

*SESSION 4 :*  
*Welfare and*  
*Redistribution*

# Does the Transition from a Defined Benefit Plan to a Defined Contribution Plan Decrease Employee Numbers?

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## I. Introduction

In Japan, the pension system consists of three pillars: the National Pension (*Kokumin Nenkin*), Welfare Pension (*Kousei Nenkin*), and Corporate Pension (*Kigyō Nenkin*). The first two programs are the public pension system, and Corporate Pension represents the system within private firms. The Corporate Pension system has changed over the last approximately ten years. Previously, employee pension funds (*Kousei Nenkin Kikin*) were an important institution of the Corporate Pension. These pension funds were established by each firm and operated as a part of the insurance premium of the Welfare Pension. In a time of high interest rates, employee pension funds could gain a large margin. However, when lower growth and interest rates prevailed, many funds faced the loss of insurance premiums, not only from individual employee pension funds but also from the Welfare Pension (*daiko ware*). In short, the operation of employee pension funds hurt the resources of the official pension program. Thus, in 2012, trouble in AIJ Investment Advisors' pension brought the company to abolish their employee pension fund.

In contrast, the use of defined contribution (DC) plans started in 2001. This plan places the responsibility to manage contributions with the employees themselves while a defined benefit (DB) plan locates that responsibility in the pension funds. Traditionally, a DB pension system requires employees to remain at a single firm since this benefit increases with each service year. Transition from DB to DC plans may change the Japanese employment system, which has guarantee long-term employment.

In this analysis, I analyze institutional data supplied by Nikkei NEEDS Financial to compare the relationship between a company's number of employees and its corporate pension type. The hypothesis is that firms with DC plans decrease the number of employees than companies with DB plans because employees in DC plans are not as committed to those companies as are workers with DB plans and people in DC plans are easily thought to more easily move between employment locations. Method is logistic estimation. Then, effect by pension type to possibility that the number of employees decrease is analyzed. As a result, it is found that DC

type corporate pensions reduce the possibility that the number of employees reduces. Then, hypothesis is not supported.

The contents are following: in section II, Japanese pension system is explained. Japanese pension system is divided into public pension system and employees' pension insurance system. In this analysis, employees' pension insurance system is main theme. In section III, the relationship between employment system and pension plan is analyzed. Main theme is difference DB and DC plan. In section IV, implication and future tasks are described.

## II. Japanese Pension System

### 1. Public pension system

In Japan, public pension system is composed of National Pension (Kokumin Nenkin) , Welfare Pension (Kousei Nenkin) , and Mutual Pension (Kyouzai Nenkin) . These pensions are integrated in base funds. In Japan, all citizens over 20 age are forcibly associated public pensions. Qualification is divided into three types: Category I Insured Pensions is applied of unemployed, students, and self-employed. Category II Insured Pensions is applied of private firms employees. Category III Insured Pensions is applied housewives whose annual revenue is less than 1.3 million yen.

		Employees' Pension Fund	
National Pension Fund		Employees' Pension System	Mutual Aid Associations
National Pension System (Basic Pension Benefits)			
Self-employed persons and others	Dependent spouses of the Category insured persons	Salaried workers of private sectors	Government employees
Category I Insured persons	Category III Insured persons	Category II Insured persons	

[Figure 1: Japanese Pension System]

Source: Japanese Pension Service

(<http://www.nenkin.go.jp/n/www/english/detail.jsp?id=38> 2013/12/15)

## 2. Employees' Pension Insurance System

In addition, private firm employees have joined Employees' Pension Insurance System. Now, Employees' Pension Insurance is mainly three funds: Employee Pension Funds (Kousei Nenkin Kikin), DB type corporate pensions (Kakutei Kyufu Kigyō Nenkin), and DC type corporate pensions (Kakutei Kyoshutsu Nenkin (Kigyō gata)).

First, Employee Pension Funds and DB type corporate pensions are commonly defined benefit plan that responsibility in the pension funds. Employee Pension Plans manage a part of Welfare Pension's asset instead of Welfare Pension (*Daikou Unyou*) while DB type corporate pensions do not have this substitution portion. Second, DC type corporate pensions places the responsibility to manage contributions with the employees themselves. DB type corporate pensions and DC type corporate pensions were introduced in 2001.

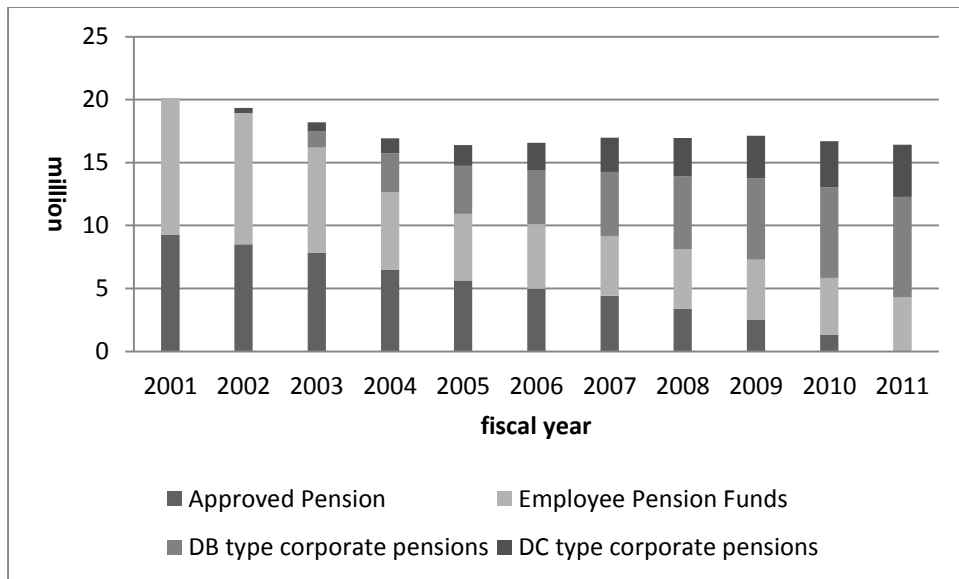
In those days, firms had advantage to manage Employee Pension Funds since operational interest rate was large. This pension fund was introduced in 1966. Assumed interest rate is 5.5% in year. These funds have archived about 10% manage rate for 20 years. This premium was used to improve benefit<sup>1</sup>.

However, when lower growth and interest rates prevailed, many funds faced the loss of insurance premiums, not only from individual employee pension funds but also from the Welfare Pension (daiko ware)<sup>2</sup>. So, many Employee Pension Funds have transited DB type corporate pensions (Figure 2).

