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Abstract

Since 2003, the Chinese government has been increasing its social expenditure and initiated new social welfare programmes to provide universal social protection and meet welfare needs. This article uses the wider socio-economic and socio-political contexts to critically examine whether there is a new welfare regime on the rise in China, with a particular reference to whether the increase in social expenditure has really marked a new welfare philosophy or prompted the transformation of China into a protective welfare regime. By analysing prefecture-level data for government expenditures in education, health, social security and assistance programmes, we show a continuation of the Chinese welfare regime in ‘paternalistic welfare pragmatism’ for two reasons. First, government social expenditures are set on the basis of the prefecture -level government’s fiscal capacity. Second, variations of welfare programmes are associated with the dichotomy between the urban formal and informal sectors.

Keywords: China, Social Policy, Welfare Regime, Inter-governmental Relationships, Paternalistic Welfare Pragmatism

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Introduction: Welfare Regime Debates in Asia

The discussion on welfare regimes and welfare state ideal types continues to dominate comparative social policy analysis, although the focus of the debate has considerably shifted since the publication of Esping-Andersen’s ground-breaking book, *The Three Worlds of Welfare Capitalism* in 1990. Such discourse shift was prompted by both theoretical and empirical concerns raised by comparative social policy scholars as a result of the general internationalisation of social policy research agendas within the academia (for example, Abrahamson, 1999; Hwang, 2011; Lin and Yi, 2013). Debates over the most appropriate indicators (Kühner, 2007; Clasen and Sigel, 2007) and methods (Hudson and Kühner, 2010; Kühner, 2015) continued. The desire to expand the scope of the debate to encompass nations and regions excluded in Esping-Andersen’s initial study of 18 high-income Organisation for Economic Co-operation and Development (OECD) states is particularly strong (Hudson and Kühner, 2012; Yang, 2013; Ahn and Lee, 2013).

The largest body of work in this regard has focused mainly on East Asia. The debate regarding an “East Asian” model has persisted since the early 1990s. The earliest critiques of Esping-Andersen’s typology pointed out a potential mismatch between his ideal types and the foundations of welfare systems in the region (Jones, 1993; Goodman et al., 1998), wherein governments have emphasised economic
development over social policy. Since then, a substantial body of literature has been developed, including Holliday (2000; 2005) and Kwon and Holliday (2007), both of whom challenged Esping-Andersen’s typology. According to Holliday (2000), East Asian cases are “impossible to place in Esping-Andersen’s framework” (Holliday, 2000, p. 711) because the “productivist” world of welfare existed in the region simply due to low social spending.

Although China is not considered as a case of “productivist welfare capitalism” in East Asia (Holiday, 2000), the country displays several features of the East Asian welfare states (Peng and Wong, 2010; Mok and Hudson, 2014). For example, China had low government spending on social programmes, and many of its social programmes were not redistributive (Peng and Wong, 2010; Liu, Liu and, Huang, 2015).

Aside from the commonalities, one important distinction between China and East Asian Welfare States is apparent. Compared to other countries in East Asia, regional variations of social programme design and implementation are very significant in China given the huge geography and diversity in practices commonly found in the country, particularly when local governments are responsible for implementing the policies issued by the central government. More specifically, welfare regionalism in China is closely related to the political will of the local governments, as well as their
fiscal capability and policy implementation capacity. Welfare regionalism is also affected by the interplay among different stakeholders (i.e., work units, employees, and local governments), which are often related to the legacy of the occupation-based welfare system in the central planning era (Mok and Wu, 2013; Chan and Ngok, 2016).

Under the policy guideline of “building a harmonious society” in 2003, the Chinese government began prioritizing two aspects of social policy reform. First, new programmes for urban and rural residents, flexibly employed, peasants and migrant worker were initiated. These new social programmes included pension and health insurance schemes for rural and urban residents.

Second, the Chinese government shifted its expenditure emphasis toward social policy, appropriating a substantially greater public funding for social programmes. The government expenditure on social security and social assistance, education, and health increased by 21.4% annually while nominal GDP growth was about 15% between 2003 and 2013 (MOF, various years).

The present article sets out against the wider socio-economic and socio-political environment briefly outlined above to analyse the extent to which the recent round of social policy reform suggests that a new welfare regime is emerging in China. The central research question of this study is as follows: is there any evidence showing the
development of a new welfare regime with a fundamentally new philosophy and governance measures in welfare provision in China?

While the Chinese government has initiated new social programmes targeting for universal coverage of social protection and increased social expenditure substantially since 2003, we argue that the welfare regime with strong productivist orientation persists for two reasons. First, welfare policy implementation varies by region, and such variations can generally be explained by local fiscal capacity (i.e., being “pragmatic” in social spending with financial caution). Second, the legacy of occupation-based welfare regime remains significant as social spending tend to be targeted toward employees in the local formal sector (i.e. “paternalistic” governance).

