda: (i) changing paradigmatic thought; (ii) globalization; (iii) the impacts of ageing; (iv) new technology; and (v) continued conflicts between the rigidity of welfare expansion and economic growth.

2.2.1 Divergent development philosophies underlying the relationship between economic development and social security

In institutionalizing social security as a system, the underlying concepts and principles determine the quality of the design of the system and the latter determines the effectiveness of technical (parametric) solutions. Although this interaction may sometimes be reversed in practice, a ground rule for constructing a social security system is indeed that scientific concepts should dominate its design and appropriate system design should dominate the choice of techniques applied (Zheng, 2008b).

As the previous chapters have shown, the best policy choice changes over time, influencing the understanding of the interaction of social security and economy development.

Between the end of World War II and the mid-1970s, Keynesianism was prevalent to counter economic crises credited to market failures. Most countries promoted economic development and equally improved people's living standards by proactively implementing social security and employment policies. For many countries, this was the golden time of both economic expansion and social welfare

extension.

In the 1970s and 1980s, however, such developments as two oil crises and the subsequent Eastern European upheaval and disorganization in the former Soviet region constituted the historical background to the simultaneous success of neoliberalism and monetarism. The Washington Consensus of 1989 (Williamson, 2002) can be regarded as one mature manifestation of how to apply neoliberal concepts in practice. In the past 30 years, the global economy and the reform and development of social security in many countries have been profoundly influenced by this paradigm, which in its essence advocates free competition, liberalization, privatization and marketization while demanding to downsize the State to its minimal role of a “night watchman”.⁷¹

Obviously, social security could not be left unaffected by these developments. Neoliberalism prioritizes economic growth over social protection, thus likely exerting undeniable negative impacts on the development of social policies in many countries. The Eastern European countries quite consistently adopted economic shock therapy (Klein, 2007), although it did not achieve the intended development results.⁷² Latin America, as a pilot zone for implementation of the Washington Consensus, became the hardest-hit area as well as the area where the later emerging anti-neoliberalism reactions were fiercest. The gap between the rich and the poor widened extremely in many countries, and structural crises of societies became increasingly visible. The current situation in Europe and the United States, including the anti-globalization trends, rising social movements, extremism and populism, indicate people's growing sense of insecurity in a world that has maneuvered itself into a situation of increasing difficulty to maintain the core role of social security, which is to provide income security when needed. This adds difficulties to maintaining social peace.

One core misconception of the past few decades was to assume that income and wealth inequality would be reduced through automatic trickle-down effects that allow persons who are rich to profit over-proportionally from economic growth (which has been the case in many countries), which eventually also benefits persons who are poor. Consequently, to reduce investment in social welfare and curtail social security would do no harm but be compensated through such trickle-down conditions.

Under the influence of these ideas, social security is no longer regarded as an important goal of economic development in many countries, nor as an instrument to fix defects of the market or to promote sustainable and coordinated development of economies and societies. Even more, some economic arguments incautiously attribute financial crises, debt crises and even political crises to welfare systems, thus covering up the institutional root cause of crisis-prone capitalism while exaggerating alleged negative effects of social security, which leads to the inability of recognizing the necessity to strengthen social security in processes of socioeconomic transformation.

Misunderstanding the principally positive mutual relationship between social security and economic development can have severe adverse consequences, such as the hampering of social justice and coordinated socioeconomic development. The international community and individual member States alike must keep an open mind to clarify these positive relationships, or other pressing global problems, like poverty, climate change, environmental pollution and population growth and migration, will have no or only little chance to be successfully tackled. In September 2015, the United Nations formally adopted the 17 Sustainable Development Goals on such issues as ending poverty, zero hunger, good health and well-being, quality education, gender equality and reduced inequalities (United Nations, 2015). The achievement of the goals implicitly requires well-established and fully functioning social security systems.

⁷¹ See <https://definitions.uslegal.com/n/night-watchman-state/>.

⁷² Much of the later economic success of countries like Poland or Czech Republic can be attributed to the positive repercussions stemming from their EU membership.

2.2.2 Uncertainties of globalization

For most countries, globalization has prominently shown its two sides: opportunity and challenge. Globalization can often be a process of economic growth and accumulating wealth, in which many people's livelihoods are improved. Such positive effects have manifested in developing countries, such as Brazil, India, China and South Africa.

Notwithstanding the positive effects, globalization has also intensified international competition and speculation. The sequence of numerous crises in recent decades is symptomatic of unforeseeable intertwined effects of free trade and free flow of capital, coupled with growing labour mobility and less stabilizing social security, where economic fluctuations in one country inevitably affect others and possibly the whole world. In fact, the instability of the global economy is increasing, which poses emerging threats to economic security – and not only for developing countries.

Globalization has also upset previously well-balanced industrial relations, resulting in a "strong capital, weak labour" pattern worldwide (Zheng, 2002). The reason is because capital is allowed to float freely so as to find lower-paid (but still sufficiently productive) labour. Especially for developing countries, it would be a hard choice not to pursue the offered capital-induced development path. To minimize the related cost of labour, welfare measures must be taken that lead to better-balanced industrial relations and an equitable distribution of wages and profits.

The wide-ranging uncertainties of globalization have profound impacts on economic development and social security policy in many countries. Under intensified competition and increased risks, countries have the choice between a synchronized long-term development of their economies, together with the improvement of their general welfare, and unsustainable policies of short-term and volatile gains in prosperity at the expense of welfare. The principles of social security, with mutual help and organized solidarity as its foundation, can add stable expectations to the process of globalization and help to counterbalance and overcome the current disadvantageous position of labour. The current problem is to better implement social security to adapt to the socioeconomic dynamics and emerging new forms of business. The unfolding digital economy indeed poses new challenges to the social security system, such as giving rise to non-standard forms of employment. But the wide application of information technology lays technical ground for tackling these challenges.

2.2.3 Far-reaching influence of rapidly ageing populations on economies and societies

Today, the world has moved into an era in which its demographic structure is transforming, and the ageing process is accelerating and deepening. While this positive development constitutes social progress, it poses increasingly critical challenges to social security and economic development. According to the definitions of the World Health Organization, an ageing society is a society in which the percentage of persons aged 65 and older in the total population reaches 7 per cent. In an aged society, that population has reached 14 per cent, and it is beyond 20 per cent in a super-aged society (WHO, 1982). Germany, Italy and Japan became "super-aged societies" in 2011, while more than 50 countries, including Sweden, Bulgaria, Greece, Spain, France, the United Kingdom, Canada, Belarus and Australia turned aged. The United States, the Russian Federation, China, Kazakhstan and many other countries remain ageing.

Continued demographic ageing has considerable direct impact on employment, consumption and industries as well as on overall economic development. It will also have lasting and profound influence on the structure, resource allocation and financial balance of social security systems. Pressure on pension payments and health system finance as well as on the provision of personal care services (and their financing) will continue to challenge societies in their search for solutions.⁷³ While demographic changes brought about by population ageing are posing great challenges to social security and economic

⁷³ It must be acknowledged, though, that the impact of population ageing on average health care cost levels is much less documented in international research than for pensions or old-age care costs.

development in both the short and long terms, improving social security systems to cope with population ageing has become a consensus among the international community.⁷⁴

Social security systems for older persons have, in many cases, been adjusted towards a positive and supportive role to economic development. Two countries at different stages of development are outstanding in this respect:

- The impacts of an ageing population on economic development and social security are not necessarily negative, and therefore ageing should not at all be alarming. Despite its position as a super-aged country, Germany managed to maintain a vital and growing economy with a well-functioning social security system; however, the key to this lies also in Germany's silent changes in its production processes carried out in the 1990s (Bosch, 2017); this was combined with accommodating adjustments to its social security system, especially a sequence of substantial, mainly parametric old-age security reforms.
- China, as a fast-ageing country, has been economically successful while building up its social security system rapidly and enhancing its older persons' purchasing power. Despite mounting pressure of pension pay-outs and older person services, enhanced labour productivity and intelligent solutions credited to technological progress lay the economic and technical ground for tackling ageing-related challenges.

Population ageing adds risks but also opportunities, and governments should respond more actively to their country's ageing processes.

At the international level, possibilities should be explored to take the cost effects of ageing out of the international competition debate. If all countries accept the worldwide ageing reality and stop efforts at countering the implied cost effects, then ageing will cease to be an economic problem. It might still impact the structure of demand, but this is not a problem for social market economies, which will easily adapt.

2.2.4 The impact of the new technological revolution on traditional industries and the normalization of new business types

The process of globalization is accompanied by the widespread application of information technology and the Internet to the mode of production and employment as well as to people's daily routines. The further improvement and application of artificial intelligence will add to and revolutionize these ongoing developments. These achievements have created new centres of economic growth but have also resulted in changes in social relations, especially in labour relations, which brings about new problems to social security systems, including their administration.

In recent years, the emergence of a wide array of new sectors and businesses as a result of artificial intelligence and the Internet, coupled with the boom of e-commerce, home-based business and intelligent monitoring, have made new working patterns and new forms of employment become the

⁷⁴ Given the profound impacts of demographic changes on economic and social development as early as the 1980s, the United Nations addressed the implications of population ageing. In 1982, the United Nations convened the First World Assembly on Ageing in Vienna and adopted the International Plan of Action on Ageing, which includes 62 recommendations. The United Nations Principles for Older Persons, adopted by the General Assembly in 1991, established five universal principles: independence, participation, care, self-fulfilment and dignity. In 2002, the United Nations convened the Second World Assembly on Ageing in Madrid to summarize the progress of action in countries over the past 20 years following the Vienna Conference; in conclusion, the Madrid Political Declaration and International Plan of Action on Ageing was adopted and calls for incorporating a positive view of ageing into national development frameworks. Since then, the issue of ageing appears on the UN agenda from time to time. The seventh Working Session of the Open-Ended Working Group on Ageing that took place at UN headquarters in New York in 2016 focused on such issues as the participation of NGOs in the work of ageing and measures to enhance the promotion and protection of the human rights and dignity of older persons.

new normal for many persons. This not only directly affects the economic development and social governance patterns but also presents new challenges for social security systems. As employment flexibility and turnover keep increasing, employment venues and labour relations will metamorphose into new forms, in addition to the new social networks and ways of expressing demand (Zheng, 2017c).

But fears that labour will disappear are premature. Even under the new technological revolution, the nature of work and mechanisms for ensuring sufficient remuneration will remain, although working patterns will vary and how remuneration is received might change.

In the context of the new technologies and new forms of business, governments of all countries are exposed to the challenge of maintaining fair primary income distribution and to constantly optimize their social security system to ensure its effectiveness and fairness. One cannot expect social security to solve the problem of primary income distribution in practice. Instead, it is incumbent upon governments to emphasize the protection of labour rights, not only through fair wages but also by developing the adaptability of labour-capital relations as well as their social security system. These must be underpinned by stable industrial relations and profound changes in income, wealth distribution and societal structures to ensure that the welfare of workers is not compromised.

2.2.5 The paradox of rigid growth of welfare and financial sustainability

Social welfare is one of human being's fundamental rights as well as a major responsibility for governments to bear. International cross-country comparison and long-term historical development suggests that once social security is in place, it will develop over-proportionally with socioeconomic progress. This is attributed to modern societies' growing complexity and also to growing demands that can only be fulfilled by increasing the provision of public goods and services (Lindert, 2010; Wagner, 1876). It appears to be a universal law that social security programmes can only increase and have proven unlikely to be cut; benefit levels tend to be uplifted instead of lowered (notwithstanding that, in practice, individual programmes might be expanded or downsized, according to needs or be only temporarily in place or mismanaged). Because of these system-inherent upward drifts, social security, as one basic way of sharing the fruits of national development through institutional guarantees and as a prominent tool to solve certain societal problems, cannot, must not and will not be confined to low levels of protection, that is, only offering charity-type social assistance of giving a hand in times of trouble. Instead, if well maintained and managed, social security can reasonably be the governance instrument expected to bring about a state in which "a rising tide lifts all boats"(Zheng, 2018a).

As population ageing brings profound changes in demographic structures, family-based provisions (intra-family help and transfers) will inevitably continue fading away. Instead, social security expenditure, such as pensions, health care and long-term care, is bound to grow. This kind of rigid growth has been the norm of development practices in developed countries and has begun to manifest in developing countries with rapid growth, including China.

These observations must be clearly distinguished from countries' social expenditure ratios (see box 2 on the definition of social security) that increase and/or decline depending on the economic cycle. When economic development stagnates or even declines, this is usually combined with growing unemployment (implying more needy households). In economic booms, unemployment usually declines, rendering less public social support. Short-term cyclical developments might be superseded by the financial inertia of big existing systems, especially pensions and health systems that exert counter-cyclical financial stability. The complex interplay of the short-term developments and longer-term intrinsic inertia, in turn, directly affects the financial revenue of a country's public sector as well as the financing of social security and people's ability to pay for social welfare services. Such a mixed and thus complicated situation requires careful governance. Otherwise, unless ameliorating measures are taken, it can easily undermine the financial sustainability of social security. Thus, exploiting new sources of revenue and further optimizing the social security structure are policy measures that must be taken by countries to adapt to the future.

To sum up, there are de facto contradictions between the rigid growth of welfare and financial sustainability once a social security system takes its full shape. As a result, in addition to boosting efforts to strengthen and maintain the fairness of statutory social security systems, effective measures need to be adopted to mobilize market and public resources in the field of social security.

Particularly during the last global financial and economic crisis, a certain level of agreement on the importance of social security among multilateral organizations was reached. Even if there might not be agreement on the model and the levels of expenditure, institutions like the International Monetary Fund (IMF) or the World Bank have agreed, to a certain extent, on the importance of social security. For instance, the IMF Independent Evaluation Office stated in a report: “Over the past decade, the IMF has stepped up its attention to social protection as it has dealt with the aftermath of the global financial crisis and addressed concerns from the impact of food and fuel price shocks and broader stresses on low-income groups and the most vulnerable. Thus, the IMF has moved beyond its traditional fiscal-centric approach to recognize that social protection can also be macro-critical for broader reasons including social and political stability concerns” (IMF, 2017b). The World Bank Group and ILO-led Global Partnership for Universal Social Protection, launched in 2016, demonstrates the recognition by the World Bank of the importance of social protection to combat poverty and rising income inequality (World Bank and ILO, 2016).

3. Social security and economic development: China

China has accomplished a remarkable feat in transforming itself from a low-income country to a major economic power in just over three decades. Since the onset of its transformation from a planned to a market economy in the 1980s, China’s economy has experienced an impressive pace of growth. It is thus not surprising that its economy is the second-largest in the world, contributing around 31.5 per cent to global economic growth, compared with around 11.5 per cent by the United States and around 9 per cent by the euro area.⁷⁵

China replaced its earlier highly centralized planned economy with a market economy, adapting itself to economic globalization. The approach adopted is generally considered a success: First, by allowing localities to make breakthroughs with existing national policies, replacing old practices with innovative ones through the implementation of pilots and then drawing lessons from those experiences and formulating new national policies that eventually came to full application nationwide. However, there was a significant risk of failure for both the economic as well as social reform because the transformation process required a change of the old system, which was characterized by vested interests and strong path dependencies.

During these decades of reform and development the risk of failure significantly declined. The reasons are manifold, including political stability, broad markets, deep production structures, abundance of labour and a determined policy of opening up to the world. One core reason has been the Government’s fundamental trust in social security as an important governance instrument for managing the reform risks and improving people’s well-being and its conviction of the positive relationship between unfolding social security and economic progress. In a nutshell, the Government trusted in a proper, proactive and foresighted handling of the intrinsic interdependencies of economic and labour market developments and social security during the transition process. This trust materialized in the Government’s effective use of the core social security function, which allowed the country’s hitherto

⁷⁵ All figures are partially authors’ estimates, based on the IMF October 2017 World Economic Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/download.aspx> (accessed 10 Oct. 2018).

hidden productivity reserves to surge.

The process, simultaneously, had positive repercussions for China's social security system. Indeed, it is obvious that China's high-speed economic growth prepared the material basis for a more efficient and generous social security system, which contributes towards reducing individuals' income risks and enhancing people's well-being. Although much remains to be done, this social security system now covers almost the whole population.

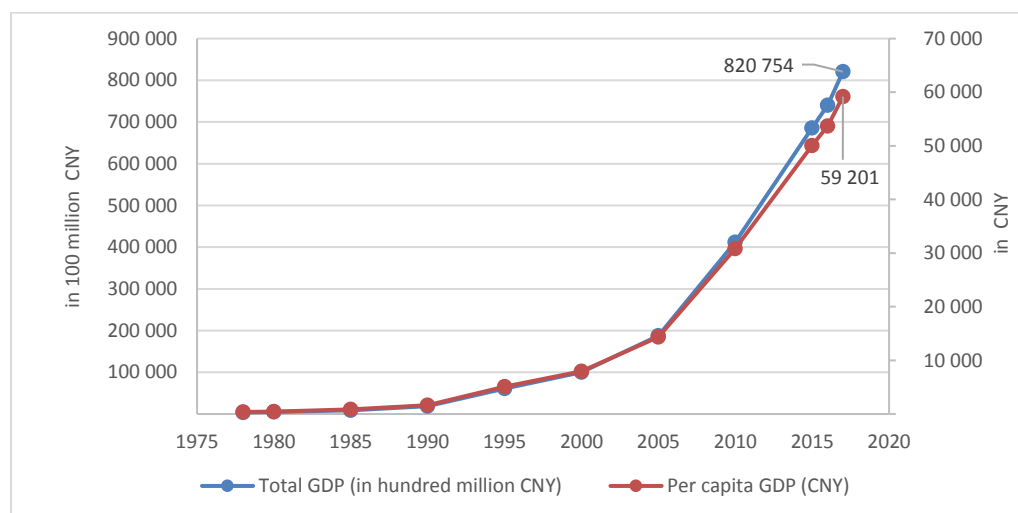
3.1 The contribution of the social security system to economic development: China's historical experience

3.1.1 China's economic achievements in the past 40 years

Four decades ago, in 1978, China was an extremely low-income country with prevailing poverty, with a total GDP and GDP per capita at CNY367.9 billion yuan and CNY385 (approximately \$218.5 billion⁷⁶ and \$229), respectively (NBS, 2019). Over this period, the economy underwent a high speed of sustained growth: In 2017, China's GDP was more than CNY82.1 trillion (approximately \$12 trillion) and its per capita GDP was CNY59,210 (approximately \$8,768) (NBS, 2019). The figures (figure 2) suggest that China is among the upper-middle-income countries and heading towards the group of high-income countries. Yet, the country has very uneven regional development, with a wide gap between the more developed eastern regions and the less developed western areas.

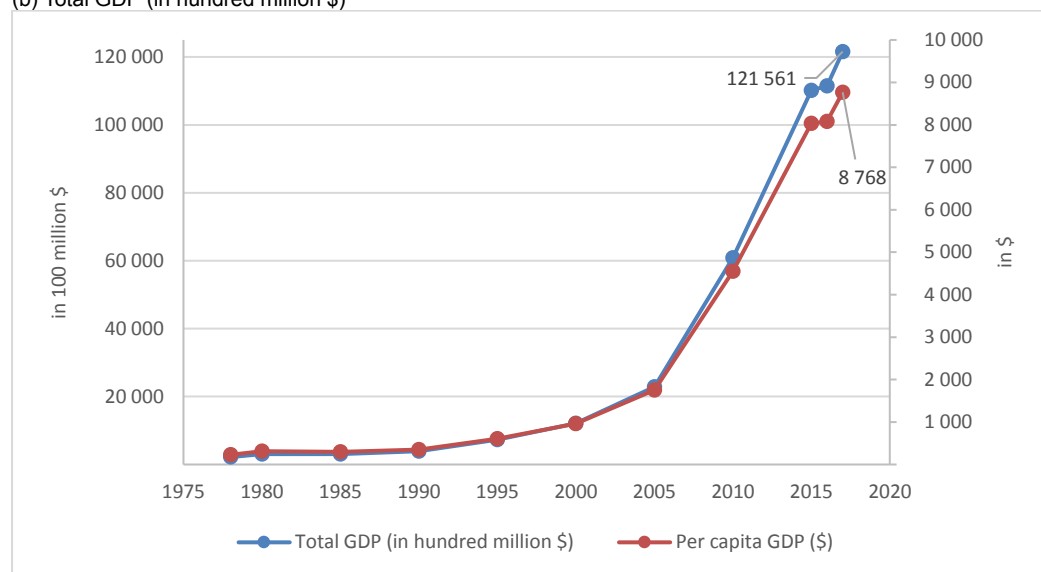
Figure 2 Total GDP and GDP per capita for China, 1978–2017

(a) Total GDP (in hundred million CNY)

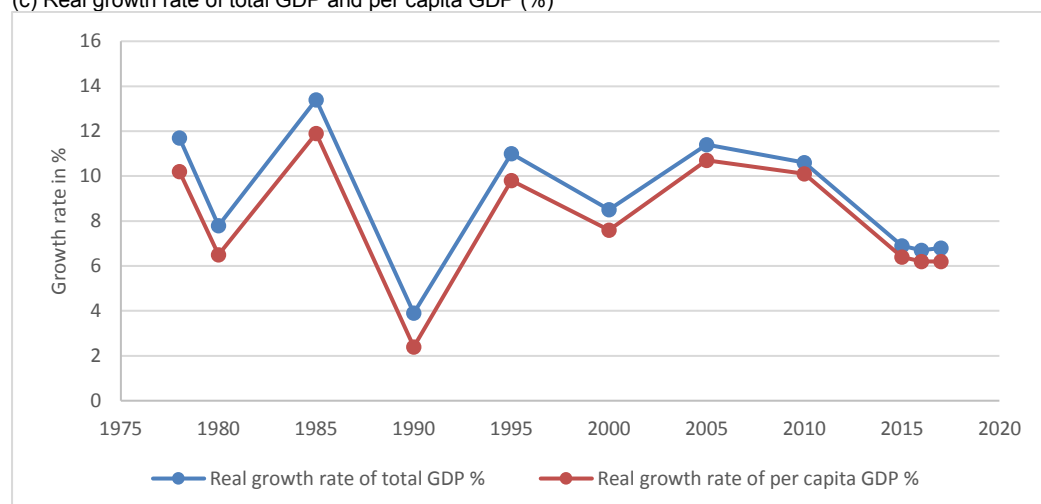


⁷⁶ The CNY–\$ conversions are on basis of the yearly average exchange rates published by the National Bureau of Statistics of China. See <http://data.stats.gov.cn/easyquery.htm?cn=C01&zbs=A060J&sj=2017> (accessed 10 Oct 2018).

(b) Total GDP (in hundred million \$)



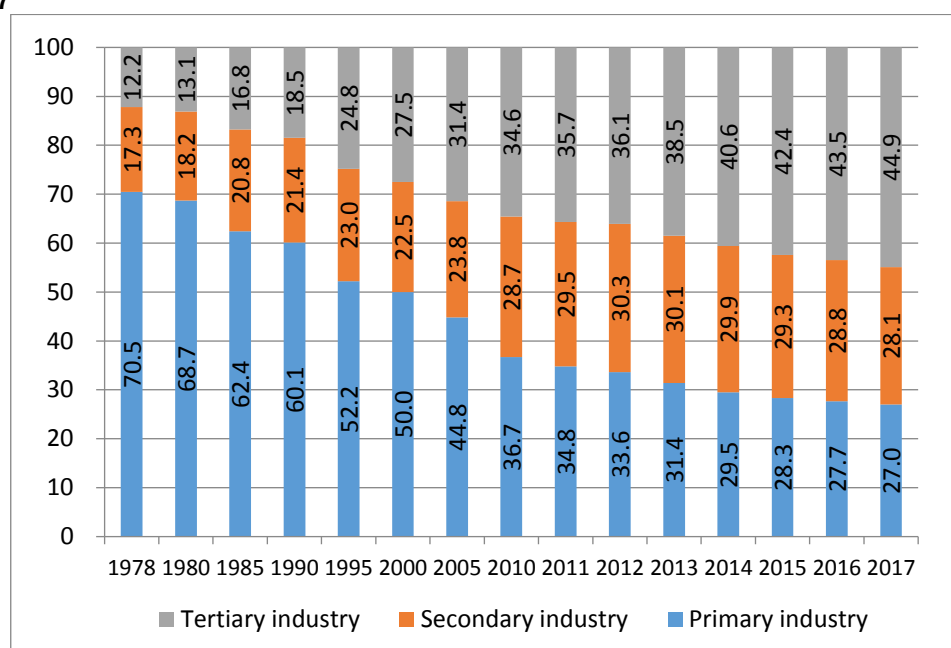
(c) Real growth rate of total GDP and per capita GDP (%)



Source of data: 1.NBS, 2019. National data. Available at: <http://data.stats.gov.cn/english/easyquery.htm?cn=C01> [Jan. 2019]; 2. GDP data based on dollars are calculated on the basis of yearly exchange rate averages (NBS, various years).

Figure 3、4、5、6 show that China's economic development over the past four decades was accompanied by profound shifts in the industrial structure, in the composition of the labour force, in the rural and urban distribution and in living standards.

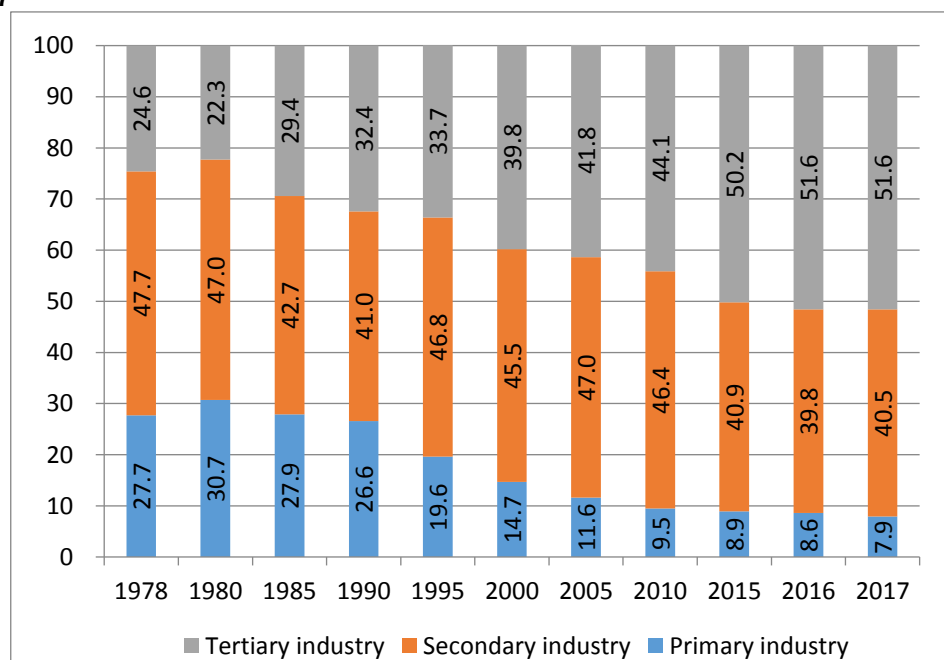
Figure 3 China's transformation of employment: Share of employed people, by industry, 1978–2017



Source: NBS, 2018 (*China Statistical Yearbook 2018*).

As figure 3 shows, the economy underwent a classical (and fast) transformation of its overall production and employment structures towards features typical of modern industrialized countries: The number of workers in the primary industries significantly reduced while the numbers of those working in the secondary (manufacturing, construction and others) and tertiary (services) industries accordingly increased. The relatively constant output share of the secondary sector, together with the employment numbers, indirectly points to the enormous productivity gains in this sector. The statistical stability of aggregate employment in the secondary sector camouflages the enormous changes that took place that were bolstered through focused social security reform as a result of modernization and marketization.

Figure 4 China's industrial transformation: Share of industry type as a percentage of GDP, 1978–2017

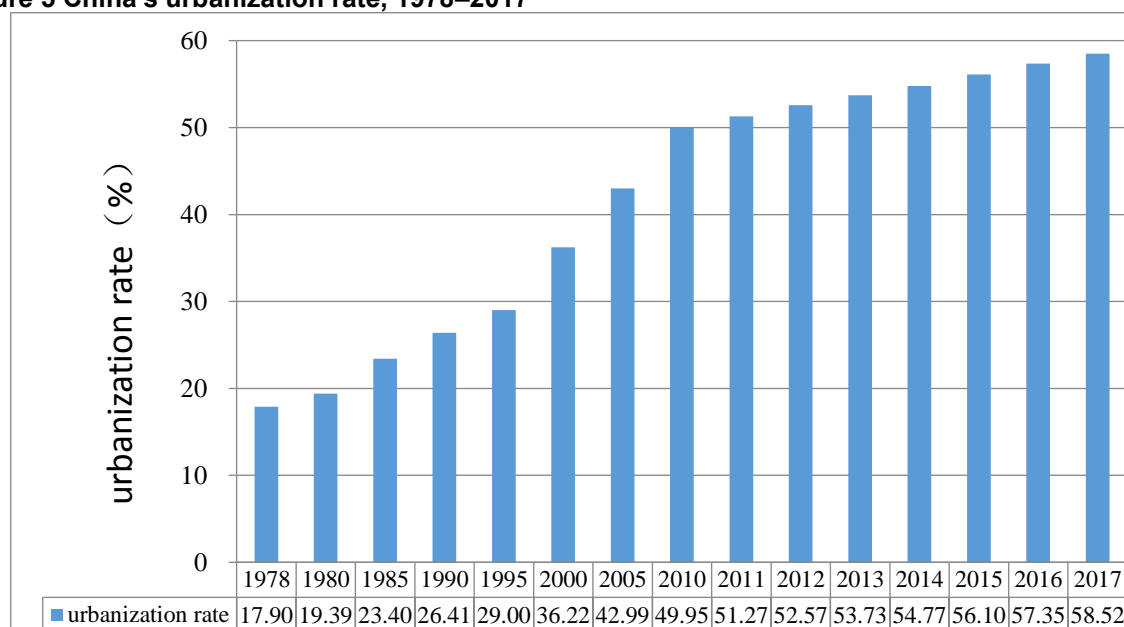


Source: NBS, 2018 (*China Statistical Yearbook 2018*).