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<sup>1</sup> Relations Information “Kousei Nenkin Kikin Seido tou ni tsite no Arikata“ <http://www.mhlw.go.jp/stf/shingi/2r9852000002bnqe-att/2r9852000002bnva.pdf>(2013/12/15)

<sup>2</sup> According to Ministry of Health, Labour and Welfare, about 40% of Employee Pension Funds are in condition of “daikou ware”. About 50% of Employee Pension Funds are in near of “daikou ware”. About 10% of Employee Pension Funds are health condition.( <http://www.mhlw.go.jp/topics/bukyoku/nenkin/nenkin/kousei/dl/kaisei01.pdf> 2013/12/6)



[Figure 2: The number of affiliates of Employees' Pension Insurance system]

Source: Ministry of Health, Labour and Welfare "Kousei Nenkin Kikin Seido wo Meguru Joukyou ni tsuite"

Additionally, Employee Pension Funds are divided into three types. First, Stand-alone type (*Tandoku-gata*) is composed of single firm's employees. Second, Federated type (*Rengou-gata*) is composed of employees of *Keiretsu*. Third, Over all type (*Sougou-gata*) is composed of employees of many mid-and small size firms.

AIJ Investment Advisors incident generate in 2012. In this incident, many Over all type Employee Pension Funds are damaged. Thus, Japanese government decided that Employee Pension Funds are abolished in the future.

### III. Employment System and Pension Plan

Morito [2009] pointed out that the transition from DB plan to DB or DC plan in new firm has been possible since 2005 while transition inside DB plans and from employee pension funds to Pension Fund Association was only possible in previous year.

On the other hand, Morito thought that disadvantage at career change almost generates if previous workplace is DB plan such as Employee Pension Plan. Then, it is predicted that employees have much incentive to change job in DC pension system.

Using data is firms except banks, security, or finance that listed in Japanese stock markets at March 31, 2013. Data is obtained in Nikkei NEEDS Financial. Data about Employees' Pension Insurance system is able to be obtained since March 2010. Additionally, index of Employees' Insurance system contains DB all type, Employee Pension Funds, DB type corporate pensions, cash-balance type, Tax-qualified pension plan (*Tekikaku Taishoku Nenkin*), DC all type, DC type corporate pensions, and Smaller Enterprise Retirement Allowance Mutual Aid (SERAMA "Chuu tai kyou").

The descriptive statistics is shown in Table 1. This shows that DB type only firms are 57.6% firms. So, in this analysis, DB type only firms are used as benchmark.

	Mean	Standard Error
DB only	0.5758	0.4943
DC only	0.1447	0.3519
DB and DC	0.2795	0.4488
Total asset	227488.8	625291.0
Sales	206861.5	505297.8
Debt ratio	0.4970	0.1997
ROA	0.0190	0.0521
The number of employees	5099.2	13222.6
Annual wage per employee	3090545.0	2577346.0
The percentage of business firms	0.2839	0.1809
The percentage of foreign shareholders	0.0980	0.1082

[Table 1: Descriptive statistics (2010~2013)]

Note: Unit of total asset and sales is million yen. N=5728.

The dependent variable is the dummy variable which takes 1 if the number of employees reduces before previous year. Independent variables are following: DC only dummy, DB and DC dummy, the logarithm of total assets, the change of sales, the debt ratio, ROA, the logarithm of annual wage per regular employee adjusted by GDP deflator<sup>3</sup>, the percentage of foreign shareholders, and the percentage of business firms.

Noda and Hirano [2010] analyzed relationship between corporate governance and the labor reduce. The independent variables are following: main bank dependency degree, stable shareholders, foreign shareholders, national center belonging dummy, ROA, change of sales, wage,

<sup>3</sup> Cabinet Office, Government of Japan

([http://www.esri.cao.go.jp/jp/sna/data/data\\_list/kakuhou/files/h24/h24\\_kaku\\_top.html](http://www.esri.cao.go.jp/jp/sna/data/data_list/kakuhou/files/h24/h24_kaku_top.html)) accessed at 12<sup>th</sup> February 2014.

firm size, excess employment ratio, profit down dummy, and red dummy. From 1991 to 1996, main bank dependency, national center belonging, ROA, and change of sales decrease possibility of labor reduce while firm size and excess employment ratio increase possibility of labor reduce. From 1997 to 2003, stable shareholders and change of sales reduce possibility of labor reduce while firms size, profit down dummy, and red dummy increase possibility of labor reduce.

So, I structure estimation model referred Noda and Hirano [2010] model.

The estimation equation is following:

$$\text{Reduce} = f(\text{DC dummy}, \text{DB and DC dummy}, \text{total assets}, \text{change of sales}, \text{debt ratio}, \text{red dummy}, \text{profit down}, \text{wage}, \text{business}, \text{foreign})$$

Reduce: the dummy variable which takes 1 if the number of employees reduce before previous one year.

DC dummy: the dummy variable which takes 1 if the firm has DC type only

DB and DC dummy: the dummy variable which takes 1 if the firm has both DB and DC type

Total assets: the logarithm of the total assets

Change of sales: the change of sales in previous one year

Debt ratio: the ratio of debt on assets

Red dummy: the dummy variable which takes 1 if the firm is deficit

Profit down: the dummy variable which takes 1 if profit of firm deceases and firm is not deficit

Wage: the logarithm of annual wage per regular employee adjusted GDP deflator

Business: the percentage of business firm

Foreign: the percentage of foreign shareholders

The result of logistic estimation is shown in table 2. The possibility becomes lower if pension type is DC only. The hypothesis that DC type pension reduce the number of employees is not supported.

Moreover, foreign shareholders reduce the possibility of labor reduce. the shareholder structure has not significant effect. Then, the debt ratio reduce the number of employees.

