Bring the state back in: Social policy development under the Hu-wen Administration

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Abstract
In the past thirty years of economic reform, China has made great economic achievements and become the fourth largest economy in the world. However, the unilateral focus on economic growth has led to a serious imbalance among economic growth, environmental protection and social equality. The SARS crisis broke out in 2003 made the new central policy makers were aware of the importance of social development and construction. As a result, some new notions and ideas, such as “harmonious society” and “scientific development”, have been formulated as new direction of public management and public policy in China. In line with this new direction, more and more social policies have been made and implemented by the central government. This article will first outline the socio-economic context in which the concept of “harmonious society” was formulated. Then, the meaning and policy implications of the concept will be explained. The core of the article is to examine the new developments of social policy in China since 2003 and its impacts on building a harmonious society.

Introduction
Although market-oriented economic reforms in the past thirty years have brought unprecedented economic growth, and improved the living standards of over one billion people in China, the unilateral focus on economic growth by the governments at all levels has adverse developmental implications. It has led to a serious imbalance among economic growth, environmental protection and social equality. That imbalance is apparent in a widening gap between the rich and the poor, an increasing urban-rural divide, and destabilizing regional disparities. Such an imbalance has further been compounded by population expansion, escalation of conflicts between economic development and ecological environment and natural resources, a backward mode of economic growth, poor performance, and low competitiveness of the overall economy. These developments and the grievances of those who have lost ground as a result of the economic reform process have led to widespread of civil unrest in China (Cheng and Ngok 2004). Reflecting on these contradictions and problems in the course of China's rapid economic development over the past three decades, especially
on the bitter experiences of the SARS crisis, the new generation of Chinese leadership led by Hu Jintao sought to redefine the concept of development in China to maintain the balance development in economy and society. As a result, the “theory of scientific development” (kexue fazhanguan) was formulated in the late 2003. This new approach to development calls for "people-centered development, which is comprehensive, coordinated and sustainable, for the promotion of overall harmonious development of economy, society and human beings” (CCCCP 2003). Based on the “theory of scientific development”, the new notion of “harmonious society” (hexieshehui) was brought forward at the Fourth Plenary Session of the 16th Central Committee of the CCP in 2004. In November 2006, the Sixth Plenary Session of the 16th Central Committee of the CCP the “Resolution on the Major Issues Regarding Building a Harmonious Socialist Society”(hereafter “the 2006 Resolution”). The 2006 Resolution highlights the importance, guidelines and goals of building a socialist harmonious society. It puts forward the principles to be followed, the main objectives and tasks for building such a society by 2020, such as further improving the socialist democratic and legal system and narrowing the gap between urban and rural development and between different regions (CCCCP, 2006).

This article will first outline the socio-economic context in which the concept of “harmonious society” was formulated. Then, the meaning and policy implications of the concept will be explained. The core of the article is to examine the new developments of social policy in China since 2003 and its impacts on building a harmonious society.

**Market-oriented Reform, Economic Miracle and Social Inequality**

Given the economic backwardness and poor economic performance of the state sector, the post-Mao leadership, led by Deng Xiaoping, shifted their focus on economic growth from the class struggle in the late 1978 when the reform and open-door policy was adopted. While open-door policy was adopted to attract foreign investment and advanced technology, the market-oriented reform strategy was launched to revive the poor national economy. To destroy the egalitarian legacy of the Maoist era, unbalanced growth theory and pragmatic principles were justified. New policy slogans became popular, such as “getting rich is glorious”, “let a few people get rich first”, and “No matter it is white or black, those who can catch mice are good cats”. Economic growth became the paramount policy goal of the party-state and the source
of its legitimacy. As Deng Xiaoping put it, “(G)rowth is the hard truth” (fazhan shi yingdaoli).

