

UNIVERSITY OF CALIFORNIA, SAN DIEGO

The Politics of Social Spending in China: The Role of Career Incentives

A dissertation submitted in partial satisfaction of the requirements for the degree  
Doctor of Philosophy

in

Political Science

by

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## ACKNOWLEDGEMENTS

I would like to thank the National Science Foundation (NSF), Social Science Research Council (SSRC) with funds provided by the Andrew W. Mellon Foundation, and the Institute for International, Comparative, and Area Studies (IICAS) for generously supporting my research trips to China between 2007 and 2009. Most of the findings in the dissertation were based on my field research.

I would also like to acknowledge Professor Susan Shirk for her support as the chair of my committee. Through multiple drafts and many revisions, her guidance has been proven to be invaluable. Additionally, I would like to acknowledge the co-chair of my committee, Professor Stephan Haggard, along with other committee members, including Professors Megumi Naoi, Langche Zeng, and Barry Naughton. Their comments and feedback have substantially improved my research.

Moreover, I would like to thank my parents, Chih-Hsiung and Yu-Hsia Liu. I would not have been able to finish my dissertation had it not been their life-long support and their faith in me.

Chapter 1 and 3, in full, is currently being prepared for submission for publication of the material; Chapter 4 and 5, in part, is also being prepared currently for submission for publication. The dissertation author was the primary investigator and only author of these materials.

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“The Lame Duck Status in Non-Democracies: The Mandatory Retirement Age and Politicians’ Policy Preferences in China”

“The Political Economy of the Financing of Social Policy in China”

#### BOOK REVIEW

Andrew C. Mertha, *China’s Water Warriors: Citizen Action and Policy Change*. *Journal of East Asian Studies Peace Research* 11, 1 (2011)

ABSTRACT OF THE DISSERTATION

The Politics of Social Spending in China: The Role of Career Incentives

by

Tai-Wei Liu

Doctor of Philosophy in Political Science

University of California, San Diego, 2011

Professor Susan Shirk, Chair  
Professor Stephan Haggard, Co-Chair

How does an authoritarian regime like China's ensure social welfare provision at the local level when there is no democratic accountability? Moreover, when local politicians are granted discretion to administer social policy, why do some follow the Center and increase social spending, while others ignore the central directive and spend money on other types of programs instead? Based on quantitative and qualitative data collected during 14 months of field research, I find that there is still accountability in China, but it works indirectly through the Center based on politicians' career ambitions.

Ambitious provincial officials—those who seek to advance their careers at the central level—comply with central government mandates with respect to social welfare provision in order to impress Beijing and increase their chances for promotion. The evidence also suggests that politicians in China provide social goods in response to the demands of labor and to prevent labor unrest. Local officials would rather provide social security and welfare than education or health because “almost all protests are triggered by laborers unhappy about social security and welfare” (city official). Finally, contrary to what we expect, a province does not necessarily increase social welfare provision as the resources available to the province increases. Data shows that a 10% annual growth rate only results in a 0.6% increase in the province’s social spending (as a share of total budget), while a 10% increase in provincial tax revenue actually reduces the provincial social spending by 7.4%. But when there is an ambitious provincial leader in the province, he/she increases the social spending (as a share of total budget) by at least 12.5%. As a sharp comparison, the demography and unemployment rate in a province do not explain how much the province spends on social policy. These findings show that the decision on social spending is not based on the people’s need or the economic capability of the government, but the career incentives of the politicians.

## **Chapter 1: Introduction**

In 2009, our province [Guangdong] was again the national leader in social welfare provision. In the future, we will continue to improve the social insurance system and speed up the establishment of a social safety net that covers both urban and rural areas. We will also expand the farmers' pension program from specific rural areas to the whole province. Let's keep raising the bar of social welfare provision in the nation.

- Huang Huahua, Governor and Deputy Party Secretary of Guangdong, speaking during the Government Work Report at the Third Session of the 11<sup>th</sup> Provincial People's Congress of Guangdong on January 29, 2010<sup>1</sup>

Our economic growth is slowing down this year [2009]. This is why we have not completed the establishment of pension funds required by the central government; this is also why we are not focusing on social security programs as the central leadership asks us to. We have to reallocate some social welfare fund for other purposes.

- Anonymous government official, Jilin province (author's interview, January 2009)

This is very normal in China. Government officials as a rule put social welfare issues at the last place. There must be a good reason, whatever it is, for them to be willing to spend money on social welfare policy.

- Anonymous scholar, Beijing (author's interview, March 2009)

### **1.1 Puzzle**

In the winter of 2009 when I was in Sichuan conducting field research, I learned of a story that illustrates a serious problem facing China. Six months before my visit, a

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<sup>1</sup> [http://www.gd.gov.cn/govpub/gzbg/szf/201002/t20100204\\_113185.htm](http://www.gd.gov.cn/govpub/gzbg/szf/201002/t20100204_113185.htm)

deadly earthquake hit the province: about 70,000 people were killed and millions of people lost their homes. The central government soon distributed billions of yuan in earthquake relief funds to the province.<sup>2</sup> Of course, the central government intended the fund to help earthquake victims, but not all officials at the local level followed the central mandate. In Beichuan county—one of the worst-affected regions in the earthquake—local officials spent millions from the fund buying luxury cars for themselves, one of which cost over 1.1 million yuan (161,000 USD). This news led to an online uproar, as countless postings and blogs questioned the purchase since thousands of the county residents were still in temporary shelters. In response to public outrage, local officials defended the purchase of these luxury cars as a means to search for survivors.<sup>3</sup>

As with all authoritarian regimes, China faces the challenge of controlling local government agents. This challenge stems from a tradeoff between the need to empower local elites in order to promote economic development and the imperative of controlling these local agents politically.

After the start of economic reforms in 1979, the Communist Party leadership in Beijing (“the Center”) decentralized the primary responsibility of social goods provision to local governments. Localities are expected to provide basic social welfare and services to the people, although the Center often makes budgetary transfers to help finance them. Because the Center allows local discretion, we see many corresponding principal-agent problems as a result. The Center has an overarching incentive to provide a certain level

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<sup>2</sup> Yuan is the unit of Chinese currency, and is most commonly known as renminbi (RMB).

<sup>3</sup> All the weblinks now disappear due to the government internet censorship, but the news can still be found at <http://www.chinasmack.com/stories/beichuan-government-spend-millions-on-luxury-cars/> or <http://www.telegraph.co.uk/news/worldnews/asia/china/4344879/Sichuan-earthquake-relief-money-spent-on-luxury-cars.html>

of social goods in order to maintain social stability, while local leaders often deviate from that optimal level because they are more concerned about short-term rent extraction. For instance, they misuse social welfare funds for other purposes, as in the case of Beichuan county, which is just the tip of the iceberg. Yet some local leaders still follow the central mandates to provide basic social goods. They even voluntarily start up new programs to offer substantial social welfare and outstanding social services. Why do they commit to higher levels of social goods provision? Does the Center have a way to motivate local leaders to commit to higher levels of social goods provision? How does the Center meet the popular demand for social goods, while still maintaining the loyalty of local elites?

To answer these questions we have to address the tradeoff between central control and decentralization in authoritarian systems. According to the dominant view in political science literature, authoritarianism and decentralization do not intuitively or empirically go hand in hand (Burki, Dillinger, and Perry 1999; Dethier 2000; Gibson 2004). After all, leaders of authoritarian systems should be reluctant to delegate authority to local elites, lest these elites override central directives, use local resources to build alternative patronage systems, or even threaten to secede from the regime and establish an independent state (Treisman 1999). As seen in the collapse of the East European communist regimes, local leaders no longer had incentives to comply with central directives after decentralization policies gave them access to resources (Bunce 1999). This makes the Chinese experience especially remarkable: China is not only an authoritarian regime, but it is also one of the most decentralized countries in the world (World Bank 2001). My description of the Chinese-style decentralization shows how an authoritarian regime like China can delegate authority to local elites while still aligning

the behavior of these local agents with central preferences.

Politically speaking, the Chinese case is intriguing not just because the communist authoritarian state has undergone decentralization and globalization but also because it has maintained its sway over a society undergoing massive change as a result of them. The China case sheds light on the resilience of communist party rule.

Practically speaking, my research opens up new policy avenues for better distribution of public goods. Most political scientists suggest that the best way to enhance incentives for local officials to distribute more social goods is to formally restructure government institutions to allow for more local control (Montinola *et al.* 1995; Rodden and Wibbels 2002; Saiegh and Tommasi 1999; Treisman 1999). However, the impact of formal decentralization is often too broad, affecting other parts of government that we would prefer not to disturb. Also, formal decentralization is not an option in some political systems. My study shows how to achieve a “soft decentralization” without facing the side effects of formal decentralization. It is possible to motivate local officials without ceding ultimate authority.

I argue that authoritarian governments have the ability to use official promotion as a mechanism to shape social goods provision at the local level. In other words, local leaders in China can be motivated through their career incentives. When local leaders have realistic career ambitions and believe they might climb up the career ladder to Beijing, they increase the provision of social welfare. This way they can impress the Center and improve their chances for promotion, since it is the Center that makes the promotion decisions.

This chapter proceeds as follows. I first introduce the background of China's intergovernmental relations, identifying provincial governments as the key to social goods provision at the subnational level. Next, I discuss the current explanations in the literature and their limitations. I then outline the conflict of interests between the Center and local governments, followed by the presentation of my theory of career incentives in authoritarian regimes. I conclude with the implications of my theory.

## **1.2 Intergovernmental Fiscal Relations in China**

As in many countries, China has decentralized the primary responsibility of social welfare provision to local governments. Although the Center makes budgetary transfers to help finance local budgets, local governments are expected to finance and organize the provision of costly social goods, including 1) social security and welfare, 2) education, and 3) health (Wong 1997, 2000). Among the five levels of local governments (from top to bottom: province, prefecture/municipality, county, township, and village), most of the social goods and services are delivered at the county-level, and this is particularly true in rural areas. In education, for example, both prefectural and county governments are in charge of planning the budgets of public schools; but county governments are primarily responsible for hiring, evaluating, and promoting principals and teachers, renovating and constructing school infrastructure, and monitoring the completion rate of nine-year compulsory education (author's interviews, August/September 2008). Counties are also responsible for health spending in rural areas (author's interviews, August/September 2008).

Although county governments (and sometimes the governments of the higher level, prefectural governments) are the actual providers of social goods, it is the provincial government that has the power to maneuver policy administration at the county level. My interviews indicate that lower-level local officials follow the provincial mandates more than the Center's policy (author's interviews, September 2008). After all, leaders at the provincial level have the direct power to appoint prefectural-level officials and the indirect power over appointments at the county level. As a result, prefectural and county officials are understandably more accountable to provincial leaders than to Beijing.

Additionally, the fiscal arrangement of budgetary transfer also enhances provincial control. After the 1994 tax reform, the nation's fiscal system was rearranged so that the Center keeps more than half of the nationwide tax income. In turn, the Center makes budgetary transfers to local governments to help finance local budgets. How this works is that the Center first transfers money to provincial governments, and then provincial governments can decide how to allocate the funds to the local governments under their jurisdiction. They can choose to first give money to prefectures and then let prefectures distribute money to counties, or they can give money directly to the counties (World Bank 2007). This arrangement inevitably enhances the province's leverage over prefectural and county officials.

Furthermore, the Center determines the amount of money transferred to a province based on the province's financial and development situation; under-developed provinces receive more transfer payments from the Center than the more-developed ones do. But when provinces transfer money to prefectures or counties, there are no strict

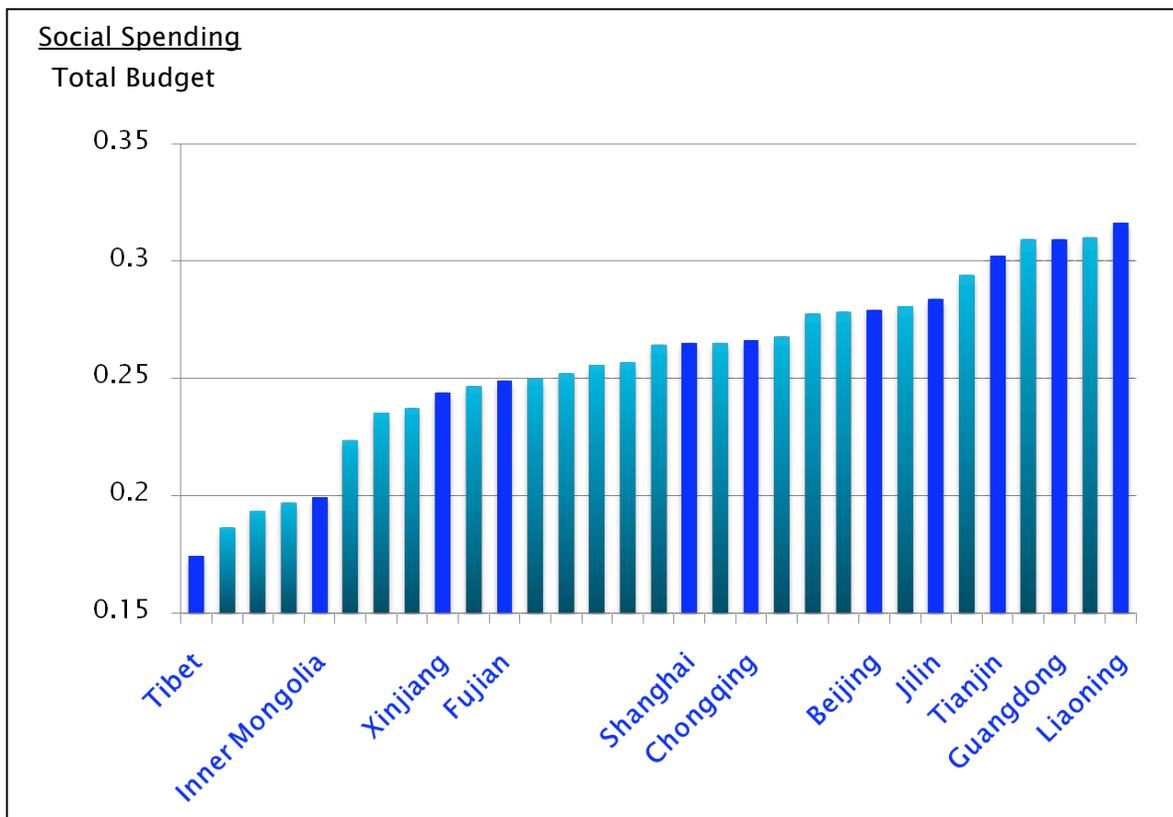
rules of which ones get more or less. The situations vary across provinces. This gives provincial leaders a lot of latitude to influence the spending decisions of prefectural and county governments. A lot of the time, the transfer is used to reward lower-level local leaders who follow the provincial mandate on social policy (author's interviews, October/November 2008).

In cases where county officials fail to fulfill the provincial mandates, the provincial government can "punish" the county by cutting down on the amount of money transferred to the county (author's interviews, November 2008). Another way a province can punish lower-level governments is to intervene in their budgetary process in the following fiscal year. Instead of cutting down on the amount of funds transferred, the province can take away the budgetary discretion from the county government. According to my interviewees, this is even worse for county officials because it weakens their influence in the locality, thus keeping them from receiving benefits from local interests, such as business groups, as before.

Because each province can maneuver social policy performance at local levels, there is a wide variation in local social spending (Figure 1.1). Some local governments provide substantial social goods and services to their citizens; they generously start up new social security programs to help the unemployed, or they increase the spending on education and health to care for the poor (Tsai 2004; World Bank 2005).

On the opposite extreme, other local governments neglect the issue of social welfare, and government officials rather spend money for their personal use, including vehicle purchases or dining and entertaining. According to unofficial statistics of China, local officials in 2007 spent 300 billion yuan (\$44 billion) on dining and entertaining, 300

billion yuan on the use of vehicles, and 250 billion yuan (\$37 billion) on government-sponsored domestic and overseas tours.<sup>4</sup> These are shocking numbers considering that, in the same year, the nation's total spending on health was only 198.9 billion yuan (\$29 billion).<sup>5</sup>

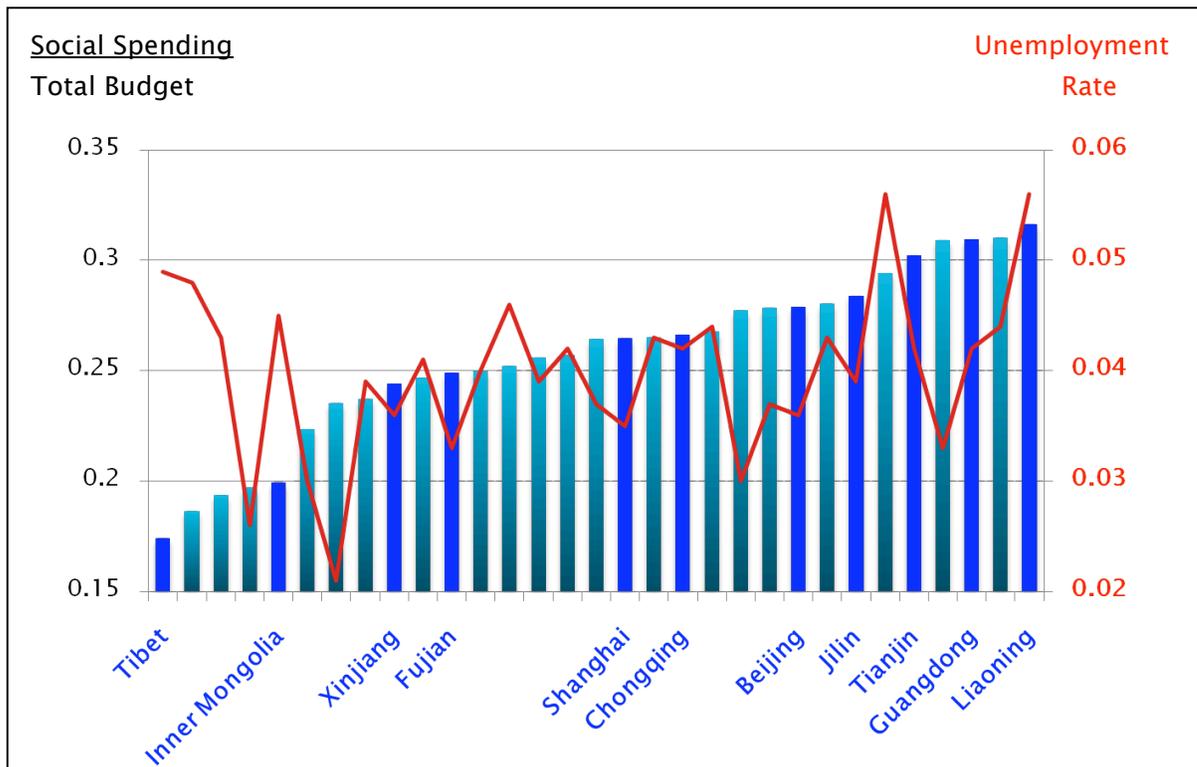


**Figure 1.1: Variation in Local Social Spending by Province (2005)**

<sup>4</sup> Wang Xiangwei, "Glitzy Icons Contrast with Fallen Schools," *South China Morning Post*, May 26, 2008

<sup>5</sup> Source: Bureau of Statistics of China.

What makes the variation interesting is that the provincial decisions on social spending do not necessarily depend on the people's needs. According to preliminary data analysis, the level of social spending in each province does not correlate with the provincial unemployment rate which is a good surrogate for people's level of welfare need (Table 2). Provinces do not necessarily spend more money on social welfare



**Figure 1.2: Relations between Local Social Spending and Unemployment Rate By Province (2005)**

provision as the unemployment rate rises. Then what explains the provincial decision on local social policy? What could be more important than the people's needs in determining the provincial provision of social goods?

### **1.3 Literature Review**

The issue of social spending in China has been surprisingly under-studied in the literature. Scholars studying China tend to focus more on the economic performance of the country, and as a result, there are not many empirical studies regarding the social welfare provision at the local level in China.

Although there exists no well-developed theory of China's local social spending, scholars specializing in China's economic development have presented ideas that may be applied to the area of social policy. From these, I have drawn out four primary alternative explanations: economy, provincial resources, degree of marketization, and demography. Although these explanations provide important insights into why some localities might have higher levels of social spending, their implications do not account for many contradicting cases, suggesting that we have not yet illuminated the full picture. More importantly, they do not adequately address the political logic underlying local social spending in China—a gap which I seek to fill.

#### **1.3.1 Economy**

The first explanation argues that the variation in local social spending should be due to differences in provincial economic development. Specifically, provinces with

higher per capita income levels should have higher governmental spending on social policy (Przeworski 1991).

The notion that economic growth will raise taxes and therefore government spending on social policy has been one of the longest and most durable views in the study of the welfare state. Empirical studies of other countries also find that higher per capita income tends to increase the social spending as a share of total budget. There is no consensus on why economic development should increase government provision on social welfare and services, and the causal mechanisms vary in detail. But scholars generally believe it is either because economic development makes it easier for the government to provide social goods, or because development creates problems that make social welfare provision more urgent (Lindert 1996, 2004). Regardless of the debate, the conclusion is that economic growth results in an increase in government provision on social goods and services, and economists and political scientists together agree that the phenomenon is a “developmental” effect (Borcherding 1985; Jackman 1975; Mueller and Murrell 1986; Pampel and Williamson 1989; Wilensky 1975).

Because there is a wide variation in economic development levels across provinces in China, it is natural to assume that provincial governments would spend differently on social policy. Ever since the start of economic reform in China, uneven factors of endowment and unequal pace of reform policy have favored the coastal provinces (Easterly and Levine 2002; Engerman and Sokoloff 2002; Hussein et al. 1994; Kahn et al. 1993; Lampton 1978, 1979; Yang 1999). The result was that coastal provinces have been developing at a much faster rate than the inland provinces throughout the history of post-Mao period (Knight et al. 2001; Yang 1997).

Since coastal provinces have improved their economies much more rapidly, the conventional wisdom is that these provinces should spend more on social policy than other provinces do. After all, as the provincial economy develops and the people become richer, the provincial governments will have the societal resources to invest in social goods provision, and the demand for social goods will also increase (Drazen 2000; Hellman 1998; Przeworski 1991). Also, every local official I interviewed in China stated that they would “not have the ability to provide social welfare unless they develop the economy first” (author’s interviews, August 2008). Therefore, we should expect social spending to increase as the provincial economy improves.

### **1.3.2 Provincial Resources**

The second explanation is derived from the study of fiscal decentralization, and it argues that provinces are better able to support social goods provision when they have higher tax revenues (Bird and Wong 2008; Saich 2004; Wong 2008).

According to Qian, Weingast, and colleagues, China achieves high growth due to an economic system of market-preserving federalism, in which there is a clear division of authority between central and local governments, with local authorities assuming primary responsibility and control over their economies (Montinola et al. 1995; Oksenberg and Tong 1991; Qian and Weingast 1997; Qian and Roland 1998). To be sure, this argument has been greatly challenged by the 1994 tax reform and the subsequent institutionalization events—such as the abolishment of local nominal fees and off-budgetary taxation—which were the results of the Center’s successful effort to consolidate its political and fiscal power (Bird and Wong 2008; Naughton and Yang 2004;

Yang 2006). However, the characteristics of fiscal decentralization still exist in China. Therefore, scholars have begun to accept that China has still adopted fiscal federalism but contend it is not the market-preserving type (Tsai 2004).

Under this Chinese-style fiscal federalism, local governments enjoy a certain level of economic freedom to collect tax income, and depending on the local situations and economic activities, some provinces are able to generate higher revenue. Take the coastal provinces for example. Their annual tax revenues account for half of the national tax income, with Guangdong by itself contributing more than 15 percent to the nationwide revenue. Because of the high tax revenue, these provincial governments have a lot more resources on hand, and this allows them to support government spending on more categories, including social goods provision (Saich 2004; Wong 1998).

As a sharp comparison, other provinces do not receive as much tax revenue as the coastal provinces. In particular, some of them may not have enough revenue to support their normal administrative expenses, and they have to rely on the Center's subsidy in order to support the local budget. For instance, poor provinces like Tibet could only collect around one million Yuan (152,000 dollars) of tax revenue per year, which is 150 times smaller than Guangdong's annual income. These poor provinces do not even have the money for their basic infrastructure, much less new social welfare programs (Herschler 1995; Michelson 2008). Therefore, the variation in local governments' tax revenue should be a reason why some provinces can afford higher levels of social spending, while others cannot.

### **1.3.3 Degree of Marketization**

The third explanation originates from the literature on the political economy of development. Specifically, it suggests that the level of social spending should be explained by the degree of marketization or privatization in a province (Bates 1981; Haggard 1990).

Although China has embraced the policy of market economy for more than 30 years, there are still many large state-owned enterprises (SOEs) that are awaiting privatization. The Chinese government has also delayed a lot of the SOE reforms for stability purposes. After all, many of these state enterprises tend to be inefficient, and rushing into marketization would just result in an explosion in the unemployment rate and create more social problems. This is seen in the cases of many “furloughed” (*xiagang*) workers who have been forced to retire from state enterprises in the process of privatization (Nathan 2002). Without proper assistance and occupational training from the government, these furloughed workers remained unemployed, and they do not have any sources of insurance or benefits, but can only receive a minimal stipend that is not even enough for them to live on.

Moreover, depending on the provincial economic conditions, the pace of marketization varies significantly across provinces (Gallagher 2004; Wong 2001). In the coastal provinces, for instance, the degree of marketization is much higher because the provincial economies are more advanced and the governments have more financial resources to handle the shock of privatization. In the northeastern region, however, the degree of marketization is significantly lower. After all, the region has always had the highest density of SOEs in the nation. Plus, the size of provincial economies has not

reached the economies of scale to allow for more room of privatization. Hence, there are still many large SOEs in the northeastern provinces nowadays.

When the degree of marketization is low in a province, there are more workers working in state-owned enterprises. The provincial government therefore has little choice but to spend more on social goods provision (Bates 1981; Wintrobe 1998). The government is expected to provide the state enterprise workers with pensions and health insurance, and even subsidize the tuitions and fees for the workers' children. By contrast, in provinces where the degree of marketization is high, there are fewer workers in the public sectors for the provincial governments to take care of. Moreover, the households will have other sources of income, in which case governments can shift costs for health, education and pensions onto households (Haggard 1995; Lin 1997). As a result, the government spending on social programs should be lower.

#### **1.3.4 Demography**

The fourth explanation argues that the level of social spending in a province depends on the demographic characteristic of the province (Cox 1987; Haggard and Kaufman 2008; Iversen and Soskice 2001).

The literature on the welfare states has long identified demography as an important factor affecting the governmental decisions on social welfare provision (Darby and Melitz 2008; Hernandez 1997; Pontusson 2005). Especially in the study of advanced welfare states, scholars have found that social policy development reflects the age, gender, and other demographic characteristics of the population. For example, governments increase spending on social programs to provide gender-specific benefits such as medical

insurance and wage subsidy for maternity leave when there are more women in the labor market (Alesina, Baqir, and Easterly 1999; Mares 2003). Additionally, because women tend to have a comparative advantage in general skills, they are at a disadvantage in work environments that require more industry-specific skills. Some governments, namely Germany's and Denmark's, therefore increased public expenditures to provide vocational training programs for women (Estevez-Abe, Iversen, and Soskice 2001; Iversen 2004).

Although local governments in China do not really provide gender-specific employment assistance programs, there are other demographic features to which provincial governments respond. In 1986, for instance, the country extended compulsory education from six to nine years to include both primary and secondary educations. This means that provincial spending on education should be higher when there are more school-age children in the province. Moreover, the country established individual pension accounts in the late 1990s, and this increased the government burden on social spending as well.<sup>6</sup>

When the dependent ratio in a province is high, more of the local population is composed of children and/or elderly people. The provincial government is then expected to provide more social welfare, education, and health care to the people. On the other hand, if a province's population is composed of more working-age people, the provincial government should have less pressure to spend on health or education issues, but instead have a bigger responsibility to contribute to the retirement and pensions programs in the province.

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<sup>6</sup> State Council of China, "Decision regarding the establishment of uniform system of basic pension insurance system for business," in *Social Security: Frequently Used Policies and Regulations* (1997: No 26). Falü Chubanshe, Beijing.

### 1.3.5 Limitation of the Literature

To be sure, all of the above explanations provide great insight in explaining the variations in China's provincial social spending, but by themselves they fail to take into consideration the politics involved in the social policymaking process. Moreover, there still are limitations to these arguments, and they do not account for cases that contradict their logic. Take the development and revenue arguments for example. According to their hypotheses, the social spending level should be positively correlated with the economy and richness of a province. Provinces with more advanced economies should have a higher proportion of government spending on social policy. But as seen in Figure 1.1 and 1.2, there are still cases in which rich and more-developed provinces (such as Fujian) spend less on social goods, while poor provinces (like Jilin) spend more.<sup>7</sup> Additionally, the marketization argument predicts that provinces with higher degree of marketization should have lower level of social spending. But it does not explain why Guangdong, as Figure 1.1 shows, would have the second highest social spending among all provinces despite being known for its high degree of marketization in the country. As for the demography argument, it does not take into account the fact that governments often try to shift the cost for education onto students by charging additional fees for books, activities, or even "miscellaneous categories" (author's interviews, December 2008). Therefore, it is still questionable if provinces with more school-age children would really spend a higher proportion of government expenditure on education.