	All	2011	2012
DC dummy	-0.2022* [0.1175]	-0.1004 [0.1703]	-0.2940* [0.1632]
DB and DC dummy	-0.0657 [0.0915]	-0.2205* [0.1321]	0.0803 [0.1278]
Total assets	-0.0776* [0.0397]	-0.0741 [0.0564]	-0.0777 [0.0561]
Change of sales	-1.4829*** [0.2912]	-1.8618*** [0.3926]	-0.9362** [0.4559]
Debt ratio	0.2897 [0.2210]	0.3933 [0.3116]	0.1439 [0.3155]
Red dummy	1.0114*** [0.1365]	0.9741*** [0.1960]	1.1197*** [0.1949]
Profit down	0.1386 [0.0893]	0.1179 [0.1322]	0.1925 [0.1234]
Wage	-0.0190 [0.0474]	-0.0728 [0.0680]	0.0257 [0.0676]
Business	-0.3314 [0.2342]	-0.3460 [0.3310]	-0.3296 [0.3327]
Foreign	-2.9227*** [0.5799]	-2.3371*** [0.8148]	-3.5733*** [0.8319]
2012 year dummy	-0.0831 [0.0798]		
C	2.1273* [1.1309]	2.7918* [1.6124]	1.4463 [1.6004]
N	2864	1432	1432
Log likelihood	-1839.4433	-915.5183	-919.3026

[Table 2: Results of logistic estimation]

Note: upper row is coefficient. Under row is standard error. \*\*\* denotes 1 % significant. \*\* denotes 5% significant. \* denotes 10% significant.

#### IV. Summary

I summarize results of this paper. DC type corporate pensions reduce the possibility that the number of employees reduces. Hypothesis is that employees have incentive to change jobs in DC type since DC type does not have disadvantage to change jobs. However, this hypothesis is not supported.

#### Reference

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Noda, T. and D. Hirano [2010] “Lost Decade and Employment Adjustment Behavior in Japanese Firms (Usinawareta Juunen to Nippon Kigyō no Kōyō Chōsei Kōdō)”, *Keizai Bunbunshū*(*Economic and Social Research Institute*), 183, pp. 25-58.

# **Social Assistance in Urban China and Rural China: From Dual-structural to Integration**

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## **Introduction**

Market-oriented economic reform since 1978 has made profound impacts on every aspect of contemporary China. For social assistance, those impacts presented a dual character. On one hand, increase of gross national income per capita—from 220 U.S. dollars in 1981 to 5720 U.S. dollars in 2012 contributed to decline of absolute poverty. According to the World Bank(2013), the number of poverty headcounts has decreased from 835.1 million in 1981 to 157.1 million in 2009 measured by international standards of 1.25 U.S. a day. While sustainable economic growth in the rate of 15.7% from 1978 to 2012 as well as reform of the fiscal system rendered state revenue growing steadily, which guaranteed the financial resources of social assistance.

On the other hand, economic reform has expanded social disparity. Triggered by reforms of state owned enterprises(SOE), more than 23 million of SOE employees became lay-offs from 1995 to 2000. Since that, “New poverty” was emerged in urban China. Chinese government made a reform strategy known as “to allow some people get rich first; they will drive the others, and common prosperity will be achieved finally”, while “common prosperity” has not been accomplished so far. Official Gini coefficient was 0.477, and annual average income between urban residents was 312% as much as rural residents in 2011. The emergence of “New poverty” made the pre-reformed social assistance incompetent, and then expansion of social disparity pressed reconstruction of social assistance.

Due to the existence of Household Registration System(HRS), the pre-reformed social assistance was divided into Three Nos in urban areas and Five Guarantees Family in rural areas. However, as reform of HRS has been conducted since 2000s, influence of HRS on current social assistance became uncertain. The basic purpose of this paper is clarifying this influence by examining the reconstruction of social assistance in urban China and rural China after 1999. The establishing period, number of beneficiaries, payment standards and fiscal investments of current social assistance were investigated by analyzing policy documents and official statistics.

## **1. Dual structure of social assistance scheme in planned economy period**

In the planned economic China, social assistance scheme was founded in the 1950s that mainly for residents with disabilities or the elderly with no ability to work. In urban areas, as socialist full employment has been achieved, the basic target group of social assistance was the Three Nos—residents with no occupation, no dependents, and no income. While in rural areas, five kinds of guarantees—food, clothing, shelter, medical care, and the funeral, was provided by people's commune to families with no ability to work, no dependents, and no source of income, in the name of Five Guarantees Family.

The coexistence of Three Nos and Five Guarantees Family presented one portrayal of Urban-rural dual structure during planned economy period. As many researchers (Leung 1994, Selden and You 1997) have pointed out, welfare regime in this period was a dual-structural regime, and the social assistance scheme was one integral part of this welfare regime. In urban areas, based on the socialist principle of "High employment, High welfare and Low income", residents were provided with institutional welfare by the state-owned enterprises. For state-owned enterprises, instead of profit maximization, integrating productive function with welfare function used to be their primary goal. While in rural areas, as for the mutual caring between family members was assumed as a precondition, rural residents were provided with residual welfare by people's commune.

Considering the socialist ideological orientation of equality, the existence of Urban-rural dual structure was a tremendous contrast. Guan (2005: 233) has elaborated "A three-tier welfare system was formed, in which the state workers enjoyed high universal and comprehensive welfare benefits, other urban residents had much less and the rural dwellers were at the bottom of the system". Whether dual structure or three-tier system, in terms of social assistance, different schemes were provided to two different social groups—urban residents and rural residents. The main distinctions between Three Nos and Five Guarantees Family are 1. The basic assistance pattern of Three Nos was cash benefits, while the basic assistance pattern of Five Guarantees Family was provision benefits, which consists of living resources and caring service. 2. The actual financial guarantor of urban social assistance scheme was local government. In contrast, the actual provider of rural social assistance scheme was people's commune, which means that those collective organizations have to be self-responsible for the assistance funds in a certain level.

## **2. The establishing and reforming of Household Registration System**

In order to clarify the hierarchization of social assistance scheme in planned economic China, it is necessary to sort out the underlying factor of Urban-rural dual structure—Household Registration System (HRS). The prototype of HRS in contemporary China was the “Provisional Regulation on Urban Household Registration Management ” which enacted in 1951. This regulation specified that every urban resident has the obligation to declaration movements like moving in or moving out, birth or death, marriage or divorce to the public security bureau where they belonging.

The first HRS regulation that applies to both rural residents and urban residents is “People Republic China’s Household Registration Regulation” which enacted in 1958. Aiming at preventing rural residents from moving to urban areas, this regulation specified “In the case of citizens migrant from rural areas to urban areas, getting the proof of employment issued by urban labor department, or proof of enrollment issued by school, or proof of moving-in permit issued by urban household registration office before finishing their movement procedures at the household registration office where they belonging is necessary”. Since then, the disparity between urban residents with “Non-agricultural household” and rural residents with “Agricultural household” has been expanded regardless of the entitlements to education, or entitlements to employment, or entitlements to welfare.