The rapid urbanization (figure 5) presented additional challenges to the country's social security system.

Under the continued existence of the *hukou* system (administrative household registration), the large number of migrating workers were, by law, obliged to remain registered in their home village and town. As a consequence, they lost, de facto, health and social assistance coverage as well as schooling access for any accompanying children (which was provided in their home village and town). The regional and local allocation of national resources continues to be based on the information provided by the *hukou* system. The resulting social and administrative problems continue to date and are elements to be addressed in the (near) future.

Figure 5 China's urbanization rate, 1978–2017



Source: NBS, 2018 (*China Statistical Yearbook 2018*).

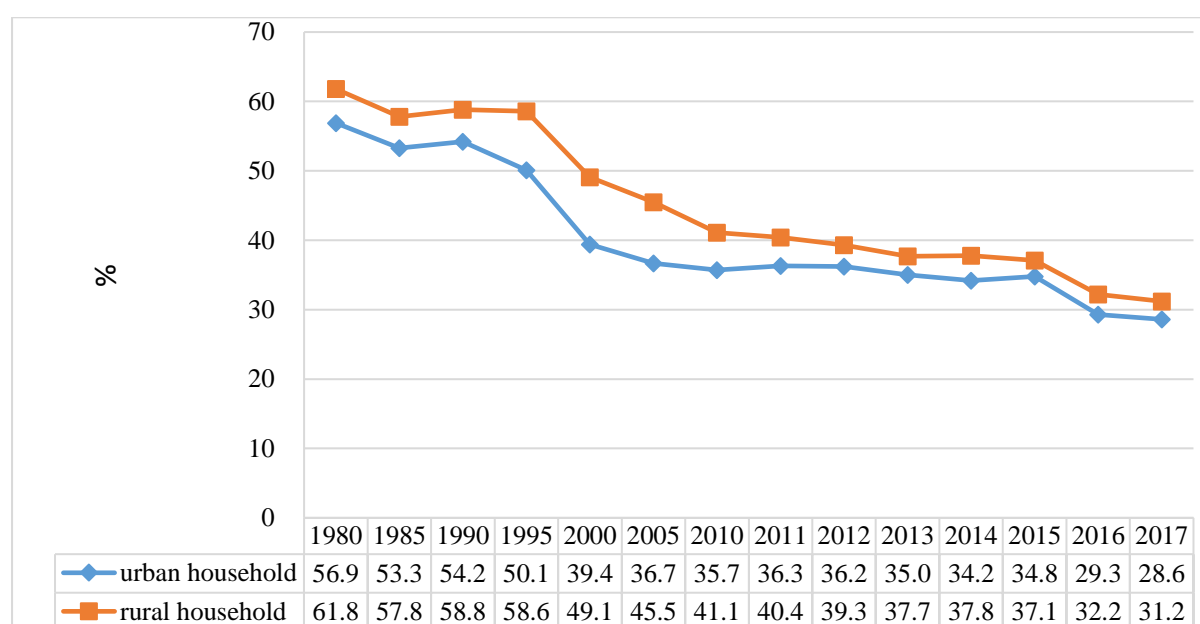
Over the same period, China lifted a total of 660 million people out of poverty. Livelihoods improved significantly, as indicated by a declining Engels coefficient (figure 6). Nonetheless, the vast majority of China's population has yet to reach high-income status. Although the rural poverty headcount ratio dropped from 10.2 per cent in 2012 to 1.7 per cent in 2018, nearly 16.6 million rural people still lived on income below the poverty line (CNY2300 per person per year, at 2010 constant price) by the end of 2018 (National Bureau of Statistics, 2019).⁷⁷ The Government's goal is to eliminate regional and absolute poverty and thus build a moderately prosperous society in all respects by 2020 (CCCP, 2015).⁷⁸ By the mid-twenty-first century, when China celebrates its centenary, the Government expects the country to have developed into a modern socialist nation that is prosperous, strong, democratic, culturally advanced and harmonious – when what President Xi Jinping defines as the “achievement of common prosperity for everyone” is basically reached (Xi, 2017).⁷⁹

⁷⁷ See: http://www.stats.gov.cn/tjsj/zxfb/201902/t20190215_1649231.html. [in Chinese].

⁷⁸ See Central Committee of the Communist Party: *13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016–2020)* (Beijing, 2015). Translated by Compilation and Translation Bureau, <http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>.

⁷⁹ See *People's Daily*: “Secure a decisive victory in building a moderately prosperous society in all respects and strive for the great success of socialism with Chinese characteristics for a new era” (Xi Jinping's report at 19th CPC National Congress), 28 Oct.

Figure 6 Engel's coefficient* of urban and rural households in China (%)



Note: *=Engel's coefficient calculates the proportion of total private household expenditure spent on food. The rationale is that the less income a family or individual has, the greater will be the proportion of the expenditure on food.

Source: NBS (*Statistical Bulletin on National Economic and Social Development, various issues*).

3.1.2 China's achievements in social security reform and development

Triggered by the economic reforms, China's social security system had to undergo a comprehensive and profound overhaul beginning in the mid-1980s. This was intended to support the economic reform process but also to avoid overly radical changes, which could have given rise to huge social risk. Akin to the economic reform process, the social security system was progressively reformed, going through a transformative process:

- from a system of passive reaction to emerging socioeconomic needs to one that was able to take action on own initiative;
- from a bottom-up to a top-down approach to reform;
- from initial local trials and incremental system implementation towards overarching system design and full implementation nationwide, with provisions defined by the central Government; and
- from a system that had been serving, and was subject to, economic reform as a governance instrument towards a more independent system generally and more indirectly influencing, bolstering and promoting economic development.

During the 30 years of institutional re-organization, China's social security system also transformed from an institutional setting based on the State and work units (*danwei*) towards one that is independent of the work units. In the planned economy era, the functions of social security had been carried out by the work units, including a wide array of government departments, public institutions and state-owned enterprises, to which urban workers were attached. Welfare schemes, such as pensions, medical care and housing, organized and maintained by the work units, were subsidized by the Government. The schemes covered employees and their family members. Rural residents were attached to different organizations with distinctive boundaries at the grass-roots level, where the welfare benefits were delivered through a mutual distribution mechanism among collective members.

The Government was only in charge of affairs involving disaster relief and related poverty alleviation. The system was thus highly fragmented and segmented as it was fully arranged by work units with their respective boundaries. China's social security has thus experienced comprehensive transformation: from one that was the State's responsibility, fully arranged by work units, providing comprehensive protection yet fragmented and segmented and operating with distinctive boundaries in a planned

economy to a system that is government led, in which enterprises and individuals share responsibilities and that covers the whole population, is socially organized and multilayered. The transformation from the State and work unit-based protection to the State and society-based protection (Zheng, 2008a) enabled China's social security system to access modern management techniques required for large-scale institutions serving large numbers of people.

In the aftermath of the global financial crisis that began in 2008, the Chinese Government intensified its effort to extend its social security system, with the aim of reaching universal pension and health insurance coverage. Before 2009, nearly 250 million people were covered (including pensioners), representing about 23 per cent of the population aged 15 and older. Following a series of reforms in 2009, 2011, 2014 and 2015, an old-age pension scheme was established for the rural and urban populations (non-participants of the social insurance scheme), while the civil servants pension scheme was merged with the pension scheme for urban workers (ILO, 2014). Pensions under the newly established scheme consist of a social pension and an individual savings account pension. A similar structure applies to health insurance. The health insurance scheme for employees is financed by contributions from employers and insured persons, whereas the scheme for urban and rural residents is mainly financed by government subsidies, with individual contributions accounting for only one fourth to one fifth of the total fund revenue (see the next section for more details on these schemes).

The innovative policy design of the old-age pension and health insurance schemes and the direct responsibility assumed by the Government to provide for the pensions and health care of its residents constituted vital drivers of the rapid extension of pension and health insurance coverage.

In addition, a comprehensive social assistance system targeting low-income groups has taken shape, providing growing benefits to urban and rural families, which account for 10 per cent of the total population.⁸⁰ Social welfare schemes, including government-subsidized housing, older-person care services and social welfare services for people with disabilities and for children, have been reformed and improved (box 4). An increasingly extensive social safety net has been built that not only defuses social risks resulting from market competition, natural disasters or human-made catastrophes but also improves social justice.

The rapid development of China's social security system not only greatly contributed towards enhancing people's well-being and quality of life but it helped close gaps in global social security coverage. The global coverage rate would be 50 per cent if China were excluded – it is 61 per cent with China.⁸¹ It was not surprising that in 2016 the Chinese Government received the ISSA Award for Outstanding Achievements in Social Security for its unprecedented achievements in extending pensions, health insurance and other social protection schemes (ISSA, 2016). China's social security system has become a central instrument for the allocation of the fruits of the country's development for all (Zheng, 2016b).

Of course, other factors also (must) have contributed to these developments because China's social security system is still small in terms of its financial provisions (in international comparison) and thus its positive financial impacts on the economy can only be modest.⁸² Nevertheless, it has been emancipating itself from a system that passively reacts to poverty and shifting to a system that proactively redistributing the fruits of economic development to persons in need while supporting the whole population.

⁸⁰ Estimated with statistics for the number of (i) recipients of subsistence allowances (*dibao*), assistance to people living in extreme difficulty, temporary assistance, medical assistance, disaster relief released in the *Statistical Bulletin on Social Service Development 2016* (MCA, 2017); (ii) recipients of employment assistance released by the Ministry of Human Resources and Social Security; (iii) recipients of housing assistance released by the Ministry of Housing and Urban-Rural Development; and (iv) recipients of educational assistance released by the Ministry of Education. Double counting is avoided to the best of our knowledge.

⁸¹ See http://www.gov.cn/xinwen/2016-11/18/content_5134319.htm (accessed 10 Oct. 2018) [in Chinese].

⁸² Even when fully developed, social security systems cannot be expected to rectify societies' unfair income and wealth distributions. For this to happen, support is required through adequate tax policies and, not the least, well-functioning effective labour market institutions and wage negotiation systems.

Box 4
China's social security system: A comprehensive list of schemes

1. Social assistance

1. Minimum livelihood guarantee and subsistence allowances (*dibao*)
2. Disaster relief
3. Medical assistance
4. Education assistance
5. Assistance to people living in extreme difficulty
6. Housing assistance
7. Employment assistance
8. Temporary assistance

2. Social insurance

1. Old-age pension
2. Health insurance
3. Employment injury insurance
4. Unemployment insurance
5. Maternity insurance
6. Long-term care insurance (trial)

3. Social welfare

1. Social welfare for the elderly
2. Social welfare for children
3. Social welfare for women
4. Social welfare for people with disabilities
5. Educational benefits
6. Housing benefits

4. Benefits for entitled groups

1. Preferential treatment to servicemen and their families
2. Pension for servicemen and their families
3. Assistance to disabled servicemen
4. Assistance to ex-servicemen

Source: (1) State Council Information Office: "China's social security and its policy (2004)", in *Bulletin of the State Council*, No. 32, 2004. This policy document states that China's social security system consists of social insurance, social welfare, benefits for entitled groups and housing benefits. (2) The Social Insurance Law of the People's Republic of China, adopted in 2010, provides for old-age pension, health insurance, employment injury insurance, unemployment insurance and maternity insurance as social insurance schemes. In 2017, the Government launched pilot schemes in 15 cities for long-term care insurance. (3) The Interim Regulations on Social Assistance promulgated by the State Council in 2014 explicitly stipulates eight social assistance schemes, including a minimum livelihood guarantee. (4) The Regulations on Pensions and Preferential Treatment for Servicemen, issued by the State Council in 2004, provides preferential treatment and pension for military personnel. The Regulations on Resettlement of Ex-Servicemen, promulgated by the State Council in 2011, guarantees appropriate reintegration of veterans. (5) Social welfare in China includes benefits in cash and in kind for older persons, children, women and people with disabilities; in academic discourse, housing benefits and educational benefits are also considered subject to social welfare policies.

China's social security consists of several schemes, with pension, health insurance, subsistence allowances, education benefits and housing benefits the mainstay and closely associated with its economic development. The following sections assesses the major social security schemes, with discussion on their evolution, problems and solutions.

Public pension

Evolution of the public pension

China's public pension system, created in 1951 and targeted at workers of the state-owned enterprises and collectively owned enterprises, was non-contributory. It held the State accountable and was organized at the enterprise level. The pension system for employees of government departments and public institutions was set up soon afterwards and followed similar principles.

In the mid-1980s, a few localities began exploring social pooling-based pension systems, as opposed to enterprise-based schemes.

In 1991, China embarked on the reform of the pension system for enterprise workers and turned its previous system into one jointly funded by the State, enterprises and individuals. Workers hence had to pay contributions. Since then, China has more generally changed its policy orientation towards contributory pensions.

In 1995, the State Council fostered contributory financing principles by combining social pooling with individual accounts to deepen the pension reform. Local governments were allowed to conduct trials accordingly.

In 1997, the basic pension for enterprise workers and self-employed individuals in urban areas was officially launched, and the financial model of combining social pooling with individual accounts was adopted.

Since 2009, China has successively established the basic pension for rural residents and the basic pension for non-salaried urban residents with fiscal funds as the main source of financing. Participation with this scheme is voluntary. As incentive for participation, the Government assumes the responsibility of financing the full amount of the social pension and partially subsidizing the contribution of insured persons.

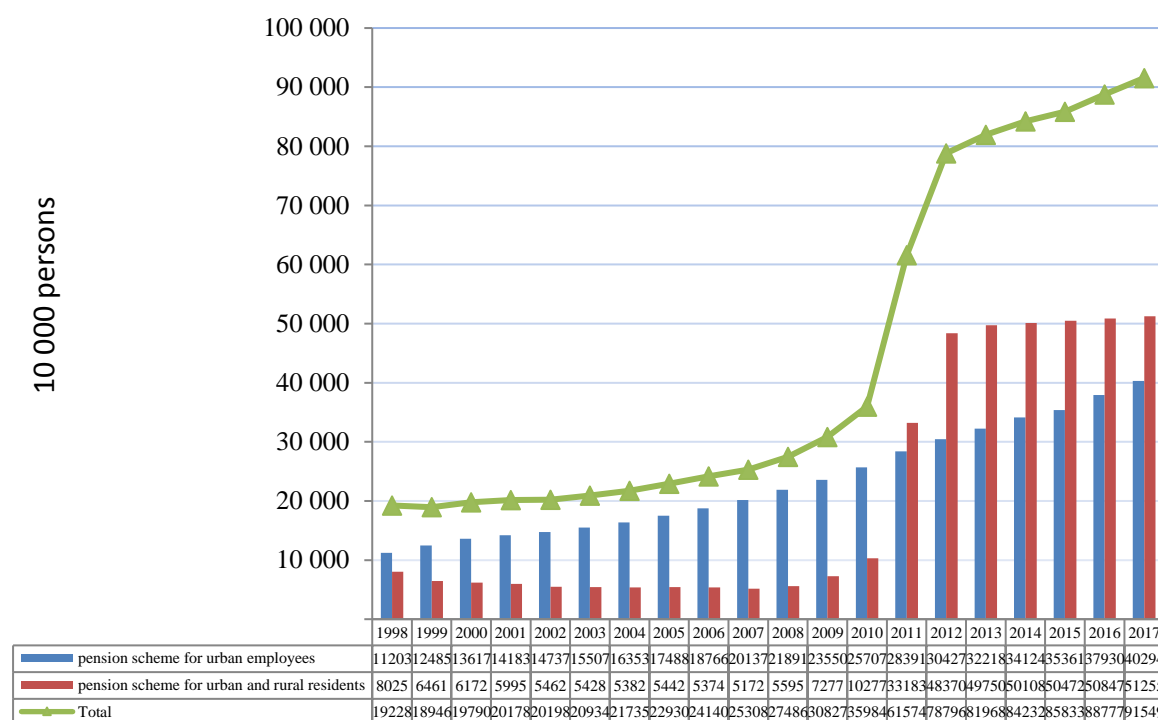
In 2015, the employees of government departments and public institutions were incorporated into the coverage of the basic pension system, which means they shifted from a completely non-contributory scheme to a contributory model.

In 2018, a central adjustment system for basic pension funds of employees to be used inter-provincially was introduced as a step towards a nationally unified basic pension scheme for employees. Consequently, China achieved universal statutory coverage of the basic pension, with the basic pension for urban employees applied to salaried employees and the rural and urban resident basic pensions applied to all other citizens.

Over the past two decades, public pension coverage was extended while the paid benefit levels kept growing steadily. In 2017, the number of old-age insurance (pension) participants reached nearly 915.5 million, whereas the number of pensioners (column 2 plus column 4 in Annex 2, table A2) hit 266.2 million.

From 1998 to 2017, the number of participants in the basic pension system for urban employees rose from 112.0 million to 402.9 million; the number of people covered by the basic pension system for urban and rural residents rose from nearly 80.3 million to nearly 512.6 million (see figure 7 and Annex 2, table A2).

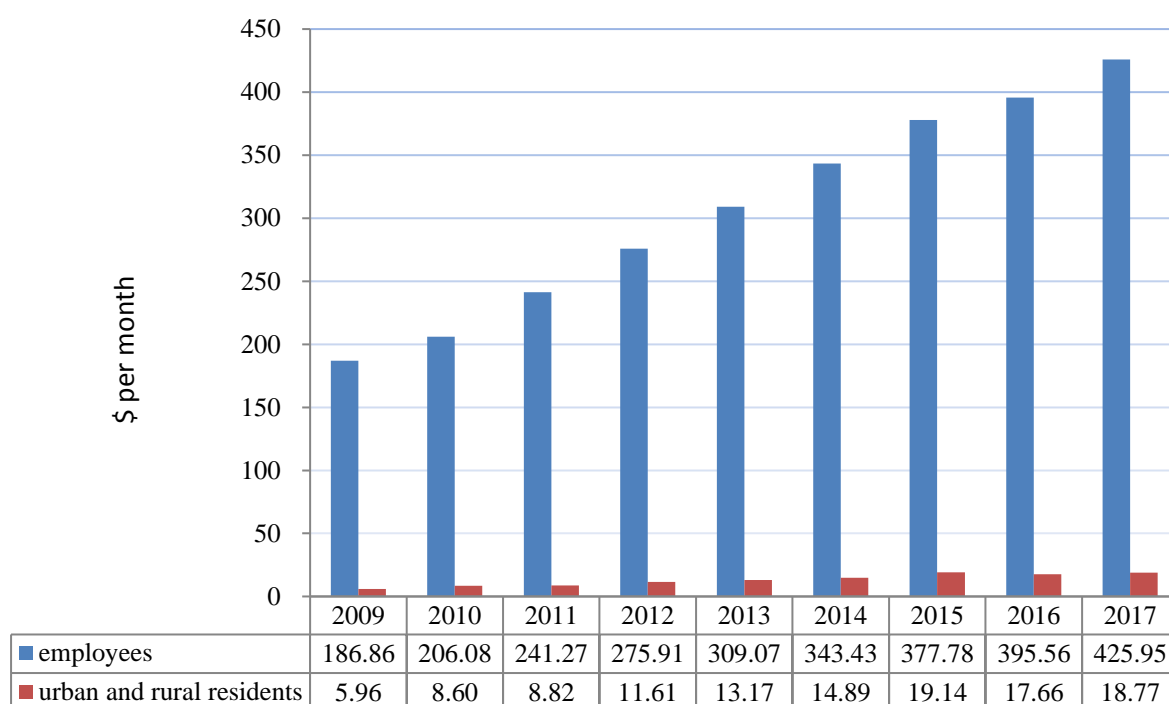
Figure 7 Number of participants in basic old-age pension system and its changes, 1998–2017 (10,000 persons)



Source: NBS, 2018 (*China Statistical Yearbook 2018*).

Both schemes also experienced growth in paid benefit levels (figure 8 and Annex 2, table A5). Pension levels grew for 15 consecutive years. The monthly per capita fund expenditure of the basic pension scheme for employees increased from \$69.13 in 2001 to \$425.95 in 2017, while the monthly per capita fund expenditure of the basic pension for urban and rural residents rose from \$5.96 in 2009 to \$18.77 in 2017 (NBS, 2018).

Figure 8 Average per capita fund expenditure under the basic old-age pension scheme, 2009–17 (\$ per month)



Note: 1. The per capita fund expenditure is used to estimate the per capita pension. Per capita fund expenditure = total annual fund expenditure / end-of-the-year number of pensioners. The fund expenditure includes pension payment, funeral subsidy, condolence payment, etc. Pension payments account for a tremendous share of the total fund expenditure;

2.. Per capita pension provided under the residents scheme declined slightly in 2016. The reason is that a majority of the newly added pension recipients came from regions with relatively low level of pension, thus reducing the national average. As a matter of fact, per capita pension of all different regions saw a rise, rather than a decline.

Source: NBS, 2018 (*China Statistical Yearbook 2018*).

Problems and solutions

Like all pension systems around the world, China's pension system must be permanently adjusted to economic and demographic impacts and changes. In China's case, the specific leftovers of the reform process, as described here, are to be addressed as well.

Among the many problems confronting China's pension system, the following three are currently considered most pressing.

First, the current system is regionally segmented. This includes regionally unfair allocation of contribution and benefit burdens with respective implications for the financial situation of funds, of which some are in surplus and others in deficit. This has substantially reduced the pension system to local schemes, aggravated the social and economic imbalances among regions and undermined fair conditions for the competition among enterprises and among regions in the market economy (Zheng, 2013). The statutory pension system should be consistent across the country – the same policy should apply to all localities, with national pooling and a common contribution rate.

Second, there are huge gaps between different groups in terms of benefit levels. For instance, the pension for retirees in government departments and public institutions is generally two times higher than that of their counterparts in enterprises, while the pension for rural seniors is much lower than both – with a floor standard of CNY88 (\$13 at the yearly average exchange rate for 2017) per month currently and a monthly average pension of CNY126.72 (\$18.8) (NBS, 2018). The gaps in benefit levels are generally judged unfair and, unless rectified, will undermine the general public's sense of identity to the pension system at large.

Third, the problem of pension reform transition costs is unresolved. The well-known problem is that the current working-age generation must shoulder the double burden of contributing to their pension funds for future payments in addition to supporting pensioners with the old labour insurance. The reformed pension system introduced in 1995 is, by design, a combination of pay-as-you-go social pooling and fully funded individual accounts. However, the envisaged design of the system has failed to materialize because the fiscal costs of the transition were underestimated; as yet, no solution has been found for who bears how much of the transition costs. Indeed, employers contribute to social pooling accounts and employees into their own accounts but, given the regional segmentation, in some regions (north-eastern China, for example) employees' contributions are used for the immediate pay-out of current pensions, resulting in empty individual accounts. Whereas some other regions (Guangdong Province, for example) have a huge amount of surpluses. This reality adds up to the complexity of addressing the transition costs.

Solutions for these problems should pursue the following lines:

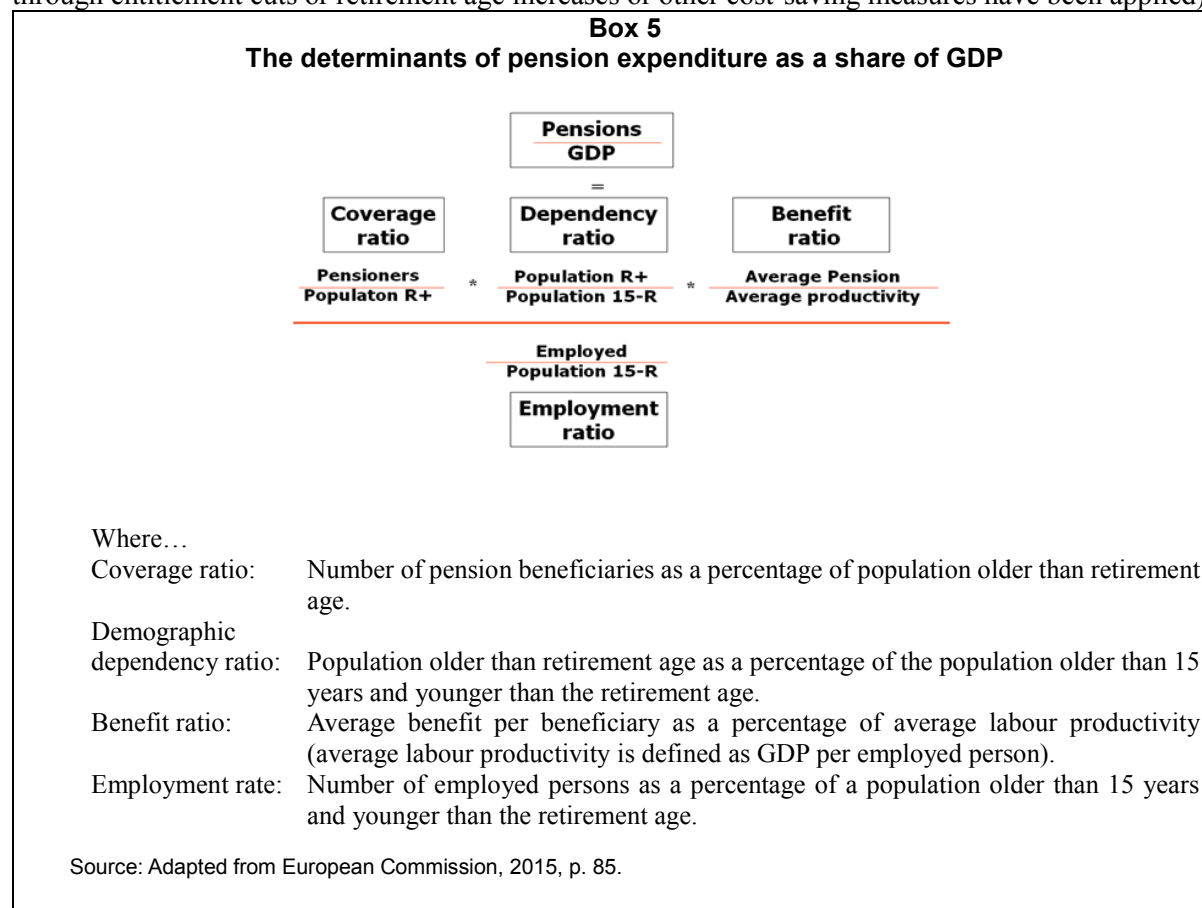
First, achieve national pooling of the pension system without further delay. The regional segmentation and its consequence can best be overcome through unification of the pension system across the country. The unified system would establish a uniformly defined common contribution base, a common contribution rate as well as a unified rule for benefit calculation and rules governing the pay-out of pension entitlements. This would guarantee fair pension provision for all workers and thus create a level playing field for pension system stakeholders (employers and employees), including in their role as actors in the market economy. In 2017, the Government decided to establish a central adjustment system for basic pension funds of employees to enhance mutual-help and solidarity financing and to balance the payment burden among regions, some of which were in surplus while others were in deficit. Starting from 2018, the adjustment fund draws a portion (at least 3 per cent) from capital pools of provincial regions (provinces, autonomous regions and municipalities) that is then redistributed based on the number of pensioners in each provincial region. This first step is a bridging solution for national pooling – it is not yet a national pooling based on a unified pension scheme. Further reform needs to be accelerated.

Second, narrow the benefit gap among different groups. Rules of benefit calculation under the current system are not sufficient to reduce the current and future gaps between the pension benefits of different groups of people, especially for pensions paid out of public coffers. Thus, the Government must adopt special measures, including establishing a coordination mechanism for defining and adjusting benefits. Within such a mechanism, the basic pension for well-protected people can be relatively decreased while the pension for poorly protected rural residents can be increased steadily to thus allay their worries and concerns about their old age. The Government should guarantee a pension at a basic level and honour entitlements and benefits in payment while ensuring that the replacement rate of the basic pension scheme is not less than 40 per cent, in line with international standards. It also should determine the level of pensions and its indexation and maintain a moderate level of fundraising and a reasonable burden on the younger generation. China should encourage middle- and high-income groups to participate in enterprise annuity and commercial insurance, raise the level of supplementary pension and fully establish a well-structured, multilayer income security system for older persons.

Third, further clarify the respective responsibilities of enterprises (and institutions) and the Government in pension financing. Clarification of the responsibility and its enforcement of employers to pay contributions is paramount, not only for an orderly functioning of the pension system but also because contributions are part of the labour costs, which employers must accept in a market economy. They should not aim to downsize but, rather, counter labour costs through measures that enhance productivity. This orientation is of much more importance than it looks at first glance.

After 30 years of extensive productivity growth pulled very much by (successful) export orientation, China will now enter a likely long phase of intensive productivity growth, especially under the envisaged domestic-oriented demand strategy (in which social (security) system expansion is one core element). As the following equation shows (box 5), productivity growth is, in economic categories, the only realistic option to keep pension costs under control in an ageing society (after benefit reductions

through entitlement cuts or retirement age increases or other cost-saving measures have been applied).



