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II. Economic Reform and the State

Economic Reform and Social Change in China: Past, Present, and Future of the Economic State

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China's socioeconomic crisis before 1978 and its success over the past two decades can be viewed as a zigzag process of politicization and de-politicization of the "economic state." By summarizing the Chinese experience, this article shows the importance of a specific pattern of general public policy (GPP) in determining the nature of a policy system. China's economic and "serialized" reforms since 1978 are reviewed in order to illuminate the current situation and future direction of the nation. The changes have undermined the economic state by creating a trend of "de-economicization" in the Chinese government. If economic reform and social change are to continue smoothly, another "transfer" of state emphasis to more balanced development is required.

KEY WORDS: China; general public policy; economic state; development; social security/welfare.

This article has three objectives. The first is an explanatory effort to understand why the post-Mao Chinese party-state undertook economic reforms beginning in 1978. The second is a description and analysis of what the Chinese government has tried—but oftentimes failed—to address: the social welfare deficits that resulted from those economic reforms. The third is an examination of the likelihood that Chinese social policy will converge with that of a Western-style welfare state.

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The article offers the following major observations and arguments: (1) “Open door” and reform are often signified as China’s departure from socialism. The most fundamental change in 1978, however, was not a choice of different “-isms” but a shift in Chinese general public policy, particularly the transfer (or reversal) of the state’s work emphasis from politics to economic construction. The failure of the politicized “economic state” in the past was the chief driving force of various reforms aimed at making up its lost opportunities. (2) Without the “transfer” of state emphasis to economic affairs in 1978, the open and reform policy and its success would be impossible. Such “de-politicization” fully realized the government’s potential as an economic state, though it was unprepared to address the social welfare deficits that resulted from the economic reforms. (3) The economic reforms have undermined the economic state itself structurally and functionally, setting the stage for the development of a welfare state. The government, however, ideologically still remains an economic state, although tensions have surfaced between its economic and sociopolitical functions that have forced it to address them. A socialist welfare pluralism with Chinese characteristics will continue to define social policy in China, possibly, given the lessons of the welfare states, even after the country catches up with the world’s developed nations.

HISTORICAL BACKGROUND

The Economic State and Its Economic Crisis

Marxism, which considered the economy as the basis of any society, was, and still is, the theoretical foundation of the People’s Republic of China (PRC). According to the Soviet orthodox interpretation of Marxist principles, production was the original, and often understood as the only, force driving human history forward. The main function of the socialist-communist state, therefore, was to promote economic production. The overthrow of a system of “exploitation of man by man” meant the establishment of a system of public ownership of the means of production. In such a public ownership system, the state had the mandate to run the economy and organize production on behalf of the society. The typical socialist-communist state, therefore, would be loaded with all kinds of economic departments representing major structural-functional differences from the welfare state. To know why social welfare policy was so underdeveloped in a socialist country such as China, one must understand the theory of the “economic state” (Chen, 1996, 1998a, 1998b, 1999, 2001) from the standpoint of a Stalinist

“big push” development strategy (Dernberger, 1982). That strategy places top priority on developing the economy, particularly productive means or the advancement of the “heavy industry” (Jackson, 1992). Other state affairs, such as social welfare, had to be justified by their role in helping to promote productive forces and/or develop economic infrastructure. Understandably, the main way of providing social welfare was a model “perfectly” integrated with the economy, which in China could be termed an occupation-based welfare system (Chen, 1996).

Marxism, however, was not founded on mechanical materialism but on dialectical materialism. And it was so dialectical that one could use it any way desired (Gregor, 1995). Because dialectical materialism emphasized subjective initiative, it was not easy to be differentiated from subjective idealism. Indeed, there was no dearth of communist leaders who completely confused the two. When this dialectic was applied to the communist doctrine of historical materialism, it was the “superstructure” of the society that received more attention. In other words, now it was economy being disregarded while political, ideological, and cultural matters were pushed onto the center stage. This was indeed the most ironic dimension of Chinese economic policy under Chairman Mao. Particularly, politics, regarded as the “concentrated representation” of an economic system, was put in command of everything.

China specialists have tried to find out the roots of China’s past economic problems by analyzing the economic system itself (Rawski, 1996). However, their explanations and technical advice would hardly be relevant and useful without considering the role of a general public policy (i.e., a guide to the priority aims and preferred means of a policy system; see Morris, 1985) and China’s loss of identity as an economic state (Chen, 1996, 1998a, 1998b, 1999, 2001). Most of the time before 1978, Chinese policy was extremely politicized and the government failed to heed its economic mandate. In other words, economics gave way to politics as the priority aims and preferred means in state policy. For thirty years, economic construction was ordered by official politics, and the Cultural Revolution (1966–1976) was a key illustration of that situation (although it was waged under the name of unprecedented democracy). Until the end of the Cultural Revolution in the late 1970s, the slogan resounding in every office and workshop of business enterprises was to “put politics in command.” Anyone who was considered overly devoted to production or other economic affairs would be criticized as committing the sin of “putting economy in command.” It was not surprising, therefore, that such social syndromes as the “iron rice bowl” and “eating out of the common big pot” (Chen, 1996; see below), while economically unhealthy, remained intact.