By using the prefecture-level data for major government social expenditures on education, health, social assistance, social security and employment between 2003 and 2012, we particularly provide empirical evidence of the persistence of the welfare regime in China, even though the Chinese government has recently increased its welfare provision. This article contributes to the welfare regime debate by highlighting how the political economy in general and the central–local relations resulted in a pragmatic and paternalistic welfare state in China.
Welfare Policies in China in the Context of the “Productivist” World of Welfare

Most East Asian economies have invested heavily in education, health care, and workfare because most of these economies are “anti-welfare” that perceive social policy as a tool to enhance productivity (Walker and Wong, 2005). Although these Asian countries present good social outcomes in terms of health, education, and equality indicators, they are generally marked by segmented and underdeveloped welfare programmes (Midgley and Tang, 2009). Employing a fuzzy set analysis of 29 countries covered in recent data published by the Asian Development Bank (2013), Kunher (2015) found that “the absence of strong income protection is most clearly linked to low human development at the macro-level; high education investment is linked to high income inequality if government fails to invest in employment and income protection or employment protection and training” (p. 151).

The Chinese welfare regime displayed several features of the East Asian welfare states before the 2000’s. First, China had low government spending on social programmes. Second, many of its social programmes were not redistributive (Peng and Wong, 2010; Liu, Liu and Huang, 2015). However, different from many East Asian welfare states, China’s pre-2003 productive welfare regime has a distinct feature: welfare policies varied across different parts of the country. Local governments set the terms, such as coverage and benefit levels, for the social
programmes. In addition, most social insurances in China were designed based on the local conditions for the urban formal sector before 2003. In East Asian welfare states such as Japan, Korea and Taiwan, the eligibility of the social insurances had been expanded from workers in selected occupations to workers in all occupations as well as self-employed (Peng and Wong, 2010).

Recent analyses of the growing diversity of welfare provision from a welfare mix perspective indicate that the central government plays a minor role in welfare provision, with most responsibility shared by other sectors, including the local government, the market, the family, and social organisations (Schwartz and Shieh, 2009; Mok, 2016).

More importantly, we must note that the central government in China delegated the responsibility for welfare provision and social protection to local governments since the 1980s (Leung and Xu, 2015). Economic and administrative decentralisation has empowered local governments to charge with responsibility for the economic growth, as well as the management of social insurance and social service delivery. Local government has large expenditure responsibilities (over 70 percent of the total government expenditure between 2003 and 2013 (MOF, various years). Also, social programmes were initiated based on occupation and employment status in different localities. Policies of social insurances, such as pension schemes and social health
insurance, were designed for the public sector and urban formal sector workers (Ringen and Ngok, 2013; Frazier, 2014). For example, major social insurance schemes, including the basic pension scheme, basic urban employee health insurance and unemployment insurance, were initiated in the 1990s to provide social protection for state-owned enterprise workers (Ringen and Ngok, 2013).

More specifically, local governments are actively adapting policies and measures in social welfare provision to meet their particular social and economic needs (Leung and Xu, 2015). This decentralised approach to welfare development inevitably led to regional disparities and welfare variations in China. As economic and social development presents continued regional inequalities, Cook (2011) found that “a more complex geography of welfare had emerged with strong regional or local features” and that the capacity of local governments “to respond to this more complex welfare geography through public action depended to a large extent on the capacity, resources and incentives of the local state” (p. 215). Carrillo and Duckett (2011) examined welfare development in China and observed that even though the central government still defines the national welfare policy framework, local governments are given increased discretion to adapt and adjust policies to meet local welfare needs (see also Shi, 2009).

In short, the major reason for the disparity between the policy target set by the
central government and the outcomes of policy implementation is closely associated with welfare regionalism, by which local governments are primarily responsible for welfare provision, whereas the central government maintains a minimal level of social protection (Mok and Wu, 2013; Ngok, 2013; OECD, 2013). In principle, given that local governments always possess enhanced local knowledge and understanding of the needs of local residents, they are well-positioned to allocate resources to meet these social and welfare needs. Nonetheless, the initiative of local governments to actively promote social protection depends on how local bureaucrats respond to decentralisation (see Mok and Wu, 2013; Ngok and Huang, 2014; Leung and Xu, 2015).

In this context, it was observed that social policies in China were not implemented on the basis of citizens’ social and welfare needs. Recent studies on the “welfare citizenship” in China argued that “social rights” and “rights to social welfare” have not been well embedded in society despite the heightened welfare expectations of citizens (Mok and Huang, 2013). Cook, from the United Nations Research Institute for Social Development, declared that China’s social policies must better respond to the changing needs of society and the specific needs of different social groups (Cook, 2011).
A Discontinuation of the Chinese Welfare Regime?

The outbreak of SARS in 2003 exposed the underdevelopment of the Chinese welfare system. The marketisation and privatisation of social welfare provision and social service delivery resulted in a widened income gap and increased social inequality (Ngok and Huang, 2014). Since 2003, the Chinese government attempted to expand its social welfare programmes in response to calls for “social cohesion” by increasing its social expenditure and encouraging local governments to increase social welfare programme inputs in order to meet the changing welfare demands of its citizens (Mok and Ku, 2010; Leung and Xu, 2015).

New social insurance programmes, including pension and health insurance that cover rural and urban residents, have been initiated since 2003. Pensions for urban and rural residents were initiated in 2011 and 2009, respectively. Health insurances for rural and urban residents were established in 2004 and 2006, respectively.