Because China's coverage ratio has reached nearly 100 per cent and benefits cannot be reduced, the only options for pension cost control are reducing the dependency ratio and increasing productivity together with the employment ratio.

Creating employment while improving and maintaining productivity growth is, indeed, the genuine task of entrepreneurs in socialist market economies. Where it does not yet exist, achieving this business culture among entrepreneurs is not easy but can nevertheless be fostered by strict enforcement of enterprises' contribution payment obligations. At the same time, the Government's role is to organize administration and administrative rules of social security, such that enterprises can be empowered to develop their businesses that they had been given by removing their earlier social obligations. At this moment, this also includes the Government recognizing and properly assessing the historical debt⁸³ of the pension system and resolving the issue of the system-transition costs rather than shifting the solution into the future by (indirectly) loading the debt upon current contributors and individuals. Alternatively, the Government could admit that the earlier embarkment on individual accounts policies was premature and revert respective policies to the classical (possibly partially funded) pay-as-you-go methods. This will enhance the transparency of pension policies but will not change much in terms of financial burden because it has been proven theoretically as well as in political practice that the Government will always be the guarantor of last resort, be this under pay-as-you-go or individual accounts (among others) (Gillion et al., 2000).

Fourth, improve the sustainability of the pension system. Measures include improving the fairness, convenience and transparency of the system to elevate people's recognition of and support for the

⁸³ The term "historical debt" here refers to the pension payments to workers who retired before the inception of the new system or, rather, before it was fully operational.

system; setting up and improving mechanisms to ensure actuarial balance and making the system design and policy adjustment more scientific or evidence based; and increasing the rate of return on pension fund investments as well as improving the operational efficiency of the pension system.

Fifth, increase the statutory retirement age and minimal length of contribution in a gradual approach. The statutory retirement ages at 60 for men and 50 for women (55 for female officials) are low in international comparison. The Government has decided to increase the retirement age in a gradual way, yet no policy has been introduced. A feasible option is to first set a retirement age as a benchmark, and then approach it step by step. For special groups of people, such as manual labourers with heavy workloads, teachers, doctors and other intellectuals, flexible retirement approaches should apply. Moreover, being only 15 years, the statutory minimal length of years of contribution payment to become eligible for a pension is overly low. It needs to be extended gradually until it reaches levels of the international peers. This is considered a necessary step to adapt to the constant increasing of average life expectancy and to help people better arrange work and retirement over their life cycle.

Social health insurance

Evolution of social health insurance

The health insurance was established in the early 1950s. Under the Regulations on Labour Insurance of the People's Republic of China in 1951, the State established the labour insurance and health care system for workers in enterprises and subsequently set up the public health care system for employees in government departments and public institutions. These two systems were free of charge. In rural areas, the rural cooperative medical care system was implemented in 1957, counting on the rural collective economy to provide modest primary health care for rural residents.

Under the free health care system, the enterprises bore all the medical costs of their workers and retirees. As with pensions, this led, by the mid-1980s, to unsustainable inequalities in the respective burdens on enterprises, which, inter alia, depended on the health risk structure of their employed labour force as well as their retirees. Enterprises performing poorly in economic terms failed to reimburse the medical expenses of their workers and retirees, and the health cost burden on enterprises was generally mounting.

Experiments with pooling health costs began in the early 1990s, with the pooling of the costs of serious (expensive) diseases.

In 1994, the State Council chose Zhenjiang (in Jiangsu Province) and Jiujiang (in Jiangxi Province) as pilot zones to test reform options for the health insurance. The free medical care for enterprise workers was replaced by the health insurance system (requiring contribution payments by employees and employers).

In 1998, the health insurance system for urban employees was formally established and subsequently expanded to nearly cover all the urban employees.

In rural areas beginning in 1978, the cooperative medical care system, which depended on the collective economy, gradually fell apart due to the implementation of the contract-responsibility system (see section 3.1.4), thereby weakening the medical care of rural residents.

In 2003, China began to pilot the health insurance for rural residents. In 2007, the system was extended to cover urban residents who were non-salaried workers.

As of now, China has established a universal health insurance system that consists of a scheme for employees and a scheme for urban and rural residents and other non-salaried citizens. In 2000, the number of people enrolled in health insurance was (only) 40 million (excluding those who remained in the free health care system). This number climbed to 320 million in 2005, nearly 1.3 billion in 2010 and more than 1.3 billion in 2017 (MHRSS, various years; NHFPC, various years). More than 95 per cent of China's population (94 per cent for the urban population and 97 per cent for the rural population) is

covered by one of the health insurance schemes, almost achieving the intended goal of near universal health coverage under the contributory insurance system (table 2).

Table 2 Numbers of participants in basic health insurance in China, 2006–17 (100 million persons)

Year	Health insurance for employees		Health insurance for urban and rural residents	Total
	Employees	Retirees		
	(1)	(2)	(3)	(4)
2006	1.16	0.42	4.10	5.68
2007	1.34	0.46	7.26	9.06
2008	1.50	0.50	9.33	11.33
2009	1.64	0.55	10.15	12.34
2010	1.78	0.59	10.31	12.68
2011	1.89	0.63	10.53	13.05
2012	1.99	0.66	10.77	13.42
2013	2.05	0.69	10.98	13.72
2014	2.10	0.73	10.51	13.34
2015	2.14	0.75	10.47	13.36
2016	2.17	0.78	7.24	10.19
2017	2.23	0.80	10.07	13.10

Note: (1) Health insurance for urban and rural residents includes (i) the New Rural Cooperative Medical Care and (ii) the Health Insurance for Urban Residents, which existed independently before they merged into one system. The number of participants in residents scheme fluctuated as the two schemes began to merge in 2016. The same applies to relevant tables in subsequent sections of the report. (2) The health insurance for employees was established at the end of 1998 and has been carried out across the country since 2000. China's free medical care and labour insurance system are beginning to transform into the health insurance system, covering participants of the former two systems; before 2006, the three systems coexisted. (3) The gradual decline of participants in the scheme for urban and rural residents (column 3) since 2014 is because (i) some participants left the residents' scheme for the employees' scheme; (ii) before the integration of rural and urban schemes, some people were simultaneously insured by both schemes. As the two schemes began to merge, the number of the residents' scheme members declined slightly and so did the total number of people covered by basic health insurance (column 4).

Source: NBS, various years; MHRSS, various years; and NHFPC, various years.

In addition to greater coverage, China also ensured that benefit levels would increase steadily (figure 9). Since the introduction of the health insurance, the utilization rate of medical services by middle- and low-income groups, particularly in rural areas, has continued to rise.⁸⁴ Meanwhile, the out-of-pocket expenditure as a share of national health expenditure has decreased, from 46.4 per cent in 1995 to 31.99 per cent in 2014.⁸⁵ These improvements are partially related to the fact that the per capita fund expenditure for employees increased from CNY329 (\$40) in 2000 at the onset to CNY3122 (\$462) in 2017, while for rural and urban residents it increased from CNY33 (\$4) in 2004 to CNY 567 (\$84) in 2017.

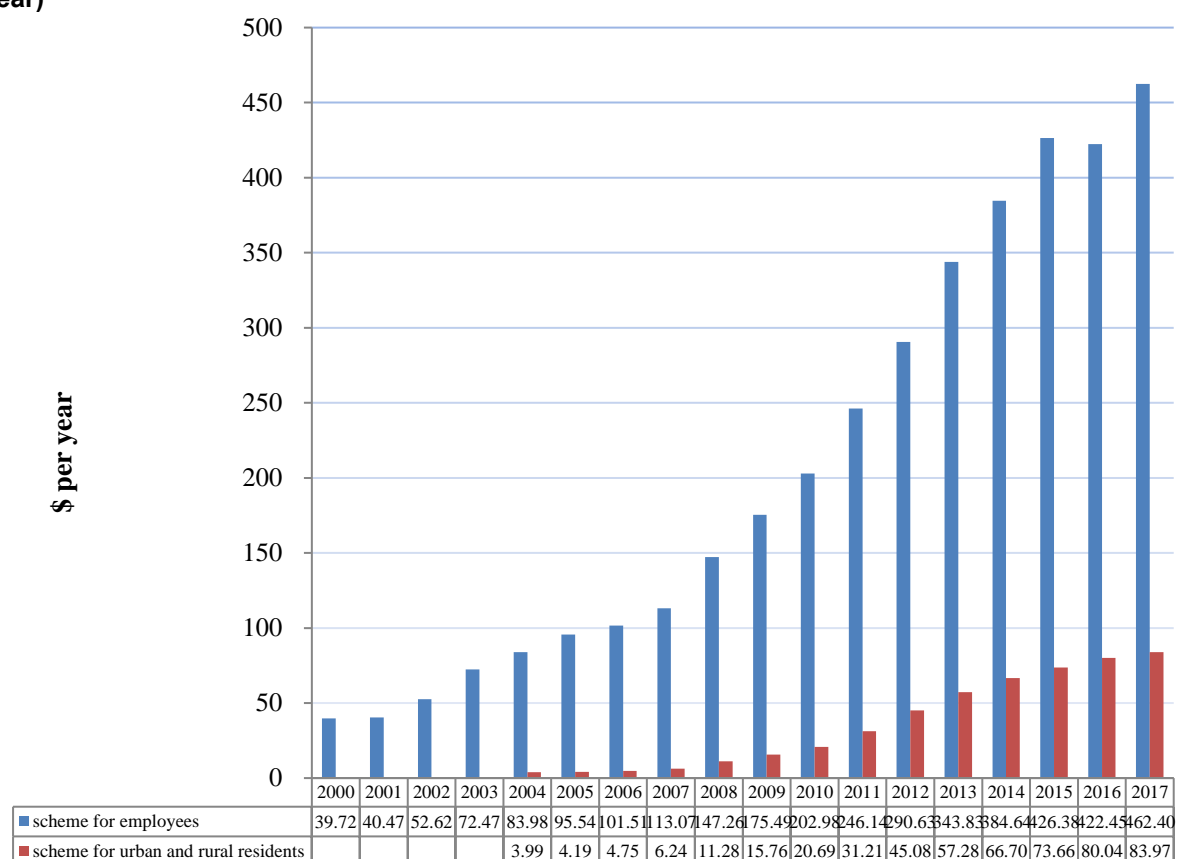
In March 2018, the Government set up the National Healthcare Security Administration. The health protection duties that used to be dispersedly carried out by the Ministry of Human Resources and Social Security, the National Health and Family Planning Commission⁸⁶ and the Ministry of Civil Affairs were transferred to this new administration, indicating that the central Government will promote universal health protection in a stronger way.

⁸⁴ See NHFPC, various years (*China Statistical Yearbook of Health and Family Planning*).

⁸⁵ See <https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS> (accessed 10 Oct. 2018).

⁸⁶ The National Health and Family Planning Commission was created from the former Ministry of Health and National Population and Family Planning Commission in 2013. In March 2018, this ministry was dissolved and its functions were integrated into the new agency called the National Health Commission, aiming to promote the Healthy China Initiative and ensure the delivery of comprehensive health services for the Chinese people.

Figure 9 Per capita fund expenditure of the health insurance and its changes, 2000–17 (\$ per year)



Note: Per capita fund expenditure = total annual fund expenditure / end-of-the-year number of participants
Source: NBS, various years; MHRSS, various years; NHFPC, various years; MOH, various years.

Problems and solutions

The major problems in China's health insurance are fourfold:

First, the health insurance for employees adopts a financial model of combining social pooling with individual accounts similar to the pension scheme for employees. Employees contribute 2 per cent of their gross wage payments to individual accounts; and 30 per cent of the employer's contribution (employer's contribution is equal to 6 per cent of gross payroll) is allocated to the individual account (equivalent to an implicit contribution rate of 1.8 per cent). The design of individual accounts follows neither private insurance principles nor social security principles of risk pooling. Individual accounts are nothing but private individual savings, which, in the case of costly or severe diseases, normally lack sufficient reserves. Consequently, the system fails to sufficiently protect the insured members when its support is mostly needed. In other words, core principles of organized mutual help are disregarded, and thus the sustainable development of the health insurance system is put at severe risk.

Second, the protection level of the health insurance for rural residents remains low. Health insurance for chronic and other costly diseases is evidently inadequate. With the urban-rural divided and the regional segmented system, rural-to-urban migrant workers are in a dilemma because their place of household registration differs from their place of work. They are theoretically covered by the rural residents' scheme, yet their health insurance rights are easily jeopardized because they do not have access to health insurance where they actually live and work.

Third, the reform of the pharmaceutical and health care system (governance structure of public hospitals, pharmaceutical distribution system and market-oriented pricing of pharmaceuticals)

is lagging, giving rise to problems of excessive medical treatment, overinflated pharmaceutical prices and corruption. Consequently, health insurance funds are severely wasted, whereas coverage for severe and chronic diseases is insufficient. The efficiency of resource utilization needs to be improved.

Fourth, the current policy requiring no health insurance contribution from retired workers, coupled by the accelerated population ageing, is presenting mounting challenges to the sustainability of the health insurance system.

Therefore, China needs to deepen social health insurance reform in the following respects:

First, close the individual health accounts and transform them into effective social insurance, based on the technical principles of mutual-help financing. When effectively organized in the interests of their members and if nested into a transparent overall health system, health insurance is a societal institution with a high level of redistribution – from the healthy to the sick, the high-income earners to the lower-income earners, those working at safe workplaces to those at health-risk exposed workplaces (to name a few). Individual health accounts for workers severely undermines this function. The required transformation is to be carefully prepared by deepening the reform, including research.

Second, speed up the integration of the schemes for employees and residents until the whole population is covered with a unified health insurance system. This will promote fairness of the system as well as improve its operational efficiency. The transformation to social security financing must be paralleled by widening the regional organization from the currently mainly county-based pooling at the provincial level (as stipulated by the Social Insurance Law). This is the only realistic option to reduce the considerable gaps in protection levels between health insurance members in different counties (as currently observed). Also, efforts should be undertaken to raise the protection level provided by the health insurance for rural residents. This would not only fulfil the requirement of increasing social fairness but also further elevate medical consumption (with positive implications for life expectancy) and the consumption confidence of the society more generally. The Government's subsidization of the system as well as the portion of individual contributions should be further increased.

Third, guide retired workers to pay their contributions to health insurance. The principle of “old rules apply to older persons and new rules to the newcomers” (similar to a grandfather clause) should be adhered to. The relevant laws should be amended to provide that newly retired people should contribute to health insurance. A feasible option is to raise the pension for the retirees, as appropriate, in exchange for their contribution payments. Such reform helps to adapt to population ageing, enrich health insurance revenue and ensure equal obligations for contributions as well as equal health insurance benefits among retired workers and other older persons covered by the scheme for residents.

Fourth, extend protection coverage of the health insurance to serious and chronic diseases (an imperative). On condition of increasing revenue collected, more resources should be put into the treatment of costly diseases and related health services to cover the respective costs (for rural and urban residents alike), and provide all with stable expectations about health care services.

Fifth, push forward the reform of the provider payment mechanism of health insurance by introducing mixed forms of payment (global budgeting, capitation payment plus case-based payment). It is advisable to develop case-based payment and payment by diagnosis-related groups. Also, consultation and coordination mechanisms must be implemented, including all stakeholders to the health system (the insured members, contributors and patients, health service providers (hospitals and medical associations), government and medical industry). This aims at more rational and effective pricing of the medical services and the pharmaceuticals to be paid by health insurance to promote the standardization of medical care and reduce the resource waste in health insurance and relevant services, enabling the limited resources to have a greater role and facilitating sustainable development of the medical services industry. In this context, it is important to further develop the health insurance administration into a modern agency structure that achieves research and knowledge supremacy in all health system respects (including legal, organizational and statistical data, to which all other

stakeholders must have access), such that health insurance members' interests are adequately represented within the health system.

Subsistence allowance

Evolution of the subsistence allowance

Under the highly centralized planned economy system built up after 1949, all citizens were registered with a certain organization (enterprises and public institutions in urban areas and collective economic organizations in rural areas), which was not only the organizer of production and public services but also the provider of social welfare and protection against risk. Based on that system, the State upheld the principle of "self-rescue through production, mutual help among civilians, while supplemented by necessary aid of the government"⁸⁷ and the principle of help the starving people but not the poor. Guided by these principles, the State assumed disaster relief and emergency response as its major responsibilities while also providing long-term aid for individuals living in extreme difficulties. People living in poverty mainly relied on assistance from their work unit (including collective economic organizations in rural areas) and occasionally received interim assistance from the central and local governments. Only the widowed seniors and orphaned children in rural areas were supported or given long-term relief by government-run social welfare facilities.

In the mid-1980s and following the introduction of reform to the household contract responsibility system in rural areas, the reform of the economic system in the urban areas was rolled out. The adjustment of the economic structure and the transformation of institutions and mechanisms gave rise to unemployment in the state-owned enterprises. The detachment from work units of welfare and social protection measures resulted in a new group of impoverished persons in urban areas. This was compounded by an increasing number of retirees who failed to receive their full pension on time due to nationwide deficits in pension funds beginning in the mid-1990s. Against the backdrop of mounting social problems, the Shanghai government took the lead in establishing a subsistence allowance scheme for urban residents in June 1993. The whole country soon followed suit. In September 1997, the State Council activated a subsistence allowance scheme for urban residents across the country. In September 1999, the State Council formulated the Provisional Regulations on the Subsistence Allowances for Urban Residents, formally establishing a national scheme for urban residents.

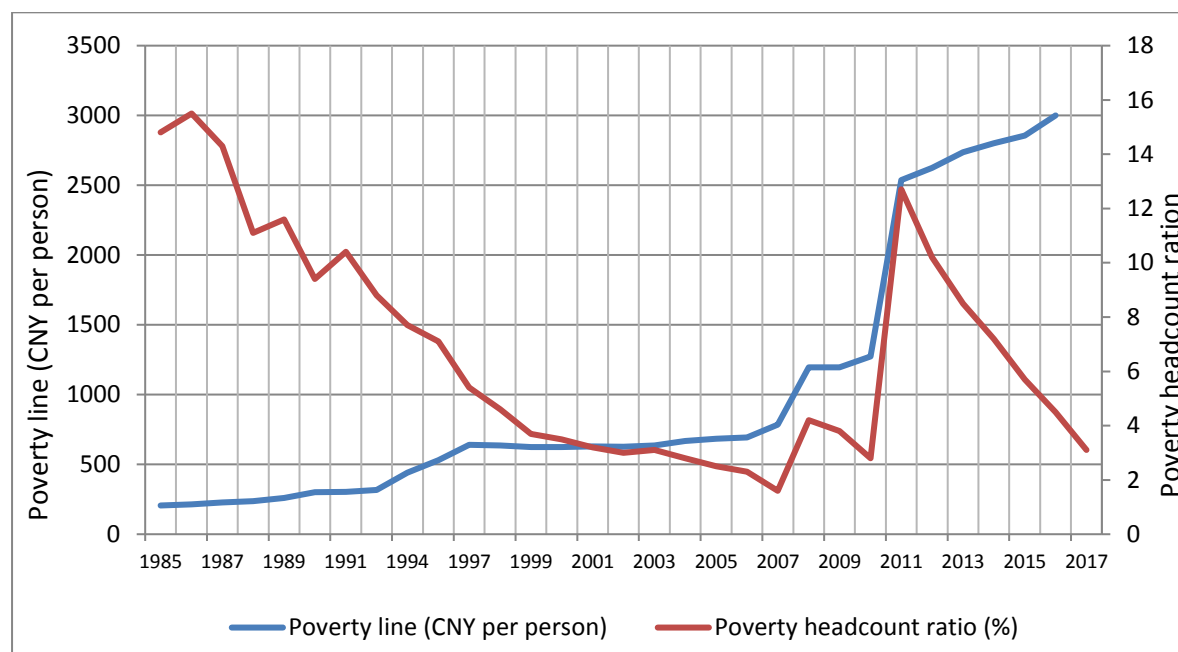
In rural areas and after the implementation of the household contract responsibility system in 1978, the collective economy gradually began to weaken, and the public welfare and hedge against the contingencies of life of rural residents shrank. The Zhejiang provincial government took the lead in implementing the Urban-and-Rural-Integrated Subsistence Allowance system and expanded it to cover all rural residents across the province in 2001. Subsequently, many regions set up a subsistence allowance scheme for rural residents or extended the one for urban residents to rural areas.

In 2007, the State Council decided to fully implement the subsistence allowance scheme in the rural areas. The subsistence allowance scheme has become the fundamental institution in guaranteeing the basic livelihood of citizens across the country.

As shown in figure 10, the poverty line in rural China was raised over recent decades, yet the poverty headcount ratio has been declining. The hike of the poverty headcount ratio after 2010 is linked to the newly set poverty line standard in rural areas.

⁸⁷ This principle was established at the Second National Conference on Civil Affairs in 1953.

Figure 10 Poverty line and poverty headcount ratio in rural areas, 1998–2017



Note: (i) The standard in 1978 is the standard of rural poverty from 1978 to 1999 and is regarded as the standard of absolute poverty in rural areas from 2000 to 2007. (ii) The standard in 2008 is the standard of low income in rural areas from 2000 to 2007, and is regarded as the standard of poverty in rural areas from 2008 to 2010. (iii) The standard in 2010 is a newly set standard of poverty alleviation in rural areas. (iv) Data from 1985 to 1999 are provided by Poverty Alleviation Office of the State Council. (v) Data from 2000 to 2017 are from NBS, 2018 (*China Statistical Yearbook 2018* and *Poverty Monitoring in Rural China*).

More than 30 years of constant poverty alleviation and development in rural areas (box 6) has brought about rapid economic and social progress in poor areas. It has guaranteed the basic livelihood of rural residents, ameliorated their living conditions, improved education and sanitation for poor individuals, improved the production and living infrastructure in poverty-stricken areas and thus laid foundations for long-term socioeconomic development. At the end of 2010, the rural population living in absolute poverty decreased to nearly 26.9 million (SCIO, 2011). From 1981 to 2012, the number of people who were lifted out of poverty in China accounted for 71.8 per cent of the world's total (CASS and SCPAO, 2016). Despite China's remarkable achievements in eradicating poverty, nearly 16.6 million rural people still lived on income below the current poverty line in 2018 (NBS, 2019).

Box 6

Poverty alleviation and development in rural China: Stronger measures to eliminate poverty

As the country with the largest impoverished population in the world a few decades ago, China initiated in 1986 a significant poverty alleviation and development campaign in rural areas, targeting impoverished individuals and regions with a high prevalence of poverty. Further reforms followed, including the 8-7 National Plan for Poverty Reduction (1994),⁸⁸ the National Programme for Rural Poverty Alleviation (2001–2010) and the National Programme for Rural Poverty Alleviation (2011–2020). Since 2015, the State has implemented the strategy of targeted poverty alleviation to eliminate absolute poverty by 2020.

Local governments in poor regions have made poverty elimination one of their important goals. A large quantity of resources has been allocated to poverty-stricken areas through, for example, the central Government's special investment or regional counterpart support. The central Government has also intensified efforts to eradicate poverty and develop contiguous areas of extreme poverty. Calculated on the basis of a wider statistical scope, from 2011 to 2014, expenditures of the central and local governments on poverty alleviation amounted to nearly

⁸⁸ Aimed at lifting 80 million people out of poverty within seven years.

In 2014, the State Council issued the Interim Regulations on Social Assistance, which established a comprehensive social assistance system encompassing medical, education, housing, employment and temporary assistance. The subsistence allowance, as the bedrock, was incorporated and the policy vestiges of urban-rural division were eradicated. Currently, the subsistence allowance scheme has the largest number of beneficiaries, the largest amount of expenditure and a high level of benefit payments among the social assistance programmes (table 3). It has become a core scheme within the whole social security system. According to the *Statistical Bulletin on Civil Affairs Development* and the *Statistical Bulletin on Social Service Development* issued by the Ministry of Civil Affairs (various years), the number of urban and rural residents receiving the subsistence allowance was around 7 million in 2000, increasing to more than 66 million and then more than 53 million in 2015 and 2017, respectively. The decline in 2017 indicates that, after experiencing growth for a certain period, the number of impoverished individuals who received the benefit is decreasing due to the decrease in poverty incidence.

Table 3 Subsistence allowance scheme, 2000–17

Year	Urban					Rural				
	Number of beneficiaries (10 000 persons)	Average monthly standard (per person)		Financial expenditure (hundred million)		Number of beneficiaries (10 000 persons)	Average monthly standard (per person)		Fiscal expenditure (hundred million)	
		CNY	\$	CNY	\$		CNY	\$	CNY	\$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2000	402.6	157.0	19.0	27.2	3.3	300.2				
2001	1 170.7	147.0	17.8	54.2	6.5	306.8				
2002	2 064.7	148.0	17.9	108.7	13.1	407.8				
2003	2 246.8	149.0	18.0	151.0	18.2	367.1				
2004	2 205.0	152.0	18.4	172.7	20.9	488.0				
2005	2 234.2	156.0	19.0	191.9	23.4	825.0	76.0	9.3		
2006	2 240.1	169.6	21.3	224.2	28.1	1 593.1	70.9	8.9		
2007	2 272.1	182.4	24.0	277.4	36.5	3 566.3	70.0	9.2	109.1	14.4
2008	2 334.8	205.3	29.6	393.4	56.6	4 305.5	82.3	11.9	228.7	32.9
2009	2 345.6	227.8	33.4	482.1	70.6	4 760.0	100.8	14.8	363.0	53.1
2010	2 310.5	251.2	37.1	524.7	77.5	5 214.0	117.0	17.3	445.0	65.7
2011	2 276.8	287.6	44.5	659.9	102.2	5 305.7	143.2	22.2	667.7	103.4
2012	2 143.5	330.1	52.3	674.3	106.8	5 344.5	172.3	27.3	718.0	113.7
2013	2 064.2	373.3	60.3	756.7	122.2	5 388.0	202.8	32.8	866.9	140.0
2014	1 877.0	410.5	66.8	721.7	117.5	5 207.2	231.4	37.7	870.3	141.7
2015	1 701.1	451.1	72.4	719.3	115.5	4 903.6	264.8	42.5	931.5	149.6
2016	1 479.9	494.6	74.5	687.9	103.6	4 576.5	312.0	47.0	1014.5	152.7
2017	1 261.0	540.6	80.1	640.5	94.9	4 045.2	358.4	53.1	1051.8	155.8

Source: MCA, 2000 to 2017 (*Statistical Bulletin on Civil Affairs Development* and *Statistical Bulletin on Social Service Development*).

⁸⁹ The central Government's funding for coordinated poverty alleviation refers to funding that is diverted to some poor rural areas to directly benefit people in poverty. It involves 33 funds and includes seven categories: the special fund for poverty alleviation, the fund for agricultural production, the fund for education in rural areas, the fund for rural health care, the fund for rural social security, the fund for providing continuing aid to residents relocated to make way for the construction of large and medium-sized reservoirs and the fund from lottery, as well as general transfers. Data concerning local government funding for poverty alleviation are incomplete.

Problems and solutions

Since its implementation, the subsistence allowance scheme has contributed to guaranteeing a basic livelihood of persons who are poor, maintaining social stability and supporting economic development. Yet, defects remain in the current system.

First, the low level of protection and the absence of a standardized indexation mechanism have eroded the fundamental rights to basic income security of some impoverished beneficiaries of the scheme.

Second, the incentive for beneficiaries with work capacities to seek jobs or to start a new business is inadequate because benefits from the subsistence allowance scheme are deducted by the full amount of the beneficiary's earned income.

Third, the mechanism for managing and running the system needs to be reformed. Effective means tests and specialized agencies are not well established, often resulting in benefit frauds. Moreover, corruption at the local level is a major issue, and quite often the already-limited allowances cannot reach the target groups, particularly in remote areas. These defects harm the sound development of the *dibao* system as well as the social assistance system as a whole.

Hence, the system needs the following improvements:

First, further advance the urban-rural integration of the subsistence allowance scheme. The urban-rural division still exists and has led to an unfair division of rights and entitlements between the rural and urban beneficiaries. A nationally unified scheme should be established to ensure that fair support to persons who are poor can be guaranteed within the same region and according to the same rules.

Second, improve the financial, administrative and methodological means for setting the minimum living standard for the allowance and for targeting qualifying beneficiaries. The current system is means tested, based on a person's income. A change should be considered towards measuring a person's or household's needs on the basis of a standardized basket of goods and services that would be judged as guaranteeing a modest standard of living.

International experience shows that the advantage of income-based poverty measurement is that benefit assessment and delivery (as well as the exit rules for beneficiaries) are administratively easier to handle than a system based on a standard expenditure basket. However, the advantage of an expenditure-based basket is that, by principle, it can be better targeted to the beneficiary's needs; the indexation of benefits on the basis of the Consumer Price Index is more logical than in an income-focused system because it ensures that benefits maintain their real value over time. Variance of exclusionary and inclusionary targeting errors correlates highly with the quality and density of administration.

In any case, urgent and consistent progress must be made to complete China's overall social security system, which is increasingly based on social insurance principles (pensions and health care), with a sound basic layer comprising the subsistence allowance and other social assistance schemes.