The Historical "Transfer" in 1978

Mao's demise in 1976 created an opportunity for fundamental changes in Chinese policy. Although China was far behind the former USSR (Soviet Union) and the Eastern European countries in initiating economic reforms in the 1960s, it has been well ahead since 1978 (Jackson, 1992). Yet, until we are able to reexamine the cases with a higher level of understanding, what has made China's economic results dwarf its peers will remain an enigma. And what should be considered the most fundamental change in Chinese policy will remain an issue. Indeed, it is easier for any state to simply change, or "reform," but without a resolve in putting its shoulder to the economic wheel, a reformist leadership may accomplish no more than chaos. It seemed that the key was a resolution to "depoliticize" or fully "economicize" the Chinese state, while "open door" and reform were only the logical corollaries of such a critical move (Chen, 1998a).

In real terms, the year of 1978 was marked with a strategic decision made by the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party (CCP), to transfer its focus of work from politics, or "class struggle," to economic construction, or "socialist modernization" (Barnett & Clough, 1986). The CCP's decision to put its emphasis on economic work meant that it finally recognized its need for an out-and-out economic state. Without such a strategic decision to set to rights what had been frequently thrown into disorder, the policies of "open door" and reform would be impossible. That move was bold, and indeed the result of a life-and-death struggle, which changed the orientation of the entire nation. If the post-Mao leadership failed in their struggle with politics-oriented "Leftists," the reformers would be in danger of never gathering momentum, or quickly perishing in ensuing political crusades.

From the rational perspective of policy analysis (Chen, 2001), a timely transfer of the economic state's focus from other affairs to its mandate in economic development was crucial. Economic development would accumulate its effect and in the long run control the state's lot. The Chinese case demonstrates the fundamental significance of a general public policy (GPP) in state affairs. The historical lesson that the Chinese communists had taken seemed to suggest that whether or not they could substantially improve the nation's economic situation was a matter of life and death. Under the changing sociopolitical circumstances, the only way for the Chinese state to survive the challenges was no longer political propaganda but tangible economic achievements. This was also a lesson to many other developing countries, especially the socialist-communist states. And it has been increasingly a lesson for governments in developed "welfare states" as well. The Chinese communists now clearly understood that they could not afford to

miss their last chance to catch up with developed nations. In philosophical terms, materialism eventually prevailed over idealism; and the eagerness to make up past losses even led to pragmatism. With the economy being brutally interfered with and thwarted for decades, the speed-up of economic construction emerged as the most pressing obligation and critical task for the Chinese state.

In sum, the policies and achievements of “open door” and reform since 1978 were unlikely without a GPP focusing on economic construction instead of repeating such political movements as the Cultural Revolution (as Mao desired, for instance, to take place once every seven or eight years). In this regard, the party-state’s desperate need for economic catch-up has prevailed over its concern about capitalism vs. socialism (at least for the time being including the past two decades, with Deng’s “white cat or black cat” principle serving as good evidence of such ambivalence; see below). Just as the old-fashioned economic operation was left intact because of the politicization of policy making, the party-state’s new orientation stressing economic efficacy was bound to a flat decision of economic reform (Byrd, 1991). The expected and unexpected successes of reform, in turn, reaffirmed the CCP’s conviction in a complete economic state.

THE ECONOMIC REFORM

The historical transfer/reversal of 1978 was essentially a process of de-politicization of the Chinese state, with its work emphasis now placed on economic affairs. Yet, it did not try to improve itself under the traditional Soviet planning model. Rather, the focus on “class struggle” was replaced by a *reformist* approach to the launching of speedy development.

Chinese economic reform was actually implemented in 1980, and the first three years were devoted to reform in the countryside (Deng, 1992). The remarkable economic turnout and desirable sociopolitical effect of the rural reform greatly encouraged the post-Mao leadership under Deng, which led to the determination of an all-round economic reform (Shell & Shambaugh, 1999; Ikels, 1996). A strategic decision was made in October 1984 by the Third Plenum of the Twelfth Central Committee of the CCP to move the emphasis of economic reform from the villages to the cities.

Before 1984, there had been some important changes in the urban economic system. Those changes included the increase of individual self-employed workers and laborers, and the rise of different employment systems in enterprises with foreign capital, particularly in the special economic zones along the coasts (Gao & Chi, 1996). There was also an attempt to set up a new enterprise taxation system. In addition, the “readjustment” of