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<sup>7</sup> Cases based on my preliminary data collection. I will explain in detail how I measure social spending in my Methodology section.

More importantly, the systematic evidence supporting the above arguments is still under-developed. As mentioned above, scholars put more emphasis on the nation's economic performance. Most existing empirical studies that remotely addressed the issue of social spending in China only included economic determinants, and they do not have much discussion on the political variables. Hence, one of my goals is to provide sound statistical analysis and include political explanations in the literature, thus enriching our understanding of the welfare state development in developing countries.

#### **1.4 Theory**

I suggest that the key to the level of spending on social goods lies with the provincial leaders, because they are after all the ones who have the power to affect spending decisions at bottom local level. I develop my theory based on one simple assumption: the Center has different preferences than politicians at the provincial level (Naughton 1987; Wong 1985, 1987). This inevitably leads to a difference in the amount of social goods provision favored by the two levels.

The Center is concerned about the political risk of mass social unrest and seeks to reduce it by providing more social welfare to the people (Gallagher 2002; Walder 2002). This is especially true under the current economic conditions, in which rapid economic growth and the unequal income distribution have created many social problems. Many people cannot even afford the most basic needs, let alone medical bills. What concerns Beijing is that inadequate provisions of social welfare may create social discontent and political unrest. The media often blame governments for not helping people cover their

medical expenses.<sup>8</sup> Think-tank publications, too, have presented evidence on how low social spending created numerous social problems. For example, scholars in China have noted that inadequate pensions provided by the government have caused difficulty for laid-off workers (Ma et al. 2004). Similar analyses can also be found at a scholarly journal, *China Economic Quarterly*.<sup>9</sup> Additionally, the well-known phenomenon of “sickness causes poverty” (*yin bing zhi pin*) has been widely discussed in *2008 Social Blue Book*.<sup>10</sup> Ill citizens fall into poverty due to skyrocketing medical costs, a small portion of which is covered by local governments. As concluded by another scholarly journal, *Chinese Rural Economy*, the nation’s social safety net is insufficient. Even under the economic boom, poor people from both the rural and urban areas have trouble paying for their basic living expenses.<sup>11</sup>

If the government does not provide enough social services and welfare to these people, it may lead to social discontent and jeopardize popular support for the Communist Party rule. Especially under an authoritarian setting where citizens lack the formal institutional channel to express their opinions, any pervasive discontent among the people may ultimately result in a mass social unrest and endanger the regime survival (Huntington 1977). This possibility worries Beijing a lot. In order to keep people satisfied with the government, the Center wants to provide as many social goods as are

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<sup>8</sup> *Hong Kong Economic Journal*, “Ziyou Yiliao Zhidu” [A Liberal Healthcare System], December 9, 1999; *China Infobank*, “Zhongguo Yanglaojin Zhidu Xianzhuang” [The Current Situation of China’s Pension System], November 24, 2000; *Caijing*, “Zhongguo Dang Weiyuchoumou” [China Should Take Precaution Before It’s Too Late], December 12, 2005

<sup>9</sup> Published by China Center for Economic Research (CCER) at the Peking University, Beijing.

<sup>10</sup> Published by the Chinese Academy of Social Science. Beijing: Social Sciences Documentation Publishing House.

<sup>11</sup> *Ibid.*

needed to maintain social stability (Haggard and Kaufman 1996; Treisman 2001; Wintrobe 1998).

The Center's interest in supplying more social welfare to the public was reflected in the policies it undertook since the mid-90s to encourage local governments to enhance the provision of certain social goods (Duckett 2001, 2004; Gao 2006; Saich 2004). For instance, the 1999 National Health Programme details the medication and treatment that local governments should pay for the people. It also demands local governments to reimburse medical costs up to 75%, depending on the total amount of the expense.<sup>12</sup> In addition, the 1997 Pensions Program unifies local governments' contribution rate to individual retirement accounts (IRAs). Local governments are required to increase their rates by 1% every other year until it reaches the national requirement of 8%.<sup>13</sup> Last but not least, since 1999, local governments are required to reserve a certain amount of government budgets to support unemployed workers with a daily allowance, vocational training, and assistance in finding a future job.<sup>14</sup> All these measures show the Center's desire to increase local spending on social goods.

As the actual providers of public goods, however, leaders at the provincial level do not share the same perspective as the center for two reasons. First, the annual evaluations of government officials on which their promotions and sometimes their pay are based rely primarily on "hard-quantifiable indicators"; therefore if provincial leaders want to score well in their evaluations, they push for economic projects such as capital

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<sup>12</sup> See Footnote No 6.

<sup>13</sup> State Council of China, "Decision regarding the establishment of uniform system of basic pension insurance system for business," in *Social Security: Frequently Used Policies and Regulations* (1997: No 26). Falü Chubanshe, Beijing.

<sup>14</sup> State Council of China, "Regulation on unemployment insurance," in *Social Security: Frequently Used Policies and Regulations*, (1999: No 18). Falü Chubanshe, Beijing.

construction rather than social programs (O'Brien and Li 1999; Whiting 2004). After all, spending money on building highways will immediately increase GDP growth rate and generate employment opportunities in the province; but paying for a social security program does not create jobs that quickly, and it takes a longer period of time to reduce unemployment rate, so provincial leaders cannot claim credit right away (Tsai 2004; World Bank 2005). Second, social programs do not bring much chance for politicians to receive kickbacks. Many provincial leaders would rather invest in projects that can benefit their personal business networks in order to earn commissions or to cultivate personal connections in the future (Levi 1988; Rose-Ackerman 1999; Shleifer and Vishny 1999; Pei 2006).

The problem of corruption once was more commonly seen among officials who were approaching the retirement age of 60, and therefore was called the “59 phenomenon” (Kwong 1997). But since the 1990s, this behavior has become prevalent among politicians of all ages. More and more young cadres start to behave corruptly at early ages. The level of officials involved has also gone higher while the scale of corruption has become greater (Lü 2000; Sun 2004). One high-profile example is the case of Chen Liangyu, the former Mayor and Party secretary of Shanghai who was charged for misusing the city’s social security funds to invest in building projects that were tied to his business partners.<sup>15</sup> The funds involved in the scandal allegedly amounted to 10 billion Chinese yuan (\$1.46 billion).

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<sup>15</sup> *New York Times*. Sep 5, 2006. “Shanghai Party Boss Held for Corruption.” Available at [http://www.nytimes.com/2006/09/25/world/asia/25china.html?\\_r=1&partner=rssnyt&emc=rss&oref=login](http://www.nytimes.com/2006/09/25/world/asia/25china.html?_r=1&partner=rssnyt&emc=rss&oref=login)

Despite the divergence in preferences, the conventional wisdom would predict that leaders at the local level will not be able to override the Center and underspend on social goods (Evans 1995; Haggard 1990; Yang 2006). An authoritarian center should have the power to guarantee the provision of social goods at the local level (Magagna 1991; Wintrobe 1998). I disagree. Contrary to the standard view, I argue that local leaders are indeed capable of under-providing social goods.

Like every principal-agent model, it is difficult for an authoritarian center to monitor its agents—in this case, local politicians (McCubbins *et al.* 1987, 1999; Wintrobe 2002). It is even harder when the monitoring target is related to people's welfare because the political institutions for the people are restrictive in an authoritarian system. There are no institutionalized “fire-alarms” such as interest groups, labor unions, or congressional hearings that would help the center oversee local leaders and learn of an under-provision of social goods (McCubbins and Schwartz 1984; Reuter and Remington 2009; Wintrobe 1998; Wong 2000). Therefore, we often see local officials ignore the central mandate and sacrifice people's welfare (Matland 1995; O'Brien and Li 1999; Wilson 1989). These politicians deviate from the central policy to pursue their own interests (Brehm and Gates 1997; Drazen 2000; Ginsburg 2008; Hellman 1998; Wibbels 2005).

Still, we do see cases in which provincial officials choose not to pursue their private interests, but to voluntarily commit to higher levels of social spending instead. I argue that this is because politicians in China behave strategically depending on their expectations about their future careers. When they have realistic ambitions and aspire to move up their career ladder to Beijing, they differentiate themselves from others by

conforming to the Center's preference. They push for higher social spending in their provinces to impress the Center and increase their chances for promotion.

Politicians in China may not have realistic political ambitions because of the age limit. Although the Chinese system does not have electoral constraints, politicians in China still face other restrictions, such as mandatory retirement age. For instance, politicians at the provincial level are required to retire by the age of 65. When top-level provincial politicians are well below the mandatory retirement age of 65, they have time and reason to believe that they have a chance to work their way up to higher political positions in the Politburo (the leadership organ that oversees that Chinese Communist Party) or the Politburo Standing Committee (the nation's top decision-making body, which is one level higher than the Politburo). On the other hand, when they are approaching the age of 65, they have no prospects of moving up to Beijing. They are in a lame-duck status and expect to retire by 65. Therefore, they have no realistic political ambitions.

For instance, when Li Keqiang became the Party secretary of Liaoning in 2004, he had just turned 49 years old. This gave him plenty of time to work on his promotion—he would only be 52 by 2007 when the 17<sup>th</sup> Party Congress took place. Even by the 18<sup>th</sup> Party Congress in 2012, he was only 57 years old, and therefore still had ample time and opportunities to work his way up to the Politburo and the Politburo Standing Committee. In the end, he did successfully advance to the PBSC in 2007. The situation, however, was quite different for Zhang Wenye, who was already 63 when he succeeded Li Keqiang as Liaoning's provincial leader in 2007. Because of his age, he

had no realistic political ambitions, and he retired within two years from his Liaoning tenure when he reached the retirement age limit of 65.

But provincial politicians may not necessarily aspire to advance to Beijing even if they are below the mandatory retirement age; they may prefer to stay at the local level instead (Zhan 2009). Since so much of the economic action occurs at the provincial level, and provincial officials get to exercise substantial political influence, many politicians actually choose to remain in the provinces instead of going to Beijing (Shirk 1993). Following Huang Yasheng's terminology, I call this kind of politicians "localists" (Huang 1997). As a Chinese saying goes, "unless they go to Beijing, politicians would not know how low their political rankings are." (*Budao Beijing buzhidao guanxiao*). These localists would rather be a big fish in a small local pond instead of a small fish in the vast ocean of Beijing politics. After all, they can stay in the provinces to act as "local emperors" (*tuhuangdi*). But this does not mean that these localists are not office seekers. They are indeed still very interested in pursuing political careers; it is just that their career ambitions are locally focused; they seek promotion at the provincial level rather than to the Center. For example, a governor might want to advance to a provincial Party secretary position; a Party secretary might want to move to a Party secretary position in another province where there are more government resources and business opportunities. This is particularly true after late 90s, when top provincial officials were regularly reshuffled around the country.

But there must be some provincial leaders who are interested in a Beijing career. In particular, these provincial leaders should have realistic ambitions to believe that they might be promoted to the Center. In order to enhance their chances for promotion, they

would conform to the Center's preference and increase social spending. After all, the Center (CCP Organization Department and the Politburo Standing Committee) still holds personnel appointment power to determine who will and will not be promoted to Beijing (Shirk 1993). According to the institutional design in China, the central leadership (Politburo, Politburo Standing Committee, General Secretary, and Central Military Commission) is supposed to be chosen by a selectorate consisting of the Central Committee. But the Politburo Standing Committee appoint the officials who sit in the Central Committee and nominate their successors (Naughton and Yang 2004; Yang 2006). Therefore, when provincial leaders have realistic ambitions to advance to Beijing, they have to impress the PBSC to increase their chances for promotion.

These ambitious politicians can be categorized into two groups. The first group is the leaders of key provinces who already serve concurrent positions in the Politburo, the 24 person leadership organ that oversees the Chinese Communist Party (CCP). Some top-level politicians in China hold office at both the national and local level. I call these politicians "concurrentists," and they are generally the CCP secretaries of Beijing, Shanghai, and Guangdong (Huang 1997). Since 2007, for instance, out of the 25 members in Politburo, 8 (32%) were or still are concurrent local leaders at the provincial level.

Since these concurrentists already serve simultaneously in the Politburo, they are more likely to conform to Beijing's preferences of higher social spending. Furthermore, many of them aspire to be promoted to the Politburo Standing Committee (henceforth PBSC). Again, as long as these concurrentists are well below the mandatory retirement age, they have time and reason to believe that they can work their way up to the PBSC;

other wise, they have no such ambitions. Unlike the case for provincial politicians, the mandatory retirement age for Politburo members is between 68 and 72 depending on the situation (Bo 2007; Landry 2008). The Party Congress of the Chinese Communist Party takes place every five years to elect the new membership of the Politburo, and the rule for the existing Politburo members is that if they are only 67 years old or younger, they will be reelected and can stay for another 5-year term and then retire. By contrast, if they have reached the age of 68, then they are required to retire.

For instance, Li Changchun was no more than 54 years old when he became the Party secretary of Guangdong and a Politburo member in 1998. He was only 58 by the 16<sup>th</sup> Party Congress in 2002; even by the 17<sup>th</sup> Party Congress in 2007, he had just turned 63, and therefore was still eligible to serve as a PBSC member. He was promoted to the PBSC in 2002, and is not expected to retire until 2012. On the other had, Zhang Lichang was already 63 when he became the Party secretary of Tianjin and a Politburo member in 2002. Therefore, he had to retire by the 17<sup>th</sup> Party Congress in 2007—he turned 68 at the time so was not eligible to stay in the Politburo anymore.

The second group of ambitious politicians consists of provincial leaders who do not yet hold a Politburo seat, but aspire to do so in the future. I hypothesize that these local leaders are more likely to provide more public goods in order to impress the Center and increase their chances for promotion. Traditionally, the Chinese Communist Party has always had a populist rhetoric about serving the people and the mass line etc.; but in reality, politicians in China climb up their career ladder not by appealing to ordinary citizens, but by coordinating with the interests of producer (industrial) and bureaucratic interests which dominate the CCP. If local leaders can successfully depict themselves as

a different type of elite who cares about people's welfare, then they might gain more local popularity compared to the others and draw the Center's attention. One notable example of a local leader who differentiated himself in this way was Li Ruihuan, the Mayor and Party secretary of Tianjin from 1982 to 1989. Li dramatically improved the city's urban housing and public transportation, and Beijing eventually recognized his popularity in the Tianjin area and promoted him to the Center. Therefore, when provincial leaders have realistic ambitions to advance to Beijing, they push for social spending in their provinces in order to increase their chances for promotion.

- H1. When provincial leaders also hold a concurrent Politburo seat, they spend more on social policy in their provinces*
- H2. When provincial leaders aspire to a Politburo seat in the future, they spend more on social policy in their provinces*

## **1.5 Implication**

My research asks if all local leaders are equally reluctant to follow the central mandate to provide social welfare or if there is some variation among them. Moreover, if there is variation, why would some local leaders follow the Center's preferences and commit to higher levels of social goods provision? This is an important question for the study of Chinese politics, and the answer to this question has important policy implications for Chinese national leaders who want to increase public welfare provision and maintain social stability.

Additionally, my research provides theoretical insights to the study of social welfare provision in nondemocratic systems. The literature of welfare state is often associated with a comparison between democracies and authoritarian regimes (Boix 2003;

Ghorbarah *et al.* 2004; Haggard and Kaufman 2008; Kohli 2003; McGuire and Olson 1996; Meltzer and Richard 1981; Moore and White 2003; Niskanen 1997; Ross 2006; Zweifel and Navia 2000). Most research that does not compare regime types tends to focus on developed countries with mature democratic institutions (Clayton and Pontusson 1998; Iversen 2005; Iversen and Soskice 2001; Mares 2003; Pontusson 2005). Only a few exceptions in this abundant literature try to unpack the characteristics of authoritarian systems (Gandhi and Przeworski 2006; Wintrobe 1998). As a result, scholars have concluded that the key to social welfare provision is electoral accountability (Acemoglu and Robinson 2005; Bueno de Mesquita *et al.* 2003; Przeworski *et al.* 2000)

For instance, democratic politicians who face reelection are less myopic and more electoral-conscious and therefore provide more social goods to the people (Bailey and Valenzuela 1997; Banks and Sundaram 1993; Linz 1990). Empirical analysis also shows that reelection incentives affect US governors' choices on fiscal or even secondary policies, such as environmental policy (Besley and Case 1995; Ferraz and Finan 2007; List and Sturm 2006). Governors will try to build reputations for reelection and enact policies more closely matched to the wishes of their constituents.

On the other hand, scholars argue that politicians in authoritarian regimes focus on private rather than public goods (Bueno de Mesquita *et al.* 2004; Lake and Baum 2001; Rose-Ackerman 2005). In particular, the dominant view in the political science literature predicts that social welfare provision should be low without democratic institutions (Avelino *et al.* 2005; Dahl 1971; O'Donnell 1996; Seabright 1996). Yet we still see cases in which authoritarian politicians provide substantial social goods to the people. My theory may show why some local leaders in China provide substantial social goods

while others do not. Politicians can still be motivated to provide social goods—even if there is little or no electoral accountability—as long as they aspire to political promotion.

My dissertation is organized in the following order. The second chapter discusses the historical development of China's social welfare system; I show that after a series of social welfare reform, local governments have the power to decide how much they want to spend on social welfare. The third chapter presents my quantitative findings through novel data sources including politicians' spending on dining and entertaining; this data was included in unpublished budgetary reports I acquired through my field research. The fourth chapter illustrates the case of Guangdong province to show how concurrentist provincial leaders conform to Beijing's preferences by emphasizing social welfare provision in the province. The fifth chapter presents the case of Liaoning province to show how the career incentives work for ambitious provincial officials. Provincial politicians who do not yet hold central positions but aspire to do so in the future emphasize social welfare provision at the local level in order to cater to Beijing's preferences and increase their chances for promotion. Finally, the sixth chapter concludes with the implications of my dissertation and the theoretical contribution beyond the existing literature.

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## **Chapter 2: Social Welfare Development**

China has undergone massive change over the past 30 years as a result of economic reform. Along with the transition from a planned to a market economy, China's social welfare system has also experienced rapid changes since the 80s—both in its nature and in structure. Although there is a rich body of literature that studies the economic reform process and its success, there is little effort on the study of China's social welfare policy. Very few scholars have systematically reviewed the transitions and effectiveness of China's social welfare system. This chapter intends to unfold the welfare system change in China during recent years. My goal is to examine how China's social welfare system changes at the macro-level, and how such changes reflect upon the micro-level to affect individual citizens. By doing so, I hope to provide an overall understanding of the changing dynamics of the social welfare system in China after the implementation of economic reform.

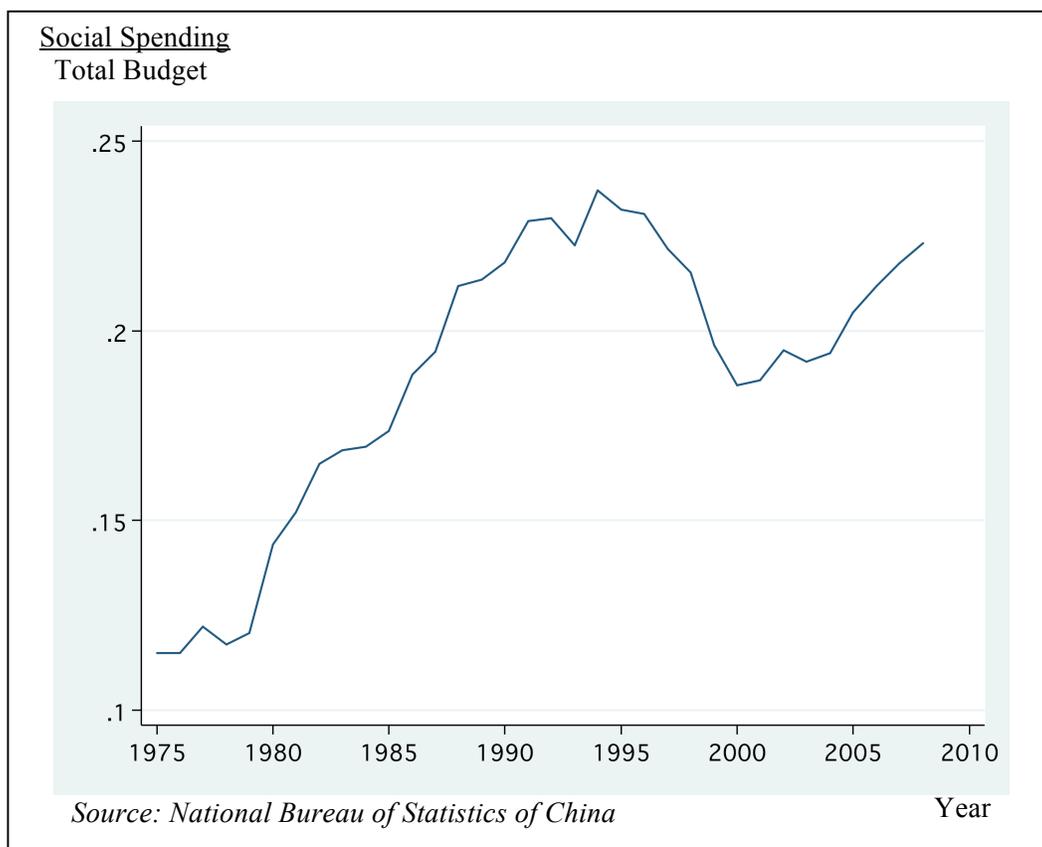
### **2.1 Pre- and Post-Reform Transition**

An overview of China's social welfare reform in the post-1979 period shows the Center's efforts to increase social goods provision in response to local governments' tendencies to shirk their welfare responsibilities. In the beginning stage of economic reform, the Center also decided to reform the nation's social welfare system in order to facilitate market economy and to stimulate economic growth and efficiency. The Chinese market reforms shifted the social welfare responsibility away from work units to

both individuals and local governments through taxation, as the state-owned and collective enterprises that previously had been the major providers of social benefits reduced their welfare burden in order to lower costs and improve profitability. Individuals for the first time since the communist revolution were required to assume bigger roles in financing their own social welfare, either indirectly through taxation or directly through contributions to social programs such as pension and health care. Local governments have also been assigned bigger and more direct roles in social welfare provision than in the past, with many important programs largely financed and implemented locally.

But the new tax-sharing system, implemented in 1994, dramatically decreased local governments' financial capacities, and as a result, local governments started to find ways to shirk their welfare responsibilities. This in turn left the burden of welfare provision to individuals themselves, causing more discontents among the people. In order to ensure social stability, the Center changed the direction of social welfare reform and, in the late 1990s, started to push for nationwide social programs to increase public provision of social welfare at the local level. The coverage of these programs ranged from basic social goods, such as pension, education, and health, to more broadly-defined social benefits such as housing and living subsidies to laid-off workers. All of these reflected the central effort to ensure the social welfare provision under the market economy and to avoid serious social unrest.

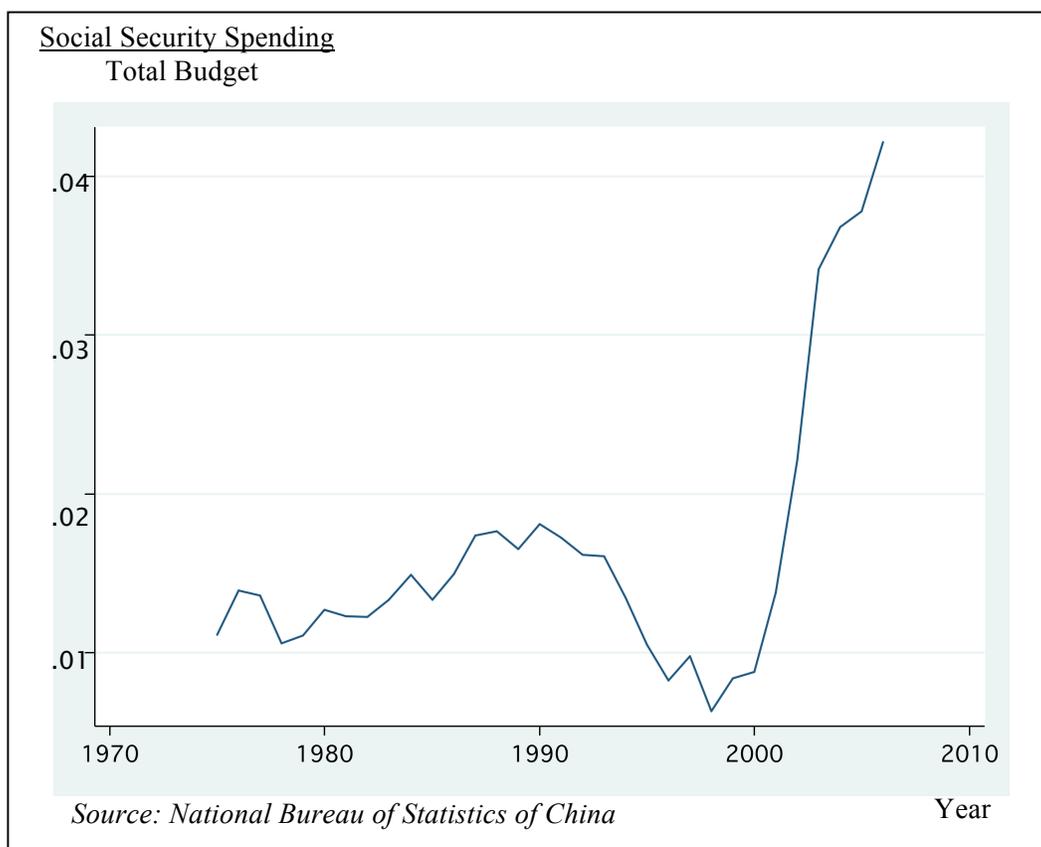
China's social spending trend from 1975 to 2008 also reflects the transition to a social welfare system. In Figure 2.1, the x-axis represents the year, and the y-axis shows the corresponding yearly value of how much the nation spends on social policy as a share



**Figure 2.1: Social Spending Trend of China**

of total budget. We can see that social spending increased dramatically right after 1980 when the economic reform started. The level of spending hit its peak in 1995 at 24 percent, and then started to drop significantly for the following five years. But in 2000 the situation reversed, and the level of social spending started to increase again to date.

We also observe a very similar pattern by dividing the social spending into the following three categories: social security, education, and health spending. Figure 2.2 shows the trend of social security spending in China, and we can see there is a similar

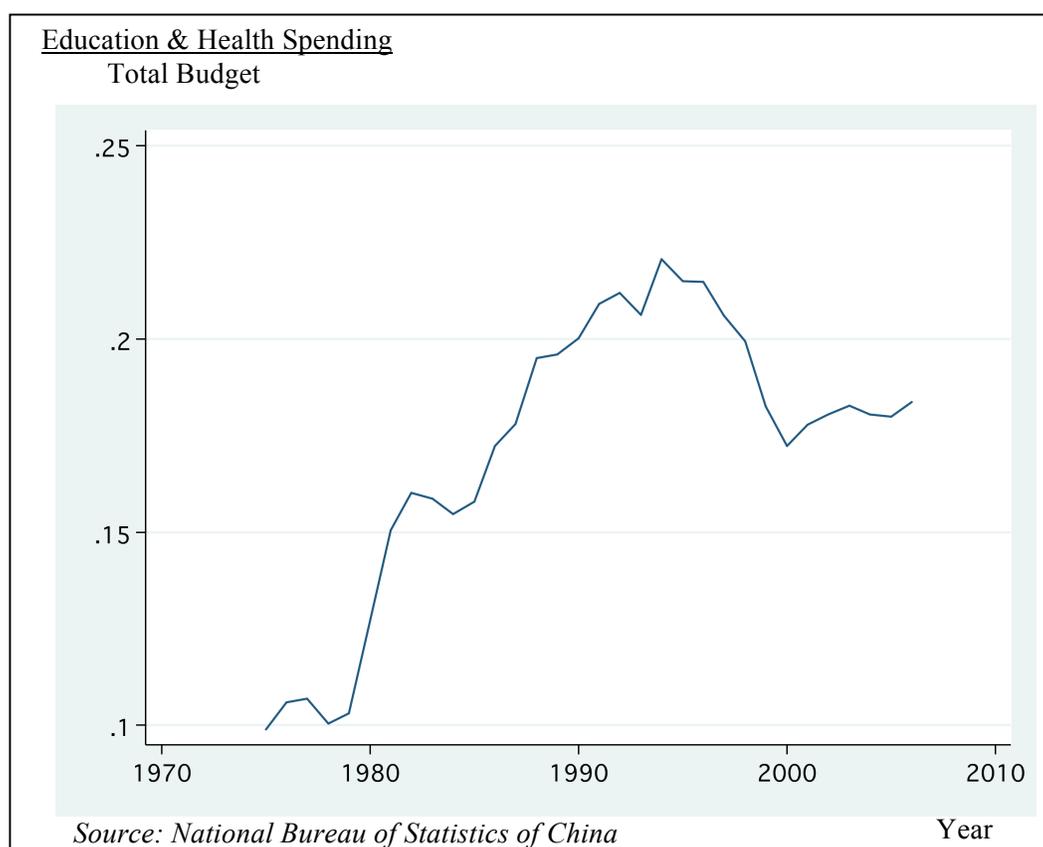


**Figure 2.2: Trend of Social Security Spending of China**

increasing trend before 1994, followed by a decrease between 94 and 2000. What is more interesting is that the spending on social security has increased even more dramatically since year 2000. Likewise, Figure 2.3 shows China's spending on education and health.<sup>16</sup> We can see that the trend is almost identical to the ones in Figure 2.1 and 2.2. The

<sup>16</sup> I am not able to disaggregate education and health spending because of the data availability. The pre-1994 data only measures education and health spending together.

difference is that education and health spending do not rebound as dramatically after 2000 like the spending trends in the previous two Figures.