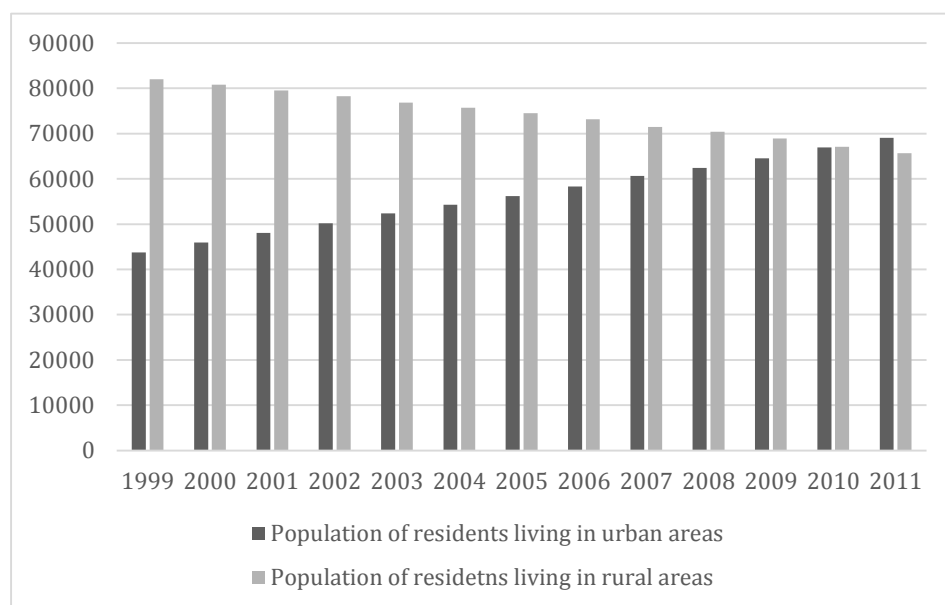
The congenital defects and tendentious of HRS have been discussed by many researchers (Lan 2000: 38; Yu 2002: 19), while their arguments can be generalized as 1. Feudalism HRS has been left behind to the primary stage of socialism. 2. HRS was formulated as one of preventive measures to urban unemployment, and interest of rural residents was sacrificed as a no alternative decision. However, influence of the peasant class to the early stage of socialist China has been underestimated in their discussion. Just like the importance of political union to the welfare state’s formation has been repeatedly pointed out (Korpi 1983, Esping-Andersen 1990), Communist Party of China (CPC) always emphasise its Worker-Peasant proletarian union. In fact, for CPC, get support by rural residents through “Land Reform Movement” was the cornerstone of regime change.

If we explored the establishing of HRS, we would find that “Heavy Industries Priority” as one National Policy of planned economic China is the origin of HRS. In other words, no matter

urban residents or rural residents were assigned to achieve “Socialist Construction” based on instruction of CPC. As the result of concentrated on developing heavy industries, tertiary industries that should undertake the function of absorbing labor forces was stagnated. It is inevitable to control production population in the industrial base-- urban areas. Besides, since the rural residents were supposed to guarantee nationwide living resources for maintaining industrial production in urban areas, their migration also considered as impeding the “Socialist Construction”. It is collectivism that deprived Chinese citizens’ right of movement.

However, after the market mechanism introduced to China, the HRS is losing its force as restricting citizens’ freedom of movement. Especially, since new urbanization of small towns became a necessary mean to promote further economic development in recent year, reforming the HRS, land system and taxation system are considered as three keys for this new urbanization. As researchers like Wang (2002) illustrated, HRS impeded the new urbanization and mobilization of labor forces. And the State Council also published “Opinions on Solving Outstanding Issues of Current Household Administration ” to authorize local government with dominance in reforming HRS following the principle of “control population in major cities while developing population in

Figure 2.1: Transition of population based on living areas, 1999 ~ 2011 (Vertical axis: 10 thousand)



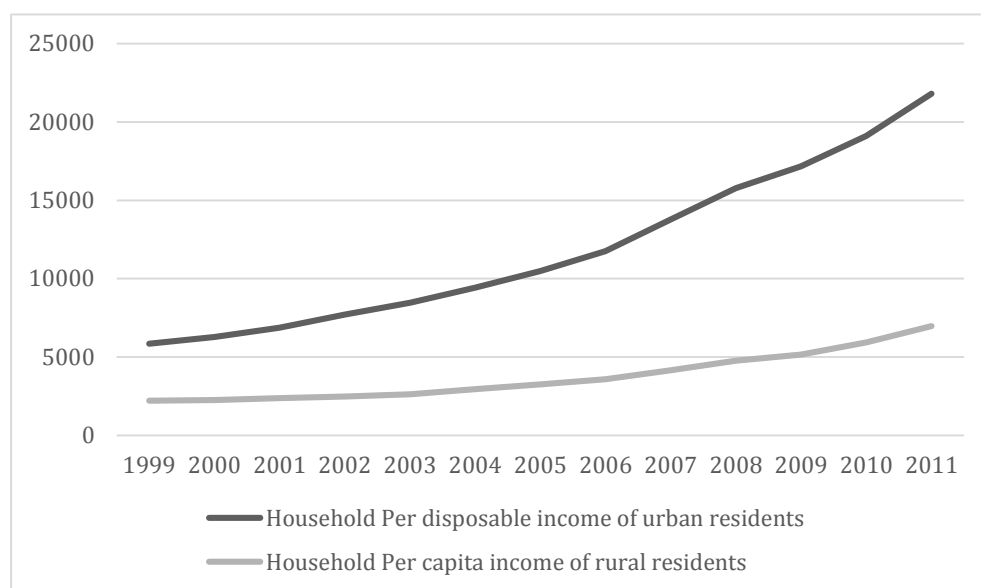
Source: Figure 2.1 is created from China Statistical Yearbooks(2012)

medium and small cities reasonably”. In addition, since “Notification about Pushing Forward Reform of Household Administration Actively and Steadily ” was issued in 2011, “In order to promote the process of rural residents moving into medium and small cities with order, local government must take their level of economic development, supply capacity of employment and social security into consider” was defined as the primary principle of further reform.

According to a series studies by Deng and Gustafsson (2007), more than 100 million of rural residents have acquired “Non-agriculture household” by the end of 2002. While the proportion of residents with “No-agriculture household” was 29.1 % up to Sixth National Census(2011), the population of residents living in urban areas has been overtaken by the population of residents living in rural areas (Figure 2.1) since 2011. In the same year, China National Committee on Population and Birth Control has estimated that more than 300 million of rural residents will migrant to urban areas in 20 years later. As a matter of fact, the difficulty in reforming HRS does not lie in returning rural residents with the right of movement, but granting them with citizenship equal with “No-agricultural household” residents.