China's development strategy since 1978 resulted in more balanced ratios of sectoral investment with higher priorities for agriculture and light industry, as well as a larger consumption fund to improve the living standards of the general population (Jackson, 1992). In the party-state's 1984 decision to speed up urban reform in order to push forward an all-round reform in the country, a new type of Chinese economic system was made much clearer than before (Gao, 1984; Ash & Kueh, 1996; Chi, 1996; Chai, 1997). The centralized planning or "command" economic system (Dernberger, 1982; Li, 1997; Perry & Wong, 1985) was brought to an end by an efficiency-oriented new leadership. The most substantial systemic changes included the autonomy as well as responsibility bestowed on enterprises, and the development of a diversified property rights structure (You, 1998). The reform of urban enterprise management featured the decentralization of decision-making powers to the individual firm, including the supply of inputs and distribution of the finished goods, labor and wage reforms, affiliated reforms in the financial and banking system, and diffusion of ownership (Jackson, 1992; Soled, 1995). The period covered by the Seventh Five-Year Plan (1986–1990) kicked off with a number of radical reform measures proposed (*ibid.*): the opening of capital markets and markets for such producer goods as steel products, the beginning of experiments in shareholding, the adoption of a new management responsibility contract system, and the introduction of the Enterprise Bankruptcy Law. The State Council announced several important regulations in 1986 to institutionalize these changes, and new things such as stock exchanges developed rapidly ever since (Karmel, 1994). All the developments led to dramatic changes in management, fiscal, and accounting practices.

For ordinary Chinese workers, the most influential change was the reform of the labor/employment system, introduced during the initial period mainly to limit the offering of lifetime job tenure to new employees in state-owned enterprises (Wang, 1996). The reform consisted of two major measures (*ibid.*; Howard, 1991): a new labor contract system and an "optimized teaming" program under which the lay-off of surplus labor was justified. The purpose was obviously not to "restore capitalism" but to increase productivity. However, as Jackson (1992) points out, "These were indeed radical moves which could be interpreted as undermining the very foundation of socialist industrial relations" (p. 152).

The Chinese labor system had been in the main a system of permanent workers since 1949. Permanent employees constituted over 90 percent of the total number of urban workers and staff in 1966, and over 84 percent in 1978 (China Statistical Information & Consultancy Service Centre, 1990). The old job tenure and occupation-based welfare system brought unprecedented economic security to staff and workers. The strong administrative intervention and central control over business enterprises eliminated the potential

of bankruptcy and massive layoffs. And the general unemployment rate in the cities was kept at a minimum. Western scholars sometimes observed China as representing a unique “welfare society,” yet more consequential should be the case of this “welfare economy.” The problem was that this system spoiled some staff and workers, including business leaders, to revel in a leisurely position and indulge in comfort. In theory, everyone was the owner of the enterprise. Yet in reality, no one was held accountable for the economic result. Indeed, the economic output itself did not matter much (unless it was interpreted as having some political significance), as compared to the maintenance of the “master” status of the workers and staff. Such a system had evidently stifled economic productivity, which was vividly described as the “*Tie Fanwan*” (“iron rice bowl”) and “*Daguo Fan*” (“eating out of the common big pot”) syndromes of Chinese economy. It also hindered the inter-workplace and cross-regional flow of the workforce needed for facilitating and vitalizing economic production.

In essence, the situation was a trade-off between economic security in the workers and gross inefficiency in the economy. The de-politicization or “economicization” of Chinese GPP set free a leadership determined to go for efficiency at the price of security. The reform effort aimed at eliminating the “eating out of the common big pot” and the “iron rice bowl” syndromes resulted in more and more workers employed in non-lifetime occupation and/or non-state-owned enterprises. Table 1 shows that in less than a decade and a half (from 1983 to 1996), contracted (i.e., nonpermanent) workers emerged as the leading form of employment in China (from 0.6% to 50.7% of all workers). Table 2 indicates that there was a dramatic increase

Table 1. Workers and Staff of State-Owned Units by Type of Employment, China, 1978–1996 (unit: 10,000 persons)

Year	Total	Permanent employment		Contracted employment ^a		Temporary employment		Extra-Plan employment	
		No.	%	No.	%	No.	%	No.	%
1978	7,451	6,278	84.3	—	—	269	3.6	904	12.1
1982	8,630	7,412	85.9	—	—	216	2.5	1,002	11.6
1983	8,771	7,552	86.1	57	0.6	215	2.5	947	10.8
1989	10,108	7,645	75.6	1,190	11.8	325	3.2	948	9.4
1990	10,346	—	—	1,372	13.3	—	—	—	—
1996	10,949	—	—	5,549	50.7	—	—	—	—

Sources: SSB, *China Statistical Yearbook*, 1990, p. 113; 1994, pp. 84&99; 1997, pp. 93&113 CSICSC (1990), *China Report 1949–1989*, p. 464.

^aContractual staff and workers constitute smaller proportions in urban collective-owned work units, yet larger proportions in enterprises of other types of ownership (e.g., foreign-funded, stock ownership and private enterprises). In 1996, for example, contractual employees comprised 47.2 percent of total staff and workers in urban collective-owned units, as compared to 50.7 percent in state-owned units, but 67.6 percent in enterprises of other types of ownership.