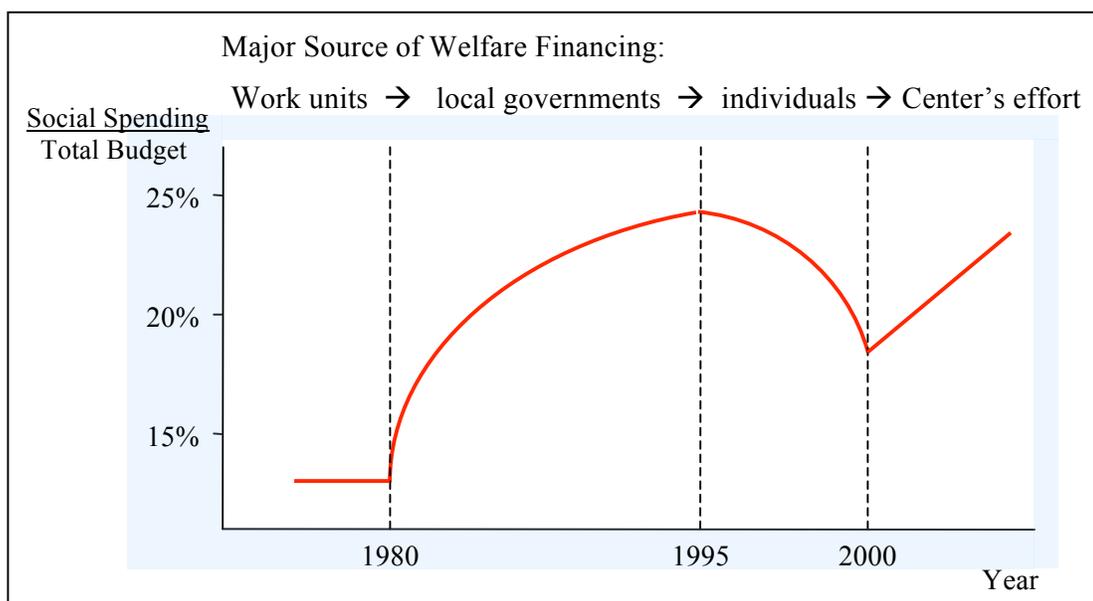
**Figure 2.3: Trend of Education and Health Spending of China**

The increase of social spending since 1980 can be attributed to the Center's effort to shift the welfare responsibility away from *danwei* such as state-owned and collective enterprises, which were the major channels to provide the Chinese people with social

goods. Although these work units were controlled by the state, their budgets were not included as governmental spending. Thus, social spending as a share of total government budget shown in the above Figure does not capture their expenditure on social welfare. After the start of economic reform, however, the Chinese system shifted the welfare payments from work units to local governments by establishing many social programs that are financed and implemented locally (Lin, Cai, and Li 1996; Oksenberg and Tong, 1991). This is why we witness the increase in social spending between 1980 and 1995.

The following trend in social spending also reflected the transition in China's social welfare system. First, the decrease of social spending starting from 1995 to 2000 was a result of the 1994 tax reform. Due to the new tax-sharing arrangement, local governments were left with significantly less tax revenue. As a result, they reduced their spending on many of these local social programs, and individuals were forced to assume almost all responsibility to contribute to their social welfare. Second, the increase of social spending after 2000 reflected the Center's effort to push for nationwide social programs. As I will illustrate in detail later in this chapter, the Center implemented national programs on pension, health, and unemployment insurance in the late 1990s in order to help individuals and laid-off workers relieve their social welfare burden.

Figure 2.4 summarizes the changing dynamics of welfare responsibility. The source of welfare financing was shifted from work units to local governments after the start of economic reform, and it was transferred to individuals again after the 1994 tax reform. Finally, in order to help individuals relieve their welfare burdens, the Center started to implement nationwide social programs in the late 1990s to force local governments contribute more to the welfare spending.



**Figure 2.4: Trend of the Financing of Social Welfare**

This chapter proceeds as follows. I first introduce the social welfare system before the reform, followed by a review of the reform of China's social welfare system. Next, I describe in detail how the Center reformed the welfare system to provide more basic social goods such as health, pensions, and education. I then describe how the Center pushed for the provision of more broadly-defined social welfare including living subsidy to laid-off workers. I conclude with implications for future reforms.

## **2.2 Social Welfare System before the Reform**

The social welfare system of urban China in the pre-reform period was inherent in the planned economy and the socialist political regime. The central government carried out a "full employment" policy and assigned jobs to almost everyone in the country.

Everyone received comprehensive coverage of social welfare through their work units. Under this “iron rice bowl” (*tiefanwan*) system, the employees typically held their jobs and enjoyed the benefits permanently. They were even entitled to pass on the positions or at least job opportunities to their children after retirement. The embedded principle was that “everyone contributes to the society based on the state’s economic plan, and the state, in turn, takes care of citizens’ needs” (Yu 1999:27). This welfare model was first established in the early 1950s soon after the Chinese Communist Party (CCP) took power, and it was developed over the following three decades (Guan 2000).

Before the economic reform started in 1978, the social welfare system was solely financed by each work unit without help from tax revenues or even employee contribution. But the state supported and protected these work units, as they were appendages of the state and were not responsible for their profits. Therefore, employees in the urban areas not only enjoyed job security from work units, but also received many subsidized benefits and services such as health, education, housing, work injury, disability, death, and elderly benefits (Leung 2003; Tang and Ngan 2001; Li 1999; Wong 1994, 1998). Under this arrangement, work units bore a heavy financial burden for providing comprehensive welfare coverage for their employees (Saunders and Shang 2001). Those who were employed in the public sector had a low average wage, but they enjoyed a high level of social welfare provision and learned to be “submissive to, dependent on, and compliant with” the government (Leung 2003:77). This system thus served as the key to maintaining social stability and political legitimacy for the CCP regime.

After the start of economic reform in 1978, however, such arrangements impeded enterprise efficiency and profits. The universal coverage and increasing welfare payments to employees had become a huge burden to state-owned and collective

enterprises. The nationwide cost of social insurance and welfare provision as a share of total wage increased from 13.7 percent in 1978 to 28.3 percent in 1988 (IOSC 2002). The percentage was even higher for state enterprises, reaching more than 30 percent—half of which for full-time employees and the other half for pensioners.<sup>17</sup> In order to facilitate market economy and to stimulate economic growth and efficiency, Beijing decided to reform the social welfare system—in particular, the pension and health spending provided by the work units.

## **2.3 Reform of Social Welfare System**

The reform of the social welfare system has been a process of redefining the social welfare responsibility among three players: the work units that had been the major provider (state-owned and collective enterprises), the employees of the work units, and the government at all levels.

### **2.3.1 General Trend**

In order to reduce the welfare burden and to improve profitability of state enterprises, the Chinese system shifted the responsibility to finance social welfare provision away from work units and towards general taxes. Private firms were allowed more leeway to support employees' pension and health programs. They could establish wider risk-pooling schemes across firms to reduce potential obstacles for individual firms.

Moreover, as a result of the reform, there has been an increasing emphasis for individuals to support their own social welfare. Individuals have taken more responsibility in financing social welfare, either indirectly through paying taxes or

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<sup>17</sup> Source: China Labor Statistical Yearbook 1988-1999 pp. 487, 500 and 502

directly through contributions to social programs such as pension and health care. But they also have more social programs to choose from and more independence in making their welfare choices.

Local governments have also been assigned bigger and more direct roles in social welfare provision, with many important programs largely financed and implemented at the local level. But local governments tend to shirk their responsibilities with respect to the social welfare provision. Thus, the Center has taken the key role in pushing for higher social welfare provision nationwide. For instance, the Center implemented several national programs since the late 1990s with respect to the provision of basic social goods such as pensions, education, and health in response to the drastic social change as a result of economic reform.

In addition to the basic social goods, the Center also started other public assistance programs that cover the provision of more broadly-defined social benefits. The goal was to accommodate the market economy and to avoid serious social unrest from those who are left behind by the economic reforms. As the economic system abandoned the “full employment” policy, unemployment emerged as a new phenomenon in urban China. The Center therefore started new national programs to provide unemployment insurance and public assistance to the urban poor.

### **2.3.2 Three Reform Stages**

Similar to the economic reform, China’s social welfare reform has also adopted a pragmatic and piecemeal approach. The process has been pragmatic because the explicit goal of the welfare reform from the outset was to facilitate the economic reforms and to

improve market efficiency. It has been piecemeal because various reform strategies were initiated at different times.

We can generally divide the welfare reform into three stages. The first stage of the reform started as early as the early 1980s, and it consisted largely of remedial responses to the institutional dysfunction of certain welfare programs caused by the economic reforms. As previously mentioned, the state-owned and collective enterprises started to incur problems and losses due to excess pension and health care payments as the economic system was gradually transformed from a centrally-planned structure to a market-oriented economy. In an effort to increase their profitability, the state enterprises tightened pension and health budgets. Reform policies also transferred the welfare responsibility from work units to more individual contributions and government investment (Guan 2003).

The second stage of the reform started in the late 1980s and lasted until the mid-1990s before the Center restructured the country's tax-sharing arrangement. Unlike the first stage, the welfare reform in the second stage made many fundamental changes in almost all aspects of the social welfare system. Many of these were first experimented in small-area local trials, and only those evaluated to be effective were adopted and carefully expanded nationwide (Li and Piachaud 2004). The traditional rationing system for basic subsistence goods such as food was abolished. With the end of "iron rice bowl" and the start of a more competitive labor market, wages became independent from employer-provided benefits, and unemployment insurance and living subsidies for the laid-off came into being. Retirement pensions and health care provided by state enterprises had dropped dramatically despite the fact that employees themselves (along

with local governments and employers) contributed a great portion of these benefits.

The third stage of the welfare reform was from the mid 1990s to the present. Before 1994, provincial governments were able to keep most of their tax revenues, thus leaving the Center relatively short of budgetary resources. But the Center implemented a new tax-sharing system in 1994 to reverse the situation. Under the new arrangement, the Center is able to collect more than half of the nationwide tax revenue, leaving local governments with significantly lower incomes (Wong, 2000). From the local viewpoint, this decline in financial income—coupled with the rapid growth in welfare spending in the second stage—greatly intensified their financial burdens. Although the Center increased the amount of budgetary transfers to help local governments cover their welfare expenditures, the deficits were still too large to overcome. Therefore, local level governments started to avoid their welfare responsibilities, and the Center had no choice but to nationalize the provision of social welfare programs. This shift in turn resulted in a dualism in the nation's social welfare system. The Center has introduced nationwide social programs that are supported by the national budget, while local governments ignore the social programs that are mainly financed and implemented at the local level. In the end, the welfare burden has fallen onto individuals themselves.

#### **2.4 The Provision of Basic Social Goods**

In order to ensure social welfare provision while local governments are avoiding their welfare responsibilities, the Center gradually shifted its social welfare reform strategy to advocate for social programs that guarantee the provision of basic social goods such as health, pension, and education.

### 2.4.1 Health

Before the social welfare reform, the employee health insurance system covered the vast majority of urban employees in China and provided full health insurance coverage to the urban residents (Duckett 2001; Rösner 2004). This system consisted of two parts. First, the state provided health care to employees of public institutions, including university students and army personnel. This kind of health payment, called *gongfei yiliao*, was funded directly through the state budget based on a fixed share of annual per capita income. Second, employers such as state-owned and collective enterprises provided health insurance to their employees. Mainly the enterprises themselves operated and financed such health insurance (called *laodong baoxian yiliao*).

During this pre-reform period, health services were mostly provided by state-run hospitals, clinics managed by the Ministry of Health or its local health bureaus, and hospitals and clinics owned and managed by large enterprises and other workplaces (Duckett 2001, 2004). This health system had been quite effective in the pre-reform China, and it had made positive contributions to various health indicators, such as the increase in life expectancy and the improvement in infant, child, and maternal mortality rate (World Bank 1997).

But there were still problems in the system, and among these problems were two most serious issues that attracted increasing attention. First, even though the system covered virtually everyone in the urban area, the coverage was far from even. Large government institutions and centrally-owned state and collective enterprises were able to provide more for employees and their dependants, while small institutions and collective

enterprises owned by local governments did not have the resources to do so (Zhu and Zhang 1995).

Second, health insurance for employees became a growing burden for both public finance and many state-owned and collective enterprises as the number of employees to be covered and the demand for higher quality and quantity of health services increased (Lampton 1978, 1979). Both issues became more salient after the economic reforms were initiated in 1978. The government therefore launched a series of health reforms starting from the early 1980s.

The first stage (from the early to late 1980s) included scattered piecemeal experiments aimed at modifying the old system and at reducing health insurance spending. The main idea was to have individuals pay a share of treatment costs or have work units reimburse employees rather than pay hospitals directly. Another approach during this stage was to create risk-pooling funds for employees with serious illness and retirees. The goal was to diversify risks among employees across different institutions or enterprises. However, these experiments were only baby-step reforms, so most people were still covered by the old system during this period, while the insurance coverage and health care service for those in experimental cities varied widely across different localities and workplaces (Duckett 2001, 2004).

The second stage (from the late 1980s to mid 1990s) involved a series of municipal experiments in social pooling and individual health insurance accounts. The Center originally appointed a special working group to develop a reform plan for urban health insurance from 1988 to 1992, but such efforts were interrupted by the Tiananmen Square Incident in 1989 (Rösner 2004). The Center then organized another group in

1992 to be led by the Commission for Economic System Reform to develop a health reform program. In 1994, the Center designated Zhengjiang city in Jiangsu province and Jiujiang city in Jiangxi province to carry out trials in social pooling and individual health insurance accounts.

In the third stage (from the mid 1990s to the present), local governments started to develop their own health plan as a way to avoid their welfare responsibilities. After all, localities have had lower tax revenues to support the Center's health reform program as a result of the new tax-sharing system. For instance, Shanghai and two other special economic zones (Shenzhen and Hainan) developed their own health service schemes between 1995 and 1997 (Duckett 2001; Rösner 2004).<sup>18</sup> Additionally, Zhuhai (a city of Guangdong Province) and Tianjin refined the national health insurance system and started their local plan in 1998 and 1999.<sup>19</sup> Even without the development of local plan, local governments might adjust the national regulations in order to reduce their health spending. They would change the details of medicine and treatment to be included in medical services "according the local situation" (Wang 2000:121).

Drawing from the lessons on how local governments tried to avoid their welfare responsibility, the Center enforced the National Health Insurance Program in 1999, forcing all local governments to conform to the National Program (Duckett 2001). The Program demanded compulsory social pooling fund and individual accounts at the city-

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<sup>18</sup> Since there lacks formal documentation by local governments, the related information remains ambiguous. As a result, there appears to be inconsistent report in such development of health care system. For example, Duckett (2001) reported a later time (1995 for Shenzhen and 1996 Shanghai) than Rösner (1992 for Shenzhen and 1995 for Shanghai).

<sup>19</sup> *Hong Kong China News Agency*, "Zhuhai Shuaixian Kaiban Gao'e Yiliao Buchong Baoxian" [Zhuhai Pioneered High-Premium Medical Insurance], December 31, 1999; *China Information Bank*, "Tianjinshi Jiang Chutai Duoxiang Yigai Zhengce" [Tianjin Will Implement Many Health Reform Policies], September 27, 2000

level. Although employers and local governments were required to make contributions to the fund, most of the welfare burden still fell on individuals. Not only did they have to make contribution as a percentage of individual wages, but they were also required to make a certain percentage of copayment for the medical treatment.

Overall, the 1999 National Program still made significant improvements because it officially forced employers and local governments to make contributions to individuals' health spending. The system was also expanded to include employees of private enterprises, foreign-invested joint ventures, and even self-employed individuals. Therefore, its coverage was beyond the traditional beneficiaries of those working at public institutions and state-owned and collective enterprises.<sup>20</sup>

However, the implementation of the National Program has been slow and has encountered many obstacles. Some municipalities delayed (such as Tianjin) or even failed (such as Suzhou) in implementing the program because of low participation rates (Rösner 2004). Many others found it hard to gather sufficient funds to cover the insurance expenses. This was largely due to an embedded adverse selection problem of the state and collective enterprises. The enterprises willing to participate in the program had disproportionately more retirees and larger health expenditures. Such enterprises might also be less profitable under market competition.

In contrast, enterprises that were more market-competitive tend to have fewer retirees and thus less health insurance spending. They were less motivated to participate in the program because they wanted to avoid the burden of excess health costs to cover

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<sup>20</sup> *People's Daily*, "Yiliao Baoxian Zhidu Zhi Chengxiao Yu Jiantao" [The Effects and Discussion of the 1999 National Health Program], February 9, 2003

employees of other enterprises. They also tend to underreport wage bills to reduce their contributions even if they join the program. Moreover, local governments often do not have the power to enforce the implementation because many of the large state enterprises enjoy “an elevated administrative status similar to that of local authorities” (Rösner 2004: 81-82).

#### **2.4.2 Pensions**

Nationwide reform of the retirement pension system was initiated in 1984 (Croll 2003; IOSC 2002). In 1985, the Center encouraged all local governments to set up funds for pensions to be pooled across firms so that enterprises with different numbers of retirees could share costs. Moreover, the Center announced the Decisions on the Reform of the Retirement Insurance System of Employees in Enterprises in 1991, and it called for the establishment of a pension system combining pooled funds and individual contributions (Leung 2003). The Center also released the Notice Regarding Deepening the Reform of Retirement Insurance System of Employees in Enterprises in 1995. The goal was to move the former pay-as-you-go individual accounts toward a partially accumulation-based pension system.<sup>21</sup>

In 1997, the Center adopted the Decision on Establishing a Uniform Basic Old-Age Insurance System for Enterprise Employees in order to respond to the worsening situation in which local governments were finding ways to decrease the government contribution to pension pooling fund. The new pension system recommended a unified

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<sup>21</sup> State Council of China, “Notice Regarding Deepening the Reform of Retirement Insurance System of Employees in Enterprises,” in *Social Security: Frequently Used Policies and Regulations* (1995: No 14). Falü Chubanshe, Beijing.

model for pensions—a scheme integrating social pool funds and personal saving accounts. It also unified local governments’ contribution rates to individual retirement accounts (IRAs). Localities should start to increase (or decrease) the rate by 1% every other year until it reached the national requirement of 8%.<sup>22</sup>

Initially, the new pension system only covered state-owned and collective enterprises in urban areas, but this coverage was expanded to foreign-invested, private, and other types of enterprises in 1999. The coverage was further expanded to all employees in urban areas in 2002. Workers who had reached retirement age (60 for male employees, 55 for female cadres, and 50 for female workers) and who had paid their share of contributions for fifteen years or more would be entitled to collect basic pensions after retirement (Leung 2003; Zhu 2002).

There are two parts of the new pension system: base pension and personal account pension. The base pension provided a universal flat rate benefit that was up to 20 percent of the regional average wage of the previous year, while the personal account pension was 11 percent of the employee’s monthly salary.<sup>23</sup> The participants in the new pension system increased from 52 million in 1990 to 92 million in 1999 and 155.06 million in 2003.<sup>24</sup> Despite its rapid expansion and shared welfare responsibilities among employers, employees, and the governments, the pension system was still criticized by researchers for its narrow coverage, unwilling and unequal employer contributions, and the continuous aging trend of the society (Zhu 2002).

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<sup>22</sup> State Council of China, “Decision regarding the establishment of uniform system of basic pension insurance system for business,” in *Social Security: Frequently Used Policies and Regulations* (1997: No 26). Falü Chubanshe, Beijing.

<sup>23</sup> Ibid.

<sup>24</sup> *Hong Kong China News Agency*, “Yanglao Tuixinjin XinZhi Jiantao” [Evaluation and Discussion Of The New Retirement Pension Program], May 23, 2004

### 2.4.3 Education

Since the start of economic reform, China's education policy has undergone substantial changes mainly in two areas: quality enforcement and financing. Although the state has also expanded higher education and early childhood education, the main improvement has been seen in the primary and secondary education (Davis 1989).

At the beginning stage of the economic reform, the number of students enrolled in elementary and junior high schools was dropping. This was mainly because the market provided opportunities for children and their families to earn money (Hannum and Park 2003). In response, the Center passed the Law on Compulsory Education in 1986 to make the six years of elementary and three years of junior high school education mandatory for all children.<sup>25</sup>

However, the enrollment statistics continued to drop to the late 1980s, and the Chinese education system was in fact more fragmented and stratified, but less egalitarian than it had been before the economic reform (Davis 1989). The government therefore issued the Outline of Education Reform and Development in 1993 to more strictly enforce the implementation of nine-year compulsory education and the eradication of youth and adult illiteracy. The government further issued the Action Plan for Education Development and Decision in 1999. The goal was to enhance the education reform and promote quality-oriented education (Tsang 2000). The Center demanded the following for primary and secondary education: "(1) implementation of quality-oriented education

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<sup>25</sup> Ministry of Education, 1986. *People's Republic of China Law on Compulsory Education*. Beijing: Ministry of Education.

at all levels; (2) reform of pedagogy to encourage students' independent thinking and creativity; and (3) continuation of national compulsory education programs in poor areas accompanied by increasing government funding."<sup>26</sup>

Before the education system reform, the Center had financed primary and secondary education in the urban areas. The goal of reform then was to decentralize and diversify education finance policies (Tsang 1996). The State Council promulgated the decentralization policy in 1980, and it was implemented at various paces in different regions. In 1982, the Center further announced that the new goal was to build a multi-level financing system in which each level of government (from top to bottom: province, prefecture/municipality, county, township, and village) was responsible for its own basic education finances, and local-level governments were also given discretion on how to collect tuitions and fees.<sup>27</sup>

At the time, a common arrangement for municipalities was that primary education was administered and funded at the county level, while secondary education was administered and funded at the municipal level directly. In turn, the Center specified fixed amounts of subsidies for municipal governments. But the subsidies were only nominal in many areas, while the actual costs of education kept increasing. Local governments therefore adopted four ways to finance their educational expenditures (Tsang 1996). First, they imposed educational surcharges through at least three types of taxes (commodity, business, and value-added) to enterprises and individuals. Second, they urged enterprises and individuals to make donations to schools. Third, they

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<sup>26</sup> "Ministry of Education Action Plan for Revitalizing Education for the 21st Century" (Beijing: Ministry of Education, 1999).

<sup>27</sup> *Xinhua News Agency*, "Woguo Jiaoyu Xitong Zhi Yanbian Yu Jinbu" [The Development and Improvement of Our Nation's Education System], September 5, 1995

encouraged schools to setup school-run work units or factories, utilizing student labor, or renting out school facilities in order to generate more revenue. Last, but not least, they required students to pay certain number of “school fees” to cover some school expenditures. This is consistent with the reform of pension and health, as both reforms show a tendency for local governments to shift the welfare cost to individuals.

Overall, the education reform has been successful in achieving the goal of reducing the government’s financial burden by decentralizing education finance and mobilizing non-governmental resources. However, there are notable weaknesses in the new education system such as inequality and inefficiency. If local governments (especially municipal and county ones) are less developed and have fewer provincial resources, then they have lower educational spending and worse educational outcomes compared to wealthier provinces. Moreover, schools have been too focused on their fund-generating tasks and thus have been distracted from the main goal of providing quality education . These remaining problems pose serious challenges to the future of education reforms.

To sum up, the three basic social goods—health, pension, and education—have been largely discharged from the sole responsibility of work units and are now shared among the enterprises, their employees, and local governments. A notable trend is that individuals are required to contribute more to finance such programs, while local governments pay a very small share as a comparison.

## **2.5 The Provision of Other Social Benefits**

The Center has also implemented many social programs in the welfare system

reform to provide benefits in addition to the basic social goods to the people. These more broadly-defined social benefits include living subsidy to laid-off workers.

### **2.5.1 Unemployment Insurance and Benefits for Laid-Off Workers**

The Chinese system in the pre-reform period featured a “full employment” model and administrative allocation of school graduates to jobs. Although there was the phenomenon of underemployment, as described by the saying “jobs for three people were shared by five people,” everyone was still guaranteed an “iron rice bowl” of a permanent salary and benefits (Leung 2003:47). But since 1978, the state started to allow state-owned enterprises (SOEs) and the private sector to recruit their own workers to respond to the excess supply of labor force and increase efficiency and profitability. In the early 1980s, the Chinese system further introduced labor contracts for employment and payments to accommodate the market economy, and both the collective sector and SOEs started to embrace this approach because they could enjoy more freedom in hiring and firing workers. In 1985, the Center started to link SOE wages with enterprise profits instead of the seniority based national wage levels that had prevailed in the past. The reform also gave educational attainments more weight in recruitment, wage raise, and promotion decisions. In 1991, all enterprises were given full discretion of labor utilization, and the labor contract system became the primary employment structure for the nation (Fung 2001).

Unemployment became widespread with the emphasis on enterprise efficiency and the adoption of the labor contract system. Thus, the Center established the Waiting for Employment Insurance Scheme in 1986 (Lee 2000; Leung 2003). The scheme

required work units to contribute one percent of the payroll to the unemployment insurance fund. The aim was to help enterprises relieve their burden of potential unemployment, but the fund was not fully utilized because of its narrow coverage. Only employees in SOEs who declared bankruptcy were eligible to apply for the fund. The Center then revised the unemployment insurance scheme in 1993, and the new version provided a basic living allowance, medical care subsidies, and vocational training and information for reemployment to help workers who were laid off from SOEs. The State Council further issued the Regulations on Unemployment Insurance in 1999 to extend the coverage to employees in all economic sectors (Fung 2001; Leung 2003). According to the regulations, employees of all enterprises and institutions in the urban area were required to participate in the 1999 unemployment insurance program. Premiums were set at two percent of the total wage bill for employers and 1 percent of the personal wages for employees. The insurance benefits included allowance, medical subsidies, vocational training and subsidies for job search services, and pension and funeral subsidies. Eligibility for the benefits ranged from twelve months to twenty-four months, depending on how long they participated in the program and paid the premiums.<sup>28</sup>

According to the statistics, approximately 98.5 million employees participated in the unemployment insurance program in 1999. This represented about 47 percent of the nation's workforce from the public sector. By the end of 2003, the participants had

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<sup>28</sup> Eligibility for benefits was up to twelve months for those who had continually paid unemployment insurance premiums for one to five years, eighteen months for those paid for five to ten years, and twenty-four months for those paid for more than ten years. Source: IOSC 2002.

further increased to 103.73 million.<sup>29</sup> But the recipients of unemployment benefits declined from 3.3 million in 1996 to 1.1 million in 1999, despite the fact that there were 5.8 million registered unemployed people that year (Leung 2003; Zhu 2002).

The number of laid-off workers kept increasing as the economic reform expanded. According to official data, there were three million laid-off workers in 1993, but the number had doubled and reached 6.1 million in just five years later in 1998. Even more surprising is that, between 1998 and 2001, the number of workers who were laid off from SOEs skyrocketed to 25.5 million.<sup>30</sup> These workers tended to be poorly educated, unhealthy, and very low-skilled middle-aged females.

These laid-off workers were provided re-employment services and cash living subsidies. Since 1995, there have been re-employment service centers to offer vocational training and job referral services to laid-off workers. The establishment of these reemployment centers became mandatory in 1997, when the Center required SOEs with high unemployment risks to set up their own re-employment centers. These state enterprises included those who had more than 5 percent labor surplus or who were in the process of bankruptcy or merging with other enterprises.