Traditionally, politicians use the GDP (Gross Domestic Product) as an indicator of public well-being or the lack of it. In Deng Xiaoping era, the emphasis of economic building was placed on the narrow economic dimension. As a result, the measure of GDP has become the most dominant concern in adopting national development plans. GDP per capita has been treated as the primary measure of development objectives, economic success, government’s performance, and citizens’ national welfare. In line with the decentralization policy, the growth of GDP and the measure of GDP per capita have been used to determine the economic status and rank of local governments in the overall hierarchy of national development. Even they are used as the most important indicators to measure the performance of local leaders. In other words, the measure of GDP has been used to determine the career development of local officials. As a result, the pursuit of GDP has become the central task of officials at all levels. Officials have been participating in a national campaign of GDP production. No matter how parochial, superficial, and misleading the GDP measure may be, it has been effectively used by economists, politicians, and ordinary people in certifying the rank of a county, a city or a province in national economic order. It has been widely and explicitly observed that the measure of GDP is accepted as the principal indicator of economic progress, sign of well-being, yardstick of success, performance of local leaders, and basis of policy debate in the post-Mao China, especially in the 1990s. As a result, inappropriate development policies and strategies were launched to boost GDP nationwide.

China has achieved greatly in terms of the GDP figure. In the years from 1978 to 2004, China's GDP increased from 147.3 billion US dollars to 1.6494 trillion US dollars with an average annual growth rate of 9.4 percent. Its foreign trade rose from 20.6 billion US dollars to 1.1548 trillion US dollars, averaging an annual growth rate of over 16 percent. China's foreign exchange reserve increased from 167 million US dollars to 609.9 billion US dollars. The number of rural poor has dwindled from some 250 million to 26 million (Hu, 2005).

Apparently, China’s market transition since the late 1970s is parallel with the worldwide dominance of market-driven neo-liberal thinking. Since the early 1980s, in the global atmosphere dominated by the neo-liberal market ideology and neoclassical approach, there has been a fundamental pro-market shift in the policy orientation of developing nations. China is no exception though it has totally different starting point. For the purpose to improve the dire economic performance and provide Chinese
people with enough food, the post-Mao Chinese leadership with Deng Xiaoping as the core, decided to give up the traditional socialist planned economy through the adoption of reform and opening-up policy in the late 1970s. In doing so, China began to embrace a new set of market-led policies, such as the creation of private market, privatization of state enterprises, downsizing of the state sector, deregulation of market controls, liberalization of trade and foreign investment and withdrawal of welfare subsidies. These changes in policies have been pursued in order to enhance market competition, increase economic efficiency, and accelerate economic growth. Although the state still plays the principal role in policymaking, newly emerged interest groups, especially the political and economic elites have a role to play. Since market institutions are underdeveloped, political power is still monopolized by a few elites, and interests are not fully organized, the political and economic elites could use development programs to make economic gains and legitimize their repressive rule. As a result, the development initiatives become an instrument of state domination.

After three decades of implementation of the reform and open-door policy, China has got great economy achievement and became the fourth largest economy in the world in 2006. Nevertheless, the unilateral economic growth policy has wielded income inequality, social erosion, environmental degradation and ecological crisis. Not only social tension among different social groups has been intensifying, there have been worsening forms of environmental degradation, such as air and water pollution, land degradation, deforestation, and biodiversity loss. As Liou (2000) points out, China’ economic reforms have also resulted in problems of social control, official corruption, social inequality, urban-rural conflict, social unrest and crime. These problems are especially noticed in such service areas as public education, public health, and customer protection.

Social inequality in China is first reflected by the income inequality. Before the economic reforms, the income inequality in China was relatively low, but the Gini co-efficient, a common indicator of income inequality with zero representing absolute equality, and one representing absolute inequality, has been rising rapidly since the economic reforms with widening income gaps between rural and urban areas, and between the prosperous coastal region and the interior in China. Based on estimates made by some scholars about the national income inequality during the early years of reform, the Gini coefficient was 0.30 (Yang and Xin, 2002). According to data from the first household survey conducted by the income distribution research team of the Institute of Economics, CASS, the national Gini co-efficient was estimated at 0.382 in the late 1980s. The same research team conducted another national household survey
in 2002, showing the national Gini coefficient for that year was close to 0.46. By comparison, we can find that the Gini Co-efficient in China has increased from 0.3 in the early 1980s to 0.46 in the early 21st century. That means China’s national income inequality has widened by more than 50 percent in the last two decades (UNDP 2005).