Table 2. Number of Staff and Workers by Ownership of Urban Enterprises, China, 1949–1999 (unit: 10,000 persons)

	State-owned	Urban collective-owned	Urban individual workers	Others ^a
1949	494	9	724	306
1953	1,826	30	898	—
1958	4,532	662	106	—
1963	3,293	1,079	231	—
1966	3,934	1,264	156	—
1978	7,451	2,048	15.0	—
1983	8,771	2,744	230.7	—
1984	8,637	3,216	339.4	37
1988	9,984	3,527	659.3	96.7
1989	10,108	3,502	648.2	131.7
1992	10,889	3,621	740	380
1994	11,214	3,285	1,225	1,091
1998	9,058	1,963	2,259	2,638
1999	8,572	1,712	2,414	2,878

Sources: SSB, *China Statistical Yearbook*, 1990, p. 113; 1994, pp. 84–85; 1996, pp. 87; 1997, pp. 93, 96, & 97; 2000 (CD-ROM Ed.), Table E01 SSB, *Statistical Yearbook of Chinese Population*, 1988, p. 250.

^aIncluding foreign/HK/Macao/Taiwan-funded units since 1985, private enterprises since 1990, and stock ownership units since 1993. The categories were reclassified in 1998.

in employment at private or foreign/HK/Macao/Taiwan-funded enterprises and stock ownership units, as well as in the number of self-employed urban individual workers. In contrast, employment at state- and urban collective-owned enterprises has been shrinking since the early or mid-1990s. As a major side-effect, the reform loosened the ties between enterprises and employees, and also weakened the role of the occupation-based system in providing the special kind of statutory welfare (Chen, 1996; Lin & Bian, 1991). For example, a worker or staff member by contract and/or in a non-state-run enterprise would generally have less claim on her work unit (called *Danwei* in Chinese) to care and help if she would fall in need. That care and help, such as sending a caregiver to assist an ill person, used to be fully accessible to one who had been employed permanently in a state-run enterprise. When more and more workers were on contract, meaning also a higher work mobility, this fact would lead to a common situation of the workers and the retired enjoying less welfare provision from the occupation-based system (i.e., their former *Danwei*). Since China did not have a social security system that every citizen could depend on as the last resort, this fact had tremendous impact on consumer behavior, which in turn was believed to have played an important part in slowing down China's economic output (Gu & Mu, 1999). The point is, if the reform were to fully succeed, then a solution to the needs of staff and workers for welfare protection would have to be sought, including their

needs after retirement. This led to another battlefield called the “serialized reform of the social security system” (Krieg & Schadler, 1994).

SOCIAL SECURITY AND THE “SERIALIZED REFORM”

Unlike Americans, the Chinese tended to use “social security system” as the most inclusive term to refer to all income maintenance programs as well as all social service provisions. Not well recognized as a social security measure, however, was the economic safety provided by the “iron rice bowl” employment system which constituted the most important and radical statutory protection of the workforce (Chen, 1996). In such a sense, welfare in prereform China was uniquely integrated with economy, a model that probably went beyond the wildest imagination for an integrated or corporatist welfare state (Mishra, 1984). Staff and workers were guaranteed wage income by “eating out of the common big pot,” along with many other benefits (e.g., housing, health care, and even education and employment for their children) derived from the occupation-based welfare system. Such a system bore the bulk of the welfare costs of the economic state, with most statutory occupational insurance and welfare outlays being paid directly by the work units.

In the process of urban reform, the Chinese believed that a new economy would only be possible after a mechanism of competition and responsibility was successfully introduced. That meant, however, that they had to rid all staff and workers of the strong sense of security derived from guaranteed employment and enjoyed within the economic system. That kind of security had been widely held as a major indicator of the superiority of the socialist-communist system ever since its creation in 1949. Eliminating such economic security or, in other words, divorcing social security from the economic system actually became an issue at the center of the economic reform. It can be said that the Chinese economic reform was, in the first place, a social security or welfare reform (Chen, 1990), which should provide a lesson also for those researchers in the West who favored an “integrated” welfare state (Mishra, 1984).

A new and independent social security system, then, had to be put in place in order to fulfill the obligations of the state as well as to keep up the principles and the superiority of the socialist system. It soon became a truism that the progress of economic reform would have to depend on a corresponding social security reform, to the extent that the former would fail without the successful building of such a new social security system. In taking such a step, few Chinese realized or worried that they would be considered to be approaching some leading welfare states, or so-called “welfare capitalism.”

The old occupation-based welfare system run by the work units also had some other problems in economic reform (Lü & Perry, 1997; Li & Wang, 1996). For instance, as different work units had different ratios of retired workers and staff, some found themselves seriously disadvantaged after a mechanism of competition was instilled into the state-owned and urban collective economy. The unequal situation certainly created a hurdle for reformers. Some older enterprises even ran short of funds and could not afford large sums of statutory pensions. Calls for reform of the *Danwei* or workplace-based welfare system were aroused in order to provide a more equitable basis for enterprises to compete with one another. It was also envisioned that there would be some enterprises failing the new market system and needing to be sifted out. In addition, economic reform included encouraging people to engage in private enterprises and self employment in order to boost economic output. The number of such people multiplied in recent years, from 150 thousand in 1978 to over 23 million in 1996 (SSB, 1997). For them, a new safety web was also needed.