The ratio of total government expenditure on social security and social assistance, education, and health (i.e., the three key social policy areas in China) to GDP, which was 4.69 percent in 2003, increased to 7.82 percent in 2013 (MOF, various years). This growth was remarkable, as it represented more than three percentage points of GDP within 10 years at a time when the GDP itself was increasing rapidly. As the total amount of government social expenditure steadily increased, the central
government assumed greater fiscal responsibility. From 2003 to 2013, the central government spending on social security and employment, education and health increased from RMB 50.1 to 182.4 billion, representing an increase of over 3.5 times in nominal terms (MOF, various years). In 2013, the total money (including transfers) from central government spending on education, health care, and social security and employment accounted for 17.6, 31.3, and 45.3 percent of the total government expenditure on each of these policy areas (MOF, various years), respectively.

In short, in China, the provision of universal social protection coverage has become an important policy target for policymakers at the central level. Compared to the “Productivist” welfare regime, a universal coverage of social protection can play a much more useful role in improving social cohesion and reducing economic inequality. To achieve the target of universal coverage of social protection, the central government has initiated social insurances to cover a wider basis of Chinese citizens and increased social spending significantly to finance new social programmes.

The social policy expansion in China is analysed given this context, particularly the increasing role of the central government in social welfare provision, which prompted some researchers to believe that China experienced a significant paradigm shift in welfare regime and is moving toward a protectionist orientation (Choi, 2012). Comparing the social welfare expansions and transformations in China and South
Korea, Han and Kim (2014) argued that China has reached a phase of social protection with “a fundamental shift of value orientation of social welfare” by “transforming from the selective welfare of liberalism to the institutional welfare of universalism” (p.88).

However, in view of the shared fiscal responsibilities between the central and local governments, several researchers have argued that even though the Chinese government increased its welfare expenditure and expanded its welfare provision scope, the Chinese welfare state remains a productive welfare regime because local governments continue to prioritise economic growth over welfare protection improvement (Leung and Xu, 2015; Mok, 2016; Qian and Mok, 2016). For example, it was argued that the outcomes of social policies were less significant and measurable than economic outcomes when evaluating local officials (Gao, 2015). In this case, local officials lacked the incentive to strive for social policy implementation. For example, Qian and Mok (2016) report that the coordination among (local) government departments at in implementing social programmes was ineffective.

In the following part, we will critically examine the central research question: is there any evidence showing the development of a new welfare regime in China?

Testing the Continuation of the Welfare Regime
To test whether there is a continuation of the welfare regime with a strong productivist orientation, this paper analyses the pattern of local government social spending and its relation to the size of the formal sector. Specifically, the nationwide data in both rural and urban areas are used to elucidate the degree to which the formal/informal dichotomy is relevant in the Chinese welfare regime. Government social expenditure, which plays a key role in redistributing resources across different social and economic groups, is considered as one of the most important measurements for understanding the types of welfare regimes (Prasad, 2016). In China’s case, government social expenditure is the most important index to measure the welfare regime for two reasons.

First, government social expenditure is a measure of the benefit level of welfare policy provision. While the benefit level of social programmes in a locality can be determined by many social and economic factors, government social expenditure is still a useful index to measure how “deep” of the coverage of welfare policies (i.e. benefit level). For instance, a larger amount of government subsidy is likely to be associated with a higher reimbursement rate of social insurance. The ratio between fiscal subsidy and individual premium contribution in Shanghai’s urban resident health insurance was about 7.4 in 2016, much higher than the national average (i.e.
About 4). The benefit of social health insurance in Shanghai is likely to be higher than the national average. Similarly, government social expenditure is also related to the quality of the service provision. For example, government education expenditure per student in primary schools in Beijing reached RMB19,000 while the number was RMB2,700 in Henan, a central province in China, in 2014. The amount of fiscal spending is positively associated with the size of physical and non-physical inputs for primary education, which are indicators of the quality of primary education students receive.

Second, government social expenditure is crucial also in measuring the increasing coverage/enrollment rate of social insurances. In particular, recently initiated pension and health insurances targeted toward urban and rural residents are highly subsidized by the government budget. For example, in 2015, the government subsidized RMB 380 out of the RMB 500 per enrollee for the premium of rural health insurance.

The persistence of the welfare regime in China is tested in two aspects: first, whether the design and implementation of welfare policies still vary by local’s economic condition; and second, whether the benefit level and coverage of welfare

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2 *China Educational Finance Statistical Yearbook 2014*.
policies are still set on the basis of local employment and occupation structure. To test these two aspects of the welfare regionalism in China, the following data analysis identifies the determinants of government social expenditures, including government expenditure on education, health, social assistance, and social security and unemployment.

Two major dimensions of the welfare regime are evaluated. First, the fiscal capacity of a prefecture is a major determinant of the pragmatism of welfare policies. If the local fiscal capacity is critical for these social expenditures, welfare policies vary with local economic conditions. Second, the variations of the determinants in different social expenditures can reveal the nature of the welfare regime. Education and health care services are two basic public services accessed by all local residents. In contrast, social assistance programmes offer financial protection for disadvantaged urban groups, such as the urban elderly, the unemployed, and low-income workers (e.g., workers in the informal sector). If expected variations are apparent in the social expenditures in terms of the formal–informal sector dichotomy, then variations of welfare policies based on local occupation and employment structure are plausible.