In 1998, protection for laid-off workers was expanded to a three-tier income safety net.<sup>31</sup> The system included a basic livelihood guarantee through a living subsidy from SOEs, an unemployment insurance guarantee, and a minimum living standard

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<sup>29</sup> *People's Daily*, "Shiye Buyongchou. Xin Baoxian Zhengce Shanglu" [No Worries For Unemployment. New Insurance Program Is Here], April 12, 2004; *Hong Kong China News Agency*, "Shiye Shebao Chengwei Xinchao liu" [Social Insurance Against Unemployment Is A New Trend], September 27, 2004

<sup>30</sup> *Ibid*; *China Information Bank*, "Gaige Zhentongqi. Xiagang Gongren de Baozhang." [Short-Term Pain For Economic Reform. The Protection of Laid-Off Workers], March 5, 2004

<sup>31</sup> *China Economic Information Network*, "Chengshi Jumin Zuidi Shenghuo Baozhang Tiaoli" [Minimum Living Standard Assurance Regulations for Urban Residents], January 12, 2000; *Xinhua Economic Information Network*, "Sanceng Baohu Gei Xiagang Gongren" [Three Layers of Protection For Laid-Off Workers], January 14, 2000

guarantee—called “the three guarantees.” The system allowed laid-off workers to receive basic living subsidies for up to three years. Afterwards, they could be transferred to the unemployment insurance program to receive the benefits for another two years. If they still failed to find employment after the total five years, then the Center-established Minimum Living Standard Assurance Project would help them. These laid-off workers would be transferred to the Project if their family income fell below the minimum living standard. Since 2001, however, the services of re-employment centers and the Minimum Standard Project have stopped, and the living subsidies for laid-off workers have been integrated with the 1999 unemployment insurance program.<sup>32</sup> Newly laid-off workers since then are only entitled to unemployment insurance benefits.

## **2.6 Implications for Future Reforms**

This chapter has two interconnected purposes:

- 1) To help us understand the development of social welfare policy in China in recent years
- 2) To describe and discuss how such macro-level transition reflects upon household income and social welfares.

A review of the social policy transition in China suggests that the Center has been the driving force of the welfare system reform. The initial purpose for the reform was for the Center to pursue economic efficiency and foster the market economy, while in the subsequent phase the Center sought to reduce the welfare burden of individuals by

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<sup>32</sup> *People's Daily*, “Guangyu Woguo Zuidi Shenghuo Baozhang Zhidu Zhi Jiangou” [About Building The Minimum Living Standard Assurance Program In Our Country], May 3, 2001; *Xinhua News Agency*, “Shiye Jiuji Baohuwang Chengxing” [Unemployment Assistance and Protection Are Established], November 5, 2001

forcing local governments to contribute more to social welfare spending. The relative weight of work units, local governments, and individuals in providing social welfare has been redefined through the reform process. As shown in Figure 2, the financing of most social welfare has been shifted away from work units to local governments and individuals through general taxation and direct contributions to social welfare programs.

Although the trend of reform so far shows that the Center has been successful in increasing social welfare provision overall, the subnational variation in social welfare provision remains huge. As discussed in Chapter 1, the problem is that not all local officials share the Center's preferences and follow the central mandates with respect to social welfare provision. Some of them would rather spend the fund transfers on more personally beneficial uses like vehicle purchases or government-sponsored trips instead of social welfare. A comprehensive analysis of the political economy of local social spending is therefore necessary. It can help us illuminate why some local officials follow the central directives while others do not, and thereby frustrate Chinese leaders who want to ensure social welfare provision at the local level to maintain social stability.

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## Chapter 3: Quantitative Analysis

### **3.1 Introduction**

Following my argument in the first chapter, this chapter presents the results of my empirical analysis. I draw upon quantitative data to show that Beijing is indeed able to use promotion as a mechanism to shape local policy outputs. According to my theory's prediction, ambitious provincial officials—those who seek to advance their careers at the central level—have a career incentive to increase social welfare provision at the local level. But measuring politicians' ambitions is not easy. How do we know if a politician prefers to pursue a Beijing career rather than staying at the local level? Moreover, what if the career ambition of a politician is not an all-or-nothing choice, but rather there is a gradation in people's preferences? Some politicians may be indifferent between central and local careers, so they have a fifty-fifty split in preference between going to Beijing and staying in the locale. Some may slightly prefer going to Beijing (60%), but they are also fine with staying in the province (40%). Alternatively, some politicians may have a 70-30 split in preference for going to Beijing over staying in the province. Under such circumstances, how do we know who are "more ambitious" in seeking promotions at the central level? This task is especially difficult for an authoritarian regime like China's, where sensitive information about political life is always protected and even monitored by the government. Politicians in democracies hold information about their aspirations close to their vests. Communist politicians are even more cautious in expressing their ambitions publicly or even privately.

In order to measure the career ambitions of Chinese officials, I use a variety of novel data sources, including unpublished data on politicians' spending on "dining and entertaining" to proxy for their local rent-seeking orientation. This way I can use a continuous variable to represent politicians' career preferences more accurately. Such spending is similar to a special personal allowance that regional officials use to build up their network of local connections. It doesn't improve these officials' annual evaluations on which promotion decisions are made. Therefore politicians who are interested in developing local careers instead of rising up through the ranks to serve in the central government or party are expected to spend more on dining and entertaining. In order to collect the data, I spent 14 months in China traveling across provinces to meet with officials through various connections. I created a time-series cross-section (TSCS) dataset of my dependent variable of spending on social goods consisting of annual observations for 31 provinces from 1994 to 2008. The evidence shows that provincial officials follow Beijing's preference and spend more on social goods provision when they have ambitions to seek promotion at the central level. The evidence also suggests that although politicians in China can be driven by their career incentives to provide social goods, they pay more attention to the welfare of workers than to urban residents in general. The data analysis shows that they would rather provide social security and welfare than education and health. As one official said in an interview, this is because "almost all protests are triggered by laborers unhappy about social security and welfare." This pattern demonstrates that politicians in communist authoritarian regimes provide social welfare in response to the demands of labor and to prevent labor unrest, as well as in response to their own ambitions for career promotions

I also find that, contrary to what we expect, a province does not necessarily increase social welfare provision as the provincial economy develops or as the resources available to the province increases. The data analysis shows that a 10% annual growth rate only results in a 0.6% increase in the province's social spending (as a share of total budget), while a 10% increase in provincial tax revenue actually reduces the provincial social spending by 7.4%. Moreover, the demography and unemployment rate in a province do not explain how much the province spends on social policy. But when there is an ambitious provincial leader in the province, he/she increases the social spending (as a share of total budget) by at least 12.5%. These findings show that decisions on social spending are not based on the people's need or the economic capability of the government, but rather on the career incentives of the politicians.

This chapter proceeds as follows. The first section illustrates how I measure my data in order to test my hypotheses; I start with my dependent variable—social welfare provision; next, I explain how I operationalize the two types of career ambitions: when provincial leaders are already part of the central leadership and when they aspire to join the central leadership in the future; I then outline the control variables drawn from the literature. The second section discusses the methodology of my empirical analysis. The third section presents my quantitative results. The final section concludes with the implications of my empirical findings.

## **3.2 Data and Measurement**

### 3.2.1 Dependent Variable

To measure social goods provision in a province, I use provincial government expenditure on 1) social security and welfare, 2) education, and 3) health. According to the Chinese government's definition, social security and welfare spending is used for expenses on all labor issues, such as labors' pensions, unemployment subsidy, and medical insurance for work injury or maternity leave. Education spending includes expenditure on education management, vocational training, special and adult education, advanced education for teachers and government officials, distance education via radio and TV, and government subsidy for regular education. As for spending on health, it includes health care management, community health care service, sanitation monitoring, disease control and prevention, health care subsidy for women and children, rural health care system, and other medical expenditure.

I first aggregate the three types of social spending, which helps me learn if the career incentives of politicians have an impact on social spending as a whole. I then follow the approach pioneered by Kaufman and Segura-Ubiergo (2002) and disaggregate the three types. This method allows the effects of career incentives to vary depending on the type of social goods. On the one hand, spending on social security and welfare captures governments' provision of social goods in the form of social insurance (Barro 2000; Gupta *et al.* 2001). As a socialist regime, which emphasizes social insurance as a fundamental principle, we have theoretical reasons to believe that politicians in China are likely to provide this type of social goods (Haggard and Kaufman 2008). On the other hand, spending on education and health reflects the priority governments give to investing in human capital (Collier 2007; Haggard and Kaufman 2002). Such spending is

often low in developing economies and has a lot of room for improvement (Easterly 2002; Saichs 2005; Sen 1999; Summers 1994). Thus, it is possible that China faces the same problem of insufficient spending on education and health.

Defining the types of social goods still leaves the question of whether social spending should be measured as a share of GDP, as a share of total spending, or on a per Capita basis. Most studies use social spending as a share of GDP, which captures the overall allocation of societal resources. However, it is strongly affected by the size of government relative to the economy, which is particularly true for a booming economy like China. Furthermore, such measure arguably does not capture how governments allocate resources directly under their control (Rudra and Haggard 2005). As seen in the cases of Korea and Singapore, both rank among the lowest percentile in the world if we measure their education spending as a share of GDP; but if we measure it as a share of total budget, both are among the 75<sup>th</sup> percentile (Rudra and Haggard 2005: 1022). Hence, social spending as a share of total budget provides a more direct measure of government priorities to financing social goods.

### **3.2.2 Independent Variables**

There are two conditions in which politicians may have a career incentive to increase social spending: when they are already part of the central leadership and when they aspire to join the central leadership in the future. Therefore, there are two hypotheses respectively:

*H1. When provincial leaders are concurrent central leaders, they commit to a higher level of social goods provision in their provinces, ceteris paribus.*

*H2. When provincial leaders aspire to be promoted to the Center in the future, they commit to a higher level of social goods provision in their provinces, ceteris paribus.*

### 3.2.2.1 Testing H1

In order to test H1, I use a dummy variable called *Concurrentist*. The variable is coded one if a province, in a given year, has a leader who concurrently holds a central leadership position. I define central leadership positions as the membership of Politburo (PB)—a group of 19 to 25 people who oversee the Chinese Communist Party (CCP). This is a very common definition in the study of Chinese politics (Bo 2002, 2004, 2007; Huang 1999; Shih 2007).

Three roles constitute the top-most provincial leaders.<sup>33</sup> The first is the Communist Party secretary of a province. Generally, the Party secretary is considered as the top provincial leader, referred to as “the number one hand” (*yibashou*). The second role is the governor, the leader of the government who is mainly responsible for policy administration (Walder 2004). Since the governor of a province normally follows the policy direction made by the Party secretary, he or she is considered less powerful than the Party secretary, and is referred to as “the second hand” (*erbashou*) (author’s interview, April 2009). The third role is the Chairman of the Provincial People’s Congress (PPC), which is a legislature indirectly elected by lower level people’s congress without substantial role in the CCP nomination process. Although PPC chairmen are supposed to represent “the people” and monitor the government, the fact is that they do not have a big

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<sup>33</sup> I do not include Provincial People’s Political Consultative Conference and the provincial military personnel because they are not really related to the social spending in a province. Although it is arguable if PPC chairmen should be included in the discussion of provincial leaders, they are supposed to be responsible for monitoring social welfare, so I incorporate them into the discussion here.

say in a province, nor do they represent the people in actuality (author's interview, May 2009; Tanner 1999).

Among the three top-most provincial leaders, only Party secretaries may hold a concurrent PB seat, so all the existing cases of concurrentist should be *Concurrentist Party Secretary*. To be sure, a concurrentist Party secretary may sometimes hold a third position in addition to the PB post and Party secretary position; he or she may simultaneously act as a governor or a PPC chairman in the same province, giving us rare case of *Concurrentist Governor* or *Concurrentist PPC Chairmen*.<sup>34</sup> A governor always has a lower political ranking than a Party secretary and the position of PPC chairman is generally seen as a retirement job without real power. Therefore “only Party secretaries have the chance to hold a concurrent central position” (author's interview, May 2009). As a result, I use only the cases of *Concurrentist Party Secretary (Concurrent\_sec)* as the operationalization of the first type of career incentive held by local leaders who are already part of the central elite.<sup>35</sup>

### 3.2.2.2 Testing H2: Dining and Entertaining Spending

As for the operationalization of the second type of ambitious provincial leaders, i.e. those who have the ambition to pursue promotion at the central level, I use a variety of novel data measures. First, I use politicians' spending on *Dining and Entertaining*

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<sup>34</sup> For example, in 1997-1998, Li Changchun was a member of the Politburo, and he also serves as the Party secretary of Henan Province and the PPC Chairman of Henan at the same time. Please refer to [http://news.xinhuanet.com/ziliao/2002-01/16/content\\_240530.htm](http://news.xinhuanet.com/ziliao/2002-01/16/content_240530.htm).

<sup>35</sup> In my original analysis, I included both Concurrentist Governor and Concurrentist PPC Chairman, but the variances in the two variables are too small to show any robust results. Moreover, both variables are in fact the overlapping cases with Concurrentist Party Secretary, so it is unnecessary to include both variables in the analysis.

*(D&E)* as a proxy for their local rent-seeking orientation. Specifically, I expect that provincial leaders who aspire to central careers have lower *D&E* expenditures as a share of total budget. There is no doubt that China's opaque political system has made it very difficult to obtain sensitive information. Therefore, it is necessary to infer what type of local official an individual is by using some instrumental variables based on the limited available options, such as the *Dining and Entertaining* expenditure listed as part of the unpublished budgetary reports I obtained during my fieldwork.

I first came across these reports during my field research in China in 2008. I was fortunate enough to be introduced to a provincial official through a very special friend of my family. After I expressed my interest in learning more about the government spending categories, the official kindly granted me access to the unpublished budgetary reports in the province under condition of anonymity. What makes these reports credible is that they all have similar budget categories as the published financial yearbooks, and for these overlapping categories, the data fully match between the published and unpublished documents. But what makes the unpublished reports extraordinary is that many of these categories are broken down into sub-categories in details, and a few of them are in fact not seen in the published financial yearbooks. One of these categories is the *Dining and Entertaining (D&E)* spending.

Based on my research, the function of *D&E* is similar to a special personal allowance, which politicians often use for private purposes. Moreover, *D&E* represents an additional fiscal resource for provincial leaders to use at their discretion. When provincial leaders want to stay at the local level and build up local power bases, they spend more on *D&E* in order to establish more connections and networks in the locale.

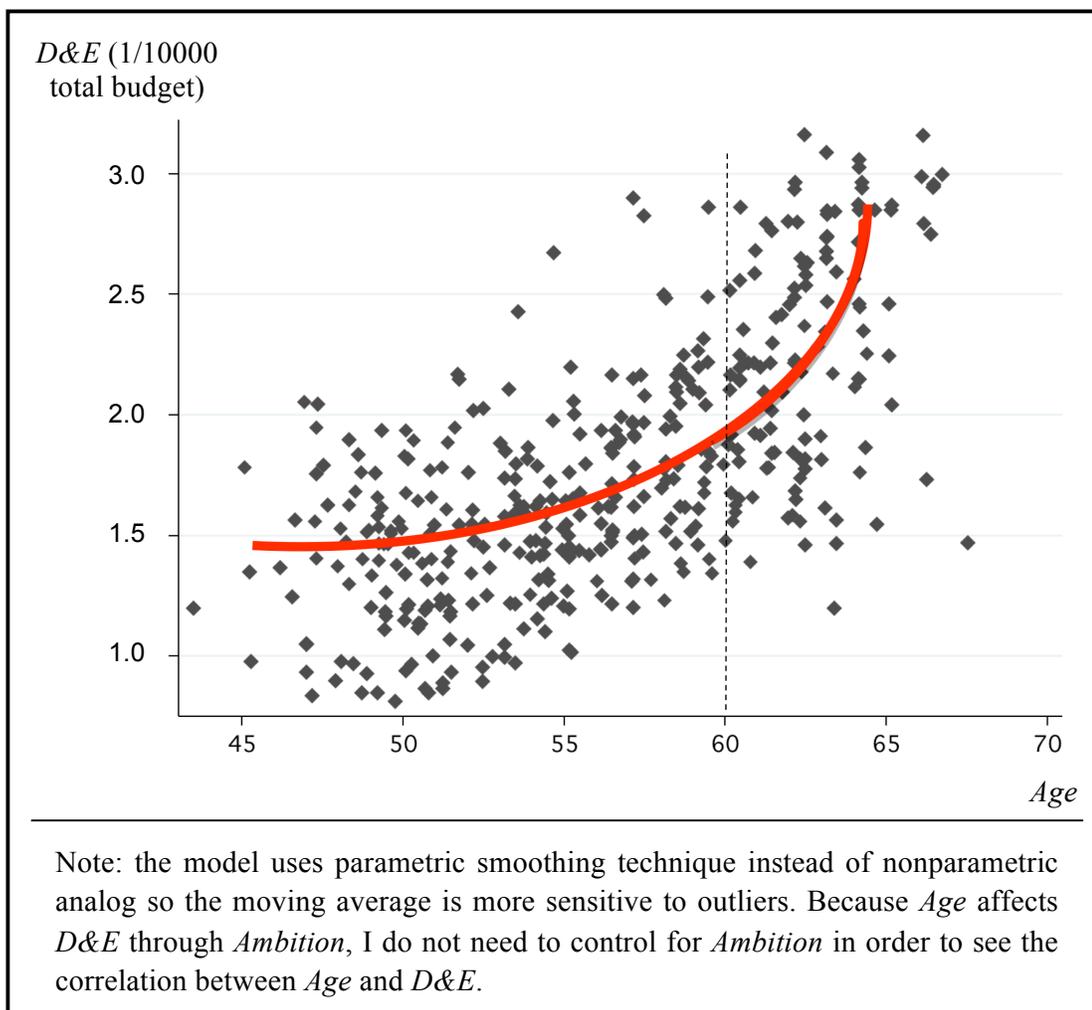
On the contrary, provincial leaders who aim to advance their political careers to the Center should not allocate as much budget into *D&E* as those with localistic career preferences do. After all, they do not get credit for such spending in their annual evaluations. When politicians aspire to central positions, they would rather spend the money on other categories such as capital constructions that will help them receive better evaluation results, and therefore increase their chances for promotion (Lieberthal 1992; Whiting 2004).

To be sure, some may argue that provincial leaders might use the *D&E* expenditure to entertain and connect with central officials in order to get promoted. Moreover, *D&E* spending might be used to attract and enhance business investments, which may lead to a higher growth, thus a better evaluation result for provincial leaders. In this case, the construct validity of this measure may be questionable. I disagree. First, provincial leaders in China have to use a certain amount of money to treat central officials anyway, so the key is how much they spend in addition to this basic threshold. While ambitious provincial leaders are concerned with their evaluation results, they would only spend what they need to on the *D&E* budget. This would differentiate them from provincial officials who have a localistic preference and prefer to spend as much as possible on *D&E*—in addition to the necessary amount—to ensure their local influence in the future.

Likewise, provincial leaders have to use part of the *D&E* budget to attract business investment anyway. Unlike treating central officials, the “necessary amount” of attracting investment may vary significantly depending on each locality’s economic condition. For under-developed localities, their smaller economic scales necessarily

generate a high start-up cost for investors. Consequently, local leaders have to spend a lot more on *D&E* in order to attract investment. As the economic condition improves, however, the cluster effect would emerge, and local leaders would not need to spend as much on *D&E* to attract investors. In this case, the key is to control for the variation of local economic conditions in the regression model, which is illustrated in the control variable section.

To ensure the face validity of the *D&E* measure, and to examine the relationship between politicians' ambitions and their spending on dining and entertaining, please recall my previous discussion on the mandatory retirement age of top-level provincial officials. Because politicians expect to retire by the age of 65, they have little ambition toward promotions when they are approaching 65, and they rather focus on establishing local ties in order to secure a retirement position in the locale. Figure 3.1 reaffirms this viewpoint. The Figure depicts the correlation between politicians' age and their spending on dining and entertaining, with the x-axis representing their age and the y-axis showing the corresponding value of how much they spend on *D&E* as a share of total budget. As we can see, when politicians are young and in their fifties, there is no clear correlation between their age and how much they spend on *D&E*. They may have slightly higher *D&E* spending as the age increases, but the correlation is quite weak. Once politicians pass the age of 60, however, there is a clear and positive correlation. Politicians increase their *D&E* spending substantially as their age increases, and when they are very close to the retirement age of 65, the *D&E* spending skyrockets.



**Figure 3.1: Correlation between *Age* and *Dining and Entertaining (D&E)***

This pattern demonstrates the face validity of the *D&E* measure. My theory predicts that there should be a variation in politicians' career ambitions when they are young and far below the mandatory retirement age. Some are ambitious toward pursuing central positions, while others prefer local careers. This is reflected in the patterns of their *D&E* expenditure. Some may spend more on *D&E* while some do not, and the increase in age does not clearly correspond with an increase in the *D&E* spending. But

for older politicians who are over 60, there should be a smaller variation in their career ambitions. After all, they expect to retire soon, and the sooner their retirement date is, the less ambitious these politicians are. As a result, they focus more on *D&E* spending to build up local political influence and pave their post-retirement local career path.

The advantage of using the *D&E* measure is that it is a continuous variable rather than a simple binary coding; therefore this measure is a better representation of the career preferences of politicians. My definition of career ambition is whether or not the politician is interested in seeking promotion at the central level. But in reality, people's career ambitions may not be an all-or-nothing choice. It is rarely the case in which people are solely interested in going to Beijing, while they have zero interest in staying in the locale. The most likely scenario is for people to have a gradation in preferences. For instance, some politicians may have a strong preference to advance to Beijing, but they are not completely against the idea of staying in the province and remain as a local emperor. In this case, their career ambitions are actually 80% going to Beijing vs. 20% staying in the province. Alternatively, it could be that they are slightly more interested in going to Beijing (55%) than staying in the locale (45%). If I did not use a continuous variable to measure their career ambition, then it would be very difficult to distinguish between these two types of politicians. Both of them by definition are "ambitious" because they are more interested in advancing to the Center, but there is still a difference in how ambitious they are. The first type of politicians are still more ambitious than the second type of politicians.

Nevertheless, the disadvantage of using the *D&E* spending is that these unpublished reports are province-specific. Not only does each provincial government

issue its own unpublished budgetary reports, but each province also has its own rules in categorizing the budget listings. Take the *D&E* category for example. Most provinces list it under “administrative expenses” but some provinces list it under “other expenditures” or even “local government reserves” sometimes. In order to collect comprehensive data across all provinces, I spent fourteen months traveling across different provincial offices to meet with local officials. I also resorted to using various personal connections to persuade them to give me their budgetary reports. In the future, if I want to expand my dataset and incorporate more information, it would be equally challenging and time-consuming for me.

Party secretaries have direct control over how much such personal allowances are spent since they are the number-one leaders in the provinces. Therefore, the *D&E* variable is mainly a proxy for the political ambitions of Party secretaries. It does not capture the political ambitions of other types of top-level provincial officials, i.e. governors or PPC chairmen.

### 3.2.2.3 Testing H2: Go-Getter

The second way to operationalize my H2 is via a dummy variable called ***Go-Getter***. The variable is coded one if a province, in a given year, has a leader who successfully advances to PB at a later time. In the *D&E* method, I use *Dining and Entertaining* to measure *ex ante* the political ambition of provincial leaders, and then I compare the spending patterns between ambitious and unambitious leaders. The *Go-Getter* variable, on the other hand, uses the method of retrospective analysis. It looks at those who have successfully advanced to the Center, and then compares their spending

patterns with the other provincial leaders. This variable therefore serves as a good complement to the *D&E* method. Rather than estimating politicians' ambition through an instrumental variable, the *Go-Getter* method looks at actual cases of ambitious politicians who have already succeeded, and then examines if they did spend more on social policy before they were promoted.

The limitation of this operationalization is that it only captures a subset of the ambitious provincial leaders who tried to advance to the Center. Only those who tried and succeeded are coded one. Others who tried but failed or who are still trying but have not yet succeeded are coded zero, even if they can still be considered "politically ambitious." Despite the limitation, this operationalization is still informative. We are essentially comparing two groups of ambitious politicians but only one of them succeeded while the other did not. If the final results show that the successful group (*Go-Getter*) is associated with a higher level of social spending compared to the other ambitious but unsuccessful group, then it suggests that the success of these go-getters is the result of a more serious effort to increase social spending.

As mentioned previously, there are three roles of provincial leaders, and I only include the role of Party secretaries in my operationalization of *Concurrentist*. But for *Go-Getter*, I include both Party secretaries and governors. First, the variable *Go-Getter Party Secretary* (*GoGetter\_sec*) captures those provincial Party secretaries who successfully acquire a PB position at a later time. Because Party secretaries are "the number one hand" of their provinces, they have a realistic possibility to be promoted to the Center if they do well at the provincial level (author's interview, May 2009).

Second, *Go-Getter Governor (GoGetter\_gov)* refers to the cases in which a provincial governor successfully ends up at PB at a later time. Although governors are not the number one provincial leader, like provincial Party secretaries, most of them are full or alternate members of the Central Committee. According to the CCP constitution, the Central Committee selects the Politburo and it is right below the Politburo. Many provincial governors also simultaneously hold the position of deputy Party secretary. Thus, it is realistic for governors to aspire to a PB position at some point in the future depending on their age. Also, the actual performance of a province is “largely depending on the policy administration by the governor,” so many provincial governors still successfully advanced to Beijing eventually, although not as common as Party secretaries (author’s interview, March 2009).

Finally, I do not incorporate PPC chairmen into *Go-Getter* because there are very few cases in which a PPC chairman is promoted to PB. PPC chairmen are considered as local figures with informal influence on the local scene (often because they previously served in a high level position in the provincial CCP organization or government), but they do not aspire to a central career. Although there are a few cases of *Go-Getter PPC Chairman*, they all are overlapping cases with *Go-Getter Party Secretary*. That is, before a Party secretary was promoted to PB, some of them might simultaneously act as a PPC chairman.<sup>36</sup> Therefore, it was not the PPC Chairman, but the Party secretary, who eventually advanced to Beijing.

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<sup>36</sup> For example, Li Keqiang was Liaoning’s Party secretary and PPC Chairman simultaneously (05-07) before he was promoted to PB in 2007 ([http://news.xinhuanet.com/ziliao/2002-02/25/content\\_289095.htm](http://news.xinhuanet.com/ziliao/2002-02/25/content_289095.htm)); Li Shuoyuan was Jiangsu’s Party secretary and PPC Chairman simultaneously (03-07) before he was promoted to PB in 2007 ([http://news.xinhuanet.com/ziliao/2002-12/30/content\\_674868.htm](http://news.xinhuanet.com/ziliao/2002-12/30/content_674868.htm)). Similar cases can also be seen through Xi Jinping, Zhang Dejiang and Zhang Gaoli.

### **3.2.3 Control Variables**

To examine the effects of career ambitions, the analysis controls for five variables from the literature that are argued to have impacts on the level of provincial social spending.

#### **3.2.3.1 Economic Development (GDP Per Capita)**

The literature predicts that social goods provision should increase as the level of economic development and GDP per capita rises. To recall the argument, the so-called “developmental” effect makes it easier for the government to provide social welfare to the people, and the demand for social goods also rises as the provincial economy improves (Drazen 2000; Hellman 1998; Przeworski 1991). All local officials I interviewed in China also stated that they would “not have the ability to provide social welfare unless they develop the economy first” (author’s interview, August 2008). Therefore, I include in my data analysis the provincial GDP per capita constant at 1994 RMB.

#### **3.2.3.2 Provincial Resources (Revenue)**

The second control variable accounts for the provincial resources argument because the literature suggests that provinces are better able to support social spending when they have higher tax revenues, and therefore more provincial resources in hand (Bird and Wong 2008; Sach 2004; Wong 2008). In order to be consistent with my operationalization of social spending, I measure local tax revenue as a share of total

budget. Again, my research shows that the logic of this argument is similar to the economic development argument. Provinces with more advanced economies tend to have more tax revenues and thus are better able to support their expenditure including social goods provision.

### **3.2.3.3 Degree of Marketization (Marketization)**

My analysis also controls for the degree of marketization. When the degree of marketization is low in a province, most workers are working in state-owned enterprises, so the provincial government has little choice but to spend more on social goods provision; in contrast, in provinces where the degree of marketization is high, households have other sources of income, in which case governments can shift costs for health, education and pensions onto households (Bates 1981; Haggard 1990). To control for the degree of marketization in a province, my model includes the percentage of local GDP that is generated by the private sector.

### **3.2.3.4 Demography**

The fourth factor is the demography of provinces. Governments are expected to provide more social welfare, education, and health when more of the local residents are children or elderly people. On the other hand, governments have a bigger responsibility to invest in social security and pensions programs when the population is composed of more working-age people (Cox 1987; Haggard and Kaufman 2008; Iversen and Soskice 2001). Hence, the analyses control for the percentage of non-working age people in the local population.

**Table 3.1: Variable Descriptions and Sources**

Type	Variable Name	Description	Source
DV	Total Social Spending	$\frac{\text{social spending as a whole}}{\text{total budget}}$	China Statistical Yearbook
	Spending on Social Security and Welfare	$\frac{\text{spending on social security and welfare}}{\text{total budget}}$	
	Spending on Education	$\frac{\text{spending on education}}{\text{total budget}}$	
	Spending on Health	$\frac{\text{spending on health care}}{\text{total budget}}$	
IV	Concurrentist Party Secretary (Concurrent_sec)	1: if the provincial Party secretary also holds a position at the Politburo (PB)	Author Coding
	Ambition	$\left( \frac{\text{spending on dining and entertaining}}{\text{total budget}} \right)^{-1}$	
	Go-Getter Party Secretary (GoGetter_sec)	1: if the provincial Party secretary (not a concurrentist) successfully enters PB later	
	Go-Getter Governor (GoGetter_gov)	1: if the provincial governor (not a concurrentist) successfully enters PB later	
Control	GDPpc	local GDP per capita (constant at 1994 RMB)	China Statistical Yearbook
	Revenue	$\frac{\text{local tax revenue}}{\text{total budget}}$	
	Marketization	$\frac{\text{local GDP generated by private sector}}{\text{total local GDP}}$	
	Demography	% of local population that is non-working age	
	Unemployment	Local unemployment rate	

Note: Part of the author coded data are from unpublished government budgetary reports collected by the author during 14 months of field research.