Third, establish system-immanent incentive mechanisms for employment and entrepreneurship. To address the challenge of disincentives to labour market participation under the current system, rules should be established to allow for the combination of benefits and additional labour income. Generally, such a system requires a good administration that not only manages benefits and beneficiaries' social needs in a fair way but also helps beneficiaries with working capacities to (re-)enter the labour market. International experience shows that implementation of such a system requires smooth cooperation between local tax offices and social assistance offices.

Education benefits

Evolution of education benefits

Education is the foundation for people to establish themselves in society and is also the cornerstone of a nation's development (Zheng, 2004a). Since 1949, China has endeavoured to popularize primary education and develop secondary and higher education. Generally, the evolution of education benefits in China can be divided into three stages:

- I. In the pre-1980s, education was free for all and compatible with the planned economy. In the urban area, there was primary education, higher education and skills training for workers, all falling within the category of public benefits. Due to public ownership, schools organized by enterprises and public institutions were closely tied to state finance, essentially within the realm of public benefits. In the rural areas, elementary education was predominant, funded by the central and local governments and the rural collective economy with the feature of public benefits. Despite its universal character, the education system was underdeveloped and only a few people had access to higher education.
- II. During the last decade of the twentieth century, as state welfare was curtailed, free education for all was reformed. The education system became financially hybrid – funded by multiple parties. While compulsory education would continue to be free of charge, completely funded by the central and local governments, moderate fees were charged for higher and secondary education. The non-government sector was allowed to invest in and run various types of education institutions. In 1992, the Government made clear that education has a leading role for national economic growth but underlined the importance of not relying excessively on state investment. As a result, higher education enrolment and the number of tuition-charged and privately run schools surged, and the education system generally experienced rapid development. In the area of senior high school education, secondary vocational education and higher education, public schools were still predominant, with the bulk of inputs coming from the central and local governments. During this period, the total educational investment increased substantially, yet the share of fiscal expenditure on education declined.
- III. Since the beginning of the twenty-first century, the supporting system for disadvantaged groups has improved progressively. In 2001, the policy of two exemptions and one subsidy was introduced. Students from urban and rural areas are exempted from tuition and other fees during the period of compulsory education, free textbooks are provided to rural and urban students with financial difficulties, a living allowance is offered to boarding students from impoverished families and a nutrition improvement programme is available. In terms of higher education, scholarships, student loans, tuition and loan compensation, subsidies for persons in financial difficulties, meal allowances and tuition waivers have been enhanced to ensure that students with financial difficulties can access a university education. In high schools, protection measures centring on a national grant have been adopted, with tuition waivers as a supplementary measure. As for secondary vocational education, policies centring on tuition waivers and national grants have been put in place. And special education for children with disabilities has been strengthened.

The Government has significantly enhanced the education levels and working skills of nationals through various means, including literacy classes, night school and vocational training. According to data from the United Nations Educational, Science and Cultural Organization, the illiteracy rate nationwide dropped from 39 per cent in 1982 to 3 per cent in 2010.⁹⁰ The average length of schooling of the workforce nationwide grew from 6.1 years in 1985 to 10 years in 2016, while that of rural workers rose from 5.6 years to 8.5 years and urban workers increased from 7.8 years to 11.2 years. (China Centre for Human Capital and Labour Market Research, 2018). China's fiscal expenditure on education increased from CNY61.8 billion (\$11.61 billion) in 1991 to CNY3.421 trillion (\$506.65 billion) in 2017 (MOE, MOE and NBS, 2018); its share in GDP rose from less than 3 per cent in 1991 to nearly 4.3 per cent in 2015 and to more than 4 per cent in recent years (MOE, 1992 through 2017).

⁹⁰ See <http://data.uis.unesco.org> (accessed 10 Oct. 2018).

Problems and recommendations

Although China's education system has developed greatly and has a positive role in economic growth, it is still confronted with many problems:

First, there is still a big gap between China and developed countries in terms of per capita average length of schooling and the supply of the education benefits to pre-primary education for children aged 3 to 6 years. Upper secondary education remains inadequate.

Second, the allocation of resources on education is uneven. There are distinct gaps between urban and rural areas, among regions and among schools, hindering the improvement of labour quality in resource-scarce regions and aggravating the imbalance of economic development among regions.

Third, compulsory education in some areas fails to meet the standard. The quality of education needs to be improved, and the fairness of the elementary education is under question.

Fourth, too little importance is attached to vocational education. This has resulted in a shortage of high-skilled industrial workers and is hampering product quality and technological progress.

Fifth, defects in the labour markets, income distribution and social security system have led to some college graduates having difficulty finding jobs and has discouraged undeveloped areas and low-income families from investing in education.

Therefore, improvements are required in the following aspects:

First, increase government inputs to education. Faced with the growing demand of urban and rural residents for education, the Government needs to increase its input and further raise its budget for expenditure on education. It should deepen the reform of the education system, develop private education in a regulated and orderly manner to control its excesses and ensure the system follows the standards of public education to encourage more social resources flow into the education sector. In addition, by creating a level playing field, China can improve the income distribution, raise the return on investment in human resources and inspire citizens to invest personally in education.

Second, extend the length of free education and intensify efforts to help children in underdeveloped areas and impoverished families. It would be wise to prolong free education to 12 years. To realize the goal that the education system covers all children of school age, incorporate the senior high school education into free education and ensure that children aged 4–6 years have universal access to free preschool education. As well, governments should intensify financial support for underdeveloped rural areas and western regions and remote and poverty-stricken areas, improve education infrastructure and schooling conditions and ensure education quality.

Third, step up the development of vocational education and optimize the structure of the education system. China needs to create a social atmosphere conducive to the development of vocational education. It can draw on lessons from international experience and strengthen international cooperation with countries with well-established systems of vocational training (Germany, for example) for a deeper understanding of the requisites for a functional system of vocational education. It is imperative to increase the proportion of secondary-school students receiving vocational education and cultivate hundreds of millions of high-quality workers equipped with skills. Current policy priorities should accelerate the cultivation of professional and technical personnel who are needed across all sectors of the economy.

3.1.3 The contribution of social security to China's economic growth

This section demonstrates that China's social security system achieved and maintained positive relationships and joint developments with the country's economic development. China's increasingly

full-fledged social security system, with its rising benefits, has contributed to creating stability for the economic reform and societal transformation process (Zheng, 2018a).

Increasing levels of social security benefits have directly boosted the incomes of urban and rural residents and have enhanced their purchasing power and their propensity and capacity to consume, thereby stimulating aggregate consumption. On this basis, the reform and development of China's social security system has contributed to upholding social justice and attaining comprehensive national development beyond a narrower economic meaning. In detail, the contributions of social security towards this process manifested themselves in the following aspects of tangible policy and reform over the past three decades.

1. The demand effects of the rapid progress in social security created additional overall growth.

The constantly improving (towards being fully developed) social security system has stimulated urban and rural residents' propensity and capacity to consume. The growing pensions and other benefits, such as social assistance, are stimulating consumption. Because the present social security system nearly covers the entire population and benefits continue to grow, private household consumption shows enormous spikes: National commodity consumption surpassed CNY10 trillion in 2008 and CNY20 trillion in 2012, and the total retail sales of consumer goods exceeded CNY36.6 trillion in 2017 (NBS, 2018). The contribution of final consumption (private household consumption plus state consumption) to the country's economic growth grew from 48.8 per cent in 2014 to 64.6 per cent in 2016, which exceeds the contribution of investment by 22.4 percentage points.⁹¹

Consumption has thus evolved into the major driver of China's economic growth, which to a large extent can be attributed to the primary achievement of a social security system of close to universal coverage.

2. The establishment of the unemployment insurance (1986) and the basic livelihood guarantee scheme for laid-off workers paved the way for the reform of the labour contracting system and the marketization of the state-owned enterprises. Main addressees of China's far-reaching economic reform were, and still are, the state-owned enterprises, which are at the core of the economy. Only by letting these enterprises become participants in the market in a real sense were they enabled to compete with the thriving private enterprises. This required the flexibility of employment arrangements that were based on labour contracts with permanent tenure by allowing both employers and employees to conclude and terminate contracts (called "two-way selection"⁹²) and thus the incorporation of state-owned enterprise workers in the general labour market. The Government was, however, aware that this new pattern could easily put workers in a disadvantageous position. Unemployment insurance and the basic livelihood guarantee scheme for laid-off workers were intended to bolster possible economic hardship of unemployed and laid-off workers – both schemes took a serving position to facilitate the reform of the state-owned enterprises.

It is against this institutional social security background that China carried out two rounds of reforms in the state-owned enterprises. The establishment of social protection mechanisms contributed to buffering the effects of the economic reform process.

The first round took place in the 1980s, during which the state-owned enterprises were moved from their operations within the highly centralized planned economy to competitive market conditions. Those

⁹¹ See *People's Daily*: "Consumption remains the 'primary engine' of economic growth", 22 July 2017, Overseas edition (in Chinese).

⁹² The term "two-way selection" stipulates the autonomy of workers and employers in both job choice and hiring, which is a radical shift from the directed employment and quota hiring system of the past. This new contractual pattern accommodates China's market-oriented economic reforms. While it put labour rights at severe risk, the reform move called for workers' protection through a sound social security system. This is akin to the flexicurity concept based on easier hiring and firing coupled with sound social protection for the unemployed that had been in vogue in the international debates of the 1990s and 2000s. To what extent China's practice differs from, for example, the European realization is open to further socio-historical research. See also Auer, 2010.

state-owned enterprises that did not perform were allowed to go bankrupt, with the new labour contracting system accommodating this policy. These measures helped to invigorate the state-owned enterprises and the labour market and paved the way for optimizing human resource allocation and improving labour productivity.

The Government was aware that frictions and hardship could not be fully avoided in this process, for example, the livelihoods of the unemployed workers would be left unprotected. Therefore, as a measure to bolster such detrimental social developments, the State Council issued a decree in 1986 entitled, *Interim Provisions on Unemployment Insurance for the State-Owned Enterprises Workers*. It aimed to establish a national unemployment insurance system. In terms of social institution design, the decree marked the beginning of a new era of social insurance compatible with market economy requirements (ILO NATLEX-China, undated). Thanks to the unemployment insurance, basic livelihoods of the unemployed workers of state-owned enterprises were guaranteed, at modest levels, for some time. A buffer period was granted to the workers for re-entering the labour market.

Starting in 1998, the second round of reform aimed at reducing the number of redundant workers, unloading all such burdens from state-owned enterprises that were not related to their immediate business purposes so that they could be more easily engaged in market competition. It was triggered by the experience that many state-owned enterprises turned out to be overly burdened with redundant (but still paid) workers, often at large scale, and weighty social obligations, resulting in enterprises' poor performance in terms of production, profitability and vision for further development. At the same time, the reform also aimed to further improve the social security system to alleviate the long-term social obligations of the state-owned enterprises. The theoretical market-radical option to release workers without at least temporary financial support was unacceptable. If this approach had been adopted, the unemployed workers would have had dire difficulties in adapting to the changes, the spirit of social contract would have been tarnished and the society would have suffered turbulences.

Thus, in addition to the pension scheme, social assistance and public services, the Government set up a basic livelihood guarantee scheme with salient Chinese features, specifically targeted at supporting the laid-off workers of state-owned enterprises. The laid-off workers were to register at re-employment service centres to receive (for a maximum period of three years) a living allowance provided by the basic livelihood guarantee fund, which was co-financed by the Government, the unemployment insurance fund as well as the state-owned enterprises, each of them contributing one third to the fund. From 1998 to 2003, the basic livelihood guarantee scheme not only covered a basic livelihood for more than 30 million laid-off workers but also facilitated, as intended, the effective downsizing of the overall workforce of the state-owned enterprises and helped them to integrate fast into the new market conditions, thereby promoting sustained and rapid economic growth (Lee, 2005, including the referenced literature).

In 2016, China initiated another round of reforming state-owned enterprises. This time, the goal is to establish modern corporate governance structures as well as to reduce overcapacities in the steel, coal and other industries. This is in line with the Government's priority of pollution control and environmental protection so as to provide people with good environment, build a beautiful and healthy China and tackle global climate change. These envisaged steps, however, possibly comprise millions of job cuts in the state-owned enterprises, which calls for proper training and retraining of unemployed workers as well as due replacement of earlier remuneration through adequate compensation.

3. The shift from work unit-based welfare provisions to a social security system has created a beneficial room for the reform and development of the market economy. This shift was important. When social security is largely organized at the enterprise level, as was the case under the planned economy, its effective functioning depends on the existence of the enterprise or the institution carrying out the social security function. This, however, contradicts the fundamental requirement in market economies that enterprises must be able to go bankrupt due to economic and financial reasons. In theory, re-organizing enterprises (including their closure) can also be achieved under the conditions of a planned economy (including re-organization of enterprise-based social security) but, in comparison to

socially bolstered market solutions, only at the expense of enormous efficiency losses.

Moreover, the institutional setting based on work units (*danwei*) not only limits worker flexibility within the different work units but also impedes the inter-institutional free flow of the labour force and thus negatively affects the possibilities of human resource optimization in the production process. It burdens the work units with onerous tasks of welfare provision, reducing their capacities to adapt to and compete in markets or society.

It was, therefore, a crucial move of China's social security reform to make social security organizationally independent of enterprises and public institutions (employers).⁹³ After 30 years of effort, this target has largely been attained. Indeed, the reformed social security system, government-led, funded by employers and employees, and widely operated by professional agencies, nearly covers the entire population, thus creating widely equal conditions for institutions and enterprises operating in the market. At the same time, social assistance and social welfare services have been transformed from government-exclusively-arranged to socialized schemes with responsibilities shared by the Government, society and individuals. Only older persons and children who had no work unit or people to depend on were entitled to social assistance and social welfare services in the era of the planned economy; after the reform, social assistance and social welfare services became universally accessible, depending on need (Zheng, 2018b).

4. The reform and institutionalization of the public pension is one of the numerous contributors to China's economic growth. Owing to complicated channels of influence, we can hardly tell the share of each contributing factor, yet it can be roughly demonstrated through the following aspects.

FIRST IMPACT: The transformation of the public pension system was necessary and in conformity with the reform of state-owned enterprises; the very existence of the system, before and after its reform, forced political and enterprise-level management to seek solutions that maintained pensioners' rights during the process of state-owned enterprise marketization, which, in turn, bolstered acceptance of the reforms by a large stratum of society.

In China, enterprises' obligation to provide pensions stemmed from the Opinions on the Reform of State-Owned Enterprises Financial Systems (draft) issued by the Ministry of Finance, which came into effect in 1969 and stipulated that enterprises were duty bound to provide pensions to their retirees. During the mid-1980s, a number of state-owned enterprises were suffering extensive deficits, which was causing millions of full or partial pension payment defaults. This eased the Government's decision to reform the pension system more fundamentally, in conjunction with the economic reform process. Thus, when the reform of the state-owned enterprises kicked off, China turned to the blueprint of a social pooling-based pension system (as opposed to an enterprise-based system), for which international experience was available and which guaranteed pensioners their entitlements. This neutralized the pension-specific organizational and financial burden among enterprises (made all enterprises equally independent of their respective number of pensioners), thereby strengthening the economic vitality, especially of the hitherto disadvantaged enterprises and supporting China's economy to get out of its rigid productivity trough.

The argument here must not be misunderstood. It is the false organizational set-up of the pension system that was removed from enterprises' obligations and helped them later to act successfully under market conditions – it was by no means the abolishment of social pensions. To the contrary, it can be argued that the continued payment of pensions, from financially broader-based solidarity financing, fostered not only pensioners' support of the reforms but also that of their children and grandchildren.

⁹³ Of course, enterprises and public institutions continue to be important stakeholders under the reformed social security system: they must collect and transfer contributions (and income tax) from their employees as well as provide expertise, where appropriate, in terms of organizational issues, technology and the like. The incorporation into reformed social security of enterprises' and institutions' economic and other interests is, however, a different topic (although important).

SECOND IMPACT: Social pooling⁹⁴ of the pension system facilitated the free flow of labour. A reform of the pension system for enterprise workers in 1991 turned the system into one jointly funded by the State, enterprises and individuals. The second effect is a direct corollary to the first impact: A market economy with enterprises pursuing their operations in a competitive environment must be able to attract the number and quality of labour needed for their endeavours. This, in turn, requires that labour is free to move. Under such conditions, guaranteeing pensions in old age to each individual worker requires a system that is independent of and overarching the enterprises (and other institutions) and that takes on all necessary administrative chores. This way, not only will enterprises' transaction costs be minimized but also those of the society at large (Coase, 1937).

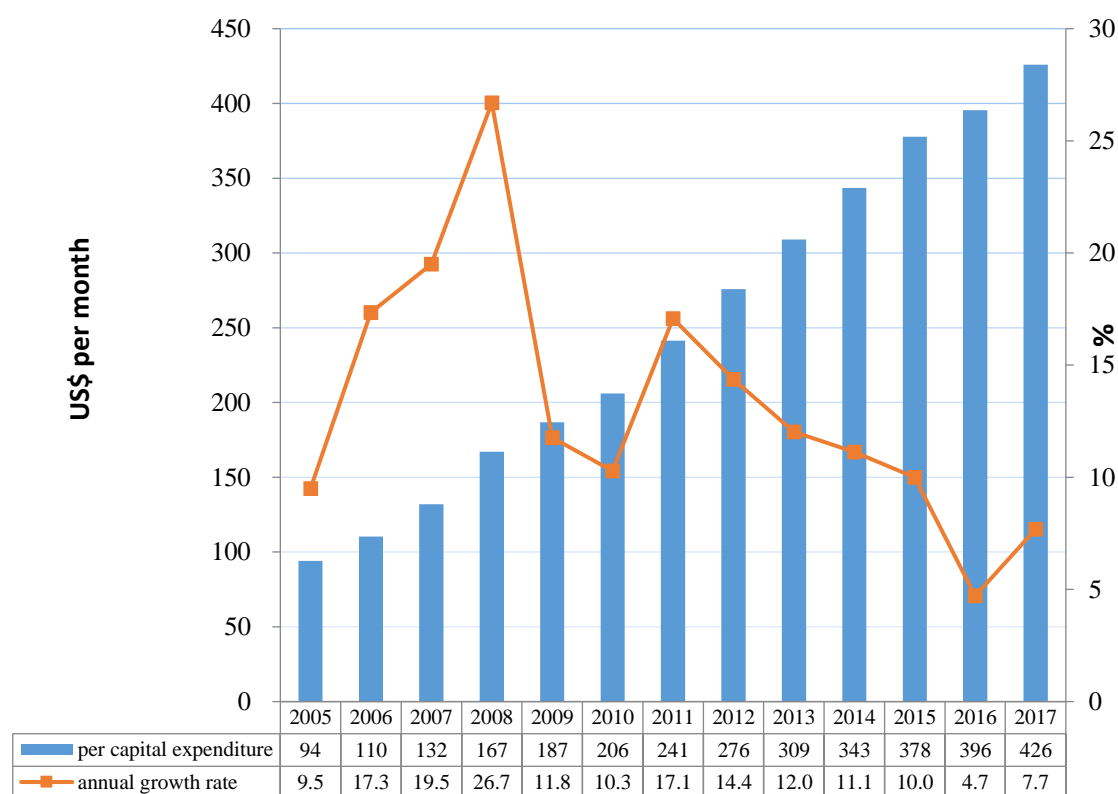
THIRD IMPACT: The establishment of a common basic pension system for urban and rural residents further enhanced reform acceptance, consumption capacity and confidence. In 2009, China acknowledged the (common) basic rights of rural older persons and non-salaried urban residents alike. Considering the respective international debate, this reform, which achieved almost universal pension coverage, reflected a modern approach consistent with labour market developments. It was an expression of a social policy of "leaving no one behind" and fully in line with China's principle of achieving shared growth and with ILO Social Protection Floors Recommendation, 2012 (No. 202). Despite its moderate payments, the system, funded mainly through fiscal inputs and supplemented by individual contributions from insured people, has directly improved the welfare of urban and rural seniors who were previously not covered by any pension scheme. And it has thus instantly strengthened the current consumption capacity of this population group and enhanced their consumption confidence for the future.

FOURTH IMPACT: The continuous growth of retirees' pensions⁹⁵ has fostered pensioners' consumer confidence and further enhanced private households' consumption. Pension payments increased at the growth rate broadly stipulated by the central Government, on average, by 10 per cent from 2005 to 2015, standing at 6.5 per cent in 2016 and 5.5 per cent in 2017. Here, the per capita fund expenditure (total annual fund expenditure divided by end-of-the-year number of pensioners) is used to estimate the growth of pensions (figure 11). The substantially increased pensions directly enhanced the consumption capacity and confidence of pensioners, including that of their family members, who could spend more of their income on own-consumption purposes (rather than reserving parts of their income for their older parents).

⁹⁴ China's social pooling, which includes pooling in terms of finance, organization and management, is a comparative term to the pooling by work units during the planned economy.

⁹⁵ The continuous growth of pension for retirees in China for the past 15 years is a compensatory measure for a given period of time to the earlier generation of retirees receiving a relatively low level of pension. It has no direct correlation with the average social wage and the Consumer Price Index. China plans to introduce mechanism for indexation of pensions in payment.

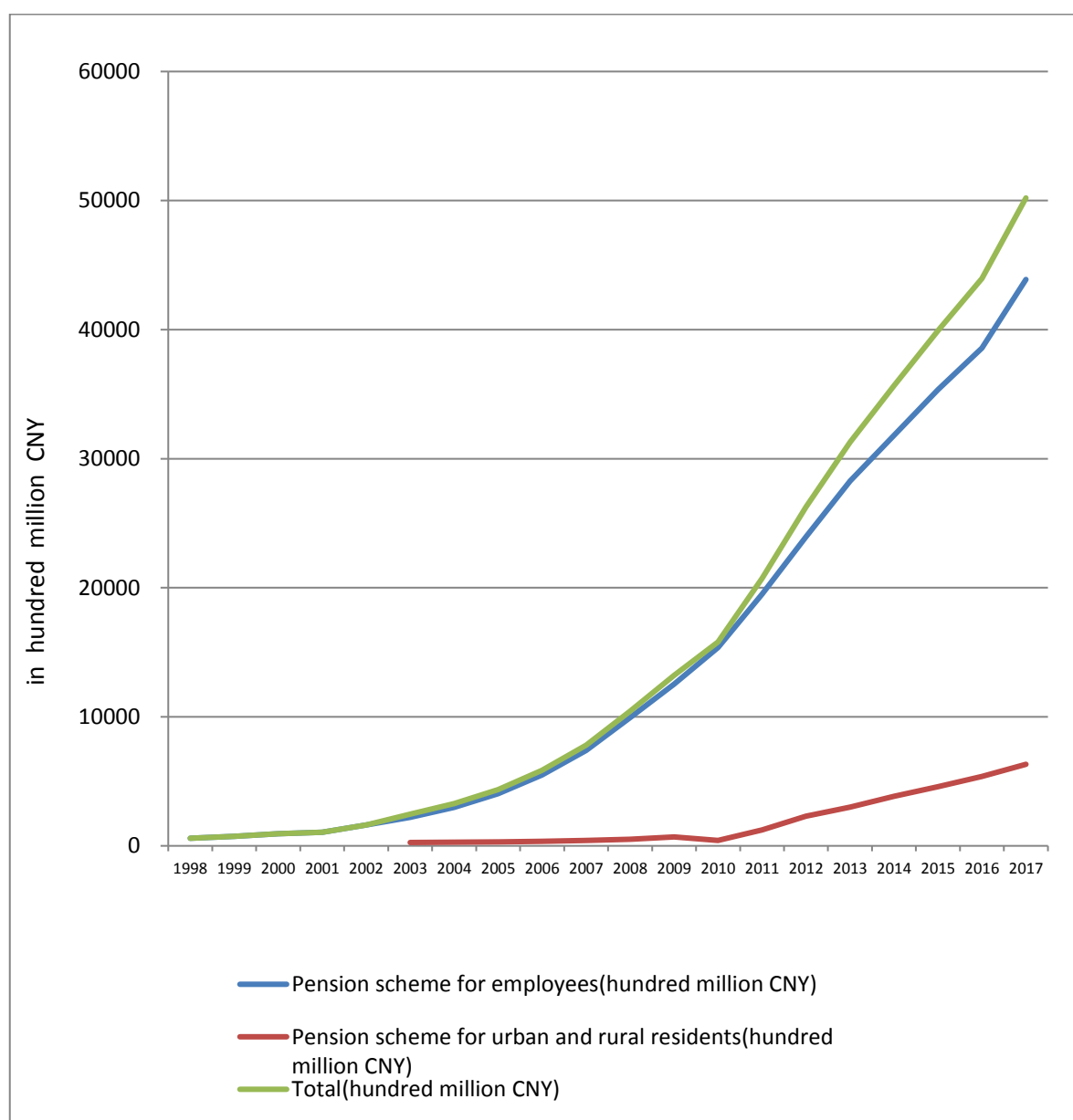
Figure 11 Average per capita fund expenditure of the basic old-age pension scheme for employees and its annual growth rate, 2005–17 (\$ per month)



Source: NBS, 2018 (China Statistical Yearbook 2018).

FIFTH IMPACT: The partially funded basic pension system (fund balances) bolsters economic development. As China adopts the partially funded basic pension, there is a considerable amount of accumulated funds, of which most are in the special fiscal accounts or banks across the country. Although the rate of return on investment has been modest, these funds (figure 12 and table A3 in Annex 2) enter the economic sector through various channels and contribute to boosting economic growth.

Figure 12 Accumulated balances of the basic old-age pension system fund (1998–2017)



Source: NBS, 2018 (*China Statistical Yearbook 2018*).

5. Similar to the pension insurance scheme, the reform and institutionalization of the health insurance system have exerted positive influence on China's economic development. Such positive effects manifest themselves mainly in the following aspects.

First, China's health insurance system has guaranteed more equitable medical care for all citizens, neutralized the respective organizational and cost burden for enterprises and conformed to the reform of the state-owned enterprises and the establishment of the market economy. Prior to its reform, free medical care was only accessible to urban workers and their family members, and workers were not supposed to move freely across different enterprises. The rural population was completely excluded from the system. Because enterprises bore all medical costs of their employees and retirees, those established in the early days had more retirees and thus were overwhelmed by such heavy burden, and workers' right to free access to health services were often, de-facto, infringed. With the introduction of health insurance independent of single enterprises, this right was re-established.

On the side of the enterprises, similar business-enhancing effects took place, as in the case of pension schemes (as previously explained): Social health insurance fairly balanced employers' health-related labour costs. In particular, the establishment of health insurance for rural residents and urban non-salaried residents resulted in an increasingly fairer system on the basis of universal coverage.

Second, the fiscally funded health insurance has effectively alleviated urban and rural residents' worries and concerns regarding the costs of illness and uplifted their consumption level and consumption confidence. Although of contributory nature by law, the health insurance scheme for rural and urban non-salaried residents is mainly funded by the Government. The annual subsidy per capita increased from initially \$3 to \$84 in 2017, reflecting an overall fiscal share in revenue of around 70 per cent.

Although total revenue remains low, positive effects on private households have been generated, especially in rural areas. Prior to the implementation of the health insurance, large numbers of impoverished rural residents never saw a doctor. Since the introduction of the health insurance, it has become normal in rural areas to see doctors as a way of individual health management. As the revenue collected increases, the utilization rate of medical services by middle- and low-income groups will continue to rise. As already indicated, the need to make precautionary individual savings addressing health risks has decreased. Admittedly, people's worries and concerns about the cost of illness have not been fully eliminated; thus, China still needs to further improve its health insurance system.

Third, the health insurance boosted the number and revenue of medical and pharmaceutical industries. The introduction of (universal) health insurance had positive impacts on the development of income and production of medical service providers and on the pharmaceutical industry. Indeed, as is normal for health insurance (including other financing systems), individual contribution payment is the basis for acquiring the entitlement to make use of the health system. The contributions collected from private households (and enterprises and the taxpayer) are usually channelled to health providers and health industries (technology and pharmaceutical). With growing subsidization (previously described) of the universal system and the parallel rise of per capita health spending, the collected resources of the medical service providers and pharmaceutical industries grew consequently.

Currently, more than 50 per cent of the revenue of medical service providers is covered by the health insurance fund. At the end of 2017, 31,056 hospitals with more than 6.1 million beds were registered across the country (representing, on average, around 230 persons per one bed, or around four beds per 1,000 population). These numbers imply an increase of the number of hospitals by slightly more than 34 per cent and beds by 47 per cent from 2012 (NHC, 2018).

In 2015, there were 7,116 large pharmaceutical enterprises (an increase of 25.4 per cent from 2011), with a total production value hitting nearly CNY2.7 trillion (\$429.88 billion) (an increase of 75.8 per cent from 2011), their total assets reaching nearly CNY2.5 trillion (\$394.09 billion) (an increase of 89.3 per cent from 2011), the industry's revenue out of sales culminating at nearly CNY2.6 trillion (\$410.01 billion) (an increase of 75.9 per cent from 2011) and the total profit being CNY262.7 billion (\$42.18 billion) (an increase of 75.8 per cent from 2011) (NHFPC, various years).

6. The establishment of the subsistence allowance scheme (1999 for urban and 2007 for rural residents) shifted the social assistance system from humanitarian aid to protecting human rights and from residual relief to institutionalized assistance. It has not only guaranteed the basic livelihood of the impoverished parts of the population and helped to maintain social stability but also facilitated economic transformation and development.