The impressive reforms have, however also produced a huge gap between the rich and poor. Currently, China ranks 90th among 131 countries in terms of the Gini coefficient for income distribution. Based on the national samples, the income share of the highest-income group in 1988 was 7.3 times that of the lowest-income group. When comparing the income shares of different income groups in 2002, the one percent with the highest income controlled 6.1 percent of the total. The top five percent controlled nearly 20 percent of total income, while the top 10 percent controlled nearly 32 percent. The average income of the highest-income decile group is eleven times that of the lowest-income decile group. The widening was more evident in rural income inequality in the late 1980s, in urban income inequality in the early 1990s, and in urban-rural income gap since the late 1990s (UNDP 2005).

Along with the increasing income inequality, a substantial underclass of about 40 million rural poor people and 10 million urban poor is produced. Among them, laid-off workers, the unemployed, retirees, workers in poorly run enterprises, poor peasants, migrant workers and land-expropriated farmers are worst affected. Although official poverty lines have been set locally since the mid-1990s, many living under the lines have not been offered official relief. An official survey conducted in 1999 revealed that the per capita monthly income was less than 100 yuan for six to ten percent of all urban families. Those in the top 20 percent secured 42.4 percent of the total income of the country, while the bottom 20 percent earned just 2.2 percent of the total income (Yang and Xin 2002).

Despite the economic growth, the urban-rural divide has been an enduring problem in China, and China now has the biggest urban-rural gap in the world, with per capita income among urban residents about four times that of rural residents, compared to the global average ratio of about 1.5. Rural income has been in decline since 1997 (Yang and Xin, 2002) and the urban-rural income gap has led to a large-scale migration from the villages to the cities. The largest internal migration in the world in peacetimess — 100 million peasants — move from city to city looking for work in the so-called mangliu (blind flow).
Wide disparities exist also between the coastal regions and inland regions, especially regions with substantial ethnic minorities. Some scholars described China as “a country with four worlds”. The first world refers to the most prosperous urban areas; the second the relatively prosperous coastal provinces; the third the poor interior provinces; and the fourth the poverty-stricken border regions and the rural areas dominated by ethnic minorities. In 1999, average income in Shanghai (US$15,516) was twelve times that in Guizhou province (US$1,247), an interior province in the “fourth world” (Hu, Zou and Li 2001).

The result of the imbalanced development is the rising tension in Chinese society, and the increasing worries concerning potential social instability since the mid-1990s. In 2001, a report by a Communist Party research organization on mounting public anger over inequality, corruption and official aloofness in China described a spreading pattern of “collective protests and group incidents” arising from economic, ethnic and religious conflicts. The report cites growing inequality and corruption as major sources of discontent, and warns that even greater social conflicts are likely as China opens its markets to foreign trade and investment (Eckholm 2001). In August 2002, three prominent scholars issued a serious warning against the social crisis in China. In their article entitled “The most serious warning: the social crisis behind the economic prosperity”, the authors, using a large number of statistics and data, argued that the civil discontent in China is growing fast, and the society is on the eve of great crisis. If not handled properly, the society will be out of control, and the government will step down. According to the article, the main reasons for social crisis include unemployment, political corruption, the heavy tax burden of the peasants, the increasing gap between the rich and poor, the deterioration of law and order, and so on (Wang, Hu and Ding 2002).

In general, the GDP of a country or a region represents the total money value of annual goods and services produced in a country or a region. The obvious limitation of the GDP measure is that it is incapable of measuring the non-economic (social) dimension of human welfare, which constitutes an essential part of overall development. In addition, the GDP measure overlooks the issue of income distribution, any economic gains made by a few high-income households may be understood as benefits to all; it does not make a distinction between the gainerers and losers of higher economic growth.

In the absence of market transparency and competitive local buyers, valuable public assets have often been sold at nominal prices to the vested interests associated with the policy-making elites without much concern for public accountability. The policy
of streamlining state sector and reducing welfare subsidies has adverse impacts on low-income citizens. The retreat of the government from the fields such as education, health, housing, and so on, represent a major challenge to the realization of basic needs for poorest households. Low-income citizens, mainly the unemployed urban people, the rural-urban migrant workers, and the peasants are not affordable for education, health care and housing. Patients without money are rejected by the hospitals, students with economic hardship are not allowed into schools and universities. Property price is so high that only a few rich people can buy. The neglect of the basic needs of the ordinary people has invited much social unrest. Since the late 1990s onwards, the unilateral economic growth paradigm has been facing serious challenge and public opposition in China.