**Formal and Informal Sectors in China**

China’s informal sector can be defined in two ways. First, informal employment can
be defined by the type of labour contract (i.e., individuals without written employment contracts are defined as informal employees) (Zuo, 2013). Second, the urban informal sector can be defined by enterprise registration types. According to Ghose (2005), the formal sector in China includes state-owned enterprises, collectively owned enterprises, limited liability companies, shareholding corporations, foreign-owned companies, and joint ventures; in comparison, the urban informal sector includes registered small-scale private enterprises and individual businesses.

In view of the data limitations, the types of labour contracts for workers are unavailable at the city/prefecture level. As such, this paper uses the second definition, in which the informal sector workers are those who work in registered small-scale private enterprises and individual businesses. This definition, which is based on enterprise type, is relevant in China’s context with regard to the changes in the welfare regime, because small-scale private enterprises and individual businesses are given less importance by the local government than formal sector firms in terms of the contribution to the local fiscal budget. Although workers from small-scale private enterprises and individual businesses accounted for 44 percent of the urban workers in 2013⁴, the tax revenue from registered small-scale private enterprises and individual businesses accounted for only 15 percent of the total tax revenue from firms in that

year (State Administration of Taxation, 2014).

Hypotheses

Based on the preceding analysis, the following three hypotheses will be tested.

*Hypothesis 1: Government social spending is higher in a prefecture with a larger formal sector.*

This hypothesis addresses the regional variations of welfare policy in local economic conditions. The formal sector workers and their family members are supposed to be protected financially by the government under the pre-2003 welfare regime. The local government may spend more on social programmes in a prefecture with a larger formal sector.

*Hypothesis 2: Government social spending is higher in a prefecture with a larger fiscal capacity.*

This hypothesis is associated with the regional variations in local economic conditions. Under the pre-2003 welfare regime, prefectures with a larger fiscal capacity are likely to incur higher social spending per capita, whereas cities with tighter fiscal conditions will spend less. In other words, the benefit level of welfare programmes is higher in a prefecture with a larger fiscal capacity.
**Hypothesis 3:** Government social spending in a prefecture increases with the average salary of workers in the formal sector.

This hypothesis is derived from regional variations in local economic conditions as well as occupational structure. For a number of social programmes, such as health and unemployment insurances, the coverage and the benefit levels are set based on the income of formal sector workers.

**Data**

Our dataset consists of data from 282 prefecture cities in China. The data were mainly collected from the *China City Statistical Yearbooks* and the China Premium Database (CEIC). Prefecture-level data were used because welfare policies in China are usually determined and implemented by the prefecture-level government. The time span of the dataset spanned between 2003 and 2012. A prefecture consists of both urban and rural areas, and the prefecture-level data reported in the city statistical yearbooks also included data for rural residents.

The dataset used in this study is representative of nationwide social programs because the population in the prefectures included in the dataset covers the majority of

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the population in China. For example, in 2012, the dataset included 266 prefectures, and the total population was more than 1.14 billion or 85% of the total Chinese population. However, megacities such as Beijing, Shanghai, Guangzhou, and Chongqing are not included in our dataset, because these are considered province-level units, and their population sizes are considerably and fiscally larger than that of most of the other cities.

Variables

All variables and their definitions are listed in Table 1.

<Insert Table 1 approximately here>

To verify our hypotheses, we used three major types of social expenditures, namely, government health, government education, and social assistance expenditures, which were redefined as social security and employment expenditures in 2007.

Government education expenditures between 2003 and 2012 are analysed in this paper. Government education expenditure includes the spending on primary, secondary, and higher education. Government health expenditure includes expenditure on public health, public hospitals, and clinics in addition to government subsidies for social health insurance. Health expenditures paid by social health insurance is not part of
government health expenditure. The local (prefecture) government health expenditure between 2007 and 2012 is included in our dataset. In view of the data source limitations, we do not have access to the data on government health expenditures prior to 2007.

Social assistance expenditure includes spending on disaster relief, social assistance for poor households and the disabled, and minimum livelihood guarantees. Owing to the changes in statistical scope, only four years of data were available for social assistance (between 2003 and 2006). The statistical scope was adjusted in 2007, and government social assistance and social security expenditures were combined into a single category (Wang and Long, 2011). Social security and employment expenditure includes social assistance expenditures, as well as prefecture-level government expenditures on social security subsidiary expenses, for retired persons in government departments, and for employment service. The dataset includes prefecture-level government social security and employment expenditures between 2007 and 2012.

The number of hospital beds, the unemployment rate, and the number of teachers in primary schools, secondary schools, and universities per 1,000 residents were also used in the data analyses. Urbanisation rate, defined as the proportion of urban area residents in the total population in a prefecture, was also included as a control variable.

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We also included a variable “dependency ratio”, which is defined as the ratio of the number of residents to the labour force in a prefecture. A higher dependency ratio indicates that a higher proportion of people in the prefecture are not participating in the labour market. This variable served as a proxy measurement for the demand for social programmes in that prefecture because many social expenditures are targeted for people outside the labour force, such as the elderly (e.g., higher health expenditure), the young (e.g., higher education expenditure), and the unemployed and flexibly employed (e.g., higher social assistance expenditure).