### 3.2.3.5 Unemployment

The fifth factor controls for the provincial unemployment rate. It is reasonable to assume that a provincial government would be forced to provide more social services and insurance as the unemployment rate in the province rises (Gao 2006; Lin et al. 1996; Meng et al. 2005). More social services and insurance will be in need, and this necessarily drives up the level of provincial social spending. As mentioned previously, the government is responsible for providing living stipends for former SOE workers who are still unemployed, and this necessarily drives up the government spending on social policy. I therefore include the unemployment rate of each province in my quantitative analysis.

**Table 3.2: Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
Social Spending	462	.2609045	.0487006	.0077606	.409069
Security Spending	462	.0668233	.0435	.0064101	.2284108
Education Spending	462	.1679918	.0406523	.0077606	.3172985
Health Spending	462	.0461623	.0099854	.0273711	.078881
Concurrent_sec	462	.1428571	.3499975	0	1
Ambition	396	6514.658	2939.83	1381.66	28362.531
GoGetter_sec	396	.2020202	.404473	0	1
GoGetter_gov	423	.1654846	.3742181	0	1
GDPpc	462	11409.93	10283.03	1553	66367
Revenue	462	.54532	.1986219	.0530312	1.246301
Marketization	435	.6436175	.0444493	.1986219	.7525572
Demography	454	.3975258	.0816897	.2196	.6449
Unemployment	443	.0384559	.0071245	.012	.06

### 3.3 Methods and Models

I created a time-series cross-section (TSCS) dataset consisting of annual observations for 31 provinces from 1994 to 2008. I also used two models to examine the effects of career incentives more comprehensively. First, I follow my previous description and operationalize social spending as a share of total budget, which captures how governments allocate resources directly under their control. In this stage, I include both aggregate and individual types of social spending: 1) social security and welfare, 2) education, and 3) health. Again, aggregating the three types of spending helps me examine how politicians' career incentives affect social spending as a whole; disaggregating the three, on the other hand, examines whether politicians' career incentives have different effects on different types of social goods. Since the analyses use a time-series cross-section (TSCS) dataset, the major concern is the province-specific fixed effects due to unmeasured heterogeneity, and the most common way to avoid this bias is to use a fixed effects regression (FE). In addition to the fixed effects, another concern for TSCS data is the contemporaneous correlations and heteroskedasticity in the error structure, which is normally corrected by a panel-corrected standard-errors (PCSE) regression (Beck and Katz 1995). Therefore, I choose a combination of PCSE and FE as my regression in the first-stage.

If the effects of career incentives are significant across different types of social spending, then I proceed to the second model and run multivariate regression (MV) on three types of spending. This allows the errors to be correlated between the three types of social spending, thus address the possible simultaneity issue. If total social spending is constrained in some range, then spending more on one type would mean less on

another.<sup>37</sup> In order to address this issue, I normalize the three types of social spending as a share of total social spending (rather than as a share of total budget). I then use a combination of MV and FE in the second stage to correct the possible simultaneity among the three types of social spending. In both models, all right-hand side variables are lagged to avoid the issue of endogeneity and to ensure that the causal direction occurs from the exogenous variables to the dependent variables.<sup>38</sup>

I include all of my explanatory variables in both models to test my hypotheses. This allows the effects of career incentives to vary depending on the roles of provincial leaders. Do Party secretaries spend differently than governors? Also, do provincial leaders with a concurrent PB seat (*Concurrentists*) spend differently than leaders without a PB post but wish to acquire one in the future (low *D&E*)? What about the leaders without a PB position but successfully acquire one at a later time (*Go-Getters*)?

If H1 is true, the coefficients of *Concurrentist Party Secretary* will be positive and statistically significant. Likewise, if H2 is true, the coefficients of *D&E* will be negative and significant, and the coefficients of *Go-Getter Party Secretary* will be positive and robust. As for *Go-Getter Governor*, they have a big enough influence and could aspire to be promoted to be a Party secretary and move up to the Center. Thus, it is very likely that their coefficients are positive and significant.

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<sup>37</sup> In theory, spending more on dining and entertaining could also reduce the available fund for social spending. But in reality, the D&E expenditure only takes up approximately 0.015% of the total budget, or 0.04% of total social spending.

<sup>38</sup> The only exception is the *Go-Getter* variable. It was coded in a way that avoids simultaneity in the first place, so it does not need to be lagged in order to avoid simultaneity issues.

### 3.4 Quantitative Findings

Before presenting my quantitative results in detail, I want to highlight three findings. First, top-level provincial leaders can be motivated by their career ambitions to increase provincial social spending regardless of their roles. For Party secretaries, they increase social spending when they are concurrent central leaders, when they are ambitious to a Central career, or before they successfully advance to the Center. Governors also increase social spending before they acquire a position at the Center. Despite not being the number one leader of a province, a go-getter governor still leads a province to spend more on social policy to impress the Center.

Second, the effects of career incentives are not limited to a particular type of social goods—they apply to all three types—but the effects are stronger on social security and welfare than on education and health. In other words, although politicians can be politically incentivized to increase spending on all types of social goods, they prefer to spend on social security and welfare than on education and health. In seeking an explanation for this interesting finding, I draw on my interviews which emphasized the efforts of local officials to prevent mass protests in their area. One of the hard criteria for evaluating the performance of local officials is the number of protests. Because, as one official said, “almost all protests are triggered by laborers unhappy about social security and welfare” (author’s interview, January 2009), local officials have good reason to concentrate their social spending on social security and welfare. This finding also lends some support to the argument that politicians in socialist regimes provide social insurance in response to the demands of labor and to prevent labor unrest.

Third, contrary to what we expect, provincial governments do not spend a higher proportion of government expenditure on social goods as the province's economy develops or as the resources available to the province increase. Moreover, the provincial spending on social policy does not correlate with the demographic composition or the unemployment rate in the province. As a sharp comparison, provincial governments do increase spending on all types of social goods when the provincial leaders are motivated by their career ambitions. Therefore, it is not so much the economic capability of the government or the people's need in the province, but rather the career incentive of provincial leaders that matters for whether those leaders choose to devote more resources to welfare, health and education.

### 3.4.1 Results for Career Incentives

As we can see from Table 3.3, the effects of *Concurrentist Party Secretary* (*Concurrent\_sec*) are positive and statistically significant on social goods provision measured by the percentage of total social spending and by three types of social goods expenditure. This confirms H1. Similar observations can be drawn from the estimated effects of *Go-Getter Party Secretary* (*GoGetter\_sec*), suggesting that provincial Party secretaries did spend more on social goods before they could advance to a Central post. Moreover, Table 3.3 shows that *D&E* is negatively associated with provincial social spending. Both observations indicate that stronger political ambition results in higher levels of social goods provision, thus confirms H2.

Table 3.3 also shows that go-getter governors, too, increase spending on all measures of social goods; but if we compare the margin of increase, we find that they do

**Table 3.3: Provincial Leaders' Career Incentives and Their Social Goods Provision**

DV: $\ln[y/(1-y)]$	Model 1				Model 2			
	Total Social Spending	Social Security and Welfare	Education Spending	Health Spending	Social Security and Welfare	Education Spending	Health Spending	
<b>Concurrent_sec</b>	0.146*** (4.31)	0.120*** (3.40)	0.051* (1.77)	0.062** (2.71)	0.037** (2.32)	0.032** (2.29)	0.023* (1.77)	
<b>Ambition</b>	0.093*** (3.37)	0.154** (2.52)	0.041* (1.87)	0.037** (2.60)	0.025** (2.74)	0.015* (1.68)	0.009* (1.97)	
<b>GoGetter_sec</b>	0.144*** (6.14)	0.187* (1.88)	0.039*** (4.89)	0.010* (1.98)	0.021* (1.79)	0.012* (1.89)	0.006** (2.69)	
<b>GoGetter_gov</b>	0.056** (2.25)	0.148*** (3.38)	0.026* (1.81)	0.028* (1.91)	0.020** (1.86)	0.009 (1.08)	0.004* (1.83)	
<b>GDPpc</b>	0.0000149** (4.63)	0.0000501** (6.60)	0.0000019* (1.78)	0.0000020 (1.47)	0.0000067* (4.62)	-0.0000024 (1.18)	-0.0000017 (1.09)	
<b>Revenue</b>	-0.035*** (2.92)	-0.145*** (6.28)	0.015 (0.21)	0.037 (1.23)	-0.018** (2.68)	0.0063*** (3.89)	-0.023*** (3.98)	
<b>Marketization</b>	-0.0000433*** (9.56)	-0.0000578*** (3.41)	-0.0000214*** (9.26)	-0.0000323*** (5.68)	-0.0000068** (2.47)	-0.0000072*** (3.12)	-0.0000002 (0.15)	
<b>Demography</b>	-0.213 (1.04)	-0.1841** (2.67)	0.134 (1.13)	0.055 (1.21)	-0.177*** (4.01)	0.065*** (3.82)	0.013*** (4.46)	
<b>Unemployment</b>	0.673 (0.27)	0.973 (1.31)	0.270 (1.03)	-0.651** (2.48)	0.183 (0.98)	-0.043 (0.24)	-0.1394** (2.46)	
<b>Constant</b>	-0.256*** (3.36)	-1.515*** (3.79)	-1.881*** (10.41)	-2.763*** (11.06)	0.083** (2.62)	0.698*** (12.68)	0.224*** (10.29)	
<b>Observations</b>	388	388	388	388	388	388	388	
<b>R<sup>2</sup></b>	0.75	0.86	0.86	0.79	0.86	0.87	0.88	
<b>Adjusted R<sup>2</sup></b>	0.52	0.50	0.48	0.46	0.55	0.53	0.56	

Note: Model 1 uses panel-corrected standard errors and fixed effects correction; model 2 uses multivariate and fixed effects correction with renormalized measure (spending as a share of total social spending rather than as a share of total budget).

All IVs are lagged one period. Absolute value of z statistics in parentheses. \*p = 0.10; \*\*p = 0.05; \*\*\*p = 0.01

not increase total social spending as much as go-getter Party secretaries. This is not surprising considering that governors are not the number one leader of a province and therefore have less authority than the CCP secretary over provincial spending. Party secretaries, on the other hand, determine the policy direction and control most of the resources in a province, so we should expect a province to have a bigger increase in total social spending when its Party secretary, rather than its governor, has the career ambition to advance to the Center.

Although governors do not increase social spending as much as Party secretaries do, both have positive impacts on social goods provision in a province. Moreover, they increase not only total social spending but also spending on every type of social goods. This implies that the effects of career incentives are not limited to a particular type of social goods. However, the effects do vary depending on the type of social goods. If we take a closer look at the estimated coefficient of *Concurrentist Party Secretary* in Model 1, we find that the increase in social security and welfare spending is significantly greater than the increase in education or health spending. Even if we refer to Model 2, in which the possible simultaneity among three types of social spending are corrected, the increase in social security and welfare is still greater. This suggests that concurrentist Party secretaries prefer to spend on social security and welfare over education and health. Likewise, we can see a similar pattern with *D&E* as well as the other two go-getter types of provincial leaders, *Go-Getter Party Secretary* and *Go-Getter Governor*, and that their biases for spending on social security and welfare are even stronger compared to *Concurrentist Party Secretary*. The results suggest that when politicians do not hold a

concurrent PB seat but eager to do so, they increase spending on social security and welfare even more than those who already hold a PB position in hand.

This confirms what my field research interviews told me, i.e. that local leaders are particularly responsive to labor related issues, which is a more direct cause of local protests compared to the issues of education or health. Unlike concurrentists who are leaders at both the national and local level, if provincial leaders do not have concurrent positions, they are pure local leaders whose job performance depends on satisfying workers so that they don't engage in protest. Labor issues have always been politically significant in China. In the pre-reform era, state enterprise workers were well-paid proletarian elites with all their health, education, and pensions provided for by the work unit. With the transition to a market economy and the transformation of state enterprises to profit seeking businesses, many workers were laid off and those who kept their jobs no longer had all their welfare needs met by the enterprise and turned to the government instead. As Marx and Lenin recognized long ago, dissatisfied workers have the ability to organize themselves to make trouble. Preventing worker protests is an important objective of local leaders. If local leaders wish to advance to the Politburo, they cannot afford any mistakes. They rather pay all their attention to the most sensitive issue areas, such as labor issues, to avoid any potential unrest. Several local officials even told me that they do not "waste" money on education and health because they are not as influential in reducing the number of labor protests as the issue of social security and welfare is (author's interview, January/February 2009). Consequently, ambitious local leaders tend to focus more on social security and welfare because, after all, to reduce the

probability of local protests, which would jeopardize these go-getters' chance to advance to the Center.

On the other hand, concurrentists have to consider the broader picture, so although they also care about labor, they have to pay attention to other issue areas, too (author's interview, January/February 2009). They are expected to "experiment different social programs in their provinces to test the effectiveness," which necessarily drives up the spending on education and health (author's interview, January 2009). Therefore, although both concurrentists and ambitious local leaders care about labor issues, concurrentists' efforts are spread among other issue areas while ambitious local leaders concentrate on social security and welfare spending to reduce the risk of local protests which could destroy their prospects for promotion.

This finding also lends some support to Wintrobe's (1998) hypothesis that authoritarian regimes may be responsive to the interests of labor through social spending even if the government does not allow autonomous labor organizations.<sup>39</sup> Authoritarian leaders are just as insecure as democratic leaders, so they should be prone to redistribution, too. At a minimum, authoritarian leaders must maintain the loyalty of the constituents necessary to rule (Wintrobe 1998). Under the political context in China, both national and local leaders must respond to laborers, who if dissatisfied are likely to cause social unrest and pose threat to regime stability. In the end, leaders respond by providing more social insurance to laborers (Haggard and Kaufman 2002, 2008).

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<sup>39</sup> In China the only labor organization permitted is the All China Federation of Trade Unions, a shadow organization of CCP which serves as a bridge between the Party and laborers as a way to ensure political control at the grass-root level.

### 3.4.2 Results for Other Explanatory Factors

Contrary to what we might predict, provincial governments do not increase social goods provision by much as the provincial economy improves. Table 3.3 shows that the estimated effects of GDP per capita on every measure of provincial social spending are more likely to be positive and statistically significant. The magnitude of the effects, however, is very small compared to politicians' career incentives. Consider a province, say Province A, which did not have a concurrentist Party secretary in 1994. When all other variables were held at their means, an annual growth rate of 10% would benefit Province A, on average, by a 0.6% increase in total social spending, a 2% increase in social welfare and security spending, and a 0.08% in spending on education and on health.<sup>40</sup> But if Province A were assigned a concurrentist Party secretary in 1994, the increase in total social spending would be 14.6% instead, while the increase in social security and welfare, education, and health would be 12.0%, 5.1%, and 6.2%, respectively.

What is more surprising is that provincial governments may actually decrease social spending when they have more local tax revenue. As we can see from Model 1 in Table 3.3, the estimated relationship between *Revenue* and social goods provision is negative and statistically significant for two measures (total social spending and spending on social security and welfare). Even though the relationships are positive for education and health spending, they are not statistically significant. Model 2 also shows that *Revenue* is associated with a decrease in two types of social goods (social security and welfare and health), and although it results in an increase in education, the margin of

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<sup>40</sup> The provincial GDP per capita in 1994, on average, is 4,044 RMB.

increase is relatively small compared to the decrease in the other two types of social goods.

These findings suggest a disappointing fact of government performance on social goods provision. Even when provinces get richer and have more resources in hand, they do not necessarily invest more in the welfare of their people. But when they have a concurrentist or an ambitious provincial leader, they increase social spending on all types of social goods. Therefore, the amount of provincial resources does not matter as much as the career incentives of provincial leaders.

The effects of demography on social spending are inconclusive. Model 1 shows that Demography does not explain how much a province spends on its social policy because the coefficients are mostly statistically insignificant. As for Model 2, it shows that the estimated relationship between *Demography* and social spending varies depending on the types of social good. Specifically, when provincial populations contain higher percentages of non-working age people, the provincial governments increase spending on education and health. As the percentage goes down and the provinces are filled with more of a working population, governments increase the spending on social security and welfare instead. Recall from my previous discussion that social security and welfare spending are used for expenses on all labor issues. This quantitative finding then confirms my interview data that politicians in China are responsive to labor issues. Since laborers unhappy with social security and welfare are likely to cause protests in China, Chinese politicians respond to labor demands to prevent social protests.

Finally, the estimated relationship between *Marketization* and social spending is negative as we expected, but the effects are trivial. Provincial governments do bear more

social policy responsibility when the degree of marketization is low, but the margin of increase is very small even compared to *GDPpc*. Consider Province A again. If we increase the size of its public sector by 10% (as a share of local GDP), Province A would only increase social goods provision by 0.0003% in total social spending, 0.0003% in social security and welfare spending, and less than 0.0002% in spending on education and on health. This suggests that although politicians in China provide social welfare in response to the demands of labors, they are not particularly biased toward state-owned enterprise workers. They respond to all workers as a way to prevent labor unrest.

### **3.5 Conclusion**

The results presented in this chapter suggest that an authoritarian regime can shape the behaviors of local leaders while allowing local discretion at the same time. In China, the power of career incentives allows Beijing to delegate authority to local elites while still ensuring that the behaviors of these local agents are aligned with the central preferences. The Chinese-style decentralization therefore provides justification for stronger central control. It is the personnel appointment power that helps Beijing maintain political control at the local level despite economic decentralization.

Additionally, the governmental decision on social welfare provision does not necessarily depend on the resources available to the government or the people's needs in the province. Rather, it is a political decision by the politicians and their political ambitions. As Table 3.4 shows, the career ambitions of provincial leaders are most effective in promoting the social welfare provision in a province. When all other

**Table 3.4: Substantive Effects**

	Hypothetical condition in a province	Effect on total social spending as a share of total budget
Career Ambitions	A concurrentist Party secretary	+14.6% (+13.87~15.33%)
	A 10% decrease in D&E spending	+12.5% (+11.875~13.125%)
	A go-getter Party secretary	+14.4% (+13.68~15.12%)
	A go-getter governor	+5.6% (+5.32~5.88%)
Socio-Economic Factors	A 10% annual growth rate	+0.6% (+0.57~0.63%)
	A 10% growth of local tax revenue	-7.4% (-7.03%~7.77%)
	A 10% increase in the public sector's size	+0.00003% (+0.0000285~0.0000313%)
	Demography (Dependency Ratio)	No effect
	Unemployment Rate	No effect

Note: All other variables were held at their means in 1994; parentheses show the value within 95% confidence interval.

variables were held at their means, an ambitious provincial leader increases the social spending (as a share of total budget) by at least 5.6% to as much as 14.6%, which is significantly higher than other socioeconomic factors. For instance, a 10% annual growth rate only increases the provincial social spending (as a share of total budget) by 0.6%, while a 10% increase in provincial tax revenue actually results in a 7.4% decrease in the province's social spending. Not to mention that the provincial unemployment rate and demography (measured as the percentage of local population that is non-working age) do not matter in the provincial decision on social spending. In the end, it is not the people's needs or the governmental resources, but the politicians' political ambitions that matter to social welfare provision.

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## **Chapter 4: Case of Guangdong**

Following the presentation of my quantitative data analysis, I want to use in-depth case studies to illustrate how ambitious provincial leaders in China spend more on social goods provision in their provinces to improve their chances for promotion. I draw upon data from more than 100 in-person interviews with government officials at the central and local level; I also interviewed more than 20 Chinese scholars who are experts in the area of China's social welfare system. These interviews enabled me to evaluate the perceptions and motivations of key players.

I find strong support for my two hypotheses in examining the development of two Chinese provinces: Guangdong and Liaoning. First, the case of Guangdong demonstrates how concurrentists conform to Beijing's preferences by emphasizing social welfare provision in the province, and the case is presented in this chapter. As for the case of Liaoning which is detailed at greater length in the next chapter, it shows how an ambitious provincial leader changes the spending habits of county officials so that he can increase social spending in order to impress the Center. In each case, I present a detailed narrative of how policy development unfolded in the province, followed by an in-depth analysis of the politics of the policy actions.

### **4.1 The Career Ambitions for Concurrentists**

This chapter introduces my first case study on the province of Guangdong. Guangdong is a unique case that best illustrates the career ambitions of concurrentists. Compared to other provincial-level governments in China, Guangdong has been most consistent in having a provincial leader who also holds a concurrent Politburo seat, and the province has had the highest number of concurrentist leaders for the longest time so far. Since 1998, leaders of Guangdong have always been concurrent central leaders who hold seats at the Politburo. These concurrentists are Li Changchun (1998-2002), Zhang Dejiang (2002-2007), and Wang Yang (2007-present).

In 2008, I spent more than three months in Guangdong and visited three municipalities and the counties under their jurisdiction to talk with local officials and sit in on government meetings related to social welfare issues. My research and interview data indicate that Guangdong's concurrentists have been continuously pushing the province to become the nation's model in the provision of social welfare since they assumed office. They started to plan for the social safety net system in Guangdong while other provinces were still focusing on economic growth alone (author's interviews, October 2008). They also pressure local officials to put resources and efforts in establishing new social schemes to provide more welfare to local citizens. In 2001, for instance, Guangzhou city launched one of the first maternity assistance programs in the nation to help female employees receive free medical care and wage subsidy during their maternity leave (author's interviews, November 2008); Dongguan and Zhongshan cities also established some of the most advanced elderly centers in the nation (author's interviews, November 2008).

I present the case of Guangdong in the following order. I start by explaining why I chose Guangdong to study how the logic of concurrentists' career incentives works. I then present a brief introduction to outline the historical background and political situation of the province. Next, I illustrate in detail how social welfare policy developed under each concurrentist—Li Changchun, Zhang Dejiang, and Wang Yang, and then I discuss the politics of why these concurrentists made social welfare improvements. Finally, I conclude my case with an analysis through the lens of the theory.

## **4.2 Case Selection**

Guangdong is the best province to illustrate how concurrentists conform to Beijing's preferences by improving social welfare provision at the local level. Since 1998, leaders of the province have always held Politburo seats. Among all provincial-level governments in China, only Beijing has had a concurrentist-led provincial leadership that is longer than Guangdong has. But it is only one year longer; it started from 1997 when Jia Qinglin became the Party secretary of Beijing and a Politburo member simultaneously. Moreover, after Jia moved up to the Politburo Standing Committee (PBSC), Beijing has only had one concurrentist Party secretary so far. His name is Liu Qi, and he has been a concurrent Beijing leader and a Politburo member for nine years now.<sup>41</sup> This means that Beijing has only had two concurrentist leaders in total as opposed to the three concurrentist leaders Guangdong has had in the same time (Li 2004, 2008). As a result, the case of Guangdong offers a higher number of concurrentist

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<sup>41</sup> Liu Qi assumed the post of Beijing Party Secretary since 2002. Please see [http://news.xinhuanet.com/ziliao/2002-02/21/content\\_284282.htm](http://news.xinhuanet.com/ziliao/2002-02/21/content_284282.htm)

leaders—therefore more opportunities of observation—than Beijing to study the social policy development under different concurrentists and the political logic of their policy actions.

Another reason to study Guangdong rather than Beijing is its location. Beijing is the nation's capital and the location of the Chinese Communist Party's central headquarters. The location therefore makes the Party secretary of Beijing more restricted and cautious in his/her policy choices. In contrast, Guangdong is far away from the Center's monitoring radar, and historically speaking, the province has always had a more independent development path than the rest of the country. This makes the politicians in Guangdong less restricted than their colleagues in Beijing, so their policy actions should more accurately reflect their true preferences, rather than a result of the Center's effort to monitor and control from nearby (Chang 1978; Edin 2003; Dickson 2003; Shirk 1993, 2007; Wank 1999).

To be sure, scholars familiar with the politics of China may wonder if Shanghai might be a more appropriate case to study the behaviors of concurrentists. After all, the international metropolis has produced many politicians who ended up in the Politburo, such as Jiang Zemin and his followers from the Shanghai clique. Ever since Jiang assumed power of the national leadership in the 1990s, he had promoted a lot of his supporters from Shanghai to the Center, including Zhu Rongji, Wu Bangguo, Huang Ju, and Chen Liangyu.

Despite the existence of the Shanghai clique, however, Guangdong is still a better case in studying how the logic of career incentives works for concurrentist provincial leaders. On the one hand, Party secretaries of Guangdong have always held concurrent

Politburo seats without a window of waiting, i.e. they all started their Guangdong tenures with Politburo memberships already in hand. These concurrentists are Li Changchun (1998-2002), Zhang Dejiang (2002-2007), and Wang Yang (2007-present).<sup>42</sup> On the other hand, there is always a window period before the Party secretary of Shanghai acquires a Politburo seat. For instance, Zhu Rongji was not a Politburo member when he was Shanghai's Party chief—he entered the Politburo one year after he left Shanghai.<sup>43</sup> Wu Bangguo had to wait one year after he assumed the Shanghai office to get his Politburo membership.<sup>44</sup> As for Han Zheng, the immediate past Party secretary of Shanghai, he did not make it to the Politburo, but only went as far as the Central Committee (the party organ that is one level below the Politburo).<sup>45</sup> Because of these interruptions in the Shanghai case, Guangdong is still the province that has most consistently had its provincial leader hold a concurrent Politburo seat the whole time. The case of Guangdong therefore is the most ideal case to study the policy actions of concurrentist provincial leaders.

Table 4.1 provides an overview of Guangdong's political figures and the policy actions under each administration. The purpose was to give an outline of the connection between the provincial leaders and their social policy initiatives. I will illustrate in detail

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<sup>42</sup> Please see [http://news.xinhuanet.com/misc/2002-01/16/content\\_240530.htm](http://news.xinhuanet.com/misc/2002-01/16/content_240530.htm), [http://news.xinhuanet.com/ziliao/2002-02/22/content\\_286080.htm](http://news.xinhuanet.com/ziliao/2002-02/22/content_286080.htm), and [http://news.xinhuanet.com/ziliao/2005-12/26/content\\_3969021.htm](http://news.xinhuanet.com/ziliao/2005-12/26/content_3969021.htm)

<sup>43</sup> Zhu was promoted to the Politburo in 1992. Please refer to [http://news.xinhuanet.com/ziliao/2002-03/15/content\\_238515.htm](http://news.xinhuanet.com/ziliao/2002-03/15/content_238515.htm)

<sup>44</sup> Wu Bangguo entered the Politburo in 1995. Please see [http://news.xinhuanet.com/ziliao/2002-01/16/content\\_240539.htm](http://news.xinhuanet.com/ziliao/2002-01/16/content_240539.htm)

<sup>45</sup> Han Zheng retired from Shanghai in 2007. During his tenure in Shanghai, he only held a Central Committee membership, and he was not promoted to Politburo after he left Shanghai. Please see [http://news.xinhuanet.com/ziliao/2003-02/20/content\\_737996.htm](http://news.xinhuanet.com/ziliao/2003-02/20/content_737996.htm)

each provincial leader's policy decisions and contributions to the social welfare improvement throughout the rest of the chapter.

Administration	Year	Type	Policy Initiatives
Ren Zhongyi	1980-1985	N/A	Administered Deng Xiaoping's reform idea on special economic zones
Lin Ruo/Ye Xuanping	1985-1991	Localist	Promoted "Cantonese localism" and confronted Center's policy
Xie Fei	1991-1998	Localist with concurrent central seat	Maintained localism but cooperated with the Center on fiscal reform
Li Changchun	1998-2002	Concurrentist	Cracked down on localism; Initiated universal medical insurance system
Zhang Dejiang	2002-2007	Concurrentist	Implemented Pensions and Work Insurance; emphasize education spending
Wang Yang	2007-present	Concurrentist	Promoted local experiments on social programs; exercised the new labor law

### 4.3 Background of Guangdong

Guangdong is a province on the southern coast of China. It is generally known as the roots of Cantonese people as well as Cantonese Chinese, a Chinese dialect distinctive from Mandarin Chinese. Historically speaking, Guangdong has always been far away

from the center of ancient Chinese civilization in the north China plain. This is why the province has always enjoyed more autonomy compared to the rest of the country, and thus had a different path in historical development, cultural background, and language use (Vogel 1990).

During the pre-reform period of the PRC, Guangdong was an economic backwater. At the time, only inland provinces benefited from some degree of industrial development, whereas Guangdong was so economically backward that many people were trying to run away from the province to seek a better life. Combined with its access to the ocean, proximity to Hong Kong, and blood ties with overseas Chinese, Guangdong had one of the highest emigration rates—or escape rates—in the country (author's interviews, November 2008). For instance, there were four large-scale escapes during the pre-reform period, as thousands of people tried to run away from the city of Shenzhen in Guangdong Province to British-ruled Hong Kong.<sup>46</sup> Also, Cantonese immigrants and descendants have formed an important diaspora community in many major cities around the world, such as San Francisco and Vancouver.