SARS Crisis, Leadership Succession, and Harmonious Society

To maintain social and political stability, some policy adjustments have been made in China since the mid-1990s. To placate the peasant discontent, the central government has made periodic criticisms of the excess taxes and corruption of the local and grassroots levels of government. Village elections have been promoted as giving more power to the peasants. The government has also pursued a social security policy of setting minimum prices for agricultural commodities and purchasing grain that fails to sell in the market at that price. A new scheme, tax for fee is being introduced in rural China, which aims at abolishing all taxes levied by township and village councils and replaces them with a national tax that should not exceed more than five percent of household income (Li, 2006). To pacify the disgruntled workers, more money has been invested in the national scheme of the minimum living guarantee, a public income maintenance system for the laid-off workers and urban poor people (Wong and Ngok, 2006). The first few years of the new century witnessed further policy changes in China. In order to narrow down the regional disparity, the strategic policy of “Open up the West” was implemented in 2000. One year later, China joined the WTO so as to respond the challenges of the economic globalization. Nevertheless, the worsening social conditions resulted from the public policies which unilaterally focus on economic growth in China had not been recognized fully by the policymakers until the outbreak of the SARS epidemic.

In the early 2003, SARS (Severe Acute Respiratory Syndrome), an unprecedented public crisis hit China heavily. The initial responses of the Chinese government to the SARS crisis reflected the constraints of the old policy paradigm of unilateral economic growth. In order to secure stable social settings for economic growth, paramount priority is given to social stability. In doing so, all events with potential damage to social stability are suppressed. However, in the era of globalization,
domestic efforts to keep state secrets were not effective as before. SARS epidemic was soon out of control and became an international crisis. Suddenly, the Chinese government was under the unprecedented international pressure. Obviously, the widespread outbreak of SARS in China was a significant policy failure, and such a failure did much to discredit the prevailing policy paradigm. In this sense, the outbreak of SARS was the triggering event to initiate the course of policy paradigm shift (Guo, Zhu and Li 2004).

Under these circumstances, the newly established leadership led by Hu Jintao and Wen Jiabao was determined to push a policy change. A U-turn in government policy occurred in the late April 2003. After the SARS crisis, many new developments occur in Chinese public management and public policy: the increase of transparency brought by the increasing role of mass media; the emergence of public accountability demonstrated by the dismissal of unqualified officials; the turn to social justice as more attention is directed to the socially disadvantaged groups. Meanwhile, the government’s public relations management capabilities have improved considerably.

It seems that these changes in Chinese public management and public policy were not only the instinctive reaction to the SARS crisis. In fact, the SARS crisis forced the Chinese policymakers to think about how to strike a balance between economic growth and social development. Taking lessons from the SARS crisis and the worsening developmental conditions, the new leadership sought to formulate a new set of ideas on Chinese social construction. In October 2003, at the Third Plenary Session of the 16th Central Committee of the CCP, the Chinese leadership put forward a new theory of “scientific development”. In line with the “theory of scientific development”, a new concept of “building socialist harmonious society” was formulated at the Fourth Plenary Session of the 16th Central Committee of the CCP in 2004. This new concept was further elaborated at the Sixth Session of the 16th Central Committee of the CCP in October 2006. At this session, a special resolution on building socialist harmonious society was issued, which highlighted the importance, guidelines, goals and principles of building a socialist harmonious society in China. It said that social harmony is the intrinsic nature of socialism with Chinese characteristics and an important guarantee of the country's prosperity, the nation's rejuvenation and the people's happiness (CCCCP, 2006). The passage of the resolution marked the coming age of social policy in China. The resolutions were not only the guideline of building harmonious socialist society, but also the outline and announcement of social policy of China (Ngok, 2007). In order to build a harmonious society, the policymakers of the central government rediscovered the value and
importance of social policy, which was ignored in the past three decades.

**Building a Harmonious Society: the Responses of Social Policy**

According to the official definition, the so-called “harmonious socialist society” is a democratic society under the rule of law, and based on equality and justice. It would also be an honest, caring, stable, vigorous and orderly society in which humans live in harmony with nature (CCCCP, 2006). The Chinese leaders also figure out the main objectives and tasks for building a harmonious socialist society by 2020, which including “further improvement of the socialist democratic and legal system; implementation of the fundamental principle of administering the country according to law; guaranteeing respect for people's rights and interests; narrowing the gap between urban and rural development and between different regions; favoring the emergence of a reasonable and orderly income distribution pattern; increase of household wealth and enabling people to lead more affluent lives” (CCCCP, 2006).