The variables of expenditures, revenue, GDP, and income per capita were deflated by the Consumer Price Index to capture the price changes. The descriptive statistics for all variables are listed in Table 2.

<Insert Table 2 approximately here>

Model

We estimate the following model:

\[ \text{Social expenditure}_{i,t} = \beta \text{Formal sector size}_{i,t} + \delta \text{Fiscal revenue}_{i,t} + \gamma \text{Formal sector income}_{i,t} + \rho X_{i,t} + \mu_i + \omega_t + \epsilon_{i,t} \]

where \( \beta, \gamma, \rho, \) and \( \delta \) are the parameters for the corresponding variables in the model. \( X_{i,t} \) corresponds to the covariates including GDP per capita, urbanisation rate,
unemployment rate, hospital beds per 1,000 people, number of teachers in various school levels, and dependency ratio.

*Formal_sector_size*$_{i,t}$ refers to the ratios of the number of employees in the formal and informal sectors in prefecture $i$ in year $t$. Therefore, this variable refers to the size of the formal sector in relation to the informal sector. In this case, with regard to the expenditure on social assistance, $\beta$ should be negative for social assistance expenditure because the informal sector workers are more likely to be affected by adverse financial shocks.

*Fiscal_revenue*$_{i,t}$ refers to the fiscal revenue per capita in prefecture $i$ in year $t$. *Formal_sector_income*$_{i,t}$ denotes the average salary of employees in the formal sector. $\mu_i$ denotes prefecture-specific effects. $\omega_t$ corresponds to the year dummy variables, with $e_{i,t}$ defined as the error term. To address the concerns on the error term correlations, we use clustered standard errors at the prefecture-level.

**Results**

The regression results are shown in Table 3.

<Insert Table 3 approximately here>

*Hypothesis 2* is strongly supported by all models (i.e., Columns (1)–(4)).
Government expenditures on education, health, social assistance, and social security and employment are positively and significantly associated with the fiscal capacity of the local government (i.e., fiscal revenue per capita). A prefecture government with a higher fiscal capacity is more likely to spend more on social programmes, thereby supporting the pragmatic welfare state hypothesis that the benefit level of social programmes and the quality of public services are likely to be adjusted based on the local fiscal capacity.

As expected, given the importance of education expenditure in the government budget, fiscal revenue exerted a stronger effect on government education expenditure than on other social expenditures. Every RMB 1,000 increase in fiscal revenue per capita is associated with an increase in government education and health expenditures per capita by about RMB 112 and 29, respectively (i.e., Columns (1) and (2)). Similarly, every RMB 1,000 increase in fiscal revenue per capita is associated with an increase in government social security and employment expenditure and in social assistance expenditure per capita by RMB 54 and 8, respectively (i.e., Columns (3) and (4)).

The results for Hypothesis 1 are mixed. Government education expenditure is positively and statistically associated with the size of the formal sector. A 1 percent increase in the size of the formal sector causes an additional 0.89 percent (0.89, as shown in column (1)) allocated for government education expenditure per capita. The
magnitude of the formal sector size effect is not large but is statistically significant.

No statistical significance was observed between the size of the formal sector and the government health expenditure per capita (i.e., Column (2)). This result is conceivable because the health expenditure for workers in the formal sector is mainly covered by social health insurances (i.e., Basic Urban Employee Medical Insurances). Given that Basic Urban Employee Medical Insurances are financed by contributions from both employers and employees, the expenditures from these social health insurances were not considered part of government health expenditure. Compared with social health insurance expenditures, government health expenditure plays a minor role in financially protecting the urban formal sector. For example, in 2010, the per-capita expenditure on Basic Urban Employee Medical Insurance, which mainly covers the health expenditure of urban formal sector workers, was 13 times the summed per-capita expenditure of rural health insurance and urban resident expenditure, which mainly covers the health insurance of urban informal sector workers (Huang, 2014). This argument was also supported by the negative and significant “dependency” ratio in Column (2). The government health expenditure per capita increased with the size of the labour force, suggesting that the occupation-based welfare system may be still present.

The coefficient of the formal sector size in Columns (3) and (4) is also not
statistically significant. The $\text{Formal\_sector\_size}$ in the regression model is defined as the ratio of the numbers of employees in the formal and informal sectors. The regression results imply that the relative size of the informal sector is not associated with the government expenditure on social assistance programmes and the expenditure on social security and employment. Although the majority of social assistance recipients are informal sector workers and their family members, the social assistance budget has not been allocated based on the size of the informal sector.

Hypothesis 3 is supported by the regression results. A higher average salary for the workers in the formal sector is positively and significantly associated with government education and health expenditures (i.e., the coefficient of $\text{Formal\_sector\_income}$) in Columns (1) and (2)). In other words, government spending on education and health increased with the average salary in the formal sector. Every RMB 1,000 increase in the average salary in the formal sector corresponded to an increase of RMB 11 and 6 in government education and health expenditure per capita, respectively. However, government expenditures on social assistances and social security are not adjusted with the salary of workers in the formal sector (Columns (3) and (4)).