#### **4.3.1 Guangdong's Rapid Growth**

Guangdong was given a lot of development opportunities after Deng Xiaoping started the reforms in 1979 (Fung 2001; Jones 1993). In 1980, the National People's Congress approved the establishment of four special economic zones (SEZs), and three of

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<sup>46</sup> This is called "Great Escape to Hong Kong." The first time was in 1957, when 5000 people escaped through the border of Hong Kong; the following three escapes happened in 1961, 1972, and 1979, and the estimated number of escaped people is 19,000, 20,000, and 30,000 respectively.

them were in Guangdong.<sup>47</sup> In 1985, the province was further allowed to establish the Pearl River Delta economic zone, which offered low tax rates and various investment benefits (Huang 2003; Taube and Ogutcu 2001). The Pearl River region soon became the destination for many process-manufacturing firms run by Hong Kong investors or overseas Chinese (Croll 1999; Guan 2000).

Moreover, the central government also granted Guangdong preferential fiscal treatment during the 1980s. At the time, most of the provinces were required to remit a fixed percentage of total revenues to the central government each year. In 1980, for instance, Shanghai remitted 88.8 percent, Beijing 63.5 percent, and Tianjin 68.8 percent of their annual total revenues (Oksenberg and Tong 1987; 1991). But Guangdong was allowed to keep most of its tax revenues for itself (Herschler 1995; Zhan 1995; Yu 1999). According to the arrangement, Guangdong was only required to give the central government one billion yuan per year, and the amount was fixed for five years (Shirk 1993).<sup>48</sup>

The economy of Guangdong thus skyrocketed. Starting in 1989, the province has been the largest provincial economy in China, measured by total provincial GDP. As of 2008, its GDP reached 3.57 trillion yuan (523 billion dollars), which could be ranked among the top 20 national GDPs in the world if it were an independent nation.<sup>49</sup>

Although Guangdong contributes approximately 12 percent of China's national economic output and 15 percent of the nation's tax income, most of its affluence is concentrated

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<sup>47</sup> The four SEZs are Shengzhen, Zhuhai, and Shantou in Guangdong Province and Xiamen in Fujian Province.

<sup>48</sup> Only Guangdong and Fujian enjoyed such preferential treatment. The arrangement for Fujian is that the province would receive a subsidy of 150 million yuan per year. As with the Guangdong case, the amount was also fixed for five years (Shirk 1993).

<sup>49</sup> Source: Guangdong Statistical Yearbook and World Bank.

around the Pearl River region.<sup>50</sup> According to the latest figures, the region accounts for 80 percent of the province's GDP, even though it only encompasses 30.55 percent of the land area and 50 percent of the population in the province.<sup>51</sup>

#### **4.3.2 The Onset of Localism**

The take-off of the province can be ascribed to Ren Zhongyi, who served as Guangdong's First Secretary of Communist Party—the title was later changed to Party secretary—from 1980 to 1985. Ren was one of the most well known reformists of his time, and he was widely regarded as the one who successfully carried out the SEZ idea designed by chief architect Deng Xiaoping. After a five-year tenure, however, Ren's health situation took a turn for the worse; in the meantime, the Center planned to bring younger personnel into government leadership positions, so Ren retired at the age of 71 and was succeeded by Lin Ruo.

At the time, Lin was technically the number one provincial leader, serving as the Party secretary of Guangdong. In reality, however, many people believed that Ye Xuanping, Guangdong's then governor, held equal (if not more) influence in the province. After all, Ye's father, Marshal Ye Jianying, was the heavyweight Chinese politician who had close connections to Mao Zedong and Deng Xiaoping. Although it is arguable if Lin or Ye should be the top leader after Ren retired, both of them had good reasons to pursue economic development in Guangdong. Lin was a typical local politician, who was not only born in the province, but he also spent his entire career on the local scene in

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<sup>50</sup> Source: Guangdong Statistical Yearbook

<sup>51</sup> Source: *ibid.*

Guangdong; Ye also was a hardcore localist, and he was not interested in a Beijing career, but preferred to stay in Guangdong instead. As a result of their affection for the province, the two topmost provincial leaders worked together and sustained Guangdong's rapid growth; but their native Cantonese background also promoted the so-called "Cantonese localism" in Guangdong, and this eventually led to a confrontation with the central government (Li 2007, 2008).

Before Guangdong's economic boom, the province was very poor and did not have a big say in many issues. As the economy of the province improved, however, top-level officials in Guangdong believed that they should be given a bigger voice, and they started to challenge the Center's control of fiscal and economic issues. During 1989 to 1991, the Center had attempted to recentralize fiscal and investment powers; but Guangdong vehemently argued against the Center's proposal during a November 1990 meeting of provincial leaders (Shirk 1993). With Guangdong acting as the bellwether to stand in the Center's way, many provinces were encouraged to follow suit. As a result, the Center's efforts were unsuccessful (Montinola, Qian, and Weingast 1996). Soon after the incident, the Center fired both Lin and Ye.

After getting rid of the troublemakers, the Center promoted Xie Fei from deputy Party secretary position to lead the province. The Center also brought Xie into the Politburo in the hope that the province would be onboard with the Center. This time Guangdong did act more in line with Beijing on certain policy dimensions, such as fiscal policy. In 1993, the Center proposed a new tax-sharing arrangement with local governments, and its plan was to reconfigure the nation's tax structure to give the central government a bigger share of tax revenue. Although this was viewed as an act of

recentralization, the Center still managed to strike a deal with local governments after a long bargaining process in the summer of 1993. One key was Guangdong government's cooperation (author's interviews, November 2008). Unlike last time, Guangdong did not refuse to cooperate; on the contrary, it was one of the first provinces to agree to the Center's proposal. My interviews suggest that this was because the Center had already reached an unspoken deal with Guangdong beforehand. In order to push for the new tax system, the Center agreed to return "tax rebates" to local governments using the revenue figures in 1993 as the base number (*jishu*). According to my source, Guangdong had the Center's official permission—unspoken, of course—to expand its revenue figures in the remaining months of 1993. Because of this, the province was able to push up its *jishu* and therefore fetch a larger amount of tax rebate in 1994 and beyond. During August to December 1993, the budgetary revenue in Guangdong increased by 92 percent over the same period in 1992.<sup>52</sup>

#### **4.4 The Rise of Li Changchun: The First Concurrentist**

Despite the cooperation on fiscal issues, the problem of localism still existed in Guangdong (Pei 2004; Ruf 1998). This was because the two localists, Ye Xuanping and Lin Ruo, still retained their local power base. Ye remained active in Guangdong as senior vice chair of the Chinese People's Political Consultative Conference (CPPCC), a purely ceremonial institution that offered political advice to the Party and government, while Lin served as chairman of Guangdong's Provincial People's Congress, a legislature

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<sup>52</sup> Source: CERD Consultants limited, *Guangdong Economic Analysis – Monthly Reports* (August 1993 – January 1994). Hong Kong.

indirectly elected by lower level People's Congress without substantial role in the CCP nomination process.

Another reason why localism continued to grow in Guangdong was because Xie Fei, the Party secretary at the time, refused to help the CCP general secretary Jiang Zemin stall the development of localism. Xie himself was a native Cantonese, and he also had a close personal relationship with Ye Xuanping, so of course he would not help Jiang. Xie also was a loyal follower of Deng Xiaoping, and Xie's appointment in Guangdong had not been decided by General Secretary Jiang Zemin, who lived under Deng's shadow as Deng's successor in the beginning of the 90s. In 1992, for instance, Deng Xiaoping made his famous "southern tour" to mobilize pro-reform sentiment in Guangdong and Shenzhen to pressure Jiang Zemin not to deviate from the reform path. During his time in Guangdong, Deng told Xie to lead Guangdong to compete with the Asian Tigers in terms of socioeconomic achievements; he also asked that Guangdong lead China's way and focus on social issues.<sup>53</sup> Xie thereafter tried his best to follow Deng's word, and he not only strengthened capital construction, but he also improved the infrastructure of agriculture, education, and technology in the province.

In order to eradicate localism and consolidate his control of the province, Jiang Zemin proposed to replace Xie with the non-Cantonese Li Changchun in 1997. Local officials in Guangdong, however, strongly resisted this appointment, and they insisted that top leaders in the province should be Cantonese. Local officials even indicated that they were willing to lose their representation in the Politburo, if it meant keeping a native Cantonese as provincial leader. As a result of their firm stance, Beijing postponed this

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<sup>53</sup> Source: Xinhua.net. Available at [http://news.xinhuanet.com/politics/2008-04/24/content\\_8041463.htm](http://news.xinhuanet.com/politics/2008-04/24/content_8041463.htm)

appointment for almost one year (Li 2008).

#### **4.4.1 Li Changchun: Put the House in Order**

Eventually in March 1998, Jiang moved Xie Fei to the post of vice chairman of the National People's Congress, and he dispatched Li Changchun to take over Guangdong. This was a smart move by Jiang. Li was Jiang Zemin's protégé, who just had been promoted to the Politburo the previous year. Also, he was originally the Party secretary of Henan, and he had no connection with the local patronage network in Guangdong. Li was therefore the perfect choice to help the Center rein in and clean up the wealthiest and often unruly province in China. The Center was not disappointed. Li shook up local leaderships and the so-called "Guangdong gang" by cracking down on their illegal business. Among those arrested was Yu Fei, the once deputy Party secretary of Guangdong who, upon apprehension, was still the vice chair of Guangdong's Provincial People's Congress. Li Changchun also brought down two state-owned financial conglomerates, Guangdong International Trust & Investment Corporation (GITIC) and Guangdong Enterprises (GDE), which had roots among the families of local leadership (Nathan and Gilley 2003).

In addition to cracking down on local corruption, Li conformed to the Center's policy preferences by reforming the social welfare system in Guangdong. In 1999, Beijing started paying attention to social welfare issues in order to pursue "sustainable development" and to guarantee the regime's stability in the long run.<sup>54</sup> Premier Zhu Rongji also openly stressed the importance and urgency of establishing a strong social

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<sup>54</sup> *Xinhua News Agency*, "Premier On Sustainable Development," 5 March 1999

safety net, which made the front page of Xinhua News, the official mouthpiece of CCP.<sup>55</sup> Li Changchun followed the Center's preferences and urged local officials in Guangdong not to blindly pursue growth rates anymore (author's interviews, November 2008). He decided that the province should start focusing on the people's welfare in order to act in line with the Center.

During his tenure from 1998 to 2002, Li Changchun initiated a series of health reforms in the province. He first established a universal medical insurance system and required all municipal governments to implement the system by the end of 2002. The strategy was to start the insurance system from municipalities and then expand it to lower level governments. Eventually, both urban and rural citizens in Guangdong could choose to enroll in the system and thus enjoy lower medical costs and subsidized treatments for chronic diseases (Michelson 2010). He then launched another health insurance program for all government personnel in 2002 as a way to increase the pace of health reforms in the province.

Additionally, Li pioneered a legal aid program that allowed poor people to apply for grants to sue government agencies (Nathan and Gilley 2002). The number of suits against the government soon exploded, and many of these suits were filed by migrant workers drawn to Guangdong to seek better employment opportunities (Chang 2005). Li also encouraged local officials to experiment with new social welfare programs in order to meet the people's need. In 2001, Guangzhou city launched one of the first maternity assistance programs in the nation to help female employees receive free medical care and

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<sup>55</sup> *Xinhua News Agency* "Premier Urges Accelerated Building of Social Security System in China," May 29, 2000

wage subsidy during their maternity leave. Dongguan and Zhongshan cities also set up some of the most advanced elderly centers in the nation.

#### **4.4.2 The Political Logic of Li's Policy Action**

Li established his reputation as a warm-hearted politician who cared about people's welfare as early as 1982 when he was vice mayor of Shenyang, the capital city of Liaoning Province. Back then, Shenyang was so underdeveloped that the infrastructure in the city was very inadequate. Most people did not have showers in their homes, but had to rely on public bathhouses instead. Moreover, since the cost of public bathing was very cheap in Shenyang, many public bathhouses did not profit after defraying the cost of water and utility. But the law still required these bathhouses to pay taxes even though they did not profit. This soon led to the closedown of many bathhouses, thus made it more difficult for people to find places to shower than before. In order to solve the showering problem, Li, despite the opposition from the State Administration of Taxation at the State Council, decided to issue tax waivers to public bathhouses to allow them to not pay taxes and therefore stay in business. In 1985, the State Council sent a financial inspection team to Shenyang to hold Li accountable. At the risk of being fired, Li did not bow to the inspection team's demand of revoking the tax waiver; instead, he chose to explain the situation to the team in the hope that his policy would continue and that public bathhouses would not be forced out of business. In the end, he acquired the understanding of the inspection team, who then persuaded the State Council to amend the law to allow for more taxation flexibility (author's interviews, December 2008).

Regardless of his long-term image as a people-oriented politician, however, there were selfish reasons for Li to improve the social welfare provision in Guangdong. Already a Politburo member, he aspired to attain higher positions at the central government; he was widely reported as a possible contender against Wen Jiabao to succeed Zhu Rongji as premier in 2002.<sup>56</sup> Li had to do a good job in Guangdong in order to impress the CCP Center, which makes promotion decisions. He not only conformed to the Center's preferences on social welfare reform, but he also turned the province from a land that CCP General Secretary Jiang Zemin could not conquer into Jiang's turf. He successfully impressed Jiang as a result of his endeavor. Although in 2002 Li did not achieve the premiership as Jiang had wished, he was still promoted to the Politburo Standing Committee. He is now one of the most powerful leaders in China.

#### **4.5 Zhang Dejiang: The Second Concurrentist**

After Li's promotion, Zhang Dejiang was appointed as Guangdong's new Party secretary in 2002. Before he was transferred to Guangdong, Zhang was already the Party chief of Zhejiang province, another coastal province with developed economic status. Moreover, he, too, was labeled as Jiang Zemin's protégé. Therefore, people interpreted this appointment as Jiang's move to prolong his control of China's wealthiest province, hence retaining political influence as he gradually handed over authority to Hu Jintao between 2002 and 2004.

##### **4.5.1 Zhang's Controversial Reputation**

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<sup>56</sup> <http://www.ettoday.com/2001/03/02/163-384583.htm>. See also Nathan and Nilley 2003.

Overall, Zhang's achievements in Guangdong were not as eye-catching as his predecessor Li Changchun. Zhang's reputation as the Guangdong Party chief was actually very controversial. For instance, he was in charge of the 2003 SARS cover-up in which he actively censored the media in an attempt to hide the SARS crisis. When outspoken journalists at the *Southern Metropolitan Daily* disclosed the outbreak of the epidemic, Zhang punished the paper by having its editor in chief Cheng Yizhong arrested for corruption charges. This action led to an uproar among the people. Even Ren Zhongyi, the former Party secretary of Guangdong, openly spoke out against the punishment.<sup>57</sup> Bowing to public pressure, the Guangdong government released Cheng after five months of detention.

Zhang was also responsible for several incidents that severely damaged his image as a leader, with the 2005 Dongzhou protests as the best known example. In May 2005, villagers in Dongzhou started to organize in opposition against land acquisition for the construction of a new power plant. The villagers were mostly farmers who lost their lands but were not compensated well enough by the government. The protests went on for months until the end of the year when the government resorted to violence in order to suppress the protestors. In the night of December 6, hundreds of armed policemen opened fire at the crowd, and dozens of villagers were shot death.<sup>58</sup>

#### **4.5.2 Zhang's Policy Contribution**

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<sup>57</sup> <http://www.peacehall.com/news/gb/china/2006/01/200601130841.shtml>

<sup>58</sup> The exact death toll is unknown. The public announcement was three, but other sources indicate up to several dozen deaths. Most of the Chinese weblinks that discussed the incident had disappeared. The few existing websites can be found at <http://www.asianews.it/index.php?l=zh&art=4902> or <http://topic.csdn.net/t/20060525/20/4779254.html>

Despite his negative image, Zhang Dejiang still made several significant contributions to the province by improving its social welfare provision. He not only followed Li Changchun's health reform plans but also pioneered new transfer arrangements to increase aid to the medical system at the village level. Instead of going through the normal procedure of budgetary transfer, by which provincial governments send money to only municipalities and sometimes counties (as discussed in section 2 of Chapter 1), Zhang decided that the province should send budgetary transfers directly to villages in order to subsidize their medical services. Only economically backward villages, however, were eligible to receive direct subsidies from the province (author's interviews, December 2008).

Besides health reforms, Zhang also pushed for various social programs in the province such as pensions and work insurance. One of his major accomplishments was, remarkably enough, incorporating both farmers and migrant workers into the social safety net. In 2006, the Guangdong county of Yangxi was the first to experiment with the farmers' pension program. Every farmer above the age of 60 became eligible to receive a monthly pension of 30 Chinese yuan (\$4.5) immediately. Those below 60 were required to establish individual retirement accounts (IRA) and make monthly contributions to the account until the age of 60. In cases where farmers lost their land as a result of land acquisition, the land acquirers were responsible for providing 10-15 percent of the acquired land price to the farmers. Moreover, the farmers' monthly IRA contribution would be split three ways among the farmers themselves, land acquirers, and the government. The farmer's pension program soon became popular and expanded to many other counties in the province. By the end of the same year, approximately 1.2 million

farmers in Guangdong had joined the program, including 460,000 who had lost their lands.<sup>59</sup>

Migrant workers were also included in the social safety net. Since 2005, employers of migrant workers were required to purchase work insurance for their workers or else have their licenses suspended. As a result of Zhang's policies, the province led the nation in the number of people enrolled in social security programs—including pensions, unemployment, and work and medical insurance. The province also had the largest social security fund in the country, which had reached 151 billion Chinese yuan (\$19 billion), or approximately 20 percent of the country's total social security fund, by the end of Zhang's Guangdong tenure.<sup>60</sup>

Additionally, Zhang openly called for local officials' attention to the issue of education more than once during his term as Guangdong's Party secretary. Local cadres in China tend to prioritize other types of social spending and, as a rule, place education last. As one official put it, they do not “waste money” on education because “almost all protests are triggered by laborers unhappy about [the issue of] social security and welfare” (author's interviews, January 2009). Since social stability is one of the priority criteria for promotion, officials would rather allocate social spending on social security and welfare than on education. One common way for these officials to lower education

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<sup>59</sup> *China Economic Information Network*, “Zhongtianren Yeyou ‘Tuixiujin’, Guangdong 46 Wan Shidi Nongmin Xiang Shebao” [Peasants Can Also Have ‘Pensions’. 460 Thousand Peasants Lost Their Lands Can Enjoy Social Insurance], December 2006; *Xinhua Economic Information Network-China Agricultural Information on Oil and Food*, “Guangdong Shishi ‘Quanmin Shebao’ Tebie Guanzhu Shidi Nongmin” [Guangdong Implements ‘Social Insurance For All.’ Pay Extra Attention to Peasant Who Lost Their Lands], December 4, 2006; *China Economic Information Network*, “Guangdong Shebao Canjia Renshu He Jijin Jieyu Duonian Quanguo Diyi” [Guangdong Is No.1 Of The Nation In Enrollment And Funds of Social Insurance], September 12, 2006

<sup>60</sup> *China Economic Information Network*, “Guangdong Shebao Jijin Leiji Yu’e Da 1506 Yi, Yue Zhan Quanguo 1/5” [Guangdong Social Insurance Funds Reached 150.6 Billion, Approximately 1/5 of the National Total], April 5, 2007

spending is to hire substitute teachers instead of full-time faculty members. The hourly wage of a substitute teacher is only one-fourth of a regular teacher, and they could be hired on an hourly basis. Hiring substitute teachers saved governments a lot of money, and rural governments especially preferred this method (Benjamin et al. 2005; Tsai 2007). According to the 2006 figures, the average cost of hiring a substitute teacher was only 400 Chinese yuan (\$58) per month—even lower than the cost of hiring a migrant worker who is originally from the rural area.<sup>61</sup> Another way for rural governments to save money on education was to charge students additional fees for books, activities, or even “miscellaneous categories” (author’s interviews, December 2008).

But Zhang ordered the provincial government to subsidize rural education starting from underdeveloped counties in 2005. The goal was to help rural governments improve their education spending and to allow all rural children to receive nine-years of education for free by 2008. Zhang also decided that local governments in Guangdong should be responsible for 70 percent of high school student loans, so more students can continue high school after middle school. Last but not least, he spent a total 13 billion Chinese yuan (\$1.9 billion) on bailing out Guangdong universities and colleges in serious financial crises (author’s interviews, November 2008).

#### **4.5.3 The Political Logic of Zhang’s Policy Action**

One reason Zhang improved social welfare provision in Guangdong was because he was a concurrentist at the time. As part of the central leadership, he was expected to “experiment with different social programs in his province to test the effectiveness”

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<sup>61</sup> Source: Guangdong Statistical Yearbook

(author's interviews, January 2009). Especially after 2003 when Hu Jintao succeeded Jiang as the President, the Center made it official that the nation should emphasize the issue of social welfare and become a "harmonious society."<sup>62</sup> Zhang thus undertook experiments in Guangdong to see if the social programs were effective enough to be expanded to other provinces.

Another reason that Zhang pursued social welfare so intently was that he was trying to cater to the preferences of Beijing in order to secure his political future. He was after all a protégé of Jiang Zemin, so his position as a Party secretary of Guangdong represented an obstacle for Hu Jintao to consolidate ruling power. At that time, Guangdong was the key battleground in China's political landscape. Top leaders in Beijing who were able to effectively control Guangdong could significantly enhance their influence at the national level. Therefore, Hu Jintao was very concerned about Guangdong, and he visited the province twice—in April 2003 and December 2004—shortly after he became the national leader. Since Hu was likely to send his ally to take over the province, Zhang needed to demonstrate his loyalty to the central CCP leadership to gain Hu's trust. He also needed to repair his reputation that had been damaged by the SARS incident and the Dongzhou protests. The farmers' pension program was one way of doing so. Zhang tried to win farmers' support by providing more compensation and social security to them. In addition to the pension program, he also issued the so-called "three doctrines" (*sange yinghua*), stating that all land acquisition would not be approved

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<sup>62</sup> Based on Hu Jintao's speech during the second meeting at the third plenary session of the 16<sup>th</sup> Party Congress.

until an agreement with the farmers was reached and until the farmers have received compensation. In this way he prevented social unrest.<sup>63</sup>

Still, some people argued that Zhang's endeavor in Guangdong did not catch the Center's eye. Before his term as Guangdong leader ended in 2007, Zhang was summoned to Beijing so the PBSC could review his work in Guangdong. Rumors at the time suggested that he already upset the Center with his negative reputation, and he would soon be fired and face the end of his political career.<sup>64</sup> Nonetheless, my interviews indicate that his social welfare approach successfully scratched Hu Jintao's back and earned him some applause in Beijing. During Hu's two visits to Guangdong, Zhang kept sending friendly signals to Hu, and as a result, the two got along well. Additionally, Zhang often mentioned "President Hu" in his speeches, in which he talked about how Guangdong should build up a social safety net that incorporates all residents. He even asked the official mouthpieces of CCP, such as the Xinhua News Agency and *People's Daily*, to advertise how he followed Hu's vision and provided social welfare to the people.<sup>65</sup> These gestures helped Zhang continue his political career. Although he was removed from Guangdong, the Center still kept him in the Politburo and named him the new vice premier shortly afterwards.

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<sup>63</sup> *Xinhua New Agency*, "Zhengdui Nongmin Yin Zhengdi Shangfang, Zhang Dejiang Fang Yinghua: Sange Buneng Kaigong" [To Help Farmers Who Appeal Due To Land Acquisition Issues, Zhang Dejiang Issues Three Doctrines Before Acquisition Can Be Completed], January 4, 2006

<sup>64</sup> *Boxun News*, "Guangdong Shengweishuji Zhang Dejiang Jiangxiatai" [Guangdong Party Secretary Zhang Dejiang Should Step Down Soon], January 13, 2006

<sup>65</sup> *People's Daily*, "Guangdong: 'Yinhua' Hou You 'Yin Jucuo' [Guangdong: 'Strong Words' Come With 'Strong Action']", February 9, 2006; *Xinhua News Agency*, "Zhang Dejiang: Rang Guangdong Renmin Renren Xiangyou Shehui Baozhang" [Zhang Dejiang: Let Every Guangdong Citizen Enjoy Social Insurance], September 5, 2006

## 4.6 The Young and Promising Wang Yang

After Zhang left the province in December 2007, Wang Yang became the newest and current Party secretary. Wang was regarded as Hu Jintao's ally because both had similar backgrounds from the so-called *tuanpai* faction—i.e. those officials who advanced their political careers through the Chinese Communist Youth League (CCYL). When Hu served as the CCYL Secretary from 1982 to 1985, Wang was deputy secretary and propaganda director of the Anhui Provincial CCYL. As an important supporter of Hu, Wang was empowered with a lot of authority. For instance, he was appointed as Party secretary of Chongqing in 2005. This made him leader of the most populous city in the world at the age of 50, with 31 million people under his jurisdiction.<sup>66</sup> He also had a lot of support from Beijing during his time in Chongqing and therefore was able to drastically transform the city into the new center of China's inland provinces. Given his close tie with the Center, people believed that Hu sent him to Guangdong in order to hold complete control of the province.

### 4.6.1 Wang's Endeavor on Social Policy

During the first meeting after his arrival in Guangdong, Wang Yang made several announcements, which advocated a broader perspective on the importance of social, political, and environmental developments in the province. According to Wang, Guangdong should not only aim to surpass the East Asian Tigers economically, but should also strive to catch up with them in terms of governance. Moreover, as part of his “thought emancipation” movement, he openly urged local officials to boldly experiment

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<sup>66</sup> This population includes suburbs under city jurisdiction

with new social welfare programs that might possibly be broadened to the whole nation in the future (Li 2008). He even borrowed the “traffic light” analogy from the 1980s to call for daring steps to innovation:

When there is a red light, we should circle around to find a new way; when there is a yellow light, we should step on the gas to run the light; when there is a green light, we should hurry up to keep moving forward. Sometimes it is hard to push for certain social programs in the whole nation. That is why someone has to take the risk to experiment it first. If it works, it will be broadened to the whole country, and everyone else will have to learn from you by then.<sup>67</sup>

Under Wang’s leadership, Guangdong undertook many experiments to further improve social welfare conditions, most notably for laborers. The province first pioneered a new household registration program, which relaxed the regulations for migrant workers to acquire local residency in Guangdong. In China, people inherit their *hukou*—a.k.a. permanent residency of a city, town, or village—from their parents, and they cannot freely switch their *hukou* from one place to another.<sup>68</sup> Although people are allowed to leave their *hukou* area to work and live in a big city where there are more job opportunities, they will never acquire the local *hukou* of the city (Cheng and Selden 1994; Liu 2005; Solinger 1999). As a result, they are always considered as “temporary residents” without access to various local services.

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<sup>67</sup> This is from Wang’s speech at the Fifth Plenum of 10<sup>th</sup> Meeting of Guangdong Communist Party Meeting. Available at <http://www.gz.gov.cn/vfs/content/newcontent.jsp?contentId=690204&catId=133>

<sup>68</sup> Before the 1980s, *hukou* was one’s birthplace, and people were not even allowed to leave their *hukou* area. They could only apply for special permits similar to a business or travel “visa” in order to visit other places. After the start of economic reforms in 1980s, although people were still not allowed to change their *hukou*, they were allowed to work and live at a non-*hukou*-place. In order to control for internal migration, the household registration system was changed so that it must be inherited from one’s mother. In 1998, the State Council issued a new regulation stating that people can choose to inherit the *hukou* from the father’s side as well. After 2003, most cities started to implement this new regulation, including Beijing.

This is akin to the case of an Illinois resident paying out-of-state tuition to attend the University of California, except the Illinois resident can apply for California residency and thus qualify for in-state tuition after living in California for at least one year, whereas most Chinese migrant workers are never eligible for local residency. Guangdong's experiment, however, relaxed the restriction. Migrant workers were allowed to apply for local residency in Guangdong as long as they lived in the same area and participated in the pension program for more than seven years. Although the restrictions were still strict, this was a huge revolution for the household registration system in China. For the very first time, internal migrants across provinces acquired the same rights as local citizens.

The province also offered governmental aid to guarantee every migrant worker the right to participate in the work insurance program. Starting from Zhang Dejiang, Guangdong has required employers to purchase work insurance for the migrant workers they hired. But there were always employers in financial downturns who could not afford to pay for the work insurance. In order to make sure all migrant workers were covered, Wang ordered the province to provide these employers with government aid to help cover the insurance costs.