To meet various challenges including a surging “gray tide” due to rapid aging of the population (Banister, 1992), Chinese policy makers were aware of the necessity to establish some cumulative welfare funds. Those funds, on the one hand, could be saved for future use; on the other, they could be used to adjust or redistribute the uneven loads of pensions, unemployment payments etc. across enterprises. Since the early 1980s, the labor administration endeavored to carry out this task under the name of a reform called “overall planning of social insurance funds.” Such funds were contributed by enterprises and administered by social insurance institutions. Later development of this reform included an emphasis on the combination of social insurance funds and individual savings accounts, based on the contributions from both enterprises and individuals (Krieg & Schadler, 1994; *Chinese Elderly*, 1995, No.5; SINOVISION News, March 10, 1998).

As for various services other than cash payments, the occupation-based welfare system used to be the main source of provision. One of the most important services provided by work units was free or nearly free housing. Low rents used to encourage staff and workers to seek comfortable housing however they could. The housing reform adopted a new policy of privatization; workers and staff members were encouraged to purchase their own apartments by paying affordable prices. The reform was started by charging only nominal costs, as compared to the real market values of the estates, in various internal sales of public properties within work units. The administration of housing construction and distribution, however, remained more or less the responsibility of individual enterprises. More commercial developments were later made available, and the prices would fluctuate depending on supply-demand ratios. In recent years, the government tried to phase out

the old housing allocation system (i.e., housing as a welfare provision), and the implementation process has deeply disturbed various interest groups. One problem has been that many employees could not afford to pay for new housing even though large numbers of residential apartments were made available on the markets (SINOVISION News, April 25, 1998).

Health care was another major field of reform since free provision led to waste of medicine and abuse of services. The main issue for policy makers was a funding problem (World Bank, 1997). Since China did not have a commercialized or "socialized" medical insurance system, funding used to be taken directly from the work units' operational costs. Health care expenses constituted a major part of collective spending on occupational welfare for staff and workers. It was the second largest item in total payments for the retired (next to spending on pensions). In 1993, medical expenses incurred by state-owned enterprises amounted to 25.84 billion *yuan* (US\$1 = RMB5.76 *yuan* in 1993) for staff and workers and 13.27 billion *yuan* (including 320 million in nursing fees) for the retired (SSB, 1994). To curb the spending on health care and reduce the burden on business, various measures were tried. Yet few seemed to have worked very well, and new problems emerged such as reduced access to health care (Grogan, 1995). For some work units, the old health care system largely remained intact. In some others, a clear-cut amount might be stipulated as a ceiling for reimbursement. In still others, a small lump sum of money might be given away to each worker or staff member, and primary health care would then become the individual's own financial responsibility. A common practice was that an enterprise would designate one or a few hospitals as the only acceptable health care institution(s) where medical charges were authorized. This probably helped to prevent the abuse of the free/low charge medical system by those who had special contacts and connections with various hospitals. But others, particularly the elderly, had to suffer from the inconvenience, partly because of the transportation problems.

The function of the enterprises to provide personal social services was also reduced, especially in light of the changing employment system and the shrinking availability of permanent positions. The new leaders of enterprises were expected to concentrate on economic achievements, and many of them had been longing for casting off such bothersome "social" responsibilities. As a result, the "society," particularly the local community, was expected to undertake a greater share in providing welfare services (Wei, 1988; Chen, 1988).

"Welfare reform" measures like these, however, appeared more and more handicapped in addressing the mounting social needs and did not suggest a clear direction for future development. Although the social policy of the economic state may be understood in terms of a "socialist welfare pluralism" (Chen, 1996), economic reform has made the role of the state in

Table 3. Welfare Spending Compared with Other Noneconomic Expenditures, China, 1952–1996^a (unit: million RMB yuan*)

Year	Compensation & social welfare	Edu., Sci., culture, & health	National defense	Administrative expenses ^b
1952	295	1,347	5,784	1,454
1965	1,094	4,559	8,676	2,534
1970	653	4,365	14,526	2,527
1975	1,288	8,129	14,246	3,883
1978	1,891	11,266	16,784	4,909
1984	2,516	26,317	18,076	12,523
1989	4,960	55,333	25,147	26,186
1992	6,645	79,296	37,786	42,458
1996	12,803	170,425	72,006	104,080

Sources: SSB, *China Statistical Yearbook*, 1990, p. 237; 1994, p. 217; 1997, p. 242.

*US\$1 = RMB 1.70 yuan (1981), 2.32 (1984), 8.35 (1995).

^aThere is some inconsistency of statistical data. Figures in the 1997 edition of the *China Statistical Yearbook* are used if they differ from the numbers in earlier versions.

^bThe figures include expenditures for public security, legal system, and foreign affairs but not all administrative expenses.

welfare provision more and more crucial. While many in the world admired China's achievements in economic reform, few would be satisfied with its "serialized reform" in the social (and political) sectors. It is alarming to see how few resources have been allocated to social welfare, considering that China has the world's largest population (see Table 3). The lion's share of China's resources always went to economic construction (Chen, 2002). The frustration could be easily sensed as so many people lamented on related social issues in China. Here the question is, would all these trends necessarily prevent the economic state from becoming a "welfare state"?