First, the subsistence allowance scheme adapts to the transformation of the urban and rural economies because it guarantees the basic livelihood of persons who are poor. This allowed the state-owned enterprises to take on their intended role as market participants (see previous discussion on pensions and health) because they no longer had to provide help to their impoverished employees. The

establishment of the urban subsistence allowance scheme addresses problems regarding the basic livelihood of newly emerged poor persons, enabling the reform of the urban economic system to proceed.

As for rural areas, the subsistence allowance scheme provides a basic living guarantee for persons impoverished due to illness, natural and human-made disasters and competition failures. This explains why rural China has maintained steady development despite its profound social and economic changes.

Second, the subsistence allowance scheme stabilizes and increases the consumption of poor persons. After receiving the allowance, the beneficiary would normally spend it on living necessities. That the subsistence allowance scheme is financed through tax revenues largely collected from high-income groups and paid to low-income households endows the system with a strong income redistribution effect.

7. Other social reforms also directly promoted the sustained and rapid growth of China's economy. There have been other reforms in the sphere of social security beyond unemployment insurance, pensions, health care and social assistance that improved the conditions for economic growth. We focus on three aspects.

First, significantly improved public education keeps generating high-quality labour. Bolstered by the sustained and rapid economic growth, fiscal expenditure on education increased from around \$11.6 billion in 1991 to \$506.6 billion in 2017⁹⁶. Its share in GDP rose from less than 3 per cent in 1991 to 4 per cent in 2012 and has maintained this level ever since (NBS, various years).

Consequently, China's education system has embarked on continuous improvement, including nine-year compulsory education for all, which gives special prominence to higher education and an intensified focus on vocational education. While maintaining a moderate growth of public financial input, China mobilized resources also in the private sector to develop education and to increase overall educational investment, ushering in popularized higher education. The development of vocational education has not only brought more opportunities for children to receive education but also raised the human capital level of the society and increased the supply of high-quality labour, which will underpin the sustained growth of China's labour productivity. From 1996 to 2015, the average annual growth rate of the country's labour productivity was 8.6 per cent, higher than the global average level (NBS, 2016). Although the increase of productivity rates cannot be attributable to improved education alone but also to the overall investment and production process, improved education is a critical prerequisite for improving productivity.

At present, the average length of schooling of China's working-age population exceeds ten years, longer than that of the world average. The average length of education of persons entering the labour force is around 13 years, which is close to the average level of moderately developed countries and high for developed countries (NBS, 2016). The gross enrolment ratio in higher education⁹⁷ increased from 2.7 per cent in 1978 to 45.7 per cent in 2017 (MOE, 2018), exceeding the average level of high- and middle-income countries and showing that China is in an era of popularized higher education (MOE, 2017). This is conducive to bolstering sustainable development of China's economy and turning the demographic dividend from a quantity-oriented type into a quality-oriented one, and indicating that additional productivity effects exerted by a larger number of high-quality workers might be expected in the future.

Providing education is an economic activity. As an important part of the national economy, the development of education directly contributes to economic growth. According to government statistics, the number of colleges and universities in China rose from 598 in 1978 to 2,631 in 2017; the number of special schools rose from 292 to 2,107, and the number of preschool institutions grew from 163,952

⁹⁶ See: http://www.moe.gov.cn/srcsite/A05/s3040/201810/t20181012_351301.html.

⁹⁷ The ratio of young people aged 18–22 years acquiring higher education.

to 255,000 in the same period (MOE, 2018). The number of primary and secondary schools and secondary vocational education institutions declined due to demographic changes following the family planning policy and institutional reforms. The number of people receiving education surged to 340 million in 2015, from 230 million in 1985. The number of people engaged in educational legal entities increased from 12.6 million in 1985 to nearly 19.2 million in 2015. In 2016, the added value of the education industry was nearly CNY2.7 trillion (\$396 billion), accounting for 3.6 per cent of GDP (NBS, 2018). This is, however, only the direct contribution of education to national output. To drive economic growth during the Asian financial crisis at the end of the twentieth century, China expanded enrolment in higher education as a critical move to expand consumption and domestic demand.

Second, a new policy of housing ownership replaced the earlier distributive urban housing system, invigorated the real estate industry, improved people's living conditions and constituted an important pillar of economic growth. Under the planned economy, all urban residential dwellings consisted of public housing provided by the work units or the government, with less than 10 square metres per capita living space. In the 1990s, this system underwent extensive overhaul. The focus was to introduce housing ownership based on the previous public housing benefits provided by the work units or the Government in urban areas, resulting in the establishment and fast expansion of a real estate industry that instantly became a core pillar of China's dynamic growth. With the marketization of the housing industry, residents' living conditions were greatly improved. A sample poll by the China Association of Social Security suggests that in 2015, the home ownership rate was 95.4 per cent, with 91.2 per cent of urban households owning at least one housing property and 19.7 per cent owning more than two (Li, Cheng and Zhang, 2015). Only the households in poverty or with low income are entitled to restricted public housing that the Government continues to provide.

This de-welfare reform in the housing system lies at the root of the rapid growth of China's real estate industry and its role as a core pillar of its economy. However, it also fuels the real estate bubble and disadvantages low-income families. In 2009, the Government began developing large-scale government-subsidized housing to ensure that low-income families have at least a rudimentary place to live. Following an institutional shift from a welfare-oriented housing allocation system to a market-oriented one focused on housing privatization, China is now heading towards a moderate return to a welfare-oriented housing policy targeting low-income families.

Box 7

Reform and development of China's housing benefits: Returning from de-welfare to social security

As an important component of China's social security system, housing benefits include the following two schemes.

1. Government-subsidized housing. Financed with government funds, it targets low-income households living in difficulties. There are two situations: (i) The Government constructs subsidized housing units and allocates them to low-income households with no housing or housing below subsistence level. This policy is also applicable to urban residents. (ii) The Government finances the renovation of homes in run-down urban areas and dilapidated rural houses.

2. Housing provident fund scheme applicable only to urban workers. The employer and employee contribute an equal amount, ranging from 5 per cent to 12 per cent of the gross wage, to the housing provident fund, which is deposited in the employee's individual account and used exclusively for housing-related expenditure. In practice, however, it is usually government departments, public institutions and state-owned enterprises that participate in this scheme. Additionally, government departments and public institutions hand out cash allowances to their employees who own no home or whose living space falls short of the prescribed level.

Before the 1980s in urban areas, China had a public housing system based on allocation, in line with the planned economy. Back then, rural residents were allowed to build their own house in accordance with government regulations after getting approval. However, the government-monopolized urban housing system also created drawbacks, such as low efficiency and unfair housing allocations, and gave rise to an array of problems,

including lack of resources for maintenance, failure to sustain re-investment in housing and sluggish improvement of housing conditions and quality.

In the 1990s, China began reforming its urban housing system. Market resources were mobilized into the field of home building. Later, housing commodification and home ownership became explicit goals. As a result, the real estate industry soon became a pillar industry for economic growth, and the housing conditions of urban residents have improved significantly. The per capita living space rose from 6.7 square metres in 1978 to 33 square metres in 2016. Since 2003, real estate investment has been on the rise, becoming the second-largest social fixed-asset investment, after the manufacturing sector. In 2016, the real estate value added accounted for 6.5 per cent of GDP, giving a boost to the downstream (steel and coal, for example) and upstream (gas and electricity, for example) industries. In 2017, more than 30.8 million people were employed in the real estate and construction industries, taking up 17.5 per cent of the total urban employment (NBS, 2018), second only to manufacturing. Following China's housing reform, the real estate industry had a prominent stimulating effect on overall employment and the economy.

In advancing housing commodification, negative consequences, such as overheating and price-bubble effects on the property markets, began to emerge. Middle- and low-income groups could not afford the surging housing prices, thus housing turned into a social problem. To rectify this, the Government embarked in 1995 on the National Housing Project with the goal of addressing the housing problem of urban middle- and low-income families. This was followed by the Low-Rent Housing System in 1999. In 2009, it was made explicit that low-income households living in difficulty were to be provided with government-subsidized housing; meanwhile, the renovation of areas with closed coal mines, forest farms and shantytowns was conducted on a large scale, and dilapidated houses with potential safety hazards in rural areas were reconstructed. This work is still ongoing. According to China's Twelfth Five-Year Plan for Economic and Social Development, 2011–2015, the building of a housing-supply system was to be done more quickly, with basic housing support provided by the Government and multiple levels of demand to be met primarily by the market.

From 2011 to 2017, the total expenditure of government at all levels on subsidized housing was more than CNY3,625 billion (nearly \$537 billion, based on yearly average exchange rate of 2017). Government spending on subsidized housing rose at a rate of 32 per cent, from CNY175.5 billion (\$25.9 billion) in 2010 to CNY655.2 billion (nearly \$97 billion) in 2017 (NBS, various years).

As an integral part of China's social security system, the housing benefits scheme is developing steadily. The following measures are essential at the current stage: (i) properly address the housing problem of rural-to-urban migrant workers; (ii) adopt policies to promote the rental housing industry; (iii) formulate exit rules for government-subsidized housing; and (iv) improve the housing provident fund scheme.

Third, social welfare services opened up to private social capital, which triggered new employment and improved people's well-being. In recent years, spending on pensions, health care, children's upbringing, education and other aspects of people's livelihoods showed sustained increases. The Government is now striving to divert more resources to public investment, provide more basic public services and adopt a policy of opening up towards social capital, which has already led to a constant expansion of private capital invested in the services industry. As a result, the welfare sector is engaging increasing numbers of workers and generating new areas for economic growth related directly to people's livelihoods. According to the *Statistical Bulletin on Social Service Development 2017*, by the end of 2017, 32,000 social service institutions providing accommodations registered with civil affairs authorities, among which 18,000 were registered as public institutions and 13,000 were private non-profit organizations (MCA, 2018). As well, there was an increasing number of for-profit social service institutions invested by enterprises. Thus, 40 per cent of all social service institutions were invested by enterprises or the non-government sector. Such non-government social service facilities not only meet the nursing needs of people but also create more jobs. The same applies to the field of health services. Therefore, opening social welfare services provision to social capital not only consolidates the material basis for bolstering the social security system but also better satisfies people's needs.

8. The social security system has a critical and supportive role in tackling the latest economic crises.

Telling empirical demonstrations of the positive impact of China's social security system on boosting its economic growth emerged in 1998 and 2009 during the two major international financial crises, which did not leave China unaffected. The Government adopted a variety of measures, including investment expansion and consumption stimulation. Amid the crisis, the social security system had a prominent role: It not only protected people from crisis impacts but also directly boosted people's confidence and capacity to consume, thus helping the national economy to overcome both crises relatively swiftly and re-embark on the path of growth.

The Asian financial crisis that began in 1997 created an unfavourable international environment for China's then still export-led growth policy. Domestically, priorities had been oriented towards economic growth with only little focus on people's livelihoods. Reforms of social security were dominated by the Government's cost-containment policies, which resulted in workers' legitimate entitlements and interests being infringed through millions of full or partial pension payment defaults while workers' medical costs were not reimbursed. In addition, the number of urban residents in poverty soared, which fed a growing sense of insecurity in the society and resulted in declining resident consumption, mounting enterprise inventories and deteriorating economic and financial conditions in the state-owned enterprises. The national economy risked becoming stuck in crisis.

In 1998 and having realized that slugging consumption was also a result of the absence of social security, the Government placed social security reform and institutionalization at the top of its agenda, emphasizing the implementation of "two guarantees, three security lines".⁹⁸ The subsistence allowance scheme covering residents living in financial difficulties and the health insurance reform were rolled out, the housing system was boosted and the Social Security Strategic Reserve Fund⁹⁹ was established to prepare for the population ageing in the future. The implementation of these major social security schemes, although still modest in financial size, helped to resolve the short-term predicaments of urban and rural residents, enhanced people's longer-term confidence in the social security system and thus supported recovery of domestic private consumption. In this way, they helped to reduce social risks and provided social stability for economic development. The improvements on social security were one of the critical reasons why all major subsequent reforms could be pushed ahead and why the national economy re-attained rapid growth (Zheng, 2017c).

In 2008, China's economy fell victim to the global financial crises: foreign trade plummeted, the volume of imports and exports decreased, numerous enterprises went bankrupt and large numbers of workers became unemployed. The Social Insurance Law under deliberation at that time encountered resistance from businesses, not passing until October 2010. Globally, most countries quickly moved from their stimulus packages to austerity measures with undesirable effects. In contrast, China maintained stimulus measures for economic growth and further developed its social security system. It was this crisis that

⁹⁸ The term "two guarantees, three security lines" refers to the comprehensive social security measures adopted by the Government in 1998. The "two guarantees" refers to (i) guaranteeing the basic livelihood of workers laid off from state-owned enterprises and (ii) guaranteeing timely and full pension payments to the enterprises' retirees. The state-owned enterprises were obliged to set up re-employment centres responsible for delivering the basic living allowances to the laid-off workers and to pay on their behalf social insurance contributions, which were co-financed by the Government. The "three security lines" refers to (i) the basic living guarantee allowance for laid-off workers from state-owned enterprises, which was delivered by re-employment centres for a maximum of three years. If the workers remain unemployed after three years, they are entitled to (ii) an unemployment insurance benefit for a maximum of two years. If the laid-off workers remain unemployed after two years of protection under the unemployment insurance, they can claim (iii) the minimum living allowance for urban residents.

¹⁰⁰ The Social Security Strategic Reserve Fund was set up by the Government in 2000 to prepare for the pension payment after 2030, when population ageing is expected to reach its peak. It is mainly financed through government funding and state assets, though it is also entrusted by some local governments to run their pension funds. The fund, which was jointly administered by the Ministry of Human Resources and Social Security and the Ministry of Finance, started to be solely administered by the Ministry of Finance in 2018. The National Council for Social Security Fund operates the fund. As of 2018, the fund accumulated approximately \$430 billion in assets, representing 3.3 per cent of GDP in the same year.

changed China's growth orientation from unsustainable export-led to domestic demand-led, in which pensions, health care, housing and education would have prominent roles in easing people's concerns. In the absence of higher domestic consumption, China's economy was in danger of becoming stuck in a trough with difficulty to get back on a previous track in the short term. Therefore, in 2009, the Government countered the sluggish economic growth by resolutely pushing forward the institutionalization of the country's social security system. Measures adopted included:

- the setting up of a pension scheme for rural residents, intending to attain the goal of covering all residents of qualifying age instantly;
- commencing a three-year reform plan for the social health insurance to achieve near universal health coverage within a short period; and
- embarking on large-scale construction of government-subsidized housing (see section 3.1.2).

In addition, after the Wenchuan earthquake in 2008 in south-western China's Sichuan Province, the Government began increasing inputs to disaster relief, post-disaster reconstruction and college enrolment expansion. As a result, the overall welfare level of urban and rural residents was considerably uplifted. These measures not only reassured people by reducing their anxieties and increasing and stabilizing their cash and in-kind incomes, they also increased personal consumption, helping to turn it into the biggest driver of national economic growth. China's economic strength rebounded. Central to the success were swift reactions to the crises, decisive policy-making and strong resolution to implement planned policy (Zheng, 2017c).

In concluding, a closer look at China's development over the past few decades indicates that without the robust steps of institutionalization of social security in 1998 and 2009, the former rapid growth could easily have come to a halt. If no importance had been attached to social security, it would be unlikely for the economy to develop smoothly, let alone bounce back amid the financial crises. Social security and the economy are thus not necessarily antagonists but, if well organized, can mutually strengthen each other (Zheng, 2017c).

From a broader perspective, the Chinese reacted to the two periods of financial and economic crises by using social security as a policy tool. This echoes the international and historical experiences in which economic crises were often accompanied by the development of social security, including fostering and improving its structures. The Chinese case is special in that these reactions came quickly and were robust, whereas governments in the West have often taken a more tentative and reluctant approach to crisis-induced social security improvements. The austerity-orientation of the European Union in the aftermath of the 2008–10 financial and economic crises is an example.

3.1.4 China's experience of the relationship between economic development and social security as guidelines for the future

As a major engine of the world economy, China's economic performance is widely recognized. The remarkable results the country has achieved through its social security reforms and development also have attracted attention from the international community. These two achievements do not coexist by chance – they are intrinsically and mutually linked, confirming the trend that was also observed in other developed economies in the past. China's experiences include the following five aspects that can also be considered guidelines for future national policy orientation (Zheng, 2018a).

FIRST GUIDELINE: The mutually reinforcing interrelationships between social security and economic growth must be maintained.

The solid evidence presented in this chapter regarding the interaction between social security measures and economic progress should be enough to justify avoiding any political or economic action that puts this interrelation at risk or questions it. The predominant purpose of economic growth is to swiftly eradicate poverty, maintain achieved living standard levels and, as much as possible, continue to improve them through equitable distribution. China adopted this paradigm at the start of the twenty-first century and gave it fresh momentum by developing social security and the national economy under

a common growth approach. China is now harvesting the success of this policy. For example, fiscal revenue has increased significantly. Revenue from individual income tax alone has increased, from \$57.8 billion in 2009 to \$177.2 billion in 2017 (MOF, 2010 and 2018).

The growing fiscal revenue has undoubtedly become the main source of funding for the Government to support and co-fund social security. Fiscal space has grown substantially and offered the Government opportunity to sustainably increase the inputs to social security, public health care and public education, thus making the social security system increasingly sound and enhancing people's welfare at a relatively rapid and continuous speed (see section 3.1.3).

China's practice has consolidated the view that economic development is the foundation as well as the prerequisite for guaranteeing and improving people's livelihoods and that sound social security is the purpose as well as the basis for maintaining and increasing economic productivity. Only by interlinking the two and thus creating a virtuous cycle can the national economy progress steadily and achieve sustainable and balanced development. Ignoring these insights risks losing long-term positive developments of China's economy (see the next second guideline).

SECOND GUIDELINE: Social security must assume its role as a fundamental system to guarantee and improve people's livelihoods. This requires that benefit levels keep pace with economic capacities, such that social security neither under-demands nor overstretches the economy's possibilities to maintain sufficient economic growth.

In observing the first guideline while focusing on guaranteeing and improving people's livelihoods, the Government prioritized social security, channelling public inputs into the system faster than the general revenue grew. This policy must be maintained until China's social expenditure ratio has reached, in line with growing economic capacities, the levels of its international peers (which, equally, might be changing or varying). Tables 4 and 5 provide statistical evidence for this guideline.

Table 4 reveals that, from 2007 to 2017, revenue in the general public budget grew 3.4 times while aggregate expenditure on social security and employment, on health care and family planning and on education increased slightly faster (3.6 times). The share of the aggregate expenditure in GDP climbed from nearly 7.1 per cent to 8.4 per cent. If the social insurance were included in the time series, the material foundation of social security would prove even more solid.

Table 4 Public budget expenditure in China, 2007–17 (100 million CNY and \$)

Year	Revenue in the general public budget		Expenditure on social security and employment		Expenditure on public health and family planning		Expenditure on education		Aggregate expenditure		Share in GDP (%)	Overall growth rate (%)
	CNY	\$	CNY	\$	CNY	\$	CNY	\$	CNY	\$		
2007	51 321.78	6 749.31	8 514.24	1 119.71	3 554.91	467.51	7 122.32	936.65	19 191.47	2 523.87	7.09	
2008	61 330.35	8 830.74	9 795.92	1 410.48	4 178.76	601.68	9 010.21	1 297.35	22 984.89	3 309.51	7.15	19.77
2009	68 518.30	10 030.49	9 164.21	1 341.56	4 951.10	724.80	10 437.54	1 527.97	24 552.85	3 594.33	7.05	6.82
2010	83 101.51	12 275.87	9 130.60	1 348.78	5 333.37	787.85	12 550.02	1 853.91	27 013.99	3 990.54	6.57	10.02
2011	103 874.43	16 082.62	11 109.40	1 720.04	6 429.51	995.47	16 497.33	2 554.24	34 036.24	5 269.75	7.02	25.99
2012	117 253.52	18 574.82	12 585.52	1 993.75	7 425.11	1 176.26	21 242.10	3 365.09	41 252.73	6 535.09	7.65	21.20
2013	129 209.64	20 863.15	14 490.54	2 339.75	8 279.90	1 336.93	22 001.76	3 552.57	44 772.20	7 229.25	7.58	8.53
2014	140 370.03	22 851.15	15 968.85	2 599.60	10 176.80	1 656.70	23 041.71	3 751.01	49 187.36	8 007.32	7.63	9.86
2015	152 269.23	24 447.57	19 018.69	3 053.54	11 953.18	1 919.14	26 271.88	4 218.08	57 243.75	9 190.76	8.34	16.38
2016	159 604.97	24 028.57	21 591.45	3 250.60	13 158.77	1 981.06	28 072.78	4 226.36	62 823.00	9 458.02	8.49	9.75
2017	172 592.77	25 562.48	24 611.68	3 645.20	14 450.63	2 140.26	30 153.18	4 465.95	69 215.49	10 251.41	8.43	10.29

Source: NBS, 2018 (*China Statistical Yearbook 2018*).

Table 5 shows China's spending on health care over the past four decades. Expenditure as a share of GDP rose from 3 per cent to 6.3 per cent. This increase was largely due to the expenditure on health insurance. The growth elasticity of health was equal to around 2 over the long run. Given that China comes from very low spending levels, this development is highly welcome under social health policy perspectives. International research suggests, however, there are saturation levels beyond which

additional health spending will not improve the health status of the population but only serves the income interests of health providers and the profit interests of the health industry. Generally speaking, the spending levels of China's social security have constantly improved, yet the total spending on social security as a share of GDP (at 13 per cent) remains lower than the average for the OECD countries. Acknowledging that spending levels on social security need to be further increased, the Government has been intensifying its efforts.

Table 5 Structure of health care expenditure in China, 1978–2017 (100 million CNY and \$)

Year	Total cost of health care								As a share of GDP (%)
	Total		Government spending on health care		Social spending on health care		Individual's spending on health care		
	CNY	\$	CNY	\$	CNY	\$	CNY	\$	
1978	110.21	65.46	35.44	21.05	52.52	31.20	22.52	13.38	3.00
1980	143.23	95.59	51.91	34.64	60.97	40.69	30.35	20.25	3.15
1985	279.00	95.00	107.65	36.66	91.96	31.31	79.39	27.03	3.09
1990	747.39	156.25	187.28	39.15	293.1	61.28	267.01	55.82	4.00
1995	2 155.13	258.07	387.34	46.38	767.81	91.94	999.98	119.74	3.54
2000	4 586.63	554.05	709.52	85.71	1 171.94	141.57	2 705.17	326.77	4.62
2005	8 659.91	1 057.16	1 552.53	189.52	2 586.41	315.74	4 520.98	551.90	4.68
2010	19 980.39	2 951.53	5 732.49	846.81	7 196.61	1 063.09	7 051.29	1 041.63	4.98
2015	40 974.64	6 578.68	12 475.28	2 002.97	16 506.71	2 650.23	11 992.65	1 925.48	6.05
2016	46 344.90	6 977.24	13 910.30	2 094.20	19 096.70	2 875.01	13 337.90	2 008.02	6.20
2017	52 598.28	7 790.26	15 205.87	2 252.12	22 258.81	3 296.72	15 133.60	2 241.42	6.30

Source: NBS, 2018 (*China Statistical Yearbook 2018*).

THIRD GUIDELINE: Follow the principle of joint contribution and shared benefits and build a social security system based mainly on social insurance principles that link individual and institutional rights with individual and institutional obligations.

Societies have various options to create and maintain the virtuous cycle between economic development and improvement of people's livelihoods. A common denominator is to create a social and institutional environment that allows and expects everyone to contribute. China is a society in which the virtues of work are highly valued. It is one of the world's leading work and labour productivity-oriented societies, achieving the virtuous cycle by converting social security into a multi-stakeholder system in which the Government, enterprises and individuals are jointly responsible and where the core of the system is based on social insurance principles of risk sharing and mutual help (and including elements of actuarial fairness) (Scholz, 2015; Dixon, 1999).

Labour-based social insurance became a cornerstone of China's socioeconomic system with the pension and health insurance as the most system-relevant schemes. Such design features of social security are generally based on the conviction that access to benefits is provided only after both the individual and employer have paid their contributions. Such a system, linking entitlements with obligations is essentially a social security system of collaboration and sharing and constitutes a rational path of reform

and development. Government subsidization has had an important role in rapidly extending social security coverage. Government subsidies directly contribute to the establishment and development of the urban and rural residents' pension and health insurance schemes as well as pension and health insurance coverage for subsistence allowance recipients and persons with severe disabilities.

FOURTH GUIDELINE: Attach great importance to eradicating poverty by complementing the social insurance-based system with effective social assistance and other basic welfare provisions, thus guaranteeing people a basic livelihood.

Because people in poverty and vulnerable economic conditions often find themselves in unstable and low-paid or non-remunerated work and employment arrangements, the (contributory) system, as sketched under the third guideline, is often insufficient to help them climb out of their situation. People with severe disabilities are typically in a similar situation. These and other persons in need of help must be given access to social security. This can be done in various ways, such as by directly providing a means-tested subsistence allowance in cash or in kind and, where appropriate and administratively applicable, through the provision of earmarked government-sponsored contributions to old-age insurance and health insurance through which persons who are poor can accumulate entitlements. At the same time, the respective schemes would receive corresponding revenue. It shows that the political scheme can ensure a high level of coverage and thus create a social security culture. The complementary design and hand-in-hand progress of social insurance and social assistance and poverty-relief programmes have proven very effective internationally (in France, Germany and the Nordic countries, for instance) and is also appropriate for modern China, where its use should be heavily expanded. (For details of effective programme implementation in China, see section 3.1.2.3; for poverty alleviation, see box 6).

FIFTH GUIDELINE: The strategic step-by-step reform approach within a clear policy of growth orientation has proven essential for China to successfully master the complex issues of social security reform. This approach should be maintained for future reform needs. It can also be taken as a template for reform policy in other countries.

China's social security transformation over the past three decades has been a risky undertaking – socially, economically and politically. Socially because a new system was to be implemented while the old system had to continue functioning. Economically due to the transition from a planned economy to a socialist market economy, but with social security reform as a prerequisite for success, which had not been tested before (there was no comprehensive template). Politically because the economic and social security reforms affected the whole society, which, given the usual societal inertia of prevailing attitudes, had to be convinced of the advantages of the intended policy.

There are basically three reasons why the risks in the reform process did not materialize:

(a) The clear growth orientation with focus on the creation of a prosperous middle class: Social and political stability was and is maintained because the social security reforms were nested into a clear economic growth orientation, initiated during the reform process and maintained ever since. The reason for broad societal acceptance of these measures is that the incomes of the vast majority of workers and retirees continued to grow, and people's living standards generally increased.

For example, in the early 1980s, when the contract responsibility system¹⁰⁰ was introduced in rural areas, the welfare of farmers was curtailed. Yet, the (immediate) welfare losses were exceeded by a wide margin by the (lagged) income gains from the land contracts; thus, any sustained resistance to the reform was avoided. Similar patterns evolved in urban areas: The earlier free medical care was replaced with

¹⁰⁰ Also known as the household responsibility system. The Government gave farmers a quota of goods to produce, and they received compensation for meeting the quota. If they went beyond the quota, farmers were allowed to sell the excess in the free market at unregulated prices.

health insurance that collects contributions, and the pension system – once having a high replacement rate and requiring no contributions – was turned into a contributory system at reduced replacement rates. In a sense, China was wise enough to implement the reforms before it became rich. Once becoming rich, similar social reforms (with cuts in replacement rates and the like) would most probably be as difficult to achieve as in the developed (European) world.

Growing primary incomes of the workforce and other residents accompanied the emergence of a relatively broad middle class that was less dependent on social assistance and anti-poverty services but able to save for their own old age and health needs. This fostered the Government's fiscal space required for financing anti-poverty policies.

(b) The step-by-step approach: The social security system had to be reformed in conformity with the economic reform. The long-term goal was clearly defined: to build a comprehensive social security system that interacts well with a socialist market economy. The functionality of the existing social security structures and institutions must nonetheless be maintained as long as the new system (or elements thereof) was not fully established nor functioning.

To manage this transition, many issues had to be addressed at the same time and, accordingly, many actors, persons and institutions had to be (and were) involved. And they had to be equipped with the necessary knowledge, which was a problem for the actors who draw heavily on international experience. To ably react to false developments, mistakes or failures but also to take up positive developments, the Government took a careful approach that allowed it to change direction fast, if needed, without letting risks unduly materialize. Prerequisites and conditions were carefully defined, and decisions were made in a way that enabled the reformed social security to gradually assume its intended roles and old social security structures be given up accordingly. As far as it is still incomplete, China's social security reform continues working on completing the institutional overhaul.

(c) The bottom-up approach: A dominantly positive attitude of all people was supported by adopting a bottom-up approach. This meant choosing selected local areas as pilot zones, carrying out intended reforms, drawing lessons that well informed a national reform plan and eventually implementing it top-down. This approach provided not only additional knowledge to reformers but also a buffer period for the public to gain knowledge of and adapt to the new situation.

In summing up, as a plan to propel the reform and development of social security, the step-by-step approach combined with a strategy of replacing short-term welfare losses with long-term primary income growth has, retrospectively, turned out to be optimal. Chinese society has widely understood the rationale of this policy as necessary to promote economic development, maintain a solid economic growth rate and enhance social security in a flexible market economy.

