

## **The Path to Common Prosperity: Rising Social Construction and Livelihood Expenditure\***

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### **Abstract**

Since 2000, China has undergone a “golden age” of livelihood security construction similar to that of the Western industrialized countries in the 1960s to 1980s. Nowadays, China has built up the world’s largest social security and housing support systems; the coverage of compulsory education has reached the average level of high-income countries; and the main health indicators are generally better than the average of middle- and high-income countries. Obviously, China is no longer a “low-welfare” country. Livelihood expenditure, with a share of GDP close to the level of developed countries around 1980, has become the principal part of public expenditure, and the central government is also playing an increasingly prominent role in ensuring people’s livelihoods. China is building a new livelihood security system with responsibility shared among multiple levels of government.

**Keywords:** social construction, livelihood expenditure, great transformation, central-local relations

Common prosperity is an essential requirement of socialism and the shared aspiration of all Chinese people, as well as a key feature of Chinese-style modernization. Achieving common prosperity is not only an economic issue, but also a significant political issue that is important for the foundation of the governance of the Communist Party of China.<sup>1</sup> Currently, the principal contradiction faced by China is the contradiction between unbalanced and inadequate development and the people’s ever-growing need for a better life. Livelihood security construction is thus an important part of China’s effective response to the change in the principal contradiction and march toward common prosperity.

With a focus on the dynamic evolution of livelihood expenditures, this paper tries to

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\* This paper is an interim outcome of a key project sponsored by the Social Science Fund of Beijing, “An Interpretive Research on General Secretary Xi Jinping’s Important Thoughts on Common Prosperity” (21SRA028).

1 See Xi Jinping, “Understand the New Development Stage, Act on the New Development Philosophy, and Establish the New Development Paradigm.”

provide an overview of China's livelihood security construction since the 21st century, and elaborate on the central-local relations in livelihood security mechanisms as well as the practical challenges to livelihood security in the new development stage. This research shows that the central government is playing an increasingly prominent role in the protection of people's livelihoods, and that China is building a new livelihood security system with responsibilities shared among multiple levels of government.

## I. Research Question and Theoretical Context

### 1. *The welfare state and social protection: the great transformation of the Western world*

Since the rise of capitalism in the Western world, the nature and functions of the state have always been an important issue of scholarly concern. Classical political economy, represented by Adam Smith, believes that the government should assume only minimal public functions, such as defense, policing and administration.<sup>2</sup> Nevertheless, as social problems resulting from the development of capitalism became increasingly noticeable, people's views on state functions have changed considerably.

Adolph Wagner, a German economist, was one of the first to add wealth redistribution to general government functions. He argued that in industrialized countries, the state should assume not only legal (policing) and defense responsibilities, but also social welfare duties on a larger scale; it should, through the implementation of social policies, respond proactively to the various social contradictions in capitalist development.<sup>3</sup> Max Weber, the sociologist active around the same time as Wagner, also argues that "the cultivation of hygienic, educational, social-welfare, and other cultural interests" are the basic functions of a modern state, whereas in traditional societies, these functions are performed by "amorphous *ad hoc* groups."<sup>4</sup>

Under the influence of these theories, Germany took the lead in launching social insurance schemes for medical care, work-related injuries, etc. in the late 19th century. Since then, some other Western countries have followed in Germany's footsteps and established social insurance and social welfare systems for medical care, work-related injuries, old age pensions and unemployment benefits.<sup>5</sup> After World War II, influenced by Keynesianism, various governments placed a high priority on the construction of social welfare systems. The "Great Society" program in the United States was a typical example, while the Nordic countries set up highly inclusive "cradle to grave" welfare states to take care of their citizens.<sup>6</sup> It can be seen that with the development of industrialization, the

2 See Adam Smith, *The Wealth of Nations* (II), pp. 263-293.

3 See Richard A. Musgrave, ed., *Classics in the Theory of Public Finance*, p. 25.

4 See Max Weber, *Economy and Society*, vol. 2, p. 1040.

5 See Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, pp. 139-150.

6 See Stein Kuhnle et al., eds., *The Nordic Welfare State*, pp. 1-5, 129-154.

traditional “residual” social welfare model, mainly based on families and communities, was no longer able to cope with various new social problems, and so a centralized institutional model of social welfare emerged.<sup>7</sup>

Karl Polanyi provides a fine theoretical overview of this process. He argues that human economic behavior is embedded in social relations. A self-regulating market economy, however, essentially requires that all economic factors, including labor and land, be stripped from the social entities in which they are embedded, and become free-flowing instruments of production totally in the service of capitalism, a development that will inevitably harm the solidarity and integration of society itself. Therefore, as the market expands, society’s self-protection will be activated at the same time. The development of capitalism since the industrial revolution has displayed a “double movement” between market expansion and social protection. Polanyi calls this process, by which the state responds to the social protection movement in order to move capitalism away from and beyond the self-regulating market utopia, the “great transformation.”<sup>8</sup>