The urbanisation rate is statistically significant in Columns (1) and (2), suggesting that the government expenditures on education and health are likely to be higher in a
 prefecture with a higher urbanisation rate. An increase of 1 percent in urbanisation rate is associated with an increase of RMB 129–182 in government expenditure per capita in these policy areas. In other words, urban areas are still receiving a higher proportion of government resources in social policy areas.

Interestingly, the unemployment rate is not significant for all government social expenditures. This result is also consistent with Hypothesis 3 wherein the policies of welfare programs are designed based on the economic conditions in the formal sector. Social expenditures do not vary with the number of the registered unemployed, which are not part of the formal sector.

Discussion: Pragmatic and Paternalistic Welfare Paradigm in China

Productive welfarism has not been limited to a handful of East Asian countries (Hwang, 2011). Researchers all over the world with different perspectives have argued that in response to globalisation, some high-income states have shifted their social policies toward a supporting and subjugated role with respect to economic policy (for example, Cerny and Evans, 1999; Evans and Cerny, 2003; Horsfall, 2010). Confronted with declining economic growth and gradually dismantling traditional income protections, several European countries are now facing the harsh reality to balance economic growth and increasing fiscal pressure for social protection. In the
struggle to survive amid unmanageable welfare burdens and stagnating economic growth, people are clamouring to replace the welfare state with a competition state to boost economic competitiveness (Hudson and Kuhner, 2014).

Realizing the importance of maintaining social stability and harmony in order to assert its political legitimacy in the post-2003 era, the Chinese policymakers also had made serious attempts to translate and adapt the foreign welfare models and ideas to the Chinese context. In particular, “universalism”, which is fundamental of Western welfare states, is embraced by the policymakers in China. New social programmes have been initiated since 2003 to achieve the policy target of universal coverage of social protection. Also, government spending on social welfare has substantially increased since 2003 after the expansion of social insurances.

However, the present study shows that China has yet to demonstrate a fundamental paradigm shift in welfare philosophy and welfare regime in recent years. The Chinese government, particularly the local government, still prioritises economic growth, while offering more social programs creates a more socially stable environment to support economic growth. In other words, social policies are implemented based on the rationale of economic development rather than citizens’ social and welfare needs.

Our findings presented above have clearly suggested there is a significant
disparity between the policy target to improve “social cohesion” and policy implementation in welfare provision. First, government social expenditures, which determine the coverage and the benefit levels of welfare policies, are set based on local fiscal conditions. Second, as in the pre-2003 welfare regime, variations in government social spending after 2003 are still associated with the dichotomy between the local formal and informal sectors. The economic condition and the size of the formal sector are key determinants of government education and health expenditure. In addition, the size of the informal sector is irrelevant for social assistance programmes targeted at the informal sector. Furthermore, similar to the pre-2003 welfare regime, government social expenditure after 2003 is increasing with the proportion of labour force in the local population.

Welfare regionalism, which resulted in variations in welfare protection and social policy provision across different parts of the country, is supported by the data analysis results in this study. While receiving the policy instructions given by the central government, the local government is the major decision maker in setting the policies of social programmes, including the benefit level and the coverage.

Social welfare provisions in China are likely to be used as policy instruments by the Chinese government in particular local governments to serve both pragmatic and paternalistic purposes, which may imply a continuation of the welfare regime after
First, welfare policies are implemented pragmatically. The local fiscal capacity to deliver social programmes is critical in social policy implementation (Wong and Bird, 2008). Social programme policies, such as the benefit level and coverage, are set at the discretion of the local government (Li, 2011). Even if the policymakers at the central level are intent on providing universal social welfare coverage, local governments are more concerned about economic growth and fiscal resource allocation for productive purposes (Li and Zhou, 2005; Xu, 2011). Thus, local governments may allocate social spending according to its fiscal capacity (i.e., observing financial viability and sustainability) rather than welfare needs. A larger fiscal capacity of a local government corresponds to a larger budget for social expenditure allocation if local authorities believe that such an undertaking will enhance governance and political legitimacy.

Welfare policies are implemented pragmatically also because the Chinese (local) government rides over the local (making sure social welfare expansion would not jeopardize economic growth) and global (welfare expansion to protect social right) worlds when initiating social programmes (Liu and Leisering, 2017). For example, the introduction of social assistance programme, Minimum Living Standard Scheme (MLSS), with regional variations clearly demonstrated how the Chinese welfare regime
is pragmatic. As Leisering, Liu and ten Brink (2017) argued, the Chinese government, instead of acting as a passive recipient of foreign welfare models and practices, has performed as creative agents in experimenting social assistance programmes across different parts of the country in addressing the intensified income gap and regional disparities through synthesizing disparate ideas, forging a Chinese model of social assistance embracing global value of “universalism”, which is fundamental of Western welfare states. However, the Chinese government well recognizes the financial implications and complexity of policy implementation against the reality of wide regional variations, the government therefore honours the right to social assistance with a means test in order not to over burden the system. Also, the benefit level and coverage of the social assistance programme are set to be contingent on local economic and social conditions by the local government.