3.2 Major socioeconomic challenges and policy recommendations

3.2.1 Challenges confronting China

China's modernization is continuing at unprecedented speed, with significant improvements in its economic and social developments. Yet, after the rapid growth over the past four decades, the economy has embarked on a new normal of medium-to-high growth. Against the background of economic globalization, China is, like other regions and countries, confronted with multiple challenges.

1. Economic development faces the pressures imposed by structural adjustment, industrial upgrading and transformation of the growth model.

Social security is part of this development and needs to be further developed until China broadly joins the ranks of other countries with complete social security systems and, with its own specific characteristic, becomes a welfare state.

China's economic development is facing challenges. At the Business 20 summit (on the sidelines of the Group of Twenty summit) in Hangzhou Province in September 2016, President Xi Jinping pointed out: “We are keenly aware that many sectors of China's economy are not strong or competitive enough, despite their big sizes. Over the years, they have depended on input of resources, capital and labour force to achieve growth and expand scale. But this model is no longer sustainable. China now faces the challenging task of changing its growth drivers and growth model and adjusting its economic structure” (Xi, 2016).

China's necessary switch from extensive to intensive productivity growth has important implications for the social security design and administration. As shown in this report, the design of a social security system can be supportive to economic growth. For the further development of the system, China needs to respect a separate but complementary functioning of social insurance and social assistance.

To allow the handling of large numbers of social security cases as well as to promote interinstitutional exchange and coordination, the administration of respective social security institutions and services must be modernized, particularly in terms of information technology solutions. It is also important to increase the number of well-trained staff persons devoted to serving the members covered by their institutions.

In addition, it is a major challenge to adapt social security to the new normal – to propel coordinated development between the economy and social security of the society and to maintain and deepen the growth-enhancing design of social security as one means to maintaining intensive rather than extensive economic growth at a relatively high speed. It is doable, however, as the examples of modernization in other sectors of China's economy prove.

2. Development imbalances prevail among regions and between urban and rural areas and thus worsen social inequality.

Significant imbalances in terms of economic and social development exist between the country's eastern coast and the western inland. The coastal region converges with the level of high-income countries; cities such as Beijing, Shanghai and Tianjin are blessed with GDP per capita of more than \$15,000. In contrast, the landlocked western regions are relatively underdeveloped, with a middle-lower-income level and some impoverished regions are (in international comparison) even at the lowest income levels.¹⁰¹

There is also a huge urban-rural gap, which, inter alia, results from the long-lasting effects of the barriers of the household registration (*hukou*) system and an uneven allocation of public resources. In 2017, the disposable income of urban residents was 2.7 times that of rural residents.

Furthermore, while China is striving to improve all people's living conditions, the income gap among different groups is widening, with the Gini coefficient¹⁰² chronically above 0.4. According to the National Bureau of Statistics, China's Gini coefficient stood at 0.462 in 2015, down from a peak of 0.491 in 2008, but edged up to 0.465 in 2016, 0.467 in 2017 (NBS, 2018).

The current social security system is also contributing to additional economic imbalances in that it remains segmented. This segmentation is largely attributable to the absence of larger geographical pooling and the continued existence of the two separate schemes for residents and employees. While

¹⁰¹ For example, the provinces of Gansu, Guizhou and Yunnan had a GDP per capita of around \$5000 in 2017 (NBS, 2018).

¹⁰² A measure of inequality in income distribution, it expresses the size of the area between a theoretical perfect equality Lorenz curve and the real concave Lorenz curve of a country or another entity to the size of the area under the equality line. The value is between 0 and 1. A value of more than 0.4 is alarming because it points at an excessive rich-poor income gap.

the group of billionaires is growing rapidly, a large number of impoverished people are desperate for public assistance. The Government announced that nearly 16.6 million rural residents lived in poverty as of the end of 2018. These households live in absolute poverty and are in need of government assistance.

The imbalances among regions and between urban and rural areas as well as the increasing social inequality not only affect the sustainable and sound development of the national economy but also undermine social justice and potentially social stability. In these respects, China has similar problems as other regions and countries around the globe. In the course of modernization, China will have to address these problems seriously at home but also in concert with the other nations at the international level (for example, with the United Nations and the Group of Twenty summits).

3. The ageing of China's population, coupled with the low fertility rate, has become increasingly evident while traditional security mechanisms are increasingly fading.

With a declining fertility rate and a higher average life expectancy credited to social development and progress as well as the implementation of the one-child policy over the past 30 years, the issue of population ageing and low fertility rate is outstanding. In respect of these challenges, China has clearly joined many developed countries. According to the National Health and Family Planning Commission, the size of Chinese families has shrunk, with the nuclear families now accounting for more than 60 per cent of all households. And the average household size is smaller than 3.02 persons, with the family of two or three members the dominant type, but one-person households and so-called empty-nest families are emerging (NHFPC, 2016).¹⁰³ Around 150 million families are one-child families, and the number of persons aged 80 or older rises by more than one million annually. In terms of childcare and older-person care, the traditional pattern of family care has encountered mounting challenges, thus calling for social services. Due to the high mobility of the population, the traditional neighbourhood watch has been replaced by (implicit or explicit) rules applying to a “stranger society”,¹⁰⁴ and the traditional work unit-based welfare provisions that were once omnipotent collapsed with the market economy reform. The erosion of traditional financial and in-kind security mechanisms based on the family, the neighbourhood and the work units has led to soaring demand from urban and rural residents for social security and services, which requires immediate action by the State and society.

4. The social security system is not full-fledged yet, and the supply of basic public services for older persons, children and people with disabilities are inadequate.

In reforming its social security, China adopted a progressive strategy that first entailed trials (pilots), which have thus far achieved positive results. Yet inevitably, there are historical constraints and path dependencies, leaving deficiencies in the existing social security system that still need to be addressed.

For instance, the statutory pension system remains fragmented and, being operated at the regional level, the goal of national pooling has not yet been achieved. The stipulation that individuals have access to a full pension after contributing only for 15 years turns out to be rigid and undermining of the sustainable development of the system.

Beneficiaries of the health insurance have been divided into two groups: employees and residents. The

¹⁰³ Empty-nest families are families in which elderly adults have no supporting child around, who, thus, live alone or with a spouse.

¹⁰⁴ “Stranger society” is a term relating to the traditional Chinese “acquaintance society”. In the past, due to the low level of population mobility, people lived and worked in the same community for generations and were closely bonded with neighbours, termed “acquaintance society”. In recent three decades, along with the rapid industrialization and urbanization, the mobility of the population has been rising. People living in the same community nowadays likely see their neighbours as strangers. It is even more difficult for migrating workers to integrate into urban communities. This adds to distrust among people and to the costs of maintaining a functioning society.

regulation that retirees do not have to contribute needs to be rectified.

The division of responsibilities between the central and local governments has not been clarified yet. And the social security administration system can only be optimized and fully formed by deepening the reform.

With the weakening role of the family in providing security, hundreds of millions of older persons and children as well as more than 80 million persons with disabilities are in urgent need of social welfare services. Currently, however, neither the State nor society are capable of satisfying their needs in all respects, which has not only undermined the security and quality of people's livelihoods but also impeded the economic development related to people's livelihoods.

Therefore, further reforms call for more well-informed top-level design and overall development of relevant services to move towards a mature and solid social security system. This is, without doubt, an onerous task for China.

When a social security system starts to mature and costs start going up, including due to the demographic transition, some countries follow an apparently easy solution of transferring the risk from the State to individuals, in the form of individual accounts and/or privatization, including with pensions. However, the reforms in these countries have turned out to be not entirely successful. In the global pension reform between 1981 and 2011, for example, 36 countries introduced a full or partial move from non-financial defined benefit to financial defined contribution (Wang, Williamson and Cansoy, 2016); if partial, the unfunded part was often changed from non-financial defined benefit to a point scheme or to a non-financial defined contribution scheme. Of those 36 countries that had introduced systemic reforms (full or partial), 21 countries had reversed the reform by 2016, including nine countries that completely reversed the systemic reform and nine that partially reversed the reform (Wang, Williamson and Cansoy, 2016). This teaches that political wisdom is needed when China pursues to build a mature and fully formed social security system.

5. China is experiencing large-scale internal migration, rapid industrialization and urbanization, social structure transformation and the emergence of new business forms . All these developments have direct influence on economic growth while presenting challenges to social security and its further improvement (Zheng, 2018a).

In particular, the advancements in science and technology, such as the Internet and artificial intelligence as well as the new economy, have exerted direct impact on people's work and life, resulting in economic and social structure changes. They are also bringing about unprecedented challenges to the traditional operation mode of social security. Only a substantially modernized social security administration will be able to adapt to the resulting changes in the long term while protecting the interests of a scheme's members. The Government, which steers the guidelines of China's social security system, is well advised to continue pursuing policies aiming to balance marketization solutions (applicable as a complement to the public scheme for the few top income earners) with the core social security principles (for the middle- and low-income groups) that form the explicit and implicit basis of this report and the foundation of ILO and other organizations' Conventions and Recommendations.

3.2.2 Policy recommendations for the Government of China

As described in previous sections, China has achieved a positive interaction between social security and economic development over the past decades. Yet, the multiple challenges faced by China indicate that the relationship between these two needs to be further clarified so as to achieve common development. In particular, social security's growth-enhancing role must increasingly be seen under the perspective of intensive rather than extensive economic growth. This report thus makes the following recommendations for the Chinese Government.

1. Address the problem of insufficient endogenous impetus¹⁰⁵ of the national economy to keep it growing at moderately high speed.

China's economic development cannot be sustained on the basis of its past extensive growth experience because it is confronted with many challenges, including reduced export growth, diminishing competitive edge of (low) labour costs, sharpening structural contradictions between supply and demand, diverging regional and industrial trends and increased pressure on resources and the environment. This requires a switch to high-quality growth.

It is imperative to maintain economic growth at a medium to high speed and to continue consolidating and widening the material basis that bolsters the social security system (fiscal space). Addressing the problem of the inadequate endogenous dynamic in economic growth has become the biggest challenge. Thus, it is incumbent upon China's economy to head for a more advanced stage of development, which is characterized by a more sophisticated division of labour, a better structure and improved quality of the economy. This means more emphasis on innovation-driven growth and the expansion of domestic demand, especially consumer demand. China should give more attention (than hitherto) to the decisive role of the Government in those policy areas that are considered public domain while leaving the crucial role of resource allocation (as much as possible and advisable) to the market. Under the conditions of (i) addressing the difficulties of urban and rural residents in a well-directed manner and (ii) expanding the middle-income groups without further delay, China should let people's livelihood benefit more from the fruits of economic development livelihoods through the social security system in a better and fairer way. This can only be successful if complemented by a pro-productivity and pro-wage growth policy.

Providing all people with a stable and secure expectation for social security should be prioritized as a national development strategy (Zheng, 2016c). This is not only a necessary measure to keep unleashing the consumption potential, further activate the domestic impetus of economic growth and maintain the national economic growth at a medium to high speed, but it is an indispensable move to stride over the so-called middle-income trap and is the only way to common prosperity (Zheng, 2016d).

2. Give full consideration to the historical logic of the relationship between social security and public governance, strengthen the responsibility of the central Government for coordination and build a well-organized and multilayered social security system (Zheng, 2017c).

In the face of the new challenges, China should take social security as a holistic system with integrated schemes and optimized structure and incorporate it as one core policy field into the system of public governance to let it co-shoulder the historical mission of promoting social justice and sharing the fruits of development. The social security system should aim to systematically contribute to the well-being of all people for generations to come.

To achieve this end, China needs to be highly wary of the departure from the normal structure and functions of its social security system and refrain from shaking the social security system's foundation, hinging upon mutual help and stable anticipation. Reinforcing the responsibility of the Government can clearly contribute to this end.

China needs to combine the formal and informal systems, establishing a two-tier system that will universally cover the population while maintaining schemes targeted at certain societal groups. The concerted efforts of the Government, the market, society, families and individuals need to come together in a well-organized and multilayered social security system to give it the proper flexibility and resilience it needs to cope with crises. In the process, governments must take the lead and the central Government should have the authority to plan in a coordinated way. The fiscal responsibility of governments should be reinforced, and the role of overarching coordination of the central Government should be strengthened to rectify the regionally segmented system and thus institutionalize a positive and sound

¹⁰⁵ Endogenous impetus refers to the internal forces that originate from the State, organizations and individuals. The internal forces driving economic growth come from domestic consumption and technical innovation.

social security system that keeps pace with the changing times. Given the reality of the existing imbalances, gaps are unavoidable for certain periods of time. Nevertheless, this should be no excuse for not unifying the system at the national level or achieving the goal with the wrong steps (Zheng, 2016e). China should spare no effort to achieve a more equitable allocation of public resources nationwide by integrating its social security system, turning it into an important tool to bridge the regional gaps and to promote fair and coordinated development.

The central Government could take on major responsibilities for formulating the national design of social security, pushing forward relevant legislation and distributing resources rationally while maintaining an integrated system. It is necessary to reshape and modernize the operating mechanisms of social security to ensure its high efficiency by developing well-governed operating agencies and taking full advantage of information technologies and big data.¹⁰⁶ On this basis, social security administration will enhance its capacity of forecasting and early warning as well as monitoring. Equally, a stable system structure and operation must be maintained but, at the same time, kept flexible as appropriate so that it can easily adapt to non-standard forms of employment, population mobility and other possible developments. The social security system should also be endowed with capabilities of self-recalibration and constant improvement.

3. Continue to take social sharing as a cornerstone of social security and implement the principle of stakeholder collaboration and co-governance in practice.

With its social security reforms, China has instituted a new development philosophy of shared growth. It is not only a rectification to the previous skewed notion that some people are encouraged to become wealthy ahead of others but also a theoretical cornerstone to the improvement of the social security system. If the principle of solidarity sharing and mutual help is not implemented and maintained when reforming social security, the latter will deviate from its norm. Also, sustained development can only be achieved when the Government takes the lead, while stakeholders must be encouraged to participate in collaboration and co-governance. In practice, social security only functions well when it is mandatory; voluntary settings can only have auxiliary top-up functions. It has proven good practice, for various reasons however, for a government not to monopolize the management and the administration of social security but to leave these functions to the stakeholders.

Social security bears the role of income redistribution and must be led by the Government. Yet, the current pattern, characterized by monopolized power of the administrative branch (government) over legislation, administrative oversight and implementation undermines the long-term development of social security (Zheng, 2004b). The reform goal should be to "let the legislative, administrative and judicial departments and the operational agencies shoulder their respective obligations and fulfil their own duties" (Zheng, 2016a). Meanwhile, the trade unions, employers' organizations and the Federation of Disabled Persons representing the interests of different groups should be included in the designing and overseeing of the system. Only in this way can China ensure that all parties are participating in collaboration and co-governance. This is a critical condition for the healthy and sustained development of the system and would clearly be in line with internationally agreed principles of tripartite stakeholder involvement in social security policy formulation and administration. Also, more efforts are needed to cultivate charity and mutual help, which are the voluntary mechanisms for sharing benefits. However, the tradition of family-based protection and neighbourhood watch as well as the once full-fledged work unit welfare provision are fading, resulting in untapped potential of social resources in providing social welfare services (Zheng, 2011). To rectify the situation, social security policies, family policies and institutional welfare need to be coordinated to create synergy.

China should promote mutual help, charity and volunteer services, which will consolidate the material foundation of the overall social security system and create conditions in which individual people's needs can be better met.

¹⁰⁶ It would be important to take issues, such as data protection into account, to secure and protect private individual information contained in their social security data systems.

4. Maintain a positive interaction between employment and social security.

The relationship between social security and employment is, in essence, the relationship between sharing and collaboration. To a large extent, the benign interaction between these two determines the positive interplay between social security and economic development. China needs to strike a balance between providing proper incentives and ensuring that everyone has sufficient protection while dealing with the relationship between employment and social security. In policy design, both the correlation and the mutual promotion between employment and social security should be taken into account. It is thus better for China to adhere to constructing a social security system that centres on employment-related social insurance, takes the improvement of the social security system as a crucial indicator in terms of uplifting the quality of employment and makes sure that all workers have legitimate access to social insurance schemes.

To ensure that no one is excluded from the social security system, non-earning related schemes, such as social assistance and tax-subsidized schemes (rural and urban resident pensions, for example), need further improvement; moderate benefits should be guaranteed. Proper subsidies should be provided to the eligible low-income population and people with disabilities to help them pay their social insurance contribution. A modest but decent flat pension for all, paid out of taxation, would not conflict with the principle of an employment-social security nexus.

In addition, long-term care insurance must be put in place without further delay, and enterprise pension and other occupation-related benefits should be expanded to provide an all-around guarantee for workers.

The share of labour remuneration in relation to overall GDP should gradually increase, and the Government should encourage collective wage bargaining. The social security system should be conducive to promoting employment: keeping an appropriate benefit level without weighing too heavily on the jobs; encouraging workers to seek jobs or start new businesses and bringing into play the positive policy effects; adding the role of preventing unemployment as well as strengthening workers' competency into the unemployment insurance; turning social assistance into a proactive system that encourages employment; and developing the social security system in all respects to generate a large quantity of jobs of high quality. In particular, a variety of welfare services for older persons, persons with disabilities, children and women, as well as health care and charitable causes, are emerging sectors of employment worth exploiting because they have tremendous space to grow (Zheng, 2017d).

5. Attach enhanced importance to educational benefits and social welfare services.

Compulsory education should be made accessible as a public service to all permanent urban residents, with and without local urban household registration, including the children of the migrating population. Also, compulsory education should be extended from the current nine years to 12 years. And public input to vocational education should be increased to enhance its welfare nature.

The central Government should intensify its efforts to support compulsory education and vocational education so as to shift the demographic dividend from quantity-oriented to quality-oriented in all respects. In terms of social welfare services, China needs to improve services for children and older persons in particular; services for children should be extended to cover nurseries and kindergartens with sufficient budget, and for older persons it should incorporate the human resource re-development of retirees. China should also enrich the educational elements in the welfare for persons with disabilities to make better use of their talents and labour contributions. People with disabilities should be equally regarded as productive members of the labour force as non-disabled persons and should be equally included in skills training for jobs of the future. All these expansions in social welfare would improve China's future human resources in both quantity and quality.

6. Attach great importance to the legislation on social security, and make the social security system

run under the rule of law framework without further delay (Zheng, 2018a).

A mature social security system is bound to run under the rule of law. Nevertheless, owing to the historical approach of progressive reform, the existing social security system lacks the necessary and adequate legal regulations and guarantees. This has undermined the stability, authority and credibility of the system and further resulted in fluctuations in the perception of the relationship between social security and economic development.

Given this reality, China needs to step up the legislation on general laws, including a social security law, a social welfare law and a social assistance law, as well as specific laws, such as a child welfare law, an older persons welfare law and a disabled persons welfare law, and revise and improve existing laws, such as the Social Insurance Law and the Soldiers Insurance Law. The Government should put all legislation into one systematically elaborated volume containing all laws and by-laws (in hard copy as well as electronically, as appropriate) to make the related information transparently accessible to Chinese citizens. A well-established legal guarantee would give the public a stable and secure expectation of social security and thus is bound to boost people's confidence in the social security system. This is of great significance in stimulating people's enthusiasm for participating in social security and to safeguard the healthy and sustainable development of the system.

China needs to step up the process of reviewing its system in relation to ratification of the Social Security (Minimum Standards) Convention, 1952 (No. 102). As China further pursues its endeavour to modernize itself and develop its social security system, ensuring that it is in line with the rule of law constitutes a major task.

4. Summary

4.1 Basic historical experience and theoretical consensus on the relationship between global economic development and social security

Through a global perspective, this report reviews the evolution of the relationship between social security and economic development over the past century. In the preceding chapters, the report reviews theoretical explanations and universal rules of the interrelations of both; it also focuses on China's experiences over the past four decades and compares with an assessment of historical experiences of social security and economic development in selected developed countries (in Europe as well as the United States, Japan and the Republic of Korea). Based on the review of these core historical experiences and the resulting theoretical consensus, the report reaches the following core consensus.

First, social security is indispensable in promoting social justice, compensating for market failures and contributing to shared and equitable development.

History shows that the emergence of social security systems was not only the result of solving political problems or eliminating economic predicaments but that they have their origins in humanistic thought as well as in peoples' intrinsic pursuit of social justice. Over the past one and a half centuries, social security increasingly proved its constructive role in promoting social justice and in countering the detrimental implications of economic crises. The Bismarckian social security system, introduced in Germany at the end of the nineteenth century, greatly improved industrial relations as well as labour productivity and supported the country's international competitiveness, thereby promoting its national economic development and lasting prosperity. In the course of the twentieth century, its basic principles evolved into a globally inspiring success story. As an important part of US President Roosevelt's New Deal, the Social Security Act of 1935 in the United States was a valuable antidote to the most serious economic crisis of the last century. It saved capitalism from collapsing during the Great Depression by

way of rectifying inherent defects of laissez-faire economics. Britain's 1942 Beveridge report significantly influenced the development of the post-World War II welfare state, nationally and internationally, which strengthened social solidarity and accelerated economic recovery.

Second, economic growth and social security are not only two key components of any development model but should be seen as two sides of the same coin in modern development.

In modern economies, economic development on the basis of market principles created the material basis for social security, while social security, in return, introduced stabilization into economies that would otherwise have been volatile and erratic.

Theoretical considerations suggest that economic development and social security are generally intertwined societal systems. It can be argued that there are intrinsic economic reasons for the development and existence of social security institutions (see section 1.2 and Coase, 1937), and, obviously, there are tight links between the two. Without accepting its economic preconditions and foundations, social security faces a lack of sustainability. And, vice versa, without social security, economic development will become volatile and run a high risk of collapsing, thus greatly compromising its value.

History teaches that in market economies, the costs of social security are usually in conflict with short-term business (profit) interests. Achieving profits is inherent to market economies; hence, this conflict is unavoidable. The mutual dependency of economic and social security development does not imply that both systems co-exist in peace. To the contrary, to unleash the productivity-enhancing effects of social security, more or less intense conflicts between economic and social interests had to be withstood at various times in history and in different countries or regions by all stakeholders alike, while conflict-resolution mechanisms were implemented to avoid socioeconomic stalemate. Such mechanisms were also necessary to avoid social security becoming dependent on immediate and immanent business interest. It was (and still is) the art of state leadership and of societies at large to set respective rules for the balancing of interests to the advantage of all.

Third, in modern societies, social security is generally a comprehensive system comprising various benefits and different schemes and funding sources. Its total spending in developed countries takes shares of around 25 per cent of GDP, while often one third or more of social security revenue is provided by the government (taxpayer), whereas the rest may come from mandated employer and employee contributions and other sources, like voluntary contributions or investment returns.

The core functions of social security include risk-sharing based on internationally agreed principles of organized social solidarity, promotion of social justice and social cohesion, guarantees of basic income security and provision of basic public services. Given the individual risks of sickness, work accident, disability, unemployment, poverty, longevity and others, these are concerns of which every citizen is not only interested in but effectively exposed to throughout their life cycle.

Availability of institutions and services addressing these risks in case they materialize is not only a justified appeal of people but also a major government mission. Market mechanisms and NGOs, where necessary as institutions for complementing social security, are usually supported and integrated into government-led frameworks. This includes market regulations aiming to expand social security's material basis and to avoid system failure.

Internationally, most advanced countries spend around one quarter (sometimes more) of their national income on social security. Estimates vary also because of different ways of including or excluding the costs of education systems. China, with a social expenditure ratio of 13 per cent of GDP, is around halfway to reaching advanced countries' spending levels.

Fourth, social security is generally supportive to long-term economic growth and improvement of national welfare, yet different scheme designs have different economic effects.

When well adapted to a country's societal and economic fabric, social security exerts very positive direct and indirect productivity effects. In addition to the experiences of countries like Germany, the United States and the United Kingdom, the Nordic countries demonstrate that high welfare levels are no hindrance to prosperity but can enhance human capital accumulation and innovation and achieve positive interaction between social security and economic growth. The economic take-off in Japan and the Republic of Korea in the second half of the twentieth century was synchronized with the establishment of their respective social security system, with productivity-oriented welfare policy strongly supporting economic growth.

At the same time, different social security schemes exert dissimilar impacts on economic development, depending on whether they are more efficiency or more equity oriented by design (see section 1.2.5).

For example, in countries with generally low-income levels, social assistance programmes can substantially increase the income of lower-income groups, strengthen consumer demand and thus have direct impact on the economy. Naturally, in higher-income countries, the demand effects of social assistance are limited. Here, often classical social insurance counters people's insecurities, thus increasing their marginal consumption propensity and thereby contributing to economic growth. Social welfare services help to drive the development of tertiary industries, thereby facilitating adjustment of economic growth patterns and helping to upgrade industry structures. Free education directly improves people's overall civil standing while it can support the transformation of the demographic dividend from quantity to quality.

All these examples might interact differently with economic developments, depending on whether they are more of a Bismarckian or a Beveridgean design.

Fifth, the international development of social security is imbalanced among regions, recently showing tendencies of instability. The past four decades of China's practice confirms that positive interaction and joint progress of economic development and social security can be achieved.

Owing to their industrialization, European countries were the first to establish modern social security. Chosen system designs have progressed in conjunction with the region's socioeconomic development. Despite some twists and turns in the process, European countries still have the highest social security levels in the world. Also, Europe's experience still serves as inspiration for social security design to the rest of the world. Japan (less so the Republic of Korea) has been building a modern comprehensive social security system for decades. Owing to the country's societal fabric and individualistic culture, social security of the United States stands out as a unique type. Its welfare level is not as high as Europe's, yet along with (voluntary) charity, it also has a relatively sound social protection system. Generally, social security in the Latin American region is at medium levels, while Africa (except for South Africa) and Southern Asia, being less developed, are still substantially relying on social assistance, ad hoc anti-poverty projects, limited benefits financed through taxation and/or social insurance coverage on a narrow basis.

China's development over the past four decades is noteworthy because its social security overhaul was triggered by and was influenced by the economic system reform. While shifting from the planned to a market economy, social security underwent comprehensive and profound system change, the result of which was rapid expansion of social security coverage, from initially covering only a few to the whole population. Along with rapid economic growth, benefit levels – although still relatively low – have been constantly improving. The overhaul has not only created a stable social environment and supportive conditions for China's economic reform and sustained growth but also provided an institutional guarantee ensuring that all people's livelihoods can benefit from the fruits of national development.

China's development pattern and achievements thus confirms again, as had been done by its predecessors in development, that social security and economic development complement and facilitate each other.

Sixth, economic globalization has confronted social security and economic development of all countries with old and new challenges.

Economic globalization, regional competition, population ageing, migration, social structure changes, progress in science and information technology followed by emerging new industries, non-standard forms of employment and lifestyle changes present new challenges to economic development and social security around the globe.

4.2 Conclusions and policy recommendations for countries

In market economies, labour is continuously in danger of being treated as a commodity – which it is not, and should not be, not the least because the price for labour (wage) is at the same time the means by which people (households) exert demand on the economy. History has shown that, in the long run, it is social security in combination with labour standards that prevents labour from being a commodity. Where this is the case, market economies have turned into social market economies.

The intensity of the inherent conflict in market economies between persons who are mainly interested in the short-term gains of their market activities and persons interested in equitable social security has varied significantly over the past, and by region and country.

Over the very long term, history proves that it is neither necessary nor advisable to "optimize" social security, such that it complies with the requirements of the market. Within reasonable boundaries and avoiding system overstretch, any intrinsic conflict between the two policy fields must be endured and a balance found. This balance is vital in social as well as in socialist market economies.

Over the past three to four decades, economic interests worldwide gained dominance over social equity and social security. In the West, this development resulted in a pronounced retrenchment of the (hitherto well-developed) welfare state in most (if not all) the OECD countries. In other regions, where social security was undeveloped or underdeveloped, the evolvement of any social security clearly lagged behind economic development and did not (usually) reach the social security levels achieved in the West.

Common experience of these countries demonstrates that during economic downturns, social security fosters rather than impedes rapid recovery through positive economic demand- and supply-side roles. Also, many countries used post-crisis recoveries for strengthening their social security system not only to be prepared for the next phase of downturn but also to promote social justice and maintain sound and sustainable socioeconomic development. Social security, de facto, has become an institutional cornerstone of state governance.

It is imperative to comprehensively understand the interaction of different social security programmes with economic developments to optimize the mix of conflicting and supportive relations between social security and economic requirements at large.

In this context, China took a very interesting and specific social security development path. With initially quite low – and still low – social benefit levels (including low health provisions) and not bound by any of the ILO social security and labour norms, China decided at the end of the 1970s to transform its planned economy into a competitive (socialist) market economy. The core characterization of its "socialist" market economy may have meant that enterprises were fully exposed to market competition, but ownership of some enterprises remained in the hands of the State or public institutions.¹⁰⁷ Thus, both public enterprises and private enterprises were competing on equal footing.

¹⁰⁷ This differs from "social" market economies, where ownership is predominantly private, with state ownership being kept to a minimum.

From that starting point and with the market vision in mind, the Government used social security as the core means to bolster the implications (for people) of the economic restructuring process. The intent was to financially buffer the impact of that process but also to use social security to restructure and reallocate the labour force to the requirements of the new economic setting: A new unemployment insurance was set up to provide short-term income support for persons temporarily unemployed; the pension system was used for early retirement; and specific anti-poverty measures were employed to avoid temporary hardship of labour that had lost employment. For many years, urban-based workers and other citizens mainly took advantage of these measures; the rural population was included in social security policies a decade ago.