If we follow the conception of Marshall (1992) that citizenship consists of three parts—civil rights, political rights and social rights, the ultimate goal of reforming HRS is granting equal social rights to both rural residents and urban residents. As for the “Cash benefits subject to income limit and means test had a simple and obvious equalizing effect .....The aim was to ensure that all citizens should attain at least to the prescribed minimum, either by their own resources or with assistance if they could not do it without” (Marshall 1992: 37), facing the truth that gap of annual income between urban residents and rural residents has been expanded from 3644 CNY (Figure 2.2) to 14833 CNY from 1999 to 2011, a social assistance scheme with the ability to beyond the dual-structural of urban and rural could be the first step to grant social rights to all citizens equally.

Figure 2.2: Transition of annual household per disposable income of urban residents and household per capita income of rural residents, 1999~2011 (Vertical axis: CNY)



Source: Figure 2.2 is created from China Statistical Yearbooks(2012)

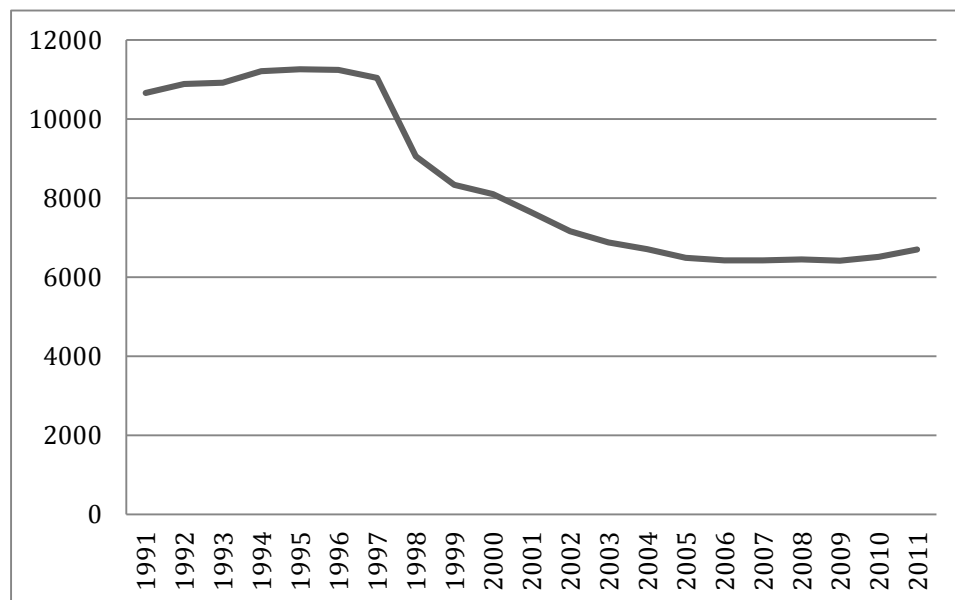
### 3. Reconstruction of social assistance scheme since 1990s

Economic reform since late 1970s has made the planned economic welfare regime incompetent. As a part of state-owned enterprises' reforms, employment under contract takes the place of lifetime employment, and the personnel power which including the authority to dismiss employee was given back to the enterprises. In order to enhance the competitiveness of state-owned enterprises, more than 70 thousand of state-owned enterprises went through either bankruptcy or restructuring from 1995 to 2000. In this period, the numbers of state-owned enterprises' employees reduced from 110 million to 80 million (Figure 3.1). Along with the mass unemployment, the numbers of low-income groups increased dramatically, and social disparity has been expanded to an unprecedented level. In fact, reconstructing the pre-reformed social assistance scheme to make it cover not only residents who are incapacity to work, but also the laid-off and non-regular workers became a really urgent issue.

The reconstruction of social assistance scheme started from urban areas. After several years of trial and exploration in relatively developed areas like Shanghai after 1993, the

“Notification about Establishing Urban Residents’ Minimum Living Security Scheme in China” was issued by the State Council in 1997.

Figure 3.1 Numbers of employees in state-owned enterprises, 1991~2011 (Vertical axis: 10 thousand)



Source: Figure 3.1 is created from China Statistical Yearbooks (relevant years)

Two years later, along with “The Regulation about Urban Residents’ Minimum Living Security(1999)” enacted, the residents’ MLS scheme was institutionalized with legal force. This regulation made it clear that any urban residents has right to apply for security payments as long as their household per capita income is lower than local urban minimum living standard, which supposed to be formulated by county-level government on account of local average income and consumption prices. In the same year, the Ministry of Civil Affairs claimed “Urban residents’ minimum living security scheme have been established in the whole country”.

While in rural areas, Five Guarantees Family was kept and developed. In 1994, the State Council enacted the “The Regulation about Rural Five Guarantees Family Scheme” and institutionalized it with legal force. After that, this regulation has been updated once in 2006. Since the collective organizations have disassembly gradually during 1980s, the funding resources of Five Guarantees Family have transferred to budget of local country-level government. For the renewing of social assistance scheme in rural areas, the Ministry of Civil Affairs pointed out “rural minimum living security is formulated for the rural poor whose household’s per capita income is lower than the standard of minimum living security in the form of subsidy for the difference ” in



“Opinions on Accelerating the Construction of Rural Social Security System” in 1996. However, except for some relatively developed areas, enforcing this envisage to the whole country were postponed. It is in 2007 that the Ministry of Civil Affairs claimed rural residents’ MLS has been established in 31 provinces of China.

The MLS distinguished from pre-reformed social assistance scheme in mainly four aspects. Firstly, the entitlements of applicants have been expanded largely. “No occupation and No dependents” used to be the basic requirements for applying Three Nos and Five Guarantees Family, while in the new scheme, the household’s per capita income became the only criteria for the entitlements. Secondly, the security effect and security flexibility has been enhanced. Full subsidization used to be the feature of the pre-reformed social assistance scheme. After the reconstruction, difference subsidization was supplemented for those who does have income in some extent, but their income is lower than the accreditation standard. In the mean time, since “Notification about Further Strengthen and Standardize the Urban Residents’ Minimum Living Security” was issued in 2004, the establishment of “supporting measures” and “classification assistance”<sup>1</sup> have given the social assistance scheme with new possibility—a scheme that based on needs. Thirdly, the concept of means-tested is implemented into the new scheme consistently. Households who applied for MLS have to pass an examination process named “3-level approval”<sup>2</sup> before they received cash benefits. This examination is conducted every 3 months in urban areas and every single year in rural areas. Besides, the calculation method of applicants household’s per capita income becomes much complicate after 2007, which including but not limited to labor income and alimony, pension and unemployment insurance, deposit and securities, income by selling or renting household assets, etc. Finally, since “actively accept reemployment introduction” is one subsidiary conditions for applicants in urban areas, a process of welfare to work can lead beneficiaries who has the ability to work to labor market. This is important for this new social assistance scheme because it reflects “rights always accompanied with obligation”, Furthermore, establishing ethics for MLS scheme can reduce moral hazard to a certain level.