The most important step for the province to help laborers was the adoption of the new labor law in 2008. Many employers used to sign short-term contracts with laborers as a way to avoid paying for the employers' work insurance, health care, or IRA contribution. According to the new regulations, however, employers are required to not only extend contracts to at least one year, but also to make a higher monthly contribution to their employees' IRAs. Although the media considered this law "a victory of

laborers,” reports also showed that the new regulations substantially increased the costs for local firms, and therefore accelerated the pace for local businesses to move to other provinces.<sup>69</sup>

Other improvements to the social welfare system included the continuation of the health reform, which Li Changchun had initiated and Zhang Dejiang sustained. Wang further extended the reform. Based on his schedule, the expected participation rate for rural and urban residents to enroll in the medical insurance system should reach 95 percent by 2011. The province also increased subsidies to all public hospitals to help pay for the infrastructure, equipment purchase, medical services, and healthcare personnel pensions. On top of that, the province implemented a “social insurance card” system, which enabled Guangdong residents to quickly transfer their social welfare accounts from one place to another within the province. The long-term goal was to allow Guangdong residents to transfer their accounts to any part of the country once the system becomes national.

#### **4.6.2 The Political Logic of Wang’s Policy Action**

To be sure, Wang was praised for his populist approach before he came to Guangdong. One of the most well-known and popular stories of Wang’s approach occurred during his Chongqing tenure, when he made the compassionate “public servant” comment (author’s interviews, December 2008). In the first summer after Wang arrived in Chongqing, the city was hit by the worst drought in 50 years. The disaster caused

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<sup>69</sup> *Hong Kong Economic Times*, “Zhusanjiao Waiqi Kuyai Xian Guanchangchao; Laodongfa Shuifa Mingnian tui Gangshang Datan Chibuxiao” [Foreign Enterprises Hanging In Pearl Delta And Closing; With New Labor and Tax Law Next Year, Hong Kong Investors Have A Hard Time, 3 December 2007]

approximately eight billion yuan (\$1.17 billion) in losses, nearly three percent of the city's GDP in 2006.

One day, Wang went to a local farmer's market to learn of situations at the grass-root level. While he was talking to a farmer, the farmer did not bother to stand up, but instead was sitting on the ground. One of Wang's escorts shouted at the farmer in an arrogant manner and ordered him to stand up to talk to Wang. To everyone's shock, Wang suddenly grabbed a green pepper from the farmer's basket, and he threw it at the escort. He then explained himself: "Today I did not behave too nicely to one of our staff; why should the people stand up to talk to us? We are servants of the public, so of course it should be us who are on our feet!"<sup>70</sup>

Regardless of his populist image, however, Wang pursued social welfare in Guangdong for the same reason that his predecessors did. He conforms to the Center's preferences not only because he is a concurrentist who represents the Center, but because he is also aiming for higher political positions. Wang was a rising star who seeks to prove himself as a leader of a developed province. He had been appointed vice governor of Anhui at the age of 38, which made him the youngest vice governor at the time. He also gained administrative experience from the State Council in his 40s: first as vice minister of the National Development Reform Commission (China's most powerful supra-ministry which oversees the nation's economic development), then as executive deputy secretary general of the State Council where he held a minister-level position. Combined with his Chongqing experience, Wang can complete his qualifications as a

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<sup>70</sup> <http://www.zaobao.com/special/china/cnpol/pages3/cnpol100101.shtml>

strong candidate for future top leadership as long as he produces positive achievements in Guangdong. This is why he enforces policies favored by the Center.

#### **4.7 Analysis of the Guangdong Case**

The account above supports the view that career incentives motivate provincial leaders to emphasize social welfare provision in a province. Ever since Li Changchun replaced Xie Fei as the Party secretary in 1998, Guangdong has never had a local politician or a localist as its number one provincial leader. Rather, leaders of the province have always been part of the central leadership, and they have acted very closely in line with the Center's priorities. Although Xie Fei might be categorized as a semi-concurrentist because he was promoted to the Politburo one year after he became the provincial leader, he was still a local politician who did not represent the Center but belonged to the local Guangdong gang instead. The Center merely brought him into PB in the hope of easing the localism in Guangdong.

In contrast, Xie's successors were all "pure" concurrentists who were sent to Guangdong with PB membership already in hand. As part of the central leadership, they conformed to the Central preferences and tried to turn Guangdong into an experimental zone for social welfare reform. Moreover, these concurrentists aspired to higher positions in the central Chinese Communist Party or central government institutions. In a way this makes them no different from the ambitious politicians who are not yet in the Politburo but aspire to the leadership positions at the central level. They enforce policies emphasized by the Center as a way of increasing their chances for promotion. In the end, they put more resources and effort into establishing new social programs.

This mode of leadership, however, created many problems at the local level. Because these provincial leaders sought approval from the top leaders in Beijing, they formed policies mainly to cater to the preferences of the Center, not the preferences of local citizens. Under them, local officials sometimes resorted to means that were not welcomed by the people in order to enforce provincial mandates at the local level. Take the pension and work insurance programs for example. A lot of migrant workers were actually forced to receive their paychecks at a later time just so that their employers could set up their pension and insurance accounts. Although this boosted the number of workers holding social security accounts in the province, it upset laborers, who preferred to get paid as early as possible (author's interviews, October 2008).

Another example was the new labor regulation, which *prima facie* secured the welfare of laborers with compulsory long-term contract and higher minimum wage. The truth, however, is that it made the situation for some workers—especially the unskilled ones—even worse. Some employers start to offer part-time employment as a way to avoid the year-long contract. Luckily, not too many employers choose to do so because the problem of labor shortage in the province has worsened. Many migrant workers choose to go back home rather than staying in Guangdong nowadays, as the economies in the inland provinces are getting better. As a result, employers are forced to offer an increase in wages in order to secure labor force.

To sum up, although this mode of leadership is not perfect, it still forms some kind of accountability to ensure social welfare provision at the local level. Concurrentist provincial politicians have the career incentives to demand lower-level local officials to experiment social programs and increase social spending. But these concurrentists are

only the first type of ambitious politicians. There are still those who do not yet hold Politburo seats but aspire to do so in the future. In the next chapter, I will explain the mechanism of career incentives works for the second type of ambitious politicians.

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## **Chapter 5: Case of Liaoning**

### **5.1 The Career Ambitions for Go-Getters**

This chapter presents the case of Liaoning to illustrate how career incentives work for ambitious provincial leaders who do not yet hold concurrent central positions in the Politburo but aspire to do so in the future. These go-getters push for social welfare provision at the local level in order to impress the Center and increase their chances for promotions.

The incentive mechanisms work a little differently for concurrentists and go-getters. For concurrentist provincial leaders, the logic is more self-explanatory since they also hold central positions simultaneously; their career incentives should be aligned with the Center because they themselves are central leaders themselves, and they should place social welfare provision at a higher priority than politicians at the local level. These concurrentists will “experiment different social programs in their provinces to test the effectiveness,” as mentioned in the previous chapter (author’s interviews, January 2009).

On the other hand, the rationale is more complicated for go-getters. These politicians do not yet hold central positions but instead are only local leaders. In this case, why would they increase social welfare provision like the Center desires?

Politicians behave strategically based on their expectations about their future careers—regardless of the regime type. They tend to cater more to their selectorate and whatever their selectorate prefers when they have the ambition to advance their political career. Consider governors of New York in the United States. They are more likely to

have strong ambitions to run for president than, say, governors of Mississippi or South Dakota (Black 1972; Schlesinger 1966). In order to attract voters, governors of New York are more prone to conforming to voters' preferences (Besley and Case 1995a; List and Sturm 2006). They are more likely to reduce taxes, increase minimum wage, and provide more public goods than their colleagues from other states are (Besley and Case 1995b; Ferraz and Finan 2007).

Now, the difference between China and the U.S. is that provincial leaders in China do not rely on voters to advance their political careers. Rather, it is the Center that holds the personnel appointment power and decides who will be promoted to Beijing. Therefore, China's provincial leaders cater to the preferences of the Center, and not the preferences of local citizens, when they aspire to advance their careers to the central level. They may even resort to unpopular means in order to enforce central mandates at the local level. As noted in the previous chapter on Guangdong, some provinces, for example, allow lower-level local governments to withhold workers' paychecks until the workers establish pension accounts. This way the province can increase the percentage of workers who hold a pension account (author's interviews, October 2008).

The case of Liaoning province reflects how ambitious provincial leaders push for social welfare provisions at the local level in order to cater to Beijing's preferences. Traditionally, leaders of Liaoning are not Politburo members and have no realistic ambitions to become one in the future. But this changed in 2004 when Li Keqiang assumed office as the new provincial Party secretary. At the time, Li was one of the rising political stars, and he was widely believed to be very ambitious in acquiring a Politburo position. In order to increase his chances for promotion, Li changed the

spending habits of country officials so that he could increase social spending in the province (author's interviews, August 2007 and December 2008).

During 2007 to 2009, I spent sixteen weeks total in Liaoning to talk with officials at the prefecture and county-level about their social welfare policies. One noticeable change after Li assumed office was the tightening of fiscal control at the county level. Liaoning province was originally known for giving counties full discretion on social welfare budgets, called “county-based budgeting” (*xiànjí tǒngchóu*). However, after Li became the head of Liaoning, county governments could only enjoy partial discretion (author's interviews, August 2007 and December 2008). The provincial government started to demand higher spending on social welfare such as pensions, education, and health, even though county governments could decide the details on how to increase the spending. When counties followed the provincial mandate and increased social welfare provision, they were rewarded with more budgetary transfer. If they did not, they would be deprived of the remaining budgetary discretion, in which case the provincial government would plan the budget for them. In October 2007, Li was promoted to the central leadership at Politburo Standing Committee, and the restrictions imposed by Liaoning provincial government have been gradually lifted after Li was replaced by leaders who didn't have the same expectations to rise to higher positions in Beijing (author's interviews, January 2009).

This chapter proceeds as follows. First, I explain why the province of Liaoning best illustrates the logic of career ambitions for provincial leaders who do not yet hold Politburo seats but aspire to do so in the future. Second, I outline the historical background of Liaoning, and then I briefly illustrate the political tension and leadership

competition within the province. Next, I introduce Li Keqiang by discussing his political ambitions and the reputation he built prior to his Liaoning tenure. I then explain in detail how Li improved the social welfare provision in Liaoning after he came into power, followed by a presentation of Liaoning's fallback in social spending in the post-Li era. After analyzing the Liaoning case through the lens of my theory, I conclude with the implications we can learn from my two case studies.

## **5.2 A Time-Series Analysis of the Province Of Liaoning**

The province of Liaoning allows us to examine the effects of politicians' ambitions on the social welfare output in the province while controlling for other factors. The results of this case study provide support for the hypothesis that ambitious provincial leaders—those who seek to advance their careers to the central level—increase the provision of social goods in the province.

### **5.2.1 Research Design**

There are several ways to conduct a case study to examine the effects of career ambitions on social welfare provision. First, I could conduct a most-similar case study (Geddes 1994; George and Bennett 2005; Gourevitch 1978). I could choose two provinces that are identical in almost every dimension but different in the career ambitions of their provincial leaders, and then compare their patterns of social welfare provision. This way I could discern the effects of career incentives *per se* without the influence of other confounding factors (Blalock 1979; Campbell and Stanley 1963; Milner 1987; Trochim 2000)

But finding two Chinese provinces identical in almost every aspect is very difficult. Moreover, finding two identical provinces with an ambitious provincial leader in one but not the other is even more difficult. Practically speaking, if two provinces are identical, then the Center would most likely send politicians with similar qualifications to each province in order to test their capabilities. Therefore, even if there were two similar provinces, chances are that leaders from both provinces would have similar ambitions in advancing to the Center, and they might even successfully enter the Politburo together in the end.

Since conducting a most similar case study is almost impossible, what about choosing two random provinces—one with a go-getter provincial leader and one without—and examining their social policy development? I would still not be able to identify the effects of career incentives on provincial social spending alone. Even if I could show that the go-getter's province did spend more on social policy, it does not mean that the go-getter contributed to the higher level of social spending in the province. It might be due to other factors that vary across provinces. For instance, the literature has already identified variables that might influence the level of social welfare provision in a province. A detailed literature review is presented in Chapter One, but here is a brief recap. A province might have a higher level of social spending if the economy is more developed and the provincial government has more resources in hand (Przeworski 1991; Saich 2004; Wong 2008); if the degree of marketization is lower and more laborers are from the public sector (Bates 1981; Haggard 1990); or if there is a bigger population of unemployed or non-working age people in the province (Cox 1987; Haggard and Kaufman 2008). Since comparing two random provinces does not hold these variables

constant, I cannot rule out the different influences they have on social spending across the two provinces. As a result, I will not be able to tease out the effects of career incentives on social spending.

Another way to study the impact of political ambitions is to conduct a time-series analysis on just one province (King, Keohane, and Verba 1994; Posner 2004; Trochim 2000). The advantage of this approach is that it is an intra-provincial study, so it holds constant the economic factors and macro-conditions that might affect the provision of social goods. As mentioned above, there are economic variables from the literature that might affect social spending. Moreover, there might be other macro-conditions that could potentially influence social welfare provision in a province, but are not identified by scholars who study the political economy of China. For instance, political economists argue that the level of openness might be associated with the level of social spending (Rodrik 1997; Rudra 2003). Economists focusing on trade also suggest that proximity to the ocean might have an impact on the provision of social welfare (Benjamin et al. 2005; Eastwood and Lipton. 2000; Gustafsson and Li 2001). Sociologists even believe that cultural factors, such as family responsibility and the phenomenon of migrant workers working in the informal sector, reduce the government responsibility on pension spending (Bell 2006; Esping-Andersen 1997; Fields 1990; Peattie 1987; Portes and Schauffler 1993; Tokman 1992). Examining social spending within the same province, then, holds constant these conditions while other political factors that my theory suggests important to the provision of social goods are allowed to vary.

To conduct a time-series analysis, I have to take several measures of the outcome variable *before*, *during*, and *after* the implementation of the treatment (Adcock and

Collier 2001; Cook and Campbell; Green and Gerber 2002). The goal is to examine the effects of politicians' career ambitions on a province's social welfare provisions level. Therefore, the "treatment" variable is to have an ambitious politician serve as the new leader of a province where the original provincial leader was not ambitious to seek a Politburo seat. The "outcome" variable is the level of social welfare provision in the province. The research design then is to first observe the social spending trend in the province before the ambitious politician arrived. The second step is to observe the change of social spending pattern during the time while the ambitious politician was in the province. The final step is to observe the level of social spending after the ambitious politician left the province and there is no ambitious leader in the province anymore. In short, the goal is to compare the social spending outcomes of a province before, during, and after the ambitious politician was in the province. This way I can more accurately tease out the impact of career ambitions on social welfare provision (Swartz 1980; Trochim 2000).

### **5.2.2 Case Selection**

Liaoning province, in China's Northeastern rust-belt provides an ideal setting to conduct a time-series analysis. Traditionally speaking, leaders of Liaoning do not have the ambition to acquire Politburo positions. Liaoning has not been a key province due to its sluggish economy based on heavy industry since the start of economic reform. Therefore politicians in the province have been more interested in consolidating their local influence rather than aiming for the central positions. The fact that none of the past

Liaoning leaders had ever made it to the Politburo after the start of economic reform reflects this context.

By the same token, Beijing did not see Liaoning as one of its favorite provinces either. As mentioned in previous chapters, the Center paid most of its attention to wealthier provinces on the southeastern coast during the 80s and the 90s. But this changed in 2004 when Hu Jintao decided to turn Liaoning into one of his patron states. Hu retired the top-level politicians of Liaoning and sent his protégé Li Keqiang to take over the province. The appointment in turn marked a turning point in Liaoning's history, as it was the first time the province has ever had an ambitious politician with a realistic interest in a central career as its leader.

Li at the time was one of the most promising politicians and was widely believed as likely to succeed Hu Jintao and become the nation's number-one leader when Hu retired in 2012.<sup>71</sup> The media and political analysts reported stories about him and his ambitious colleagues who were leaders of other provinces, such as Xi Jinping and Li Yuanchao, and speculated about their prospects for becoming the fifth-generation of CCP leadership in the future.<sup>72</sup> Li Keqiang's transfer from agricultural Henan to industrialized Liaoning was then seen as both an opportunity and a test. He could gain more experience at an industrialized province to burnish his political reputation, but he also needed to prove his ability by replicating the same good government performance he had achieved in Henan in Liaoning (author's interviews, August 2007 and December 2008).

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<sup>71</sup> Now, though, he is speculated to be the successor of Wen Jiabao as Premier in the fifth generation of Chinese Communist Party leadership.

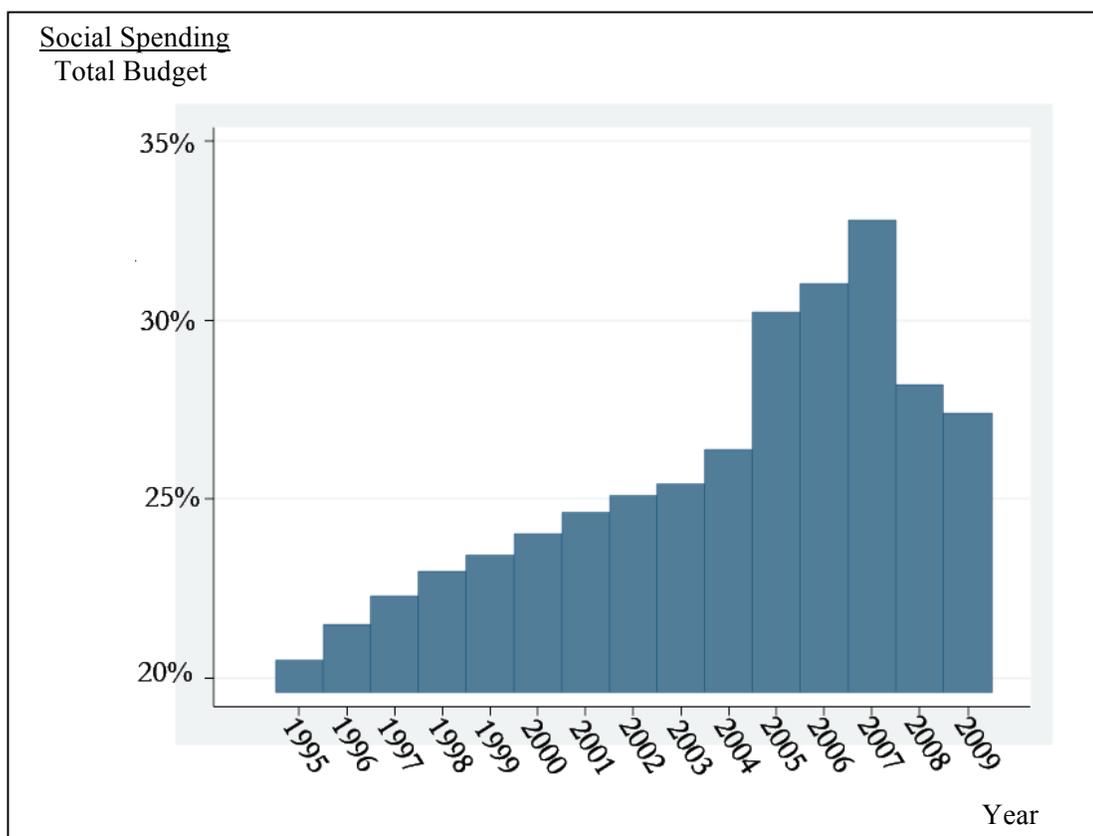
<sup>72</sup> *Sing Tao Daily*, "Li Keqiang Jiaotashidi Wangshangzou" [Li Keqiang Climbs Up the Career Ladder Step By Step], December 16, 2004; *Wen Wei Po (Hong Kong)*, "Xu Guangchun Lvxin; Li Keqiang Xibie Henan" [Xu Guangchun Assumes New Position; Li Keqiang Departs Henan], December 15, 2004.

When Li moved up from Liaoning to the Politburo after three years of provincial work, it marked an end to Liaoning's "treatment" of having an ambitious politician as its leader. This is because the new provincial leader, Zhang Wenyue, did not have any realistic ambition to seek promotion at the central level. Zhang succeeded the Party secretary position of Liaoning when he was already 63 years old, meaning that he had at most two years of political career remaining before he had to retire.<sup>73</sup> As a result, Li Keqiang was the sole ambitious provincial leader Liaoning has ever had, and Li's three-year tenure in Liaoning became the perfect treatment variable for my analysis.

If we examine the trend of Liaoning's social spending in Figure 5.1, we can clearly see that that Li's time in Liaoning overlaps with a significant rise in the level of social spending in the province. In Figure 5.1, the x-axis represents the year, and the y-axis shows the corresponding yearly value of how much the province spends on social policy as a percentage of total budget. As we can see, the social spending increased slowly but steadily in Liaoning between 1995 and 2004. In other words, the proportion of government spending that goes to social policy increased by roughly 0.5 percent each year before Li Keqiang arrived. This increase is quite trivial, and it could probably be explained by the developmental effect as a result of economic growth (Borcherding 1985; Jackman 1975; Mueller and Murrell 1986; Pampel and Williamson 1989; Wilensky 1975). As discussed in the previous chapters, a 10-percent annual growth rate is expected to increase the proportion of government expenditure on social policy by 0.7 percent, which is not too far from what we observe in Figure 5.1.

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<sup>73</sup> Please see [http://news.xinhuanet.com/ziliao/2003-02/20/content\\_737750.htm](http://news.xinhuanet.com/ziliao/2003-02/20/content_737750.htm)



**Figure 5.1: Social Spending Patterns of Liaoning**

But starting from 2005, which was the following fiscal year after Li took over Liaoning, there was a sudden jump in the level of social spending in the province. In 2005, for example, the province drastically increased the proportion of government expenditure on social policy from around 26 percent to more than 30 percent, and the province further increased the proportion to 33 percent in the following two years. But after Li left the province, the trend of provincial social spending has returned to “normal” again. The provincial spending on social policy dropped to around 25 percent as a share

of total budget in 2008 and 2009, resulting in a spike in the level of social spending from 2005-07.

Because the timing of Li Keqiang's tenure and the spike of Liaoning's social spending overlaps, it is very likely that the treatment variable (Li's tenure) has a positive effect on the outcome variable (the level of social spending) in Liaoning. This makes Liaoning an ideal case to study Li's policy actions and the impacts on social welfare provision in the province. How did the social policy unfold in detail within Liaoning? What did Li Keqiang do differently, with respect to the social policy requirements, than his predecessors and successors did? Moreover, what was the political logic of Li's social policy actions?

Before I illustrate the case of Liaoning, Table 5.1 provides the list of Liaoning's political figures and their policy actions. This is to help outline the connection between

Name	Post	Year	Career Goal	Social Policy Initiatives
Wen Shizhen	Party Secretary	1997-2004	Local	Ignored then Premier Zhu Rongji and neglected social welfare provision
Bo Xilai	Governor	2001-2004	Central	Went behind Wen's back to push for health reform and social security program
Li Keqiang	Party Secretary	2004-2007	Central	Centralized budgetary power on pension funds; launched unemployment aid program
Zhang Wenye	Secretary + Governor	2007-2009	Concurrentist	Gave back counties budgetary discretion on pension funds

career ambitions and social policy actions. I will illustrate in detail the policy initiatives of each provincial leader in the rest of the chapter.

### **5.3 Background of Liaoning**

The development path of Liaoning is very different from the path of Guangdong. Liaoning is located in northeast China, and it was one of the first provinces in the country to industrialize—first under the rule of Zhang Zuolin, the local warlord who controlled the region when the Republic of China was first established, and then under Japanese occupation in the 1930s. Both Zhang and the Japanese developed heavy industry in the area in order to strengthen their military power. They focused on materials for locomotives, vessels, airplanes, automobiles, trucks, military munitions, cement, synthetic gasoline, and mining equipment. After the founding of the PRC in 1949, the province was further built as one of the nation's industrial bases. In order to catch up to the degree of industrialization in the West, the central government poured 1/6 of all national resources into the province in order to focus the development of heavy industry. As a result of industrialization, Liaoning became one of the most developed regions during the pre-reform era.

#### **5.3.1 The Political Economy of Liaoning's Sluggish Economy**

The province's heritage of heavy industry actually became a liability since the start of economic reform. Under the new market economy, many of the large state-owned enterprises (SOEs) appeared to be inefficient and have continuously reported losses. Since the economy in Liaoning consisted largely of these heavy industrial state-

owned enterprises, the efforts to reform SOEs left the province with slowing growth and rising unemployment based on massive layoffs. Many state enterprise workers were “furloughed” (*xiagang*), which means they continue to receive a minimal stipend from their enterprise, but not enough to live on. Furloughing workers created many social problems. In the summer of 2007 when I was doing field research in Liaoning, I met a father who was laid off from his job at a SOE the previous winter. Despite trying very hard to spend his money as wisely as possible, the small pension he received was not enough to satisfy his family’s most basic needs. There was no additional social insurance provided by the government, and without other sources of help, he could not pay for heat during the harsh winter. As a result, his two-year-old daughter froze to death.

Although this kind of tragedy was a result of the combination of many socioeconomic factors, the provincial government of Liaoning should bear at least some of the blame because it did not take any significant steps to improve the situation. Several government officials I interviewed argued that the lack of government action was because there were no ambitious leaders in the province throughout the period (author’s interviews, August 2007 and December 2008). Traditionally, Party secretaries of Liaoning were not Politburo members and had no realistic ambitions to become one in the future. They were more interested in consolidating their local influence than aspiring to a Beijing career. Accordingly, they did not focus too much on policy achievements, and none of them made it to the Politburo after the start of economic reforms. To be sure, Beijing was preoccupied with the coastal and eastern provinces at that time. It was not until the late 90s that the Center shifted its attention to the northeast area. But even after the Center openly stressed the importance of social welfare issues in Liaoning, the

provincial government did not react to the Center. In 1999, when then premier Zhu Rongji visited Liaoning, he openly called for attention to furloughed workers in the province; in particular, he suggested that the provincial government should improve social welfare provision to help these people. Nonetheless, his remark did not evoke even an echo from the provincial government (author's interviews, September 2007).

### **5.3.2 Wen Shizhen and the Localism in Liaoning**

At the time, the provincial Party secretary was Wen Shizhen, a typical local politician. He was appointed as Liaoning's deputy Party secretary and vice governor in 1986, and ever since then, he had been inside the province's inner circle of power for nearly 20 years. Throughout this time, the Center did not pay too much attention to the local politics in Liaoning, but instead was busy dealing with localism in other key provinces—e.g. Guangdong, as illustrated previously. This gave Wen, who was a native of Liaoning, the opportunity to build a strong local base in Liaoning.

As a result of his local influence, Wen was not interested in a Beijing career (author's interviews, August 2007). During his tenure as Liaoning's Party secretary from 1997 to 2004, Wen did not try to impress Beijing as his colleagues in Guangdong did. For instance, after the Center showed some interest in social security issues in the late 90s, Li Chuangchun started to build a social safety net in Guangdong, whereas Wen Shizhen remained aloof to the social welfare situation in Liaoning (author's interviews, July 2007 and February 2009).

### **5.3.3 Leadership Competition in Liaoning**

In spite of the poor provincial performance on social welfare, there was an exception at the municipal level. In Dalian—the second largest city and main seaport of Liaoning—the health reform was started as early as 1999. At the time, Bo Xilai, who has always been regarded as an ambitious and promising politician, was the leader of the city. In sharp contrast to Wen’s inaction, Bo reformed the health care system in Dalian and included SOE workers under the new health insurance plan. He also significantly improved the city’s economy. Under his leadership, Dalian had an annual growth rate of 11.7 percent, higher than the provincial average of 7.5 percent, and the national average of 10.12 percent, during the same period.<sup>74</sup> Because of Bo’s contribution, Dalian received the name as “Hong Kong of the north.” In 2001, Bo was promoted to the provincial governor position.

When Bo Xilai arrived in the Liaoning provincial government, Wen Shizhen was the provincial Party secretary. On the one hand, Bo was aiming at the central leadership; in order to accumulate more political credentials, he was very aggressive in pursuing provincial achievements. On the other hand, Wen Shizhen was not interested in a Central career and, therefore, was more passive. Officially, Wen was the number-one provincial leader because a provincial Party secretary, referred to as “the number one hand” (*yibashou*), ranks above a provincial governor. In reality, however, Bo often ignored Wen’s authority and pushed for many projects. In 2002, for instance, Bo replicated his health reform program from Dalian and implemented it in the province without Wen’s consent. Bo also launched a social security program, which aimed to 1) train 300,000 unemployed workers, 2) reemploy 300,000 furloughed workers, and 3) subsidize 500,000

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<sup>74</sup> Source: Chinese Bureau of Statistics

migrant workers; but none of the official documents went through Wen's office (author's interviews, August 2007).

Bo Xilai's behavior soon provoked Wen's displeasure. In a provincial meeting in April 2003, Wen denounced Bo for bypassing his authority in implementing social welfare reforms. He also criticized the programs as another of Bo's "political achievements project," which were merely a waste of government money and would have no economic effect in the long run (author's interview, August 2007). Bo, in turn, claimed that Wen was "the leader of the Party, not the government" and should not have authority over him. After all, it was "Chief Jiang [Zemin] and Chief Zhu [Rongji]'s call" for him to come and lead the provincial government (author's interviews, August 2007).