In other words, in the West as well as in China, the ruling paradigm of the past four decades was dominated by economic thought. Unlike the West, China had an advantage due to its social security system still in a nascent status, and the Chinese general public did not expect "too much" from social security benefits. Nor was there complex legislation or judicial systems (focused on protecting individual rights and entitlements, as was the case in the West) hindering the Government from taking necessary decisions in due time. This situation of an initially "simple" social security system that allowed for tangible adjustments as and when required clearly helped achieve the intended goals, although the enormous difficulties should not be underestimated. From an international perspective, the Government used the transformation process to shape the social security system towards the classical institutional and functional design, as described in ILO Convention No. 102, which will allow China to eventually ratify it and other relevant Conventions, such as the Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128).

Such instrumental use of social security was not available to Western countries, where social security had been implemented in complex legislation and interdependent institutional arrangements and had been the result of social forces, which are still lively today in some countries. One notable exception is possibly Germany, with its Agenda 2010 reforms, in which social security was also "instrumentalized" as a means to achieve economic goals. While the positive effects of social security over the past 40 years in China came mainly from its support to the restructuring of the labour force and, to a lesser degree, by way of its macroeconomic demand effects, in the West, social security exerted its positive effects on the economy mainly through its (cost-induced) labour productivity effects and by way of its large share of spending in national incomes (the macroeconomic demand effects helped stabilize the Western economies in periods of crises).

Although China is currently in the midst of deepening its reforms, including social security, because the system requires further overarching designs to move towards maturity, the tremendous progress that has been achieved can serve as an important example for countries around the globe, particularly for developing countries in terms of achieving economic development through the proper handling of social security.

This report recommends the following policies for countries to foster both social security and economic development:

1. The research findings suggest that governments must equally emphasize economic as well as social security development and that achieving synchronized development of both should be internationally accepted as a rational goal of good governance. To this end, labour rights must be strengthened together with people's consciousness of their individual welfare entitlements. Furthermore, the implicit and explicit impacts of social security on enhancing productivity as well as on distributional fairness must be intelligently used to support domestic demand.
2. Developed countries should continue pursuing policies of high-level social security. Population ageing and international competition should not be used as "excuses" for further retrenchment of social policy. Rather, societies should prepare to continue financing a decent living for all persons who have no access to primary income. This may imply, at least for the transitory population-ageing period, higher than recently achieved spending levels. New forms of social security financing might need to be explored. The State (government) should retain the main responsibility for social security;

it is governments that guarantee sufficient minimum benefit levels that allow for individuals' decent living. Only additional (so-called second or third layers) should be allocated to the private sector or individual and personal responsibility.

3. Given its important international role as an economy and its growing role in shaping international social security discussions and attitudes, China should continue its expansionary path of implementing institutionalized social security, and policies of fostering individual entitlements should be intensified. With nearly 100 per cent pension coverage, similar success must be achieved in other social policy fields: free education, family benefits, health care, poverty eradication, workplace protection and work accident insurance, among others. Furthermore, China should increase its relative social spending levels to catch up with the spending levels of other modern economies.
4. Developing countries or countries in the middle of developing social security as part of their economic development should carefully study the case of China. Although specific and usually not 100 per cent applicable, it contains lessons to be learned for policies aiming to simultaneously foster economic and social security development. While ILO Conventions can help formulate national social policy goals, China's past four decades of development offers inspiration for the policies required to achieve those goals.
5. There is no need for the international community to give up social security values or to reduce or abolish social security conventions. Rather, the contrary is true. The international community should adhere to the values of social justice, a shared future for all humankind and sustainable inclusive development. These values should guide the practice of social security and economic development accordingly. To avoid social security unduly becoming an instrument of international competition, the world community is invited to renew its efforts in substantiating common rules and conventions in the field of social security and labour rights. New trends of re-nationalization and protectionism that have allowed labour to be transformed into a "commodity" must come to a halt and be reverted; this includes withdrawing punitive elements from social security legislation.
6. There is need to take internationally coordinated steady steps to seek new equilibria of ruptured policy fields. To introduce stability to this search, it is rational to uphold the fundamental principles of social security and to guarantee their effective functionality while pursuing further development under appropriate economic growth.
7. When and where government-led social spending levels are high or are to be increased, the operation mechanisms of social security must be adapted to changes in information technologies and intelligence. This is especially necessary in times when government finance (including social security) must swiftly counter the unforeseeable detrimental effects on societies and economies of uncontrolled crisis-producing global financial markets. Looking ahead to the likelihood of Industry 4.0, Labour Market 4.0 and modernized industrial, especially manufacturing sectors, social security must be prepared to adapt accordingly, including through innovative methods aiming to maintain and stabilize its financial basis.

Letting all citizens benefit in a better and equitable manner from the fruits of national development should be a crucial goal of this adaptation process. This will contribute to stimulating smooth economic development. Therefore, when developed economies adjust their social security systems, priority should be given to maintaining and promoting social justice, including by maintaining or setting adequate standards for benefit levels. Less developed economies need to focus on addressing the immediate poverty issues while stepping up social security system institutionalization (ILO Recommendation No. 202 can be of direct reference in this regard).

References

- Amlinger, M.; Bispinck, R; Schulten, S. 2016. "The German minimum wage: Experiences and perspectives after one year", in *WSI Report*, No. 28e.
- Auer, P. 2010. "What's in a name? The rise (and fall?) of flexicurity", in *Journal of Industrial Relations*, 2 July. Available at: <http://journals.sagepub.com/doi/pdf/10.1177/0022185610365646> [17 June 2018].
- Bertelsmann Stiftung. 2016. Kinderarmut in Deutschland waechst weiter mit Folgen fuers ganze Leben. (Nuernberg, Germany, Bundesagentur fuer Arbeit). [*Child poverty continues growing in Germany with lifetime implications* (Nuernberg, Germany, Federal Employment Agency). Available at: <https://www.bertelsmann-stiftung.de/de/themen/aktuelle-meldungen/2016/september/kinderarmut-in-deutschland-waechst-weiter-mit-folgen-fuers-ganze-leben/> [18 July 2017].
- Beveridge, W.H. 1942. *Social insurance and allied services: Report* (London, HMSO).
- Blair, T.; Schroeder, G. 1999. *Europe: The third way (Die neue Mitte)* (London and Berlin, Labour Party and Sozialdemokratische Partei Deutschlands). Available at: <https://web.archive.org/web/19990819090124/http://www.labour.org.uk/views/items/00000053.html> [8 Feb. 2017].
- Bleicken, J. 2015. "The army of Augustus", in *Augustus: The biography* (New York, Penguin). [Original published in German: Jochen Bleicken: *Augustus: Eine Biographie* (Berlin, Alexander Fest Verlag, 1998; paperback-edition consulted: Hamburg, Germany, Rowohlt, 2010].
- Bonss, W. 1982. *Die Einuebung des Tatsachenblicks: zur Struktur und Veraenderung empirischer Sozialforschung*. (Frankfurt am Main, Suhrkamp) [*Exercising our views on subject-matters: about structure and transformation of empirical sociological research*].
- Bosch, G. 2015. "The German welfare state: From an inclusive to an exclusive Bismarck model", in D. Vaughan-Whitehead (ed.): *The European social model in crisis: Is Europe losing its soul?* (Geneva, Cheltenham, UK and Northampton, MA, ILO and Edward Elgar Publishing).
- . 2017. "Exportorientiertes Wachstumsmodell: Die Agenda 2010 sollte Probleme loesen, die es nicht gab", [*"Germany's export-oriented growth model: The Agenda 2010 was supposed to solve problems which did not exist"*], 15 Aug. Available at: <https://makroskop.eu/2017/08/die-agenda-2010-sollte-probleme-loesen-die-es-nicht-gab/> [16 Aug. 2017].
- Bundesagentur fuer Arbeit (BMA). 2016. Arbeitslosigkeit im Zeitverlauf - Monats-/Jahreszahlen (ab 1950). Nuernberg: Bundesagentur für Arbeit [*Federal Employment Agency: Unemploymet – long-term time series (as of 1950)*].
- Bundesarchiv: Denkschrift. Undated. *Ueber die Hoehe der finanziellen Belastung, welche durch die Alters- und Invalidenversicherung der Arbeiter voraussichtlich hervorgerufen werden wird* (Berlin). [Federal Archives: Memorandum. Undated. *On the level of financial burdens resulting from the implementation of the workers' old-age and invalidity insurance* (Berlin). [Delivered prior to Bismarck's pension legislation in order to fix benefit levels and contribution rates.]
- Bundesministerium fuer Arbeit und Soziales (BMAS). 2015. Sozialbudget 2014. http://www.bmas.de/SharedDocs/Downloads/DE/PDF-Publikationen/a230-14-sozialbudget-2014.pdf?__blob=publicationFile&v=2 [23 Sep. 2015].

- . 2016a. *Entwicklung der privaten Altersvorsorge 2001 bis 2016* (Berlin, Bundesministerium fuer Arbeit und Soziales). Available at: <http://www.bmas.de/DE/Themen/Rente/Zusaetzliche-Altersvorsorge/statistik-zusaetzliche-altersvorsorge.html> [23 November 2016]. [*Development of the number of private pension contracts 2001 to 2016* (Berlin, Federal Ministry of Labour and Social Affairs)]
- . 2016b. *Gesamtkonzept zur Alterssicherung* (Berlin). [*Comprehensive old-age security concept*]. Available at: http://www.bmas.de/SharedDocs/Downloads/DE/Thema-Rente/gesamtkonzept-alterssicherung-detail.pdf?__blob=publicationFile&v=6 [11 Dec. 2016].
- . 2017. *Sozialbericht. Teil B: Sozialbudget* [*Social report. Part B: Social budget*] (Berlin). Available at: http://www.bmas.de/SharedDocs/Downloads/DE/PDF-Publikationen/a-101-17-sozialbericht-2017.pdf?__blob=publicationFile&v=2 [12 Jan. 2018].
- Bundesministerium für Arbeit und Soziales und Bundesarchiv (BMAS and BArch). 2006. *Geschichte der Sozialpolitik in Deutschland seit 1945. Band 9: Deutsche Demokratische Republik 1961–1971. Politische Stabilisierung und wirtschaftliche Mobilisierung* (Nomos: Baden-Baden). [Federal Ministry of Labour and Social Affairs and Federal Archives. 2006. *History of social policy in Germany since 1945, Vol 9: German Democratic Republic 1961–1971: Political stabilisation and economic mobilisation.*].
- . 2008. *Geschichte der Sozialpolitik in Deutschland seit 1945. Band 10: Deutsche Demokratische Republik 1971–1989. Bewegung in der Sozialpolitik, Erstarrung und Niedergang* (Nomos: Baden-Baden). [Federal Ministry of Labour and Social Affairs, and Federal Archives. 2008. *History of social policy in Germany since 1945, Vol. 10: German Democratic Republic 1971–1989: Social reforms, rigidity, and decline.*].
- Bundesministerium fuer Gesundheit und Bundesarchiv (BMG and BArch). 2004. *Geschichte der Sozialpolitik in Deutschland seit 1945. Band 8: Deutsche Demokratische Republik 1949–1961. Im Zeichen des Aufbaus des Sozialismus* (Nomos: Baden-Baden). [Federal Ministry of Health and Social Security, and Federal Archives. 2004. *History of social policy in Germany since 1945, Vol. 8: German Democratic Republic 1949–1961: Under construction of socialism*]
- Central Committee of the Communist Party (CCCP). 2015. *13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016–2020)*, Translated by Compilation and Translation Bureau (Beijing). Available at: <http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf> [1 Dec. 2016].
- Central Committee of the Communist Party; State Council. 1992. *Decision on accelerating the development of the tertiary industry* (Beijing) [in Chinese].
- China Centre for Human Capital and Labour Market Research. 2018. *China human capital report 2018* (Beijing, Central University of Finance and Economics Press) [in Chinese].
- Chinese Academy of Social Sciences (CASS); State Council Poverty Alleviation Office (SCPAO). 2016. *China Poverty Alleviation and Development Report 2016*, Poverty Reduction Blue Book (Beijing) [in Chinese].
- Cichon, M.; Scholz, W.; van de Meerendonk, A.; Hagemejer, K.; Bertranou, F.; Plamondon, P. 2004. *Financing social protection* (Geneva, International Labour Office and International Social Security Association).

Cingano, F. 2014. *Trends in income inequality and its impact on economic growth*, OECD Social, Employment and Migration Working Papers, No. 163 (Paris, OECD Publishing). Available at: <http://dx.doi.org/10.1787/5jxrjncwxv6j-en> [1 Feb. 2017].

Coase, R.H. 1937. "The nature of the firm", in *Economica*, Vol. 4, No. 16. Available at: <https://www.colorado.edu/ibs/es/alston/econ4504/readings/The%20Nature%20of%the%20Firm%20by%20Coase.pdf> [11 Nov. 2014].

Concialdi, P. 2019. *Economic development and social security in France: The mid-1980s turning point*. Background paper to the Chinese version of this report (Beijing, CAOSS).

Confucius. Undated. "The conveyance of rites", in Dai, S. (ed.): *The Book of Rites* (Beijing, Confucian Classics) [礼记•礼运]. Available at: <https://ctext.org/liji/li-yun> [19 Feb. 2019].

DeLong, B.J. 2002. *Macroeconomics*, Revised edition (New York, McGraw-Hill).

Dixon, J. E. 1999. *Social security in global perspective* (Westport, CT, Praeger).

European Commission. 2015. *The 2015 ageing report: Economic and budgetary projections for the 28 EU Member States, 2013–2060* (Luxembourg, Publications Office of the European Union). Available at: http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee3_en.pdf [20 Feb. 2019].

European System of Accounts. 2010. *European System of Accounts* (Luxembourg, Office for Official Publications of the European Communities).

European System of Integrated Social Protection Statistics (ESSPROS). 2012. *European System of Integrated Social Protection Statistics Manual* (Luxembourg, Office for Official Publications of the European Communities).

European Union; International Labour Office. Undated. *A Review of Global Fiscal Stimulus. International Institute for Labour Studies* (IILS). Available at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_194175.pdf [18 Aug. 2018].

Faricy, C. G. 2015. *Welfare for the wealthy: Parties, social spending and inequality in the United States* (Cambridge, Cambridge University Press) p. 140.

Flassbeck, H. 2017. Europäische Arbeitskosten: Unter deutschem Einfluss auf deflationaerem Pfad. Teile 1 - 3. <https://makroskop.eu/2017/04/europaeische-arbeitskosten-unter-deutschem-einfluss-auf-deflationaerem-pfad-1/> [15 April 2017]. [*European labour costs: Deflationary tendencies under German impact.*]

Friedman, M.; Bordo, M.D. 2005. *The optimum quantity of money* (London and New York, Transaction Publishers).

Frisby, D. 1972. "The Popper-Adorno Controversy: The methodological dispute in German Sociology", in *Philosophy of the Social Sciences*, Vol. 2, pp. 105–119.

Gauti, J. 2015. "Frances social model: Between resilience and erosion", in D. Vaughan-Whitehead (ed.): *The European social model in crisis: Is Europe losing its soul?* (Geneva, Cheltenham, UK and Northampton, MA, ILO and Edward Elgar Publishing), pp. 121–174.

Gillion, C.; Turner, J.; Bailey, C.; Latulippe, D. (eds.) 2000. *Social security pensions: Development and reform* (Geneva, International Labour Office).

Gleeson-White, J. 2012. *Double entry. How the merchants of Venice shaped the modern world and how their invention could make or break the planet* (London, Allen Lane). [Book consulted in its German edition: *Die doppelte Buchführung und die Entstehung des modernen Kapitalismus* (Soll & Haben)].

Gray, J. 2007. “Naomi Klein's critique of neo-liberalism, The Shock Doctrine, is both timely and devastating”, in *The Guardian*, 15 Sep. Available at: <https://www.theguardian.com/books/2007/sep/15/politics> [11 Nov. 2017].

Grimshaw, D. 2015. “Britains social model: Rapid descent from liberal collectivism to a market society”, in D. Vaughan-Whitehead (ed.): *The European social model in crisis: Is Europe losing its soul?* (Geneva, Cheltenham, UK and Northampton, MA, ILO and Edward Elgar Publishing), pp 553–613.

Hagemeyer, K.; Scholz, W. 2004. “Nachhaltig, sicher und angemessen? Die Reformstrategie der Weltbank und die Rentenreformen in Polen, Ungarn, Tschechien und anderen osteuropäischen Ländern. Eine Neubetrachtung (Soziale Sicherheit in Europa)”, in *Deutsche Rentenversicherung*, Vol. 11/12 [*Sustainable, safe and adequate? Revisiting the pension reforms in Poland, Hungary, Czech Republic and other countries of the region and the World Bank pension agenda*].

Hudson, J. 2016. *From welfare state to competition state? The evolving relationship between social security and the economy in the United Kingdom* (York, UK, University of York).

International Labour Organization (ILO). 1944. “Declaration concerning the aims and purposes of the International Labour Organization” (Declaration of Philadelphia), 26th General Conference of the International Labour Organization, Philadelphia, 10 May. Available at: http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-islamabad/documents/policy/wcms_142941.pdf [5 Oct. 2014].

—. 1952. “Social Security (Minimum Standards) Convention, 1952 (No. 102)” (Geneva). Available at: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312247 [10 Dec. 2016].

—. 2012. “Social Protection Floors Recommendation, 2012 (No. 202)”, NORMLEX Information System on International Labour Standards (Geneva). Available at: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R202 [29 Nov. 2017].

—. 2014. *Building economic recovery, inclusive development and social justice: World social protection report 2014/15* (Geneva).

—. 2016. ILO constitution: 1919 (Geneva). Available at: https://www.ilo.org/public/libdoc/ilo/1920/20B09_18_engl.pdf [19 Jan. 2019].

—. 2017. *World social protection report 2017–19: Universal social protection to achieve the Sustainable Development Goals* (Geneva).

International Labour Organization (ILO) NATLEX-China. Undated. “China: Regulations on unemployment insurance for staff and workers of state-owned enterprises”, Promulgated by the State Council by Decree No. 110, 4 Dec. 1993) (unofficial translation). Available at: <http://www.ilo.org/dyn/natlex/docs/WEBTEXT/49694/65117/E93CHN01.htm> [19 Jan. 2019].

International Monetary Fund (IMF). 2017a. *World economic outlook: Update*, July (Washington, DC).

—. 2017b. *The IMF and social protection: 2017 evaluation report* (Washington, DC, Independent Evaluation Office, IMF). Available at: <http://www.imo-imf.org/imo/files/completedevaluations/SP%20-%202017EvalReport.pdf> [19 Jan. 2019].

International Social Security Association (ISSA). 2016. “Government of China receives international social security award”, Press release, 17 Nov. Available at: <https://www.issa.int/en/-/government-of-china-receives-international-social-security-award> [1 Oct. 2018].

International Social Security Association (ISSA); Social Security Administration (SSA). Various years. *Social security programs throughout the world* (Geneva and Washington, D.C.).

Judt, T. 2010. *Ill fares the land* (New York, NY, Penguin).

Kim, Y. 2019. *Limits of economic growth without welfare: The experience of the Republic of Korea*. Background paper to the Chinese version of this report (Beijing, CAOSS).

Klein, N. 2007. *The shock doctrine: The rise of disaster capitalism* (New York, Metropolitan Books/Henry Holt).

Konfuzius. 2017. *Gespraechen (Lun-yu)* (Stuttgart, Reclams Universal Bibliothek). Aus dem Chinesischen von Ralf Moritz [*The analects*, translated from Chinese by Ralf Moritz].

Koschnitzke, L. 2015. *Krankenversicherung: Die Schutzlosen. Trotz gesetzlicher Pflicht leben hunderttausende Menschen in Deutschland ohne Krankenversicherung. Die aktuelle Fluechtlingskrise verschärft das Problem* [Health insurance: The non-protected. Despite legal obligation hundreds of thousands of people live without health insurance in Germany. The current refugees crisis intensifies the problem] (Hamburg, Germany, ZEIT). Available at: <http://www.zeit.de/wirtschaft/2015-10/krank-ohne-versicherung-selbstaendigkeit-abstieg> [19 Jan. 2019].

Lee, C.K. 2005. *Livelihood struggles and market reform: (un)making Chinese labour after state socialism* (Geneva, United Nations Research Institute for Social Development). Available at: <https://www.econstor.eu/bitstream/10419/148803/1/862974275.pdf> [19 Jan. 2019].

Leo XIII. 1891. “Rerum Novarum: Encyclical of Pope Leo XIII on capital and labour”, in *Libreria Editrice Vaticana*. Available at: http://w2.vatican.va/content/leo-xiii/en/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum.html [8 Dec. 2016].

Li, P.; Cheng, G.; Zhang, Y. 2015. *Social Blue Book: Analysis and projection of China's social situation in 2016* (Beijing, Social Sciences Academic Press [in Chinese]).

Li, S.; Jingyong, Z. 2003. “Can education provide sufficient human capital for a moderately prosperous society?”, in *Xinhua News Agency*, 12 March [in Chinese].

Lindert, P. H. 2010. *Growing public: Social spending and economic growth since the 18th century* (Los Angeles, CA, University of California).

Lindner, F. 2012. *Saving does not finance Investment: Accounting as an indispensable guide to economic theory*, Working Paper 100 (Duesseldorf, Germany, Macroeconomic Policy Institute). Available at: https://www.boeckler.de/pdf/p_imk_wp_100_2012.pdf [19 Jan. 2019].

Lister, R. 2013. “Benefit cuts: How the language of welfare poisoned our social security”, in *The Guardian*, 1 Apr. Available at: <https://www.theguardian.com/commentisfree/2013/apr/01/language-welfare-social-security> [27 Dec. 2017].

Maddison, A. 2003. *Historical statistics: The Maddison Project* (Groningen, Netherlands, University of Groningen). Available at: <http://www.ggdc.net/maddison/oriindex.htm> [11 Nov. 2016].

—. 2016. *The Maddison Project* (Groningen, Netherlands, University of Groningen). Available at: <http://www.ggdc.net/maddison/maddison-project/home.htm> [10 Nov. 2016].

Manthe, U. 2011. *Geschichte des Roemischen Rechts*, 4. Auflage [*History of Roman Law*] (Munich, C.H. Beck) [Chinese translation available].

Ministry of Civil Affairs (MCA). Various years (2010–18). *Statistical bulletin on social services development 2009–17* (Beijing).

—. Various years (2000–09). *Statistical bulletin on civil affairs development* (Beijing).

Ministry of Education (MOE). 2017. “Leading CPC group of the Ministry of Education: Develop modern world level education with Chinese characteristics”, in *Qiushi Journal*, Vol. 16 [in Chinese].

—. Various years. *Statistical yearbook on education* (Beijing).

—. 2018. *Statistical bulletin on the development of education 2017* (Beijing).

Ministry of Finance (MOF); Ministry of Education (MOE); National Bureau of Statistics (NBS). 2018. *Statistical bulletin on the implementation of educational funds in China 2017* (Beijing). Available at: http://www.moe.gov.cn/srcsite/A05/s3040/201810/t20181012_351301.html [1 Nov. 2018]

Ministry of Human Resources and Social Security (MHRSS). Various years. *Statistical bulletin on human resources and social security development* (Beijing).

Mueller, K. 1999. *The political economy of pension reform in Central-Eastern Europe* (Northampton, MA, Edward Elgar Publishing).

National Bureau of Statistics (NBS). 2016. *An International comparison report of labour productivity* (Beijing).

—. 2019. National data. Available at: <http://data.stats.gov.cn/english/easyquery.htm?cn=C01> [1 Jan. 2019]

—. Various years. *Statistical yearbook* (Beijing).

—. Various years. *Statistical bulletin on national economic and social development* (Beijing).

—. Various years. *Labour statistical yearbook* (Beijing).

National Health Commission (NHC). 2018. *China statistical yearbook of health* (Beijing)

National Health and Family Planning Commission (NHFPC). 2016. *China family development report 2016* (Beijing)..

—. Various years. *China Statistical Yearbook of Health and Family Planning* (Beijing).

Ono, T. 2019. *Historical development and current issues for social security in Japan*. Background paper to the Chinese version of this report (Beijing, CAOSS).

Ortiz, I.; Cummins, M.; Karunanethy, K. 2017. *Fiscal space for social protection and the SDGs: Options to expand social investments in 187 countries*, Extension of Social Security Working Paper No. 48 (Geneva and New York, International Labour Office, UNICEF and UNWOMEN). Available at: <http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=51537> [19 Jan. 2019].

Pal, K.; Behrendt, C.; Lger, F.; Cichon, M.; Hagemeyer, K. 2005. *Can low-income countries afford basic social protection? First results of a modelling exercise: Issues in social protection*, Discussion Paper 13 (Geneva, International Labour Office).

Payandeh, M. 2012. “The united nations, military intervention, and regime change in Libya”, in *Virginia Journal of International Law*, Vol. 52, No. 2. Available at: <https://ssrn.com/abstract=1930993> [19 Jan. 2019].

People's Daily. 2016. “Chinese government received ISSA Award for Outstanding Achievements in Social Security”, 19 Nov. [in Chinese].

—. 2017. “Whose jobs will be replaced by artificial intelligence? 21 Apr. [in Chinese].

Petersen, K. 2019. *Growth for welfare or welfare for growth? The changing relationship between economic development and social security in the Nordic countries*. Background paper to the Chinese version of this report (Beijing, CAOSS).

Plamondon, P.; Drouin, A.; Binet, G.; Cichon, M.; McGillivray, W.R.; Bdard, M.; Perez-Montas, H. 2002. *Actuarial practice in social security* (Geneva, International Labour Office and International Social Security Association).

Popper, K. 1977. *The logic of scientific discovery*. Fourteenth edition (London, Routledge) [First published in German: *Logik der Forschung* (Wien, Springer, 1934)].

Pusch, T.; Seifert, H., 2017. “Mindestlohngesetz: Fuer viele Minijobber weiterhin nur Minilohnne”. Policy brief No. 9 (Duesseldorf, Wirtschafts- und Sozialwissenschaftliches Institut, Hans-Boeckler-Stiftung). [“Germany’s minimum wage law: Many mini-jobbers still only earn mini-wages”] Available at: http://www.boeckler.de/14_107083.htm [19 Jan. 2019].

Ritter, G.A. 2014. “The creation of the German pension insurance and its major characteristics”, revision of a lecture at Thanks, Otto! 125 Years of Pensions and New Global Perspectives conference, Berlin, 28–29 Oct. (Handout) Available at: <https://helpage.app.box.com/s/4zxpajj9gv2g9c785tl/file/24147825195> [19 Jan. 2019]

Rodgers, D.T. 1998. *Atlantic crossings: Social politics in a progressive age* (Cambridge, MA and London, Harvard University Press and Belknap Press).

Sala-i-Martin, X. 1996. *A positive theory of social security*. *Journal of Economic Growth*, 1:277-304 (Boston, June).

Samuelson, P.A. 1983. *Foundations of economic analysis*, Enlarged edition (Cambridge, MA, Harvard Economic Studies).

Schmidt, M.G. 2005. Sozialpolitik in Deutschland. Historische Entwicklung und internationaler Vergleich. Dritte Auflage. (Wiesbaden, Germany, Verlag fuer Sozialwissenschaften) [*Social policy in Germany: Historical evolution and international comparison. Third edition*].

Scholz, W. 1992. “Methodische, statistische und prognostische Aspekte der Rentendynamisierung in Ostdeutschland” [“*Methodological, statistical and prognostic aspects of the pension adjustments in East-Germany*”], in Verband Deutscher Rentenversicherungstraeger (ed.): *Deutsche Rentenversicherung* (Frankfurt am Main, Deutsche Rentenversicherung), pp. 550–569.

—. 2009. *The social budget of Germany: Keeping the welfare state in perspective* (Duesseldorf, Germany, Hans Boeckler Stiftung).

—. 2015. “Financing social security out of contributions: About origins, present discussions and prospects of a success story”, in *International Social Security Review*, Vol. 68, No. 4.

—. 2017. “Global social security in political and economic contexts: Historical experiences and current trends”, in *China International Social Security Review*, Vol. 1, No. 1, pp. 135–152.

—; Cichon, M.; Hagemejer, K. 2000. *Social budgeting* (Geneva, ILO and ISSA).

Schroeder, W. 2019. *Historical experience of the interaction between economic development and social security. Current core problems in reaction national and global developments. Search of solutions for the future*. Background paper to the Chinese version of this report (Beijing, CAOSS).

Social Security Administration (SSA). 2016. Preamble to *the Social Security Act of 1935*, SSA (US), Historical links. Available at: <https://www.ssa.gov/history/35act.html#PREAMBLE> [23 Nov. 2016].

State Council Information Office (SCIO). 2011. *China's rural poverty alleviation and development*, White Paper (Beijing) [in Chinese].

State Council Poverty Alleviation Office (SCPAO). 2017. “Leading CPC Group of Poverty Alleviation Office of the State Council: Five years of poverty alleviation and endeavour”, in *People's Daily*, 17 Oct. [in Chinese].

Stephens, J.D. 2019. *The welfare state and economic development: The United States in comparative perspective*. Background paper to the Chinese version of this report (Beijing, CAOSS).

Supreme Court. 2002. *Compulsory Education Law of the People's Republic of China* (Beijing, Supreme People's Court of the People's Republic of China). Available at: <http://en.chinacourt.org/public/detail.php?id=135> [1 Oct. 2018].