Under the policy framework of “building socialist harmonious society”, China’s pubic policy pattern is under transformation, and a shift from economic policy orientation to social policy orientation has occurred. In other words, social policy sector has become the key work of the government. It is reasonable to conclude that an era of social policy has come in China.

First and foremost, the basic value and goals of social policy in China have been formulated. On October 15th 2007, Hu Jintao presented the report “Hold High the Great Banner of Socialism with Chinese Characteristics and Strive for New Victories in Building a Moderately Prosperous Society in all” to the Seventeenth National Congress of the China Communist Party. Hu defined the goals of social policy clearly in the report. He pointed out that “(W)e must do our best to ensure that all our people enjoy their rights to education, employment, medical and old-age care, and housing, so as to build a harmonious society” (Hu, 2007). In particular, a section of the report named “Accelerating Social Development with the Focus on Improving People's Livelihood” has identified “six major duties of people’s livelihood” (Hu, 2007).

Second, social policy has become the core section of the work of the government as an array of social policies has been launched since 2003. By analyzing the Work Report of the Central Government presented by Premier Wen Jiabao from 2004 to 2008, we can find that the government has paid much more attention to social policy.
In 2004 work report of the government, education and public health were the two sectors of social policy which the government focused on. Apparently, the focus on public health was just a reaction to the SARS. There were few innovations in social policy arena. After a year, the relevant policies on social development were much more meticulous, especially in the areas of education, public health and social security. There were some new policies arenas took into account in 2006, including housing and environment protection (see table 1).

**Table 1 Statement and Implementation of Social Policies between 2004 and 2008**

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<td>Employment</td>
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<td>Social Security</td>
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<td>Housing</td>
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Notes: “Statement” means policy goals of the year, while “implementation” stands for the conclusion of this year in next year’s working report. “*” means the sector was mentioned in the report; “+” means most of statements were carried out; “-” means only parts of the statements implemented; “0” means none of the statements performed.

Take education policy for example, in 2005, free compulsory education was first implemented in “national poor counties”. Then the free education expands to students of rural areas and cities all over the country in 2007 and 2008 respectively. This is the first time for China to practice the actual compulsory education. As for other social policy sectors, new rural cooperative medical health system will be carried out totally and the minimum living standard guarantee system will spread from urban to countryside. According to working report in 2008, a housing guarantee system is coming in the next five years. And the most significant change is in policy for peasant worker. In 2004, the Report on the Work of the Government just asked the employers to return back pay to peasant workers. When five years pass, the Report required the local governments to formulate an endowment insurance system for the migrant worker and better their working circumstance.

Third, a social policy dominated budgeting is taking shape in China. As we know, treasure is an important instrument while implementing public policy. To recognize the actual purposes and goals of policies, we can look into which items receive most of investment from governments (Wang, 2004). Theoretically, public policy and public
budget both are decisions made by government to govern the country. They should be consistent with each other. As a result, government can reach his policy target easily by using revenue efficiently. However, policy and budget always deviates from each other. This phenomenon exists both in developed and developing countries (Ma and Hou, 2005). That means some policies can’t get enough money to implement so that become failure.

As shown in the work reports of the central government during the past five years, the Chinese government has started to integrate policymaking and budget making process gradually. More and more social policies are accompanied by financial resources. For instance, in the report of 2008, every social policy project statement not only just includes policy goals as usual, but also the financing arrangements. Besides, the responsibility of central and local government was defined clearly in the report too. All of above shows that, a rational policy regime is coming after the policy transformation.

**Conclusion**

This article is a preliminary step to outline the socio-economic context in which the idea of “building a harmonious society” was formed in China and its implications for social policy development. To a large extent, “building harmonious society” is a policy advocacy made by the new leadership represented by Hu Jintao and Wen Jiabao. Given the serious social problems accumulated in the unilateral economic growth paradigm and the imbalance between social development and economic development, it will take a long time to build a harmonious society in China. Nevertheless, it is safe to say that the existing Chinese policymakers are in a right direction. An array of social policies issued in recent years suggests the Chinese government have both political inclination and financial capacity to provide more welfare and benefits to Chinese people. The era of social policy has come in China.

**Reference**