ECONOMIC STATE IN TRANSITION: THE QUESTION FOR ANOTHER "TRANSFER"

The answer to the above question is not as obvious as it may appear. Earlier I have pointed out China's development strategy by indicating the cardinal Marxist principle that economic production plays a decisive role in propelling human history forward. The Chinese government was structured as an economic state (Chen, 1996, 1998a, 1998b, 1999, 2001), though that main function had never been fully realized before 1978. The changes that have taken place since 1978 suggest that the state will stay on its path of economic development as long as feasible. Since the nation lost numerous economic opportunities in the past, it seems unrealistic that anyone can count on a fundamental transfer of state emphasis from economic investment to other undertakings, particularly social spending. As an established

post-Mao ideological (or nonideological) orientation, the policy makers have suggested that they must make up the loss of the economic state before they can effectively focus on any other agenda. Having taken a full lesson from its own past and from the West, the Chinese government at least in the predictable future will be bound to be an economic state rather than a welfare state, nor a political or military state unless it loses rationality again (Pye, 1990).

The post-Mao emphasis on economic construction not only let the state comply with the prescriptions of the socialist development strategy, but made possible a dialectic application of them. On the one hand, economic construction remained the focal point of financial expenditure (Chen, 1996, 2001); on the other, at least theoretically, social development and the improvement of living standards were more stressed. For example, since the Seventh National Five-Year Plan, the general theme in Chinese policy making has switched from a simply economic plan to a comprehensive “socioeconomic” one (State Council of PRC, 1986). This comprehensive planning for development, however, could not veil the state’s anxiety about economic catch-up. Although the economic state is now more aware of social needs than ever before, it considers itself not yet in a position to consistently concentrate on such “civil affairs” as social welfare.

Indeed, the experience of failure in the past was so painful and the pressure later so grinding that the Chinese state can hardly be expected to divert its attention from its main function in organizing economic construction to anything else, including domestic and international politics (Shue, 1988). Although the “Neo-leftists” are increasingly voicing their frustration with this post-Mao GPP, Deng Xiaoping’s last will of “no argument”¹ has guided policy makers to pursue their economic ambition without much distraction. For the researchers who stress the linkage between social justice and welfare provision, it seems hopeless to keep lamenting about the underdevelopment of social services in China. Nor would it help to castigate Chinese social policy simply from the viewpoint of a welfare state because the economic state compares unfavorably with the welfare state. The best the researchers can do is probably to heed any of the economic state’s efforts, even if they look insignificant, in developing a social undertaking without jeopardizing the commitment to economic construction. The social policy of the economic state represents a radical approach to social welfare, although not necessarily the same as the “trickle-down” strategy in the West, in the sense that it follows Marxism (or its Stalinist version) with a development strategy represented by the primacy of economic growth (Chen, 1996). Those piecemeal efforts in social welfare are certainly unsatisfactory to social service professionals, especially to those Neo-leftists from advanced welfare states. However, a careful study of the efforts, including the minimal

role of the state in community care or community services, is much better than wiping them out because they do not live up to our expectations. For the rational/calculative Chinese policy makers, the hope may not be in the state's sudden increase of financial allotment in social welfare but rather in seeing the state pursue the radical and singularly "balanced" approach to development.

This, however, does not mean that the state can get rid of all its sociopolitical functions. Nor does it prove that turning the whole nation into an "economic society" would necessarily achieve its objective. Attention to the social needs of people cannot be simply replaced by a rhetoric on other issues such as corruption or social welfare's inability to eradicate inequality. Chinese policy makers seem to understand that. Once they make up the loss of economic opportunities, or if they sense that the social problems will threaten their economic ambition or even political ruling, it is not so hard for them to sharply increase social spending by relocating the emphasis of funds appropriation, although they may still not be interested in the welfare state doctrine. Compared with Western governments, the economic potential of the Chinese state puts it in a unique position in balancing economic and social developments via direct policy intervention (Chen, 2001).

In real terms, the Chinese state has already shouldered a heavy welfare burden, which is becoming more and more a challenge to its economic ambition. Expenditure has increased abruptly (Chen, 1996, 2001), sometimes even squeezing the funds for economic reproduction or new investment. There are many other old and new social problems to be tackled, including a giant "floating population" (i.e., migrant workers) in the cities and a high suicide rate among women in the countryside. The state has been busy with the overall planning of pensions for retired workers and staff and with the reform of the housing and health care systems (Chen, 1996; Hamer & Steekelenburg, 1999; Zhong & Ma, 1999; World Bank, 1997). Yet, the question as to whether or not social spending in China will substantially increase will depend on China's economic situation compared to other nations and policy makers' awareness about the necessity to use social spending to create or maintain a favorable sociopolitical condition for economic construction.