T.H. Marshall and others have elaborated on the political meaning of the welfare state more directly. In their view, the growth of the welfare state is essentially a result of the awakened consciousness of civil rights and the expansion of democratic elections, and thus social welfare is simply a new “social contract” between the state and its citizens.<sup>9</sup> According to Marshall, citizenship consists of civil, political, and social rights, with civil rights coming first, followed by political rights, and finally by social rights. What Marshall calls “social rights” are the rights of citizens to receive relatively equal social benefits from the state, such as basic education, health care, and social security.<sup>10</sup>

## 2. *Livelihood security and social construction: the practice and story of China*

At a deeper level, the concepts of “welfare state” and “social protection” derive from the state-society dichotomy of Western political philosophy, which essentially presupposes a dominance-resistance relationship between the state and its citizens. As a result, the academic community has developed its theories of social welfare from the perspective of social contracts and social rights. What’s more, the idea of the welfare state is often directly associated with the Nordic high-welfare states, and social protection has from time to time been linked with the idea of social movements, which can very easily cause confusion and misunderstanding. Given this, China usually adopts the concept of “livelihood security,” and also uses the concept of “social construction” rather than “social protection.” Two representative views of livelihood security in China are given below.

7 See Harold L. Wilensky and Charles N. Lebeaux, *Industrial Society and Social Welfare: The Impact of Industrialization on the Supply and Organization of Social Welfare Services in the United States*, pp. 138-140.

8 See Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, pp. 112-115, 140-170.

9 See Charles Tilly, *Coercion, Capital, and European States, AD 990-1992*, pp. 112, 129.

10 See T.H. Marshall, *Citizenship and Social Class*, pp. 10-21, 34-52.

First, it is generally accepted among scholars that, like other East Asian countries and regions,<sup>11</sup> China has a “productive/developmental” social welfare system whose main characteristic is pursuit of a balance between economic development and social welfare with a view to serving economic development. Therefore, it can be viewed as a “low-welfare” “economic growth” model.<sup>12</sup> However, in the process of promoting market economy reform, China has also reformed and rebuilt its livelihood security system. In the 21st century, in particular, China’s livelihood security has been going ahead by leaps and bounds. In a short time, China has basically stepped out of the situation of being a low-welfare state.<sup>13</sup> Partial discussions of this major transformation have been embarked on from different perspectives.<sup>14</sup> However, how to acquire a more accurate judgment of the current level and stage of livelihood security through an overall analysis of China’s livelihood security level and its dynamic 21st century evolution remains an unanswered question.

Second, another basic consensus of the academic community on China’s livelihood security system is that it is highly “decentralized/localized,” with local governments assuming the absolute primary responsibility and the central government having less responsibility for livelihood security expenditures, which has tended to give rise to regional disparities in livelihood security.<sup>15</sup> In fact, however, this view has largely ignored the significant role played by massive fiscal transfers in ensuring and improving people’s livelihood and narrowing the regional gap since the beginning of the 21st century. Neglect of this feature has thus created an obvious misunderstanding of the livelihood security system. At present, a large proportion of the 95 percent of livelihood expenditures included in local governments’ expenditures and final accounts are financial transfers reflecting the central government’s intentions. Formally, they are “local expenditures”; but essentially, they are “central expenditures.” This is especially evident in the central and western regions of China.

Clearly, effectively advancing the understanding of the two issues above is the key to a deeper understanding of China’s livelihood security issues.

### 3. *Research question and analytical approach*

The government’s public expenditure on social welfare is usually referred to by Western

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11 See Christian Aspalter, “The East Asian Welfare Model,” pp. 290-301; Ian Holliday, “Productivist Welfare Capitalism: Social Policy in East Asia,” pp. 706-723.

12 See Yang Aiting and Song Deyong, “The Measurement of Chinese Social Welfare and the Analysis of Low-Welfare Growth.”

13 See Wang Shaoguang, “Is China Still a Low Welfare State? A ‘New Leap-Forward’ in China’s Social Protection from a Comparative Perspective.”