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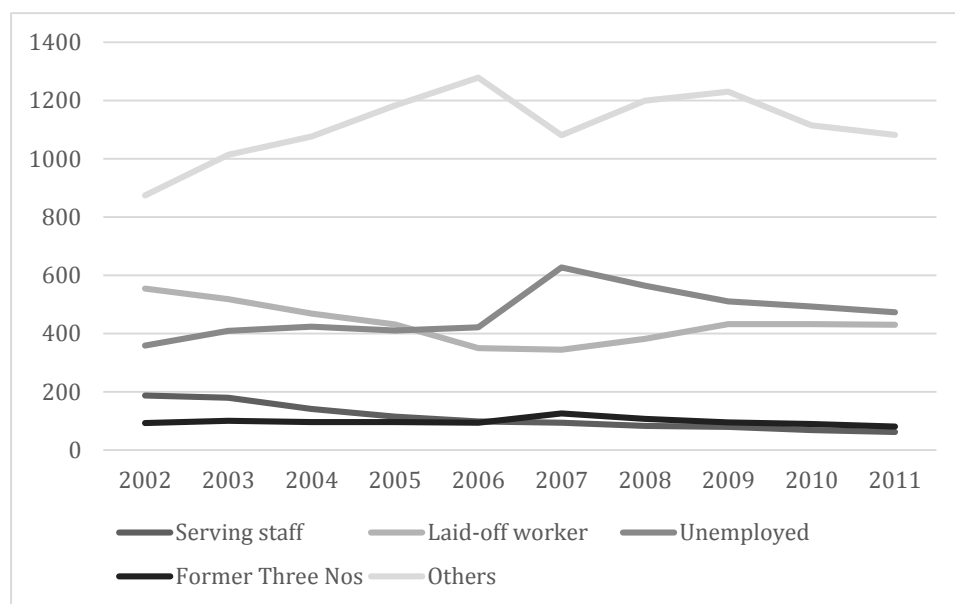
<sup>1</sup> The “supporting measures” including allowance of education for beneficiaries’ children, medical care, utilities charges and housing. The “classification assistance” is additional assistance payments for beneficiaries in the case of: ①major diseases or disability ②single-parent family ③elderly dependents over 70 years.

<sup>2</sup> The qualification examinations that conducted separately by residents’ committee, neighborhood office and county-level government.

#### 4. Beyond the influences from HRS on reformed social assistance scheme

It takes 11 years for rural residents' MLS from trial implementation to the establishment in nationwide, while for urban residents' MLS it takes 6 years. The underlying determination of urban residents' MLS established within a relatively short term is mass unemployment caused by state-owned enterprises' reform. In the same year of "The Regulation about Urban Residents' Minimum Living Security" (1999) enacted, "Notification about Linking up Urban Residents' Minimum Living Security Scheme with Basic Living Security and Unemployment Insurance of State-owned Enterprises' Laid-off Worker" also issued. Considering former employees of state-owned enterprises as the target group, this notification indicated "three guarantee measures" including basic living security, unemployment insurance and urban residents' MLS scheme were important parts of the current social security system. In fact, laid-off worker used to be the second group among all beneficiaries until 2005 (Figure 4.1). For policy makers, providing

Figure 4.1: The constitution of MLS's beneficiaries in urban areas, 2002~2011 (Vertical axis: 10 thousand)



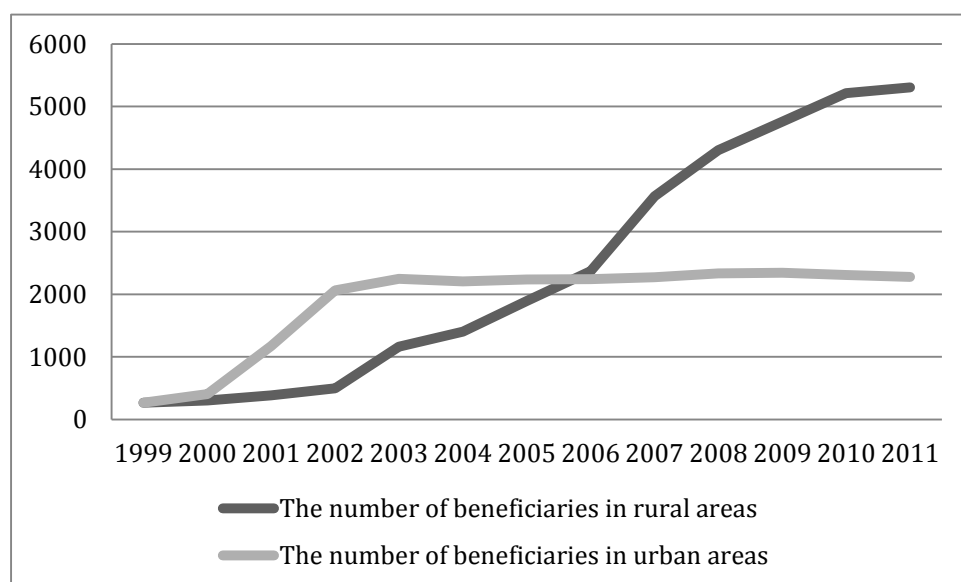
Source: Figure 4.1 is created from China Civil Affairs Statistical Yearbooks (relevant years)

living security to laid-off workers was one necessary condition on their way to promote reform and maintain social stability.

On the other hand, poverty alleviation was considered as the primary task in rural areas before 2000s. As the “State’s Program of Eight-seven’s Storming the Poverty<sup>3</sup> Alleviation”(1994) indicated, solving the food and clothing for rural poor which in the number of 80 million within 7 years was the aim of government throughout 1990s. And the keyword of poverty alleviation in this decade is “development”— combine state support with ones’ own efforts. The achievement of this program was official poverty rate in rural areas fell from 8.7% (China’s State Council Press Office 2001) to 3%. This series action of poverty alleviation in rural areas does provide an enabling environment for the establishment of rural residents’ MLS scheme in 2000s.