Second, welfare policies are also implemented in a paternalistic manner. China’s welfare regime is not measured in terms of universal or citizen-based rights; rather, welfare measurement involves occupational and sectorial divisions (Li, 2011; Ringen and Ngok, 2013; Huang, 2014). One of the major policy targets for the local government was protecting the interests of the formal sector, which contributed increased tax revenues and exerted a much stronger political influence than the informal sector (Cui, 2015). Given their strong intention to maintain social stability
for further economic growth, local governments prioritise the economic stability of
the formal sector (particularly state-owned enterprises) by offering either preferential
treatment or a welfare package to accommodate their preferences (taking a
paternalistic role in governance).

Also, the welfare of local officials (i.e. appointment, promotion, etc.) highly
depends on the amount of fiscal revenue they can raise, which can be invested in
infrastructure development to promote economic growth (Xu, 2011; Gordon and Li,
2013). Local officials therefore have incentives to attract firms who can contribute a
large sum of tax revenue. Local government also have incentives to prevent firms
contributing a large tax revenue from relocating their economic activities elsewhere.
From this rationale, since the formal sector contributes the majority share of local tax
revenue, local government is likely to allocate a large amount of resources to urban
based and occupational based social programmes to accommodate the demand of the
formal sector. As suggested by this paper, social programme policies including
coverage and the benefit level were set by the local government based on the size and
economic conditions of the formal sector.

More specifically, the paternalism and pragmatism in China’s social policy
implementation are closely related to the local governments’ decisions on policy tools
and policy options in addressing the competing demands for economic growth and
social protection, particularly when local bureaucrats prefer economic growth and stability over social protection/social rights. Although the central government possesses the political will to improve welfare provision for its citizens to promote social harmony conducive to its leadership, local governments must balance economic growth and social development by adopting welfare approaches tactically to address the heightened welfare expectations (i.e., “pragmatic”) and manipulating different forms of social welfare packages to meet local economic, social, and political needs (i.e., “paternalistic”). In other words, welfare provision is a means to serve the market economy to support economic growth rather than to support a fundamental paradigm shift toward welfare provision that increases the rights and entitlements of citizens.

Conclusion

In conclusion, the call for building a harmonious society and the state’s strong intention to make welfare protection a policy tool for social stability and regime legitimation since 2003 have not fundamentally changed the welfare philosophy and the welfare regime. Severely under the challenge of economic stagnation and increasing influence of a globalizing economy, the welfare sovereignty of the European Union (EU) member states has been gradually eroded by the force of a single European market and the corresponding EU supranational intervention. An
increasing number of EU member states are searching for methods to strike a balance between the call for market liberalization to support efficiency gains and the installation of regulatory framework to mitigate the negative consequences of market liberalization (Scharpf, 1999; Leibfried, 2010). Obviously, the increasing influence of a globalizing economy pressing for the maximization of profits with consistent efforts to cut production costs would inevitably force governments worldwide to revisit their strategies to untangle the tension between economic growth and welfare protection. It is against such a political economy context that the notion of “competitive solidarity” has evolved in Europe showing the shift from the emphasis on the protective dimension of welfare toward productive dimension. This paradigm shift will fundamentally change the logic of social security from providing significant weight to redistribution based on social justice to enhance human capital building based on economic competitiveness.

Closely watching what has happened in Europe, the Chinese government has tactically walked with “different legs” when translating foreign welfare ideas and practices into the local context that correspond to the diverse social, economic, and political needs of localities/regions, leading to the pragmatic and paternalistic approach of welfare provision and diverse practices / regional variations in welfare protection across the country.
References


Table 1: Definition of variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
<th>Time period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education expenditure</td>
<td>Education expenditure per capita (RMB)</td>
<td>2003-2012</td>
</tr>
<tr>
<td>Health expenditure</td>
<td>Health expenditure per capita (RMB)</td>
<td>2007-2012</td>
</tr>
<tr>
<td>Social security and employment expenditure</td>
<td>Social security and employment expenditure per capita (RMB) (^8)</td>
<td>2007-2012</td>
</tr>
<tr>
<td>Social assistance expenditure</td>
<td>Social assistance expenditure per capita (RMB)</td>
<td>2003-2006</td>
</tr>
<tr>
<td>Formal sector size</td>
<td>Ratio of the number of employees worked in the formal and informal sector</td>
<td>2003-2012</td>
</tr>
<tr>
<td>Formal sector income</td>
<td>Average salary for urban formal sector employees (.,000 RMB)</td>
<td>2003-2012</td>
</tr>
<tr>
<td>Fiscal revenue</td>
<td>Fiscal revenue per capita (.,000 RMB)</td>
<td>2003-2012</td>
</tr>
<tr>
<td>Dependency ratio</td>
<td>The ratio between the number of local residents and labor forces (including employees worked in the formal and informal sector)</td>
<td>2003-2012</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>GDP per capita (.,000 RMB)</td>
<td>2003-2012</td>
</tr>
<tr>
<td>Hospital beds</td>
<td>Number of hospital beds per 1,000 people</td>
<td>2007-2012</td>
</tr>
<tr>
<td>Primary school teachers</td>
<td>Number of primary school teachers per 1,000 people</td>
<td>2003-2012</td>
</tr>
<tr>
<td>Secondary school teachers</td>
<td>Number of Secondary school teachers per 1,000 people</td>
<td>2003-2012</td>
</tr>
<tr>
<td>University teachers</td>
<td>Number of university teachers per 1,000 people</td>
<td>2003-2012</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>Number of registered unemployed per 1,000 people</td>
<td>2003-2012</td>
</tr>
</tbody>
</table>

\(^7\) All variables are prefecture level variables.