A deeper analysis will discover that there are invisible forces that have been changing the structure and undermining the economic function of the Chinese state, which might not have been expected at the beginning of the reform. A major measure of the Chinese economic reform has been the decentralization of decision making, serving as a springboard for other associated reforms (Jackson, 1992). As the core of the Chinese enterprise reform, this decentralization meant the expansion of management autonomy involving basic enterprise organizations (work units) rather than just local authorities. This restructuring reflected the state's resolution to move

the country toward “market socialism” rather than merely a partial reform within the old planned economic system. The systemic changes have affected labor, wages, and even the ownership of the means of production. Ideological concern about communism has largely given way to practical interest in the economic state’s mission of advancing economy. The change of the socialist infrastructure, however, has been altering the base of the economic state. The consequence of decentralization is that the economic state’s administrative control and intervention, at either the central or the local level, has become less and less needed and more and more counter-productive given the expanding autonomy of the enterprises and diversified property rights structure. A most conspicuous measure passed by the Ninth People’s Congress in 1998 was the reorganization of the central government, eliminating a number of economic departments while enhancing the part of social administration including social security and the legal system (SINOVISION News, March 10, 1998). That decision was based on the changes that had already taken place at both the central and the local levels. For instance, a county administrator in Guangdong Province proudly announced that there was no longer any enterprise directly run by the government (SINOVISION Special Report, March 11, 1998). Guangdong has often been a special case, which, however, also has often been a portent of the future.

The implications are significant and twofold. An enterprise that used to carry out the dual functions of an economic unit and a sociopolitical agency (Chen, 1996; Lü & Perry, 1997) is now mainly or purely economic/business-oriented. For the government that has put more energy in economic management than in social administration after de-politicization, the economic part is now shrinking while the social sector becomes more and more outstanding. Although spending figures still show a definite feature of the economic state in terms of the extraordinary economic spending in recent years, the statistics also indicate a remarkable growth in the share of social, cultural, and educational expenditures as compared to economic construction, up from 13:100 (economic spending = 100) in 1970 and 20:100 in 1978 to 72:100 in 1999. The state’s spending on economic construction accounted for 60 percent of its total expenditures in 1970 and 64 percent in 1978, but it was gradually reduced to less than 38 percent in 1999. In terms of the state’s share in the entire economy, as Shambaugh (2000) writes, “By 1998 the state sector accounted for only 45 percent of Gross Domestic Product (GDP) and employed only 18 percent of the work force... As an investor in the economy, the share of central state appropriation has declined substantially, from 36 percent in 1982 to a mere 3 percent today” (pp. 161–162). Clearly, the economic state has been undermined by its own open and reform policy shortly after its economic character was fully realized in 1978.

While the Ninth People's Congress was cutting the economic departments of the government, its attention was redirected toward such social issues as unemployment and underemployment due to the setback of the state-owned sector. The economic state has turned the entire nation into an "economic society" by encouraging people in all walks of life to "jump into the sea" (i.e., to go to business, including even "marketization" of higher education; see Yin & White, 1993). However, it seems that the state itself has been undergoing a process of "de-economicization," not because of another shift in ideological orientation but due to the inevitable changes in its structure and functioning resulting from its own policies. Indeed, "During the Maoist era the state sector was the only option; today it is seen as the last option" (Shambaugh, 2000, p. 162).

In the process of reform, there has been recurring discussion about transforming the government's functions. The general direction of the proposed transformation has been described as "small government, big society," although the practice in the 1990s was criticized as an irresponsible government shifting burden to enterprises and the society (Yeung, 1999). Following this attempt to directly limit the functions (including economic function) of the government, it was further proposed to transfer the emphasis of government functions to social affairs. In discussing the development of the community service movement in China, for instance, some Civil Affairs Administration cadres proposed a stronger social function for the government by pointing to the negative effects of the old pattern of economic and social administration (that is, "government runs economy while enterprises administer society"). They contended that the excessive economic function of the government deviated from normal social division of labor. And that deviation had negative impacts on economic development and was detrimental to the social administrative functions of the government itself, leading to the swelling of the social functions of the enterprises which formed a heavy burden to them and weakened the functions of the community. As a conclusion those advocates held that the government should speed up the development of community services and, accordingly, the role of the Civil Affairs Administration should be stressed in governmental work (Chen, 1996).

Notwithstanding all the actual changes in government and wishful thinking of the welfare proponents, the Chinese economic state does not seem to easily forget its hard-learned historical lessons. A rhetoric of "balance" in the government's work assignments does not necessarily mean that the state is getting rid of its omnipotent role and outstanding economic function. Rather, those recent changes are solid evidence of the still strong position of the Chinese economic state. The only question is whether the state will always be able to secure its dominion over the whole process of change, or

whether it is releasing the “genie” from the bottle but will later lose control of it (Shambaugh, 1998; Chang, 1992).