#### **5.3.4 Hu Jintao's Role in the Wen-Bo Clash**

Bo Xilai got on his high horse because of his family background. Bo Xilai's father, Bo Yibo, was one of the elders of the communist revolution who had a big say in the era of Deng Xiaoping. Before Jiang secured his leadership role at the national level, Bo senior stepped in and helped Jiang consolidate his power. People thus believe that - Jiang tried to look after Bo Xilai in order to return the favor to Bo senior. Nonetheless, Bo Xilai's connection with Jiang resulted in Hu Jintao's distrust, and this also contributed to the political tension in Liaoning. As illustrated earlier, when Hu first succeeded Jiang as the national leader in 2002, he was overshadowed by Jiang's residual influence. Before Hu could send his own men to take over the key provincial posts, he had to seek an alliance with some incumbent provincial leaders. In Guangdong, for example, Hu

worked with Zhang Dejiang before he sent Wang Yang to the province. As for Liaoning, Hu stood by Wen Shizhen as a containment strategy against the Jiang-Bo coalition.

During Wen's tenure in Liaoning, the province experienced one of the biggest corruption scandals in the nation.<sup>75</sup> Over 400 government officials above the municipal level were charged with corruption, and many of Wen's old colleagues were sentenced to more than 10 years of imprisonment, including Zhang Guoguang (former governor and deputy Party secretary of Liaoning) and Liu Ketian (former vice governor of the province). Despite the situation, Wen's position as Party secretary was as firm as a rock, and there were no signs of holding Wen responsible for the scandal. Not only did he stay as Liaoning's leader until the December of 2004, but he also safely landed a vice-minister level position at the National People's Congress after his retirement. According to my source, Wen safeguarded his position because Hu needed his collaboration. Politically speaking, the presence of Wen posed a big challenge to Bo, as Wen was very well-connected in Liaoning and could outmatch Bo's influence in the province. Had Wen left the Party secretary post, Bo would have faced no obstacle in front of him and could have become the new Party secretary of Liaoning. But Hu did not want to see the emergence of another Jiang's ally, which would further increase Jiang's influence in the nation.

Hence, Hu intentionally kept Wen as the Party secretary to clash with Bo.

After Hu consolidated his power in the national leadership in 2004, he sent Bo to take over the Ministry of Commerce (MOFCOM), thus bringing an end to the political tension in Liaoning. Technically speaking, this was a transfer between two posts at equivalent level, but most political analysts back then thought it was a promotion for Bo

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<sup>75</sup> Often referred to as the "Mu-Ma Case."

because a minister at the central level should have a higher political status than a governor at the local level. Nevertheless, Hu Jintao made a smart move in slowing down the pace of Bo's promotion. At that time, Wen was only one year away from the retirement age of 65, so had Bo remained as Liaoning's governor, he would have succeeded Wen as the new Party secretary. Furthermore, the Center had just launched the "revitalize the northeast" campaign, which had given the province more development opportunities. Had Bo become the new Party secretary of Liaoning, he would have been in a great position to earn good evaluation results. In contrast, the job at MOFCOM was more challenging after China entered the WTO, and it was more difficult for Bo to earn political praise here than at the job in Liaoning. Therefore, rather than throwing Bo a softball, Hu Jintao moved Bo Xilai to MOFCOM.

#### **5.4 Li Keqiang and His Henan Legacy**

A few months after Bo left the province, Wen retired from the Party secretary position, and Li Keqiang was appointed as the new successor. Li was originally the leader of Henan province, and he has long been considered politically ambitious. He was also noted for his keen interest in forming political ties with senior leaders, e.g. he became a close protégé of Hu Jintao after serving under Hu in the CCYL system in the mid-1980s. Consequently, he was considered a rising star who might join the fifth-generation leadership and succeed to Hu's number one position.<sup>76</sup> His transfer from agricultural Henan to industrial Liaoning was seen as an opportunity and a test: he could

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<sup>76</sup> Now, though, he is speculated to be the successor of Wen Jiabao as Premier in the fifth generation of Chinese Communist Party leadership.

gain more experience at an industrial province as his political capital, but he also needed to replicate the same success of his Henan experience to prove his ability.

#### **5.4.1 Li's Contribution in Henan**

During Li Keqiang's time in Henan in which he first acted as acting governor, then as governor and Party secretary, the provincial economy had improved quite significantly. From 1998 to 2004, the provincial GDP increased by 70 percent, which made Henan's GDP ranking jump from 28<sup>th</sup> to 18<sup>th</sup> in the nation. Also, in 2004, the per capita annual income for peasants rose 14 percent to reach 2550 yuan and became one of the fastest-growing rural incomes in the country.<sup>77</sup>

Additionally, Li was praised for his contributions to Henan's education system as well as its economy (Nathan and Gilley 2003). For instance, he developed a plan to support basic education in Henan so that all school-age students in the province could complete the mandatory nine-year education. He also earmarked new funds to repair and expand rural schoolhouses. Moreover, in order to keep township governments from misappropriating the budget for rural teacher salaries, he placed the funds in escrow accounts under the control of county government. Last but not least, Li strengthened the advanced education system in the province, e.g. he merged several small colleges together to form two major universities in 2000.

#### **5.4.2 Henan's Health Issues**

Li Keqiang also made major progress on Henan's health issues and especially in

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<sup>77</sup> [http://www3.chinesenewsnet.com/gb/MainNews/Forums/BackStage/2007\\_6\\_10\\_0\\_11\\_42\\_172.html](http://www3.chinesenewsnet.com/gb/MainNews/Forums/BackStage/2007_6_10_0_11_42_172.html)

confronting the HIV/AIDS problem. The United Nations Joint Programme on HIV/AIDS (UNAIDS) once warned that China had one of world's largest populations of AIDS victims. Kofi Annan in particular openly said that the country was "on brink of an explosive AIDS epidemic" when he visited China as United Nations Secretary General in October 2002.<sup>78</sup> According to 2001 figures, the number of HIV-positive cases in China reached 1.25 million with around half of the infected people from Henan, making the province the HIV hub of the nation (Nathan and Gilley 2003).

Unlike other epidemics, Henan's AIDS crisis was spread by the misbehavior of local officials, who made so much money from illegal blood banks that they referred to blood donation as "Henan's third industry" (author's interviews, January 2009). Starting in 1992, rural cadres had been sponsoring unregulated and unsanitary blood purchasing centers, dubbed "clinics." In order to make more profit from these blood centers, they encouraged local residents to sell their blood to the numerous operations throughout the province. Unfortunately, employees at the blood banks lacked related knowledge about spreading HIV, as evidenced by certain ill-advised practice such as the repeated use of needles on donor after donor. They even extracted plasma from donated blood and then injected mixed batches of the remaining blood elements to patients. This inevitably led to an HIV explosion among tens of thousands of people, who could not afford health care even if they were lucky to have access to it.

### **5.4.3 Li's Action against AIDS**

In order to deal with the crisis, Li Keqiang banned illegal blood banks and

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<sup>78</sup> <http://www.europaworld.org/week101/chinaonbrink181002.htm>

launched publicity campaigns against them in rural areas. He also established standardized blood collection stations in the 18 worst-affected regions in the province. His boldest stroke was to visit the so-called “AIDS villages” in the province even before Beijing officially changed its HIV policy. In December 2003, premier Wen Jiabao visited three HIV sufferers at Ditan Hospital in Beijing, which signaled that the Center had finally decided to openly face the crisis and fight the epidemic. But before that, Li Keqiang had already made two quiet visits to Wenlou, the village with the highest incidence of AIDS in Henan. And soon after Wen’s policy announcement, Li set foot in Wenlou again for the third time, although this time it was a high-profile visit. He talked to AIDS victims and shook their hands, while announcing that all infected people would receive free treatment. He then arranged a meeting with Dr. Gao Yaojie, whom the provincial government had declared an “undesirable person” after she disclosed the AIDS crisis in 1998. According to inside reports, the HIV epidemic was under control after these mandates, and the death rate also dropped, although Li was ineffective in deterring grassroots officials from pocketing funds and donations that foreign NGOs had given AIDS victims (author’s interviews, February 2009).

### **5.5 Liaoning’s Policy Development under Li Keqiang**

Overall, Li Keqiang received good ratings for his work in Henan. But in order to secure a ticket to the Politburo by the 17<sup>th</sup> Party Congress—which was still three years away—Li still needed to replicate the same good performance in Liaoning. In a provincial meeting shortly after he became Liaoning’s new Party chief, he announced that the priority task for the province was to follow Beijing’s populist initiatives and to

improve social welfare provision. To achieve this goal, he adopted a daring step by retrieving county governments' discretion in social welfare policy (author's interviews, August 2007 and October 2008).

### **5.5.1 From County-Based to Province-Based Budgeting**

Before Li Keqiang arrived in Liaoning, the province was known for the so-called “county-based budgeting” (*xiànjí tǒngchóu*), in which the provincial government grants county governments discretion to plan their social welfare budgets. This arrangement was first pioneered by the southeastern provinces in the 1990s, with the purpose of enhancing government efficiency as a response to inequality. As the frontrunners of economic reforms, many southeastern provinces faced widening inequality within themselves, and different counties started to differ in terms of their social welfare needs. In order to deliver social goods more efficiently, these provinces decided to grant discretion to county governments, which are the actual deliverers of many social services.

Following the example of eastern provinces, some provinces in other parts of the country also started to allow county discretion. Liaoning was one of them. But not too many provinces followed this trend of devolution, and most provinces in China chose to hold onto the budget planning power, called “provincial-based budgeting” (*shěngjí tǒngchóu*). In nearby Jilin province, for instance, the provincial government plans the social security budget, and county governments do not have any discretion but to follow the budget.

Nevertheless, after Li Keqiang arrived in Liaoning, he started to retrieve the fiscal power from county governments. Instead of full discretion, counties could only enjoy

partial discretion on budgets related to social welfare issues. The provincial government started to demand higher expenditure on social spending such as pensions, education, and health, although county governments could decide the details on how to increase the spending (author's interviews, August 2007). Counties were rewarded with more budgetary transfers when they followed the provincial mandate and increase social welfare provision. Otherwise, they were deprived of the remaining budgetary discretion, in which case the provincial government would plan their budgets for them (author's interviews, August 2007 and October 2008).

Because of Li's new policy, the province showed a substantial increase in social welfare spending. Between 2006 and 2007, the province spent in total 20.9 billion yuan on social welfare, or 34 percent of total budget. This included the spending on social security, unemployment assistance, peasant subsidy, education, and health. Moreover, the spending on social security and unemployment assistance alone was 14.3 billion yuan, which was a 51-percent increase from the previous year.

### **5.5.2 Li's Effort on Social Welfare Issues in Liaoning**

Li also made an effort to help laid-off workers and low-income people improve their welfare. His emphasis on employment was well known since his arrival in Liaoning (Li 2008). He not only incorporated all residents into the province's new pensions and social insurance system, but he also pioneered a groundbreaking new policy in 2006 to help the "zero-employment families" (ZEF), which refers to the urban families with no employed family members. The project was officially called the Liaoning Long-Term ZEF Aid system, and it promised that "if all the members of a family are jobless, the

government would offer employment to the family within twenty days.”<sup>79</sup> It also provided professional training to help ZEF members adapt to their new jobs more quickly. According to the statistics, the project helped 193,000 families regain employment during 2005 to 2007.<sup>80</sup>

Moreover, Li believed that one of the most efficient ways to help the poor was to solve their housing problems. He therefore launched the “shantytowns renovation project” which aimed to rebuild the province’s poor residential areas. The project was so huge that he had to borrow nearly 50 billion yuan (\$7.3 billion) from the China Development Bank. The plan was to offer new apartment homes to poor families from the slum areas. Although some of the apartment units were only 500 square feet big, they offered much more space and a better living environment compared to the slums. In a CCTV interview in March 2007, he proudly announced the results: approximately 130 million square feet of squatter homes were demolished, and 205 million square feet of new apartments were constructed. In turn, the project benefited 1.2 million people, or about 345,000 families, in the province.

### **5.5.3 Liaoning’s Other Improvement**

Besides the issue of social welfare, Li Keqiang made substantial progress on Liaoning’s economy. His biggest contribution was the “five points to one line” policy, in which he linked up Dalian and Dandong as well as a series of other ports into a comprehensive network. As a result, the province benefited from economies of scale and

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<sup>79</sup> Zhu Zhe, “Li Keqiang: Shantytowns Under Renovation,” *China Daily*, 6 March 2007.

<sup>80</sup> *Boxun News*, “Wei Ji Jiemi: Diwudai Lingdaoren Mingxing Li Keqiang de Taolun” [Wikileaks: Discussion Regarding the Fifth Generation Star Li Keqiang], March 16, 2011.

the corresponding expansion of export, and therefore became a national leader in GDP growth. In 2006, Liaoning had an annual growth of 13.8 percent, which was its highest growth rate since 1994. The province also sustained a 13-percent quarterly growth rate for five quarters in a row, which was again its best since 1994.

Furthermore, Liaoning started to lead the nation in foreign trade. In the first half of 2007, the province's foreign exports increased by 35 percent, which was significantly higher than the 23 percent national average. In October 2007, Li Keqiang was promoted to a central leadership position in the Politburo Standing Committee. He is currently the First Vice Premier, and is expected to be the next premier and join the core of the Fifth Generation of CCP leadership.

## **5.6 The Aftermath of Liaoning's "Ambition Treatment"**

After Li left Liaoning, Zhang Wenyue, who was the provincial governor at the time, succeeded the Party secretary position of the province. In fact, Zhang had been Liaoning's governor since 2004, and the Center decided to let Zhang serve simultaneously as both Party secretary and governor. This put him in a great position to lead the province as he was both the first and the second hand of the province, thus the direct leader of not only the Party but also the government. Nonetheless, this did not translate into realistic career ambitions for Zhang. He even gave up the governor post within two months because he knew his role as Liaoning's leader was only a temporary arrangement. He was already 63 when he assumed the Party secretary post, so he had at most two years before he had to retire. As a result of the age limit, Zhang lacked the same career ambitions that motivated Li Keqiang.

### **5.6.1 The Post-Li Development**

Without the “treatment” of career ambition, the driving force behind the social welfare provision was gone. The first noticeable difference was that Zhang did not push for social welfare provision at the county level the way his predecessor Li Keqiang did. After Li left Liaoning, the provincial government stopped acting as demanding as it was in pushing for higher social spending, and some counties started to cut down their social security budget as a result. Although in the beginning the provincial government did show some concern about the social security spending, it did not take any action against these counties. As of March 2009 when I conducted my last in-person interview in Liaoning, no county was punished in the way Li Keqiang would have done it, and these counties still received their budgetary transfers as usual.

This resulted in a race to the bottom of social spending, in which case all counties cut down their social security budget. In the end, the provincial government stopped interfering with county governments’ spending decisions, and it returned full discretion on social welfare budget to the counties. The level of social spending soon decreased in the province. From July to December 2008, the social spending as a share of total budget went down by 21 percent over the same period in 2007. Most counties cut down their spending on all social services, including pension, health, and education spending.

### **5.6.2 The Development of Liaoning’s Pension Budget**

To be sure, before I left Liaoning, there was ongoing discussion about implementing provincial-based budgeting on pension funds. In particular, at the end of 2009, the province passed regulations to transfer the budget planning power of pension funds from county governments to the provincial government. This, however, did not show Zhang's attitude toward social welfare provision in the province. Based on my knowledge, Li Keqiang first brought up this proposal before he left the province. The original idea was to gradually shift all budgetary authority regarding the issue of social welfare to the provincial level, starting from pension funds first. But after Li left the province, the invisible hand behind this ambitious vision was gone. Therefore, only the first step of the idea was carried out.

Zhang eventually retired from the Party secretary position in November 2009—one month after he turned 65. He currently holds a retirement position at National People's Congress.

## **5.7 Analysis of the Liaoning Case**

The above account illustrates how social spending is influenced by the career ambitions of politicians. A provincial leader aspiring to a Beijing career can improve social goods provision even at the lower local level. Before Li Keqiang arrived, Liaoning did not have a leader with realistic career ambitions, and the issue of social welfare was not addressed in the province. But after Li assumed office, the situation changed. He started to emphasize social welfare system in the province. His boldest stroke was to retrieve the budgetary discretion from lower-level local governments. Counties could no longer freely plan the social security budget, but had to follow the provincial mandate

and increase social spending. The social spending in the province increased substantially as a result of Li's effort.

But the social welfare fever did not last for long in Liaoning. It was a manifestation of Li Keqiang's career ambition aimed at impressing the Center. After Li moved to the Center, his successor did not have the same career ambitions because he was close to retirement age. As a result, the effort to push for social goods provision was not sustained, and the restrictions imposed on county governments were gradually lifted. This led to a decrease in the level of social spending in the province.

As we see, although career ambitions do motivate provincial leaders to conform to the Center's preference, the mechanism is not durable. After the ambitious leader leaves, the succeeding person(s) may not have the same career ambitions, and therefore will not emphasize social welfare as the Center wishes. Still, this mechanism could be reliable as long as the ambitious provincial leader institutionalizes the effort to provide social welfare. As the Liaoning case shows, the ZEF project is still ongoing. Although it was originally Li Keqiang who wanted to help laid-off workers locate new jobs, this idea was institutionalized as a policy, so it was still effective even after Li left the province. As of 2009, the project has helped reemploy a total of 263,000 people from 240,000 families.<sup>81</sup>

Another example of institutionalization is that the province now holds the budget planning power over pension funds. This is again Li Keqiang's contribution. It was initially Li's idea to implement provincial-based budgeting on pensions funds. He even supervised the formulation of a draft regulation before he left the province (author's

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<sup>81</sup> Ibid.

interview, October 2008). Eventually, the province passed the regulation in 2009—two years after he left the province.

In sum, the evidence presented in this chapter shows that provincial politicians could still be held accountable to the Center as long as they aspire to the central leadership positions. Unlike traditional concept of accountability in democracies, the accountability mechanism in China works indirectly through the Center. Because politicians behave strategically based on their career ambitions, those who aspire to higher positions in the central Chinese Communist Party or central government institutions have an incentive to guarantee social welfare provision at the local level. This way they can impress Beijing and increase their chances for promotion.

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## **Chapter 6: The Political Lessons of China's Social Spending**

This chapter draws upon the results gathered in my dissertation and concludes that there is still accountability under China's nondemocratic system, but the accountability works indirectly through the Center based on politicians' career ambitions. Local politicians in China can still be motivated to improve social goods provision—even if there is no electoral incentives—as long as they have the career ambitions to seek promotions at the central level rather than staying locally. Because the Center is concerned about regime survival and wants to ensure the provision of social welfare to maintain social stability, provincial leaders who also hold central leadership roles will conform to the Center's preference and not neglect the provision of social goods. Another group of provincial officials, who do not yet hold central posts but aspire to do so in the future, also have an incentive to put social goods at a higher priority. This way they can impress the Center and increase their chances for promotion. A third group of provincial politicians, those who are not interested in central careers but only seek promotions at the local level, puts social welfare provision at a lower priority; they rather spend money on connecting with local interest groups or projects that are tied with their business cohorts.

### **6.1 Summary of Findings**

### 6.1.1 Conclusions from Quantitative Analysis

My quantitative results in Chapter 3 show that top-level provincial officials are motivated by their career ambitions regardless of their roles. Both Party secretaries and governors increase social spending to improve their chances to enter the Politburo. Moreover, the effects of career ambitions are not limited to a particular type of social goods, but the effects are stronger on social security and welfare than on education and health. In other words, politicians still prefer to spend on social security and welfare over education and health even when they are motivated by their career ambitions. One possible explanation can be drawn from my interview findings which emphasized the efforts of local politicians to prevent mass protests in their area. One of the hard criteria for evaluating local officials' performance is the number of protests. Since most of the protests are triggered by laborers unhappy about social security and welfare, local officials tend to concentrate their social spending on social security and welfare (author's interviews, January 2009). This finding also lends some support to Wintrobe's (1998) argument that politicians in socialist regimes provide social insurance in response to the demands of labor and to prevent labor unrest.

Most importantly, the governmental decision on social welfare provision does not necessarily depend on the resources available to the government or the people's needs in the province. Rather, it is a political decision by the politicians based on their political ambitions. As my data analysis shows, the career ambitions of provincial politicians are most effective in improving the social welfare provision in a province. When all other variables were held at their means, an ambitious provincial leader increases the social spending (as a share of total budget) by at least 5.6% to as much as 14.6%, which is

significantly higher than other socioeconomic factors. For instance, a 10% annual growth rate only accounts for a 0.6% increase in the provincial social spending (as a share of total budget), while a 10% increase in provincial tax revenue actually reduces the provincial social spending by 7.4%. Not to mention that the provincial unemployment rate and demography (measured as the percentage of local population that is non-working age) do not matter in the provincial decision on social spending. At the end of the day, it is not the people's needs or the governmental resources, but the politicians' political ambitions that matter to social welfare provision.

### **6.1.2 Lessons of Two Case Studies**

The case studies detailed in Chapter 4 and 5 suggests that local leaders are more likely to act in line with the Center's preferences when they have realistic ambitions and believe in their ability to climb up the career ladder to Beijing. When the Center calls for attention to unemployment problems, these ambitious leaders start to care for laid-off workers in the province; when the Center wants to clean up localism, these leaders shake up the local politics; when the Center calls for more attention to social welfare, they start up new social welfare programs. The mechanism primarily relies on upward accountability, in which local leaders try to cater to the preferences of the Center, rather than to the preferences of local citizens.

But not all local politicians have realistic career ambitions; after an ambitious leader leaves the province, his or her successor might not have the same incentive to carry on the effort to provide social welfare. Nonetheless, the social welfare provision will last as long as an ambitious leader institutionalizes the policies. As seen in the

Guangdong case, Li Changchun's medical insurance system has continued to date; subsequent leaders have also improved Zhang Dejiang's pensions program. Similar situations can also be found in Liaoning, where the ZEF program has lasted, and the budgetary power over pension funds has been transferred to the provincial government even after Li Keqiang left the province.

## **6.2 Theoretical Contributions**

My dissertation shows that an authoritarian regime can still shape policy outputs at the local level despite economic decentralization. All authoritarian regimes face the tradeoff between the need to empower local agents in order to foster growth and the regime's imperative to control these agents politically. The Chinese experience shows that personnel appointment power helps Beijing overcome the challenge as a decentralized state. Because the Center holds the promotion decisions, ambitious local leaders have to act according to the Center's preferences in order to increase their chances for promotions. Moreover, the evidence presented in my analyses serves as a critique of decentralization, as it provides justification for strong central control. After all, it is the personnel appointment power that helps the Center shape the behaviors of local agents, and thus ensures political control and implementation of central policy priorities even at the bottom of the hierarchy.

My research enriches our understanding of China's central-local relations. The existing literature on the political system of China has divided into a dichotomy between centralism and decentralization. On the one hand, scholars with a more traditional approach like Lieberthal, Lampton, and Oskenburg believe that China's political system

has become a “fragmented authoritarianism” (Lampton 1987; Lieberthal 1992, 2003; Lieberthal and Oskenburg 1988). The Center has faced more and more challenges in controlling local-level officials with respect to local policy implementation (O’Brien and Li 1999; Shirk 1993; Walder 1991; Zweig 1987). This argument is further reaffirmed by a political economy approach adapted by Montinola, Qian, and Weingast (1994) and their colleagues (Tsai 2004; Jin, Qian, and Weingast 2005; Qian and Roland 1998). Local politicians have abused their discretion, which eventually lead to huge policy variations within the country or even deviation from the central mandates at the local level. On the other hand, the centralization camp argues that Beijing is more than capable of controlling and managing the country while keeping localism in check (Bo 2004; Naughton and Yang 2004; Solinger 2004; Yang 2006). This is why the Center could reshuffle top-level provincial officials around the country, reconfigure the nation’s fiscal system, and recentralize the nationwide tax revenue these days. But my research provides direct evidence that there is actually room to incorporate both arguments. The Center does face a lot of challenge in controlling local officials, but it is also able to shape local policy outputs at the local level to a certain degree.

Moreover, my research engages with the impact of politicians’ career ambitions on their policy choices, thus introduces new explanatory variables to the literature. The variable of career ambition has recently received increasing attention by scholars who study Chinese politics (Kung and Chen 2011; Liu, Shih, and Zhang 2011). However, most of the studies still do not take into account the career ambition variable because of the measuring difficulty. My project makes contribution to this part of the literature by bringing more comprehensive dataset and conclusive results of career ambitions.

Finally, my study unravels China's opaque political system. Although China specialists like Huang (1999, 2001), Landry (2008), Shih (2007), and Whiting (2004) have provided many valuable insights on the policy process under China's decentralized authoritarian system, they do not include social policy in their research. Other scholars who focused on social welfare provision in China do not address the politics behind central-local conflict, and they tend to rely on survey data at the grass-root local level (Frazier 2010; Saich 2008; Tsai 2007). My research provides a systematic data analysis at the provincial level, and it shows that promotional eligibility does affect politicians' policy choices at the local level.

### **6.3 Broader Implications**

The lesson we learn from the experience of China is that economic development is not necessarily associated with improvements in government performance, as reflected in the provision of social goods like welfare, health and education. Although good governance often fosters economic growth and social development, the reverse may not be true. The quality of government performance depends on whether or not the incentive structure that the political institutions have shaped can motivate politicians—even in authoritarian systems.

In democracies, there are electoral incentives to motivate local leaders who are prone to reelection in the future. Politicians with reelection incentives are more likely to enact policies that are welcome by their constituents and provide social goods to the people (Ferraz and Finan 2007). Similarly, the Chinese system provides a clear hierarchy and political ladder between the central leadership and local governments. The career

pattern in China is that politicians must have enough experience and good performance at the local level before they can head for the top positions in the central leadership. Therefore, ambitious politicians can still be motivated by their career incentives to increase public goods provision even if there lacks electoral oversight. This allows politicians who have political ambitions to seek promotions at the central level to increase social goods provision.

My research also sheds lights on the direction of China's foreign policy in the future. It shows how Chinese domestic politics might affect the international relations. For instance, my project shows that China has become a more responsive polity to negotiate with the people regarding social welfare, labor rights, and environmental issues. Hence, the country is onboard with the OECD countries. Especially when the U.S. has become more committed to environmental issues such as the reduction of CO<sub>2</sub> emission, if China can go along the same direction, it will bring positive externality to the world. On the flip side, however, is that a more responsive polity also means a more constrained leadership. Therefore, it may be harder for the U.S. to acquire China's cooperation in many other issue areas internationally. Moreover, it will be harder to negotiate with China since the Chinese leaders can play the public opinion card now.

#### **6.4 Future Research Direction**

I have several future research projects. The first project analyzes the lame duck status in Chinese politics. Although the Chinese system does not have electoral constraints, politicians in China still face other restrictions such as term limits and mandatory retirement age. As I mentioned in Chapter 1, when top-level provincial

officials are well below the mandatory retirement age of 65, they have time and reasons to believe that they can work their way up to higher political positions in the Politburo or the Politburo Standing Committee (PBSC). On the other hand, when they are approaching the age of 65, they have no realistic ambitions, and they expect to retire by the time the next Party Congress takes place to select the new membership of the Politburo and PBSC. Preliminary analysis shows that this lame duck status affects Chinese politicians in a similar way that politicians in democratic regimes are affected. Top provincial officials in China do not initiate new policy actions when approaching the retirement age of 65.

The second project extends my ongoing research from social policy to labor and environmental policies. My analysis of Chinese-style decentralization shows how ambitious provincial officials initiate local programs to provide more social welfare to the people in order to impress Beijing and increase their chances for promotion. I expect that a similar pattern can be found in labor and environmental issues, as Beijing also allows local discretion in labor and environmental policies. My current research on the local social policy process therefore provides a roadmap to my future research on China's labor rights and environmental protection development.

I will operationalize labor rights through the number of labor dispute over wages, benefits, social insurances and other issues. I will also use the implementation of employment contract (percentage of employees that have signed contracts with their units), minimum wage (percentage of employers that have fulfilled the local minimum wage requirement), working hours (percentage of employers that have fulfilled the local working hours requirement), and occupation safety (percentage of work-related

accidents/deaths). Last but not least, I will operationalize environmental protection through the number of pollution accidents, the discharge and emission of industrial wastes, the investment in anti-industrial pollution projects, and the number of environmental protection agencies and persons. These data are available through China's national and local statistical yearbooks.

Finally, I am interested in comparing China to other post-communist regimes with similar political hierarchies. Political scientists believe that good governance, which is mainly associated with mature democratic institutions, is the key to economic growth and social development (Acemoglu and Robinson 2005; Przeworski *et al.* 2000; Weingast and Careaga 2003). However, this blossoming literature has not led us to explore the rare but intriguing cases of good governance in authoritarian regimes. My research shows that even authoritarian rules might produce "good" results, generating economic growth and social goods provision that are comparable to democracies. In the case of China, there is a clear career ladder and performance expectation to motivate ambitious politicians to provide public goods. I believe the same logic would apply to other post-communist regimes or countries that do not have sufficient electoral incentives at the local level—namely authoritarian regimes, transitional regimes undergoing political reforms, and/or democracies without elected local officials.

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