\(^8\) These expenditures include prefecture level government expenditure on retirees’ salary (in administrative public service units), social assistances, employment service and fiscal subsidy for social security.
Table 2: Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
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<td>Education expenditure</td>
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<td>331.25</td>
<td>46.21</td>
<td>4385.21</td>
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<tr>
<td>Health expenditure</td>
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<td>135.79</td>
<td>20.20</td>
<td>1795.02</td>
</tr>
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<td>Social security and employment expenditure</td>
<td>1062</td>
<td>355.93</td>
<td>205.09</td>
<td>14.00</td>
<td>1454.78</td>
</tr>
<tr>
<td>Social assistance expenditure</td>
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<td>24.76</td>
<td>27.17</td>
<td>1.25</td>
<td>160.90</td>
</tr>
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<td>3.73</td>
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<td>158.83</td>
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<td>20.43</td>
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<td>56.29</td>
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<td>Fiscal revenue</td>
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<td>1.41</td>
<td>1.65</td>
<td>0.07</td>
<td>16.14</td>
</tr>
<tr>
<td>Dependency ratio</td>
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<td>7.29</td>
<td>4.23</td>
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<td>26.30</td>
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<td>Hospital beds</td>
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<td>Primary school teachers</td>
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<td>4.29</td>
<td>0.86</td>
<td>1.87</td>
<td>10.75</td>
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<td>Secondary school teachers</td>
<td>2632</td>
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<td>0.69</td>
<td>1.47</td>
<td>8.19</td>
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<td>University teachers</td>
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<td>1.07</td>
<td>0.02</td>
<td>7.91</td>
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<td>Unemployment rate</td>
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<td>34.84</td>
<td>20.13</td>
<td>0.88</td>
<td>315.88</td>
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</table>
Table 3: Regression results for the determinants of social expenditures

<table>
<thead>
<tr>
<th></th>
<th>(1) Education expenditure</th>
<th>(2) Health expenditure</th>
<th>(3) Social security and employment expenditure</th>
<th>(4) Social assistance expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal sector size</td>
<td>0.890**</td>
<td>-0.921</td>
<td>-0.983</td>
<td>0.00792</td>
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<tr>
<td></td>
<td>(0.317)</td>
<td>(0.945)</td>
<td>(1.444)</td>
<td>(0.0194)</td>
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<tr>
<td>Formal sector income</td>
<td>11.48***</td>
<td>6.268**</td>
<td>0.862</td>
<td>0.589</td>
</tr>
<tr>
<td></td>
<td>(3.064)</td>
<td>(2.394)</td>
<td>(2.239)</td>
<td>(0.491)</td>
</tr>
<tr>
<td>Fiscal revenue</td>
<td>112.2***</td>
<td>29.06**</td>
<td>35.41***</td>
<td>9.030***</td>
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<td></td>
<td>(19.83)</td>
<td>(9.442)</td>
<td>(7.142)</td>
<td>(1.914)</td>
</tr>
<tr>
<td>Dependency ratio</td>
<td>-0.280</td>
<td>-5.119***</td>
<td>-6.378**</td>
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<td></td>
<td>(1.781)</td>
<td>(1.161)</td>
<td>(2.324)</td>
<td>(0.212)</td>
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<tr>
<td>GDP per capita</td>
<td>1.252</td>
<td>-0.297</td>
<td>0.681</td>
<td>0.232</td>
</tr>
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<td></td>
<td>(1.674)</td>
<td>(1.074)</td>
<td>(1.198)</td>
<td>(0.212)</td>
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<tr>
<td>Urbanization rate</td>
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<td>181.7*</td>
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<td>-1.383</td>
</tr>
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<td></td>
<td>(53.74)</td>
<td>(77.50)</td>
<td>(133.2)</td>
<td>(21.07)</td>
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<td>Unemployment rate</td>
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<td>(0.200)</td>
<td>(0.120)</td>
<td>(0.313)</td>
<td>(0.0446)</td>
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<td>Hospital beds</td>
<td>2.450</td>
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<tr>
<td>Primary school teachers</td>
<td>13.90</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(10.82)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Secondary school teachers</td>
<td>78.63***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(10.98)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>University teachers</td>
<td>-20.91</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>(17.54)</td>
<td></td>
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<td>----------------------</td>
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</tr>
<tr>
<td>Constant</td>
<td>-429.3***</td>
<td>-66.55**</td>
<td>126.9</td>
<td>2.593</td>
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<tr>
<td></td>
<td>(79.96)</td>
<td>(24.72)</td>
<td>(72.47)</td>
<td>(8.431)</td>
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<tr>
<td>Prefecture fixed effect</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year Dummy</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>N</td>
<td>2632</td>
<td>1649</td>
<td>1062</td>
<td>1077</td>
</tr>
<tr>
<td>adj. $R^2$</td>
<td>0.918</td>
<td>0.814</td>
<td>0.633</td>
<td>0.433</td>
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</table>

Clustered robust standard error at prefecture level in parentheses, * p<0.05, ** p<0.01, *** p<0.001.