CONCLUSION AND DISCUSSION

This article examined China’s past, present, and future courses of development under the “economic state in transition” model (Chen, 1996, 1998a, 1998b, 1999, 2001, 2002). The ending of the Cultural Revolution after Mao’s demise and the crushing of the “Gang of Four” in 1976 opened an opportunity window for China’s full-wing development as an economic state. The most important step that the post-Mao leadership has taken to turn the state away from its old path was a decision to redirect the government’s focus of attention from politics to economic development. Without recognizing the significance of such a shift of emphasis at the level of general public policy (GPP), any talk about the open and reform policy is to put the cart before the horse. Indeed, without an understanding of the politicization of the state in the past, its de-politicization or economicization after 1978, and potential de-economicization in the present and future, many questions would go unanswered:² Why was there once a political state rather than an economic state? Why has there been an economic reform but not political reform (at least in the Western sense)? Why is there currently an economic state rather than a welfare state? Why should there be further adjustment of state emphasis to avoid major setbacks and keep the momentum of reform and progress?

The reform of China’s economic system after 1978 was no doubt one of the most significant events in the 20th century (Harding, 1987). After its lost identity was regained, the economic state entered a process of rapid change with a strategic decision to reform the state-owned economy in 1984. Economic reform, in turn, has been transforming the structure and functioning of the Chinese state. This “de-economicization” of the Chinese state may provide useful lessons to the study of public policy and development strategy involving both developing and developed countries. In real terms, the continued (over-) emphasis of the Chinese state on developing the economy is causing serious tensions between its economic and sociopolitical functions. If economic reform and social change are to continue smoothly, another “transfer” of state emphasis to a more balanced development is inevitable. This trend may somehow parallel the development of a welfare state, although its zigzags may be avoided by learning from the experience of Western nations.

All the observations, conceptualizations, and explanations may serve as some theoretical hypotheses for further validation studies of Chinese

and comparative policy. To conclude, the following hypotheses can be spelled out to provoke further inquiries:

- China's economic malfunction in the past was more a failure of its GPP in terms of politicization and poor politics than the failure of socialism as a socioeconomic system.
- China's economic reform was made possible by de-politicization or getting rid of some of the worst politics by focusing on economic development, setting to rights what had been frequently thrown into disorder ever since the economic state was created.
- China's economic reform was started as a means of economic catch-up in order to fulfill the mission of the socialist economic state rather than to "restore" capitalism, although it may end up with capitalism or more likely a mix of socialism and capitalism since neither had a chance to "save China."
- The reform is immediately responsible for such major social problems as inequality and corruption since they appeared under better control in the past. Yet, the old system did not have a chance nor could it offer fundamental solutions to the social problems until it was thoroughly reformed. The old system also showed no more (actually much less) real respect to human rights and political freedom/democracy than the de-politicized economic state. However, the economic state may fail should the new social ills prevail over the cause of reform.
- Poor politics or politicians may be to blame for China's current stagnation or slow pace in political reform, though the "problem" may also be a result of the historical de-politicization or economicization in the state's GPP. Conversely, lack of a Chinese-type "transfer" of GPP (or dramatic improvement of the economic role of the state) may be a factor in the stagnation or slow pace of the economy of other reforming states, including Russia.
- China may not become a welfare state until it achieves its goal in economic catch-up, though a trend of de-economicization in the government caused by economic reform has been leading its way to more balanced development.
- As long as Deng's instructions are kept in effect, arguments over socialism vs. capitalism will give way to concerns about priorities and balances in the nation's development strategy. Successful "Chinese characteristics" will also draw on the strengths of both the economic state and the welfare state models. In this regard, a careful study of the GPP and a pragmatic approach to China's development will continue to be in demand and, in the long run, determine the state's fate.

- Although politicization seems to be a necessary condition for democracy, it may also open a door to bad politics. In this respect, repoliticization contains both great opportunity and great danger that have the potential to push China forward or roll the country back on its road to development.

ENDNOTES

1. Famous for his practical attitude or pragmatic philosophy, Deng Xiaoping (1992) said: "No argument; this is my invention. Not arguing is to gain time to do things. Once argument starts, things get complicated; time will be wasted, and nothing can be done. No argument. Dare to try, and just do it. This was the situation of rural reform, so was urban reform" (p. 4). Deng was aware of the influences of the "Leftist" and "Rightist" interests. However, in sharp contrast to Mao's confrontational approach that often brought the nation into political turmoil, Deng indicated that he would allow people to be skeptical and to wait and see while he was pushing his new policies, including "open door" and reform (*ibid.*). This also shows how important "social stability" would be on Deng's agenda.
2. Some economists thought they had already gotten a complete understanding of China's past problems and recent transition. "As an example," a commentator so wrote, "the failures of the Maoist economy has [have] been explained as Mao's (mistaken and non-Marxist) emphasis on the relations of production, whereas Deng Xiaoping returned China to classical Marxism's emphasis on the means of production" (anonymous communication, n.d., n.p.). Such understanding in a word of "the relations of production" confuses, such (bad) things as Cultural Revolution with such (good) things as economic security and welfare provision by concealing the real crux of the problem and, even worse, shuts the door to a vast new field of inquiry.

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