14 See Wang Shaoguang, “The Great Transformation: The Double Movement in China since the 1980s.”

15 See Daniel Béland *et al.*, “Paths to (de) Centralization: Changing Territorial Dynamics of Social Policy in the People’s Republic of China and the United States,” pp. 897-915; Shih-Jiunn Shi, “Social Decentralization: Exploring the Competitive Solidarity of Regional Social Protection in China,” pp. 74-89.

scholars as “social expenditure,” and the proportion of social expenditure in GDP is used to measure the social welfare level of a country. In China, the concept of “livelihood expenditure” is used instead.<sup>16</sup>

Scholars have discussed the level of social welfare in China on the basis of the above approaches.<sup>17</sup> As a whole, however, these studies suffer from two obvious shortcomings. First, they fail to agree on the scope of social welfare spending in China. However, education, health care and family planning, social security and employment, and housing security are the common components included in these estimates, which are basically consistent with the main components of livelihood expenditures proposed by the Ministry of Finance. Second, they fail to provide a complete and accurate account of the dynamic evolution of China’s social welfare expenditure levels since the beginning of the 21st century. This is a critical period in the construction of China’s livelihood security, and it is of great importance to review this whole process from the perspective of the dynamic evolution of livelihood expenditure levels.

As shown above, “livelihood expenditure” is still the most appropriate umbrella concept for summarizing the level of social welfare spending in China. In this paper, it specifically includes four categories of expenditures in the general public budget, namely, education, health care and family planning, social security and employment, and housing security. It also includes expenditure on social insurance funds and government-managed funds in order to measure the full-coverage livelihood expenditure level.

## II. A “Golden Age” of Social Construction and Livelihood Security

At present, China has established the world’s largest social security and housing support systems. In 2019, average Chinese life expectancy reached 77.3 years, with key health indicators generally better than the average of high- and middle-income countries. In 2020, China’s working-age population had an average of 10.8 years of education, and the coverage of compulsory education had reached the average level of high-income countries across the world.<sup>18</sup> Overall, China is clearly no longer a “low-welfare” country.

From the perspective of livelihood security construction, the 40-plus years since reform and opening up in 1978 can be broadly divided into two stages. The first stage lasted from the beginning of the reform and opening up to the end of the 20th century. In the 1980s, after the implementation of the household responsibility system in rural areas, the original

16 See Editorial Board of *Finance Yearbook of China, Finance Yearbook of China 2010*, pp. 25-26.

17 See Guan Xinping, “Social Policy Goals and Overall Welfare Level in Present China”; Zhang Guang and Chen Xi, “China’s Welfare State and Its Structural Construction: Size, Fairness and Affordability”; Gu Xin and Meng Tianguang, “Social Policy Spending Growth and the Structural Transformation of Public Finance in China.”

18 See the National Development and Reform Commission of China, “Notice on Issuing ‘Public Service Planning during the 14th Five-Year Plan Period.’”

livelihood security system was seriously affected, and in the 1990s, the crisis of agriculture, farmers and rural areas emerged, resulting in a livelihood security predicament. Also in the 1990s, the central government accelerated the pace of economic reform in urban areas; the livelihood security system based on the work unit system underwent corresponding changes; and many social functions originally undertaken by work units were stripped away. By the turn of the century, livelihood security for both urban and rural residents was clearly insufficient.

The second stage spans from the beginning of the 21st century to the present. During this period, rebuilding a new livelihood security system became a crucial part of socio-economic development. As early as the late 1990s, in the course of SOE reform, the central government had already started to plan for a new social security system. Due to its limited financial capacity, however, the system was not effectively set up. After more than twenty years of hard work, starting from the year 2000, China rapidly established a livelihood security system that basically covered the whole population and across the life span and the level of livelihood security had also been significantly improved. The first two decades of the 21st century can fairly be called the “golden age” of China’s social construction and livelihood security.

### III. Rising Livelihood Expenditure

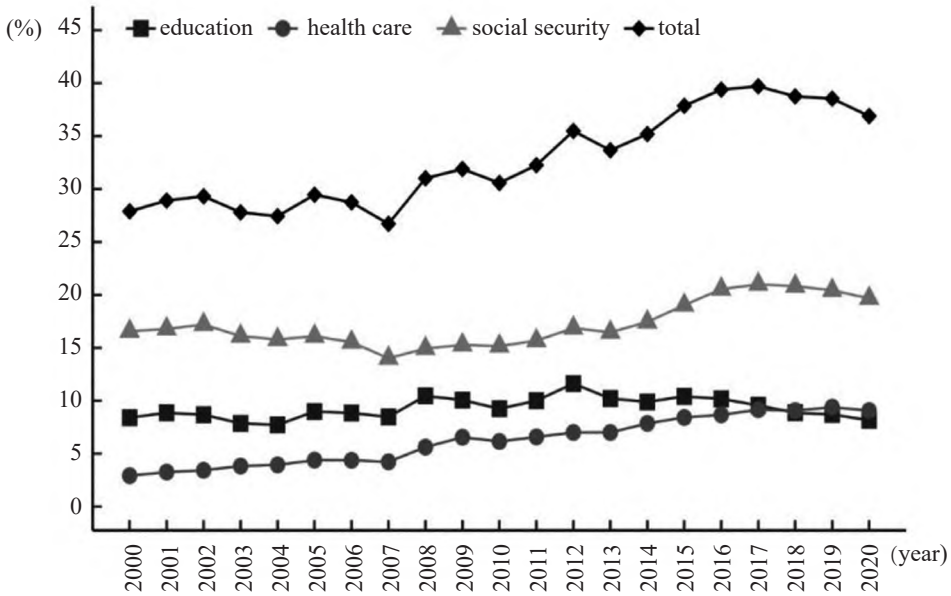
#### 1. *The changing role of livelihood expenditure: 2000-2020*