United Nations General Assembly. 2015. Transforming our world: The 2030 Agenda for Sustainable Development. Resolution adopted by the General Assembly on 25 Sep. (A/RES/70/1). Available at: http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E [19 Jan. 2019].

United Nations (UN); Statistical Office of the European Union (EUROSTAT); International Monetary Fund (IMF); World Bank; Organisation for Economic Co-operation and Development (OECD). 2009. *System of National Accounts 2008* (Luxembourg, New York, Paris, Washington, United Nations). Available at: <http://unstats.un.org/unsd/nationalaccount/sna2008.asp> [13 Dec. 2018].

United States Congress. 1776. *Declaration of Independence. The unanimous Declaration of the thirteen United States of America* (Philadelphia, PA, US Government). Available at: https://upload.wikimedia.org/wikipedia/commons/8/8f/United_States_Declaration_of_Independence.jpg [1 Oct. 2018].

Vaughan-Whitehead, D. (ed.). 2015a. *The European social model in crisis. Is Europe losing its soul?* (Geneva and Cheltenham, UK and Northampton, MA, ILO and Edward Elgar Publishing).

—. 2015b. “The European social model in times of crisis: An overview”, in D. Vaughan-Whitehead (ed.): *The European social model in crisis: Is Europe losing its soul?* (Geneva, Cheltenham, UK and Northampton, MA, ILO and Edward Elgar Publishing), pp. 1 and 65.

Wagner, A. 1876. *Grundlegung der Politischen Oekonomie. Teil I: Grundlagen der Volkswirtschaft* (Leipzig, C. F. Winter, [Political economy. Volume I: basic economics.]. Available at: <https://archive.org/details/grundlegungderp00wagngoog/page/n9> [19 Jan. 2019]

Wang, W. 2017. “Thoughts on social security within the framework of the ideal of great harmony”, in *Chinese Social Security Review*, Vol. 1, No. 1, pp. 114–124 [in Chinese, with abstract in English].

Wang, X.; Williamson, J.B.; Cansoy, M. 2016. “Developing countries and systemic pension reforms: Reflections on some emerging problems”, in *International Social Security Review*, Vol. 69, No. 2.

Weber, M. 1905. *The Protestant ethic and the spirit of capitalism* (New York, Penguin Books, 2002)..

—. 1991. *Die Wirtschaftsethik der Weltreligionen. Konfuzianismus und Taoismus. Schriften 1915–1920* (Tuebingen, MWS I/19). [*The religion of China: Confucianism and Taoism. Writings 1915–1920*].

Williamson, J. 2002. “What Washington means by policy reform”, in J. Williamson (ed.): *Latin American adjustment: How much has happened?* (Washington, DC, Institute for International Economics).

World Bank. 1994. *Averting the old-age crisis: policies to protect the old and promote growth* (New York, Oxford University Press).

—. 2017. *Health expenditure: China* (Washington, DC). Available at: <https://data.worldbank.org/indicator/SH.XPD.PCAP?locations=CN> [1 Oct.2018].

World Bank; International Labour Office (ILO). 2016. “World Bank and ILO announce new push for universal social protection”, Press release. Available at: <http://www.worldbank.org/en/news/press-release/2016/09/21/world-bank-ilo-announce-new-push-for-universal-social-protection>; http://www.ilo.org/global/topics/social-security/WCMS_378991/lang--en/index.htm [10 Oct. 2018].

World Health Organization (WHO). 1982. *The Vienna International Plan of Action on Ageing* (Geneva).

Xi, J. 2016. “A new starting point for China's Development: A New Blueprint for Global Growth”, Opening remarks, B20 Summit, Hangzhou, 3 Sep. G20 Information Centre. Available at: <http://www.g20.utoronto.ca/2016/160903-xi.html> [10 Oct. 2018].

—. 2017. “Secure a decisive victory in building a moderately prosperous society in all respects and strive for the great success of socialism with Chinese characteristics for a new era: Xi Jinping's report to the 19th CPC National Congress”, in *People's Daily*, 28 Oct. [in Chinese].

Zheng, G. 2002. *Globalization of labour and social security* (Beijing, China Labour and Social Security Publishing House, 2002 [together with Zheng Yushuo, in Chinese].

- . 2004a. “From welfare education to mixed plural-education system China’s educational benefits and human capital investment”, in *Research on Education Tsinghua University*, Vol. 25, No. 5 [in Chinese].
- . 2004b. “From centralized government administration to self-governance by stakeholders: The future model of administration of social insurance in China”, in *Journal of Renmin University of China*, Vol. 5 [in Chinese].
- . 2008a. *China’s social security: A review of 30 years of progress* (Beijing, People's Publishing House) [in Chinese].
- . 2008b. *China's social security reform and development strategy: Ideas, goals and action plan* (Beijing, People's Publishing House) [in Chinese].
- . 2011. “The historical view and global vision of the development of contemporary social security”, in *Economics Information*, No. 12 [in Chinese].
- . 2013. “Top-level design to deepen the reform of the pension system in China”, in *Teaching and Research*, Vol. 12 [in Chinese].
- . 2014. “The historical logic of the evolution of China’s social security”, in *Journal of Renmin University of China*, Vol. 1 [in Chinese].
- . 2016a. *China’s social security development report 2016* (Beijing, People's Publishing House) [in Chinese].
- . 2016b. *Main report on the development of China’s social security: A review of the 12th Five-Year Plan and outlook on the 13th Five-Year Plan* (Beijing, People's Publishing House) [in Chinese].
- . 2016c. “Properly handle the relationship between economic development and the improvement of people's livelihood”, in *People’s Daily*, 1 Nov. [in Chinese].
- . 2016d. “The key points and paths of expanding middle income groups”, in *Guangmin Daily*, 29 June [in Chinese].
- . 2016e. “A Chinese social security issue elicited by the story of a German farmer”, in *Global Times*, 13 Sep. [in Chinese].
- . 2017a. “A proper view on the relationship between social security and economic growth”, in *Guangmin Daily*, 25 Mar. [in Chinese].
- . 2017b. “Great times call for great wisdom”, in *Popular Tribune*, Vol. 1 [in Chinese].
- . 2017c. “Social security and public governance: Historical logic and future options”, in *Chinese Social Security Review*, Vol. 1, No. 1 [in Chinese; abstract in English].
- . 2017d. “Make social security and employment mutually strengthening pillars to people’s livelihood”, in *Wenhui*, 16 Mar. [in Chinese].
- . 2018a. “China’s Social Security and Economic Development: Retrospect and Prospect”, in *Journal of Renmin University of China*, Vol. 1 [in Chinese].
- . 2018b. “Forty Years of Social Security in China (1978-2018): Institutional Transformation, Path Selection and Chinese Experience”, in *Teaching and Research*, Vol. 11 [in Chinese].

Annex 1. Definition of social security

The following text is an excerpt from ESSPROS (2012), with a few marginal editorial changes for better readability. For purposes of consistent language in this report we have replaced the term social protection, which is the term used in ESSPROS, with social security. Both terms have been used in ILO publications interchangeably; this is also widely the case in the English-speaking world where some conflict exists between the American term “welfare” and the British terms “social security” and “social protection”.

The conventional definition of social security

15 There is no universally accepted definition of the scope of social security, nor does there exist one that suits all purposes (including the compilation of statistics). It is therefore necessary to formulate a conventional definition of the scope of social security which meets as well as possible the needs of social policy analysis and data collection on an international level. This chapter begins with a general definition, relevant to both the Core system of the ESSPROS and its modules that is further explained and specified for use in the Core system in the following paragraphs.

16 Social security encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved.

The list of risks or needs that may give rise to social security is, by convention, as follows:

1. Sickness/Health care/
2. Disability
3. Old age
4. Survivors
5. Family/children/
6. Unemployment
7. Housing
8. Social exclusion not elsewhere classified.

17 The word intervention in the definition should be understood in its broadest sense to cover the financing of benefits and related administration costs, as well as the actual provision of benefits.

18 Benefits granted within the framework of social security can take many forms; however, in the Core system, they are limited to:

- (i) cash payments to protected people
- (ii) reimbursements of expenditure made by protected people
- (iii) goods and services directly provided to protected people.

19 The condition that the intervention must come from public or private bodies excludes from the definition of social security all direct transfers of resources between private households or individuals in the form of gifts, help to relatives and so on, even if their purpose is to protect the recipient from the risks or needs listed in paragraph 16.

For practical reasons, small-scale, informal and incidental types of support such as whip-rounds, Christmas collections, ad-hoc humanitarian aid and emergency relief in the event of natural disasters, which do not require regular management and accounting, are also excluded from the definition.

19A Generally, the bodies most frequently intervening are:

social security funds; central, state and local government agencies; autonomous and self-administered pension funds; insurance companies: in Denmark the pension funds running

labour market pensions can delegate the administration of these pensions to insurance companies; mutual benefit societies; public or private employers providing benefits to their current and former employees directly; private welfare and assistance institutions: for instance, the Red Cross, the Portuguese religious foundation Casa Misericordia and the (Roman Catholic) charitable organization Caritas.

20 The list of risks or needs given in paragraph 16 has two purposes. On the one hand it restricts the scope of social security to the areas which are felt to be most relevant in the European context. On the other hand, it is a tool for producing comparable statistics where the institutions, regulations and social traditions of the Member States diverge widely. The various risks and needs define the primary purposes for which resources and benefits are provided, irrespective of legislative or institutional structures behind them. In this context, it is customary to use the term functions of social security.

21 Functions are defined in terms of their end-purpose, not in terms of given branches of social security or pieces of legislation. For instance, the benefits granted by a pension fund cannot simply be classified in their entirety under the Old age function, as some benefits may have the purpose to relieve the beneficiary from needs related to the death of a breadwinner (which belong to the Survivors function) or to the loss of the physical ability to engage in economic and social activities (which are to be classified under the Disability function). The ESSPROS applies the functional breakdown exclusively to social security benefits, and not to receipts. It is recognized, in fact, that a single type of receipts can be used to finance benefits under several different functions.

23 The conventional definition of social security stipulates that the intervention does not involve a simultaneous reciprocal arrangement. This should be conceived as excluding from the scope of social security any intervention where the recipient is obliged to provide simultaneously something of equivalent value in exchange. For instance, interest-bearing loans granted to households are not social security because the borrower commits himself to paying interest and to refund the capital sum. Likewise, the portion of the full cost of health care and other provisions that beneficiaries are required to meet personally falls outside the field of social security. This does not preclude that social security benefits may be conditional on some action to be undertaken by the beneficiary (such as taking part in a vocational training programme), provided that this action does not have the character of salaried work or sale of services.

24 The principle that the intervention should not involve a simultaneous reciprocal arrangement is particularly important for distinguishing social security provided directly by employers to employees from the flows which make up gross wages and salaries.

24A Any expenditure by employers for the employees' benefit that can reasonably be regarded as compensation for work is not considered a social benefit. Examples are:
cost of living allowances, local allowances and expatriation allowances; allowances for transport to and from work; payments made by employers to their employees under saving schemes; free housing or housing allowances to active employees; crèches for the children of employees; holiday pay for official and annual holidays; sports, recreation and holiday facilities for employees and their families.

25 However, where the reciprocal arrangement from the employee is not simultaneous, the expenditure is classified as social security. For example, retirement and survivors' pensions paid by an employer, free housing to retired employees and so on are social benefits (even if the right to the benefit arises from the previous period of service with the employer, that is, work during active life being the reciprocal arrangement). Following the same reasoning, the continued payment of wages and salaries while an employee is unable to work during sickness, maternity, disability, redundancy and so on is classified as social security provided by the employer.

26 Furthermore, in line with national accounts definitions, social security does not include expenditure by employers which is to their own benefit as well as to that of their employees because it is necessary for the employers' production process.

26A Examples are allowances for or reimbursement of travelling expenses incurred by the employees in the course of their duties, medical examinations required by the nature of the work and accommodation provided at the workplace that cannot be used by the employees' households, such as cabins and dormitories.

27 In practice, therefore, social security provided directly by employers to their employees is limited to:

- (i) the continued payment of normal, or reduced, wages and salaries during periods of absence from work as a result of sickness, accident, maternity etc.
- (ii) the payment of statutory special allowances for dependent children and other family members;
- (iii) health care which is not related to the nature of the work.

28 Social security excludes all insurance policies taken out on the private initiative of individuals or households solely in their own interest. For instance, the payment of a capital sum or an annuity to the holder of a private life insurance policy is not considered to be social security.

29 This rule should not be interpreted as meaning that all individual policies are excluded from social security. When social security is provided by the employer in the form of insurance, it is sometimes allowed, or even required, that the policies be taken out in the names of the individual participants.

30 Nor does this rule imply that all collective contracts must be classified as social security. Insurance policies that are taken out collectively with the sole purpose of obtaining a discount, as for example, a joint sickness policy covering a group of people travelling together, are not classified as social security.

31 An insurance policy is included in the scope of the ESSPROS if it is based on social solidarity, whether or not it is taken out on the initiative of the person insured. An insurance policy is based on the principle of social solidarity if, as a matter of policy, the contributions charged are not proportional to the individual exposure to risk of the people protected.

31A Types of insurance that are often based on the principle of social solidarity are:
schemes which are established specifically for persons belonging to the same profession or trade; insurance offered by mutual benefit societies; government-based voluntary schemes open to certain categories of households, such as small businessmen or other low-income groups. This is sometimes referred to as opting in.

32 It is noted that social solidarity is a sufficient, but not necessary, condition for an insurance scheme to be classified as a scheme of social security. Specifically,

- (i) where by law or by regulation certain groups of the population are obliged to participate in a designated insurance scheme, or;
- (ii) where employees and their dependants are insured as a consequence of collective wage agreements, the insurance is included in the scope of the ESSPROS even if it is not based on the principle of social solidarity.

32A Difficult borderline cases arise from the so-called contracting out, where the law allows people to leave the general scheme managed by the social security fund and acquire security through other channels. The simple fact that coverage is compulsory by law (although no particular scheme is specified) or that an insurance policy replaces a government scheme, is not sufficient reason to classify it as social security. In these instances, the criterion of social solidarity can be a useful guide. If the alternative chosen is a company scheme, a professional scheme, a scheme established by a trade union or another kind of mutual benefit scheme, cover is presumed to be based on the principle of social solidarity. These cases, therefore, fall within the scope of the ESSPROS. When a person contracting

out of a social security fund or a company scheme takes out an individual policy with a commercial insurance company the case should be examined individually, as the principle of social solidarity may still apply. The Appropriate Personal Pension Schemes in the United Kingdom are an example.

Annex 2. Additional tables

Table A1 China's total GDP and GDP per capita, 1978–2017

Year	Total GDP (hundred million)							Per capita GDP (mid-year population)				
	CNY	Nominal growth rate (based or CNY) %	\$	Nominal growth rate (based or \$) %	Purchasing power parity (PPP)	Nominal growth rate (based or PPP)	Real growth rate %	CNY	Nominal growth rate (based or CNY) %	\$	Purchasing power parity (PPP)	Real growth rate %
1978	3 679	13.2	2 185				11.7	385	11.9	229		10.2
1980	4 588	11.9	3 062	16.1			7.8	468	10.6	312		6.5
1985	9 099	25.0	3 098	-0.9			13.4	866	23.4	295		11.9
1990	18 873	9.9	3 946	-13.5	11 199		3.9	1 663	8.3	348	987	2.4
1995	61 340	26.1	7 345	30.2	22 524	13.3	11.0	5 091	24.7	610	1 869	9.8
2000	100 280	10.7	12 113	10.7	37 037	11.0	8.5	7 942	9.9	959	2 933	7.6
2005	187 319	15.7	22 867	16.9	66 393	15.0	11.4	14 368	15.1	1 754	5 093	10.7
2010	412 119	18.2	60 879	19.3	124 574	11.9	10.6	30 808	17.7	4 551	9 313	10.1
2015	685 993	7.0	110 140	5.5	197 263	8.0	6.9	50 028	6.4	8 032	14 386	6.4
2016	740 061	7.9	111 416	1.2	213 100	8.0	6.7	53 680	7.3	8 082	15 457	6.2
2017	820 754	10.9	121 561	9.1	231 214	8.5	6.8	59 201	10.3	8 768	16 677	6.2

Source: NBS. 2019. National data. Available at: <http://data.stats.gov.cn/english/easyquery.htm?cn=C01> [Jan. 2019]

Note: The World Bank PPP conversion factors are available at:

<https://data.worldbank.org/indicator/PA.NUS.PPP?contextual=default&end=2017&locations=CN&start=1990&view=chart>.

Table A2 Number of participants and pensioners of the basic old-age pension system in China, 1978–2017 (10,000 persons)

Year	Pension scheme for employees		Pension scheme for urban and rural residents		Total No. of participants
	Employees	Retirees	Participants younger than 60	Pensioners aged 60 or older	
	(1)	(2)	(3)	(4)	(5)
1998	8 475.8	2 727.3	7 965.2	59.8	19 228.1
1999	9 501.8	2 983.6	6 371.0	89.8	18 946.2
2000	10 447.5	3 169.9	6 074.5	97.8	19 789.7
2001	10 801.9	3 380.6	5 887.0	108.1	20 177.6
2002	11 128.8	3 607.8	5 338.4	123.4	20 198.4
2003	11 646.5	3 860.2	5 230.1	197.6	20 934.4
2004	12 250.3	4 102.6	5 176.9	205.5	21 735.3
2005	13 120.4	4 367.5	5 140.2	301.7	22 929.8
2006	14 130.9	4 635.4	5 018.6	355.1	24 140.0
2007	15 183.2	4 953.7	4 779.9	391.6	25 308.4
2008	16 587.5	5 303.6	5 083.0	512.0	27 486.1
2009	17 743.0	5 806.9	5 942.1	1 335.2	30 827.2
2010	19 402.3	6 305.0	7 414.2	2 862.6	35 984.1
2011	21 565.0	6 826.2	24 025.7	9 156.8	61 573.7
2012	22 981.1	7 445.7	34 987.3	13 382.2	78 796.3
2013	24 177.0	8 041.0	35 982.1	13 768.0	81 968.1
2014	25 531.0	8 593.4	35 794.5	14 313.0	84 231.9
2015	26 219.0	9 142.0	35 672.0	14 800.0	85 833.0
2016	27 826.3	10 103.4	35 576.8	15 270.3	88 776.8
2017	29 268.0	11 026.0	35 657.0	15 598.0	91 549.0

Note: (columns 3 & 4) Urban and rural residents refer to non-salaried urban and rural population in the 16–59 age group. Until 2010, merely include only "rural residents"; from 2011 and 2013, include both rural residents and urban residents covered by two schemes, respectively. Since 2014, the pension scheme for rural residents and the pension scheme for urban residents were merged, i.e. as of this date the numbers include one integrated scheme. In the late 1980s, some rural areas piloted voluntary old-age pension scheme characterized by individual contribution and saving account. It proved to be unsustainable due to the lack of government financial support. Problems including the loss of funds, extremely low or unpaid pensions emerged. In view of this, the Chinese government suspended this practice in 1998; and those insured by then were considered as legacy issues. Later in 2009, the Government launched the government-partial-funded pension system for rural residents, which further extended to non-salaried urban population in the 16–59 age group in 2011 and achieved full basic pension coverage in 2012.

Source: MHRSS, various years (*Statistical Bulletin on the Development of Human Resources and Social Security*); NBS, various years (*China Labour Statistical Yearbook*); Zheng, 2008.

**Table A3 Accumulated balances of the basic old-age pension system fund in China, 1998–2017
(100 million CNY and \$)**

Year	Pension scheme for employees		Pension scheme for urban and rural residents		Total	
	Hundred million CNY	Hundred million \$	Hundred million CNY	Hundred million \$	Hundred million CNY	Hundred million \$
	(1)	(2)	(3)	(4)	(5)	(6)
1998	587.8	71.00			587.8	71.00
1999	733.5	88.61			733.5	88.61
2000	947.1	114.41			947.1	114.41
2001	1054.1	127.35			1 054.1	127.35
2002	1608.0	194.27			1 608.0	194.27
2003	2206.5	266.58	259.3	31.33	2 465.8	297.91
2004	2975.0	359.44	285.0	34.43	3 260.0	393.87
2005	4041.0	493.30	310.0	37.84	4 351.0	531.15
2006	5488.9	688.54	354.0	44.41	5 842.9	732.95
2007	7391.4	972.04	412.0	54.18	7 803.4	1 026.22
2008	9931.0	1 429.93	499.0	71.85	10 430.0	1 501.78
2009	1 2526.1	1 833.71	681.0	99.69	13 207.1	1 933.41
2010	1 5365.3	2 269.78	422.5	62.41	15 787.8	2 332.20
2011	1 9496.6	3 018.61	1 231.2	190.62	20 727.8	3 209.23
2012	2 3941.3	3 792.68	2 302.2	364.70	26 243.5	4 157.39
2013	2 8269.0	4 564.52	3 006.0	485.37	31 275.0	5 049.89
2014	3 1800.0	5 176.79	3 845.0	625.94	35 645.0	5 802.73
2015	3 5345.0	5 674.81	4 592.0	737.27	39 937.0	6 412.08
2016	3 8580.0	5 808.23	5 385.0	810.71	43 965.0	6 618.94
2017	4 3885.0	6 499.75	6 318.0	935.75	50 203.0	7 435.50

Note: Columns 3 & 4, until 2010 includes only "rural residents"; from 2011 and 2013, include both rural residents and urban residents covered by two schemes, respectively. Since 2014, the pension scheme for rural residents and the pension scheme for urban residents were merged, i.e. as of this date the numbers include one integrated scheme.

Source: MHRSS, various years (*Statistical Bulletin on the Development of Human Resources and Social Security*); NBS, various years (*China Labour Statistical Yearbook*).

Table A4 Number of basic old-age insurance participants in China, 1978–2017 (10,000 persons)

Year	Total number of participants	The basic old-age insurance for urban employee			The basic old-age insurance for urban and rural residents
		Total	Employees	Retirees	
1978				314.0	
1980				816.0	
1985				1 637.0	
1986				1 805.0	
1987				1 968.0	
1988				2120	
1989	5 710.3	5 710.3	4 816.9	893.4	
1990	6 166.0	6 166.0	5 200.7	965.3	
1991	6 740.3	6 740.3	5 653.7	1 086.6	
1992	9 456.2	9 456.2	7 774.7	1 681.5	
1993	9 847.6	9 847.6	8 008.2	1 839.4	
1994	10 573.5	10 573.5	8 494.1	2 079.4	
1995	10 979.0	10 979.0	8 737.8	2 241.2	
1996	11 116.7	11 116.7	8 758.4	2 358.3	
1997	11 203.9	11 203.9	8 670.9	2 533.0	
1998	11 203.1	11 203.1	8 475.8	2 727.3	
1999	12 485.4	12 485.4	9 501.8	2 983.6	
2000	13 617.4	13 617.4	10 447.5	3 169.9	
2001	14 182.5	14 182.5	10 801.9	3 380.5	
2002	14 736.6	14 736.6	11 128.8	3 607.8	
2003	15 506.7	15 506.7	11 646.6	3 860.2	
2004	16 352.9	16 352.9	12 250.3	4 102.6	
2005	17 487.9	17 487.9	13 120.4	4 367.5	
2006	18 766.3	18 766.3	14 130.9	4 636.4	
2007	20 136.9	20 136.9	15 183.2	4 953.7	
2008	21 891.1	21 891.1	16 587.5	5 303.5	
2009	23 549.9	23 549.9	17 743.0	5 806.9	
2010	35 984.1	25 707.3	19 402.3	6 305.0	10 276.8
2011	61 573.3	28 391.3	21 565.0	6 826.2	33 182.0
2012	78 796.3	30 426.8	22 981.1	7 445.7	48 369.6
2013	81 968.4	32 218.4	24 177.3	8 041.0	49 750.1
2014	84 231.9	34 124.4	25 531.0	8 593.4	50 107.5
2015	85 833.4	35 361.2	26 219.2	9 141.9	50 472.2
2016	88 776.8	37 929.7	27 826.3	10 103.4	50 847.1
2017	91 549.0	40 294.0	29 268.0	11 026.0	51 255.0

Source: NBS, 2018 (*China Statistical Yearbook 2018*).

Table A5 Average per capita fund expenditure under the basic old-age pension scheme in China, 2001–17 (CNY and \$)

Year	Pension scheme for employees		Pension scheme for urban and rural residents	
	CNY per month	\$ per month	CNY per month	\$ per month
	(1)	(2)	(3)	(4)
2001	572.21	69.13		
2002	656.66	79.34		
2003	673.99	81.43		
2004	711.36	85.95		
2005	770.90	94.11		
2006	880.31	110.43		
2007	1 003.44	131.96		
2008	1 161.10	167.18		
2009	1 276.41	186.86	40.70	5.96
2010	1 395.04	206.08	58.21	8.60
2011	1 558.32	241.27	56.98	8.82
2012	1 741.70	275.91	73.30	11.61
2013	1 914.15	309.07	81.59	13.17
2014	2 109.63	343.43	91.47	14.89
2015	2 352.97	377.78	119.20	19.14
2016	2 627.44	395.56	117.33	17.66
2017	2 875.93	425.95	126.73	18.77

Note: Per capita fund expenditure = total annual fund expenditure / end-of-the-year number of pensioners. The per capita fund expenditure is used to estimate the per capita pension. CNY–\$ conversion on basis of the yearly average exchange rates compiled in *China Statistical Yearbook 2018* (NBS, 2018). Per capita pension provided under the residents' scheme (columns 3 & 4) declined slightly in 2016. The reason is that a majority of the newly added pension recipients came from regions with a relatively small pension benefit, thus reducing the national average. Overall, per capita pension for all regions rose rather than declined.

Source: MHRSS, various years (*Statistical Bulletin on the Development of Human Resources and Social Security*); NBS, various years (*China Labour Statistical Yearbook*).

Table A6 Poverty line* and impoverished population and poverty headcount ratio in China's rural areas, 1985–2017

Year	Standard in 1978				Standard in 2008				Standard in 2010			
	Poverty line (CNY per person)	Poverty line (\$ per person)	Impoverished population (10 000 persons)	Poverty headcount ratio (%)	Poverty line (CNY per person)	Poverty line (\$ per person)	Impoverished population (10 000 persons)	Poverty headcount ratio (%)	Poverty line (CNY per person)	Poverty line (\$ per person)	Impoverished population (10 000 persons)	Poverty headcount ratio (%)
1985	206	70.1	12 500	14.8								
1986	213	61.7	13 100	15.5								
1987	227	61.0	12 200	14.3								
1988	236	63.4	9 600	11.1								
1989	259	68.8	10 200	11.6								
1990	300	62.7	8 500	9.4								
1991	304	57.1	9 400	10.4								
1992	317	57.5	8 000	8.8								
1993	-	-	-	-								
1994	440	51.1	7 000	7.7								
1995	530	63.5	6 540	7.1								
1996	-	-	-	-								
1997	640	77.2	4 962	5.4								
1998	635	76.7	4 210	4.6								
1999	625	75.5	3 412	3.7								
2000					625	75.5	3 209	3.5				
2001					630	76.1	2 927	3.2				
2002					627	75.8	2 820	3				
2003					637	77.0	2 900	3.1				
2004					668	80.7	2 610	2.8				
2005					683	83.4	2 365	2.5				
2006					693	86.9	2 148	2.3				
2007					785	103.2	1 479	1.6				
2008					1 196	172.2	4 007	4.2				
2009					1 196	175.1	3 597	3.8				
2010					1 274	188.2	2 688	2.8	2 300	339.7	16 567	17.2
2011									2 536	392.6	12 238	12.7
2012									2 625	415.8	9 899	10.2
2013									2 736	441.8	8 249	8.5
2014									2 800	455.8	7 017	7.2
2015									2 855	458.4	5 575	5.7
2016									3 000	451.7	4 335	4.5
2017											3 046	3.1

Note: *=The Chinese poverty standard is significantly less ambitious than the internationally accepted United Nations (UNDP) one, leaving much room for improvement.

This working paper offers a comprehensive overview and interpretation of the interplays of economic and social policy developments at the global level and in historical perspective. While showing an abundance of literature (and views) regarding social policy in the Western hemisphere, it fills the research gap in understanding the way China has supported its past decades of impressive economic development through proactive expansion and use of social security and its related institutions. The authors conclude that the positive trade and growth effects of globalization – triggered by the opening up of China that began in 1978 – provided a window of opportunity for the Chinese social security system. China's state-led expansionary social security policy had positive impacts on the country's economic development and, therefore, at the least, deserves the world's social policy makers' attention. In contrast, the West simultaneously consolidated its social security systems, including through state-retrenchment and privatization and, later, in a context of intensified austerity, thus contributing to economic stagnation, unemployment and growing poverty. Again, social policy makers are invited to re-consider mainstream social policy approaches. The authors hope to be able to prove that positive interaction between and joint progress of social security and economic development can be achieved, which is not only the historical experience proven by the Western hemisphere, but also consolidated by China's story in recent decades.

ILO Regional Office for Asia and the Pacific

United Nations Building, 11th Floor
Rajdamnern Nok Avenue,
Bangkok 10200, Thailand
Tel.: +66 2288 1234, Fax.: +66 2288 3062
Email: BANGKOK@ilo.org

www.ilo.org/asia

DECENT WORK

A better world starts here.

ISSN: 2227-4391 (print)
2227-4405 (web pdf)