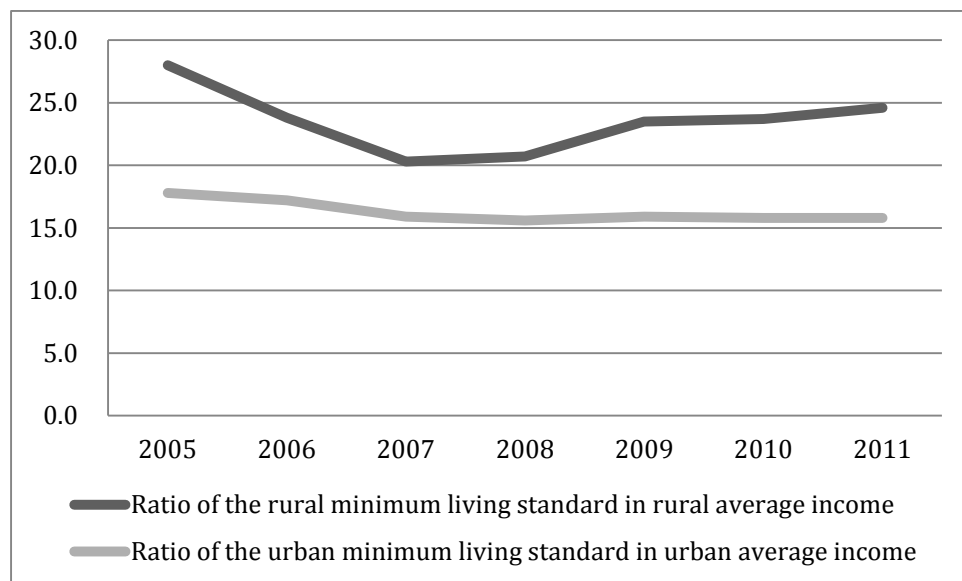
The growth rate of beneficiaries in rural areas and urban areas also went through a completely different route. During 1999 to 2002, while the number of beneficiaries in urban areas increased from 2.7 million (Figure 4.2) to 20.6 million, the increase of beneficiaries in pilot rural areas showed us with a much flatter curve. While the number of beneficiaries in urban areas came to the stage of remained flat after 2002, the number of beneficiaries in rural areas increased tenfold—from 5 million to 53.1 million. Especially, in the year of 2007 when rural residents’ MLS applied from pilot areas to nationwide, the number of beneficiaries boomed 12 million. In the meantime, the number of beneficiaries of Five Guarantees Household increased from 2 million in 2003 to 3.5 million in 2005, and this number remained stable in 5 million after 2006.

Figure 4.2: The number of beneficiaries in urban areas and rural areas, 1999~2011 (Vertical axis: 10 thousand)



<sup>3</sup> Household per capita income lower than 500 CNY per year.

Figure 4.3: Ratio of the rural and urban minimum living standard in average income, 2005~2011



Source: Figure 4.2 and Figure 4.3 are created from China Statistical Yearbooks and China Civil Affairs Statistical Yearbooks (relevant years)

In term of minimum living standard of MLS scheme, the average standard was 287.6 CNY per month in urban areas and 143.2 CNY per month in rural areas in 2011. Since this standard is formulated by local average income and consumption prices, the different regions have no similar standard depending on level of local's economic development. The transition of the ratio of the rural/urban minimum living standard in the average income (Figure 4.3) indicated an increasing tendency of rural minimum living standard comparing with urban. But prove of certain connection between HRS and rural/urban minimum living standard dose exist.

Figure 4.4: Scatter diagram for the ratio of rural/urban minimum living standard and Agriculture household/Non-agriculture household's population in 31 provinces

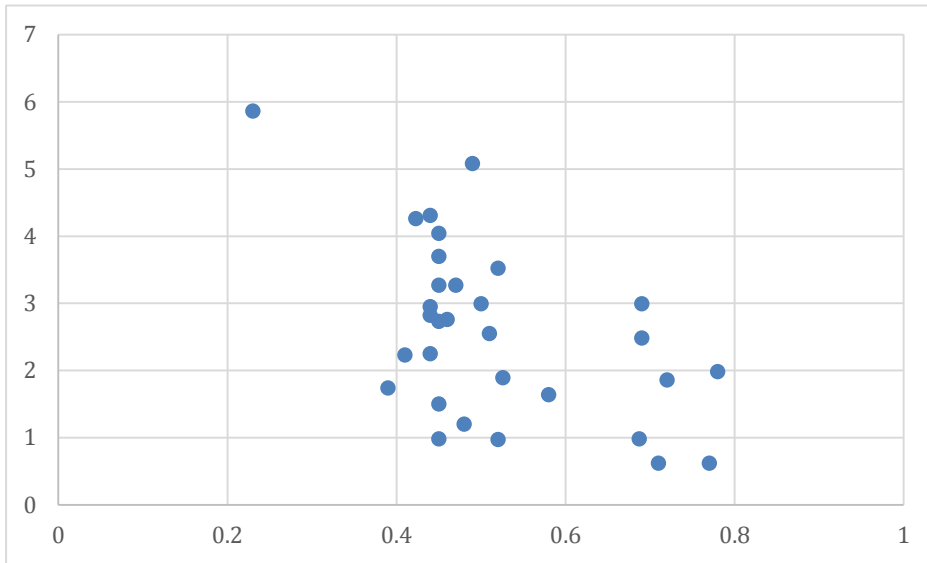
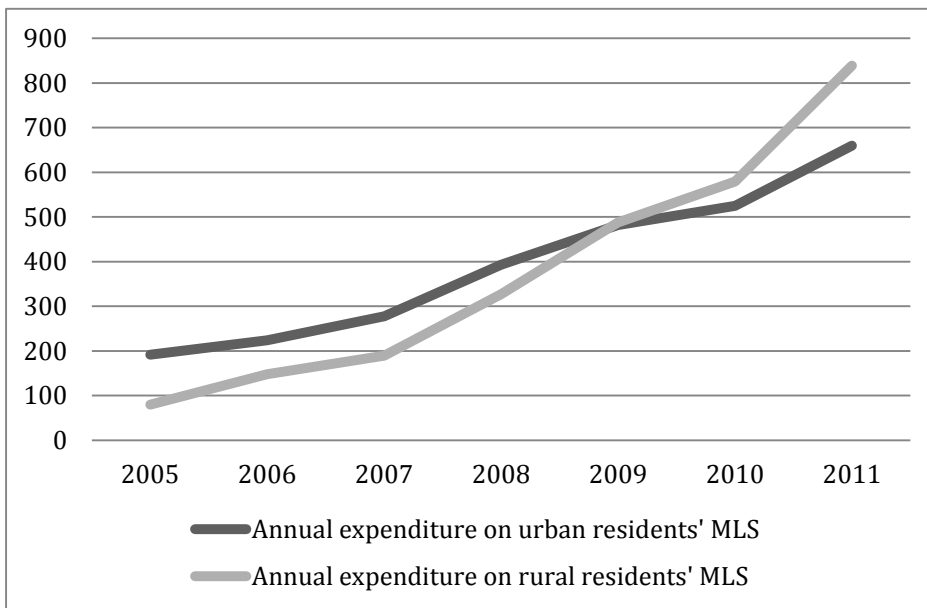


Figure 4.5: Annual expenditure on urban and rural residents' MLS, 2005~2011 (Vertical axis: 100 million CNY)

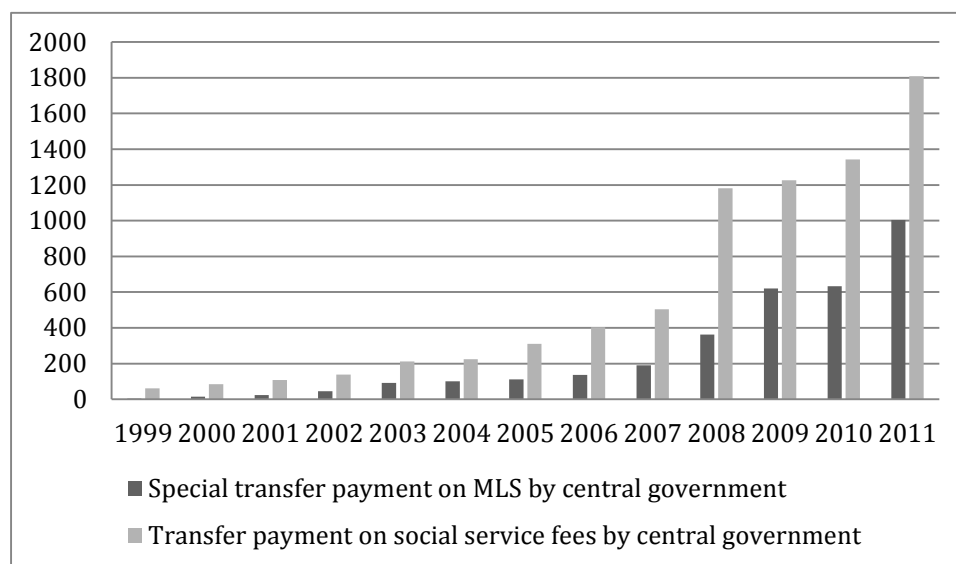


Source: Figure 4.4 and Figure 4.5 are created from China Statistical Yearbooks and China Civil Affairs Statistical Yearbooks (relevant years).

Figure 4.4 show the relationship between minimum living standard and ratio of Agriculture household/ Non-agriculture household population in 31 provinces, the correlation coefficient between this two ratios is minus 0.55. Considering the fact that financial expenditure toward rural resident's MLS (Figure 4.5) has surpassed urban resident's MLS scheme since 2009,

this coefficient implied one tendency that the more Non-agriculture population one province hold, the lower rural minimum living standard maybe formulated due to a dilution effect.

Figure 4.6: Special transfer payment on MLS and transfer payment on social service fees by central government, 1999~2011 (Vertical axis: 100 million CNY)



Source: Figure 4.6 is created from China Civil Affairs Statistical Yearbooks (2012)

If we take some times to review the reconstruction of social assistance scheme since 1990s, we will find one consistency no matter urban residents' MLS or rural residents' MLS—the critical role of central government. In fact, the role of central government is not merely enacting regulations, but also financing resources through the process of transfer payment. The number of central government financed for MLS through special transfer payment was 400 (Figure 4.6) million out of 6.16 billion total social service fees in 1999, while this number was 100.47 billion out of 180.8 billion total social service fees when it came to 2011. This function of central government is necessary, especially for the backward area with more beneficiaries. Furthermore, it also contributes to improving MLS's guarantee ability. As Ministry of Civil Affairs, National Development and Reform Commission, Ministry of Finance, State Statistics Bureau jointly issued "Guiding Opinion about Further Specify the Standard Setting and Adjustment of Urban and Rural Residents' Minimum Living Security" in 2011, urban residents' MLS scheme and rural residents' MLS scheme have unified in government administration.

## **Conclusion**

For social assistance scheme, the coexistence of Three Nos and Five Guarantees Family was one reflection to Urban-rural dual structure in planned economic China. Dual structural social assistance scheme presented with different ideas and methods—cash benefits versus provision benefits, local government versus collective organizations. A collectivism Household Registration System was underlying factor of this dual structure—either urban residents or rural residents were assigned to achieve “Socialist Construction in the Priority of Heavy Industries”. As the result, Chinese citizens’ social rights and movement rights were strictly restricted in this period.

However, both economic regime and welfare regime have been reconstructed since market mechanism was introduced to planned economic China. As HRS became incapable to restrict citizens’ freedom of movement, possibility of returning equal social rights to both rural residents and urban residents increased gradually. A new social assistance scheme beyond the dual-structural of urban and rural holds significant meaning in this aspect. The reconstruction of social assistance scheme started from urban areas as one realistic countermeasure to mass unemployment that caused by state-owned enterprises reform, and a new scheme in the name of residents’ Minimum Living Standard was established since 1999. This new scheme distinguished from the pre-reformed scheme in many aspects, from expanded coverage of entitlements, enhanced security effect and security flexibility, to the basic conception of means-tested and welfare to work.

While the starting time of rural residents’ MLS is later than urban areas, poverty alleviation was considered as the primary task for rural areas during 1990s. Though we can not ignore the influence from HRS to new social assistance scheme, after comparing and clarifying the growth rate of beneficiaries, minimum living standard for applying MLS, financial investments between rural and urban, the existence of such influence will not interfere with the conclusion that since the central government established its crucial role as regulations maker financing resources, the development of urban residents’ MLS scheme and rural residents’ MLS scheme has transited to an integration direction.

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