At present, China has four budgets: the general public budget, the budget for government-managed funds, the budget for social insurance funds, and the state-owned capital management budget. These jointly constitute the government’s full-coverage fiscal revenues and expenditures. In 2000, education, health care and social security expenditure<sup>19</sup> accounted for 27.88 percent of the full-coverage public expenditure, and this proportion was close to 40 percent by 2017 (see Figure 1). Since 2017, the share of livelihood expenditure has declined slightly, mainly due to the significant expansion of government-managed funds in recent years. Although such funds include a large number of livelihood expenditures, it is difficult to distinguish them from other items on the basis of the existing statistics, thus leading to the evident underestimation of livelihood expenditures. Considered together, the share of livelihood expenditures in public expenditure should be around 45 percent in 2020, an increase of about 17 percentage points over 20 years, making it the principal part of public expenditure.

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19 Prior to 2010, housing security expenditures were part of social security and employment expenditure. To maintain consistency, they have been calculated as part of social security expenditure throughout this paper.

Figure 1 The Share of Livelihood Expenditures in Full-coverage Public Expenditure

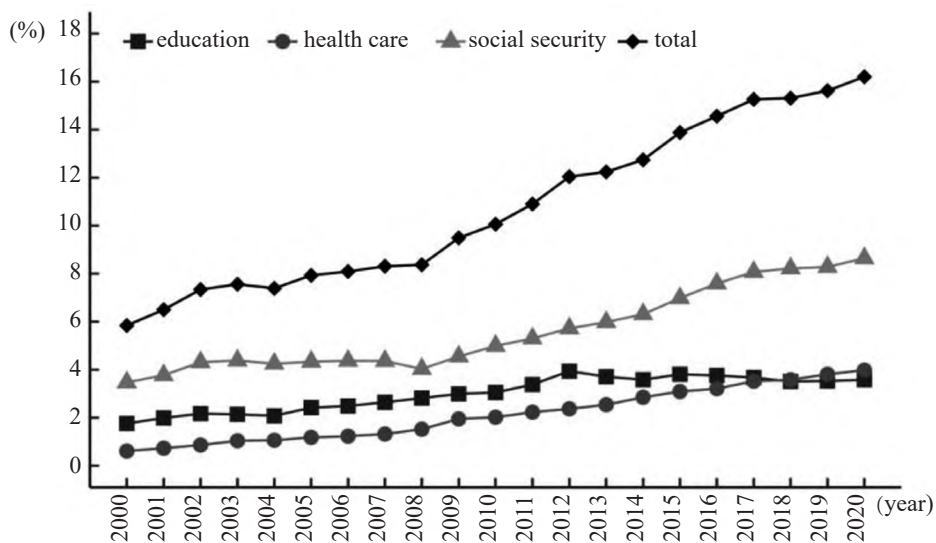


Data source: The data for 2000-2004 and 2008-2019 were obtained from various years of the *Finance Yearbook of China*. The 2005-2007 data are from the Treasury Division of the Ministry of Finance, “Financial Statistics Abstract 2012” (learning and training materials exclusively for internal use), 2012, pp. 7-8. The 2020 data are from the “Financial Accounts of National General Public Budget Expenditure 2020” of the Ministry of Finance of China, and the “Statistical Bulletin on the Development of Human Resources and Social Security” of the Ministry of Human Resources and Social Security.

In 2000, the proportion of education, health care and social security expenditures in GDP were 1.76 percent, 0.61 percent and 3.47 percent respectively, together accounting for only 5.84 percent of GDP (see Figure 2). Since 2000, the share of education expenditures in GDP has been rising slowly, to 3.58 percent in 2020; the proportion of health care expenditures in GDP has been rising steadily year by year, accounting for almost 4 percent in recent years; and the proportion of social security expenditure in GDP has risen rapidly, from 3.47 percent in 2000 to 8.64 percent in 2020. In 2020, the three forms of expenditure jointly accounted for 16.21 percent of GDP, an increase of more than 10 percentage points from 2000, and an average annual increase of more than 0.5 percentage points.



Figure 2 The Share of Full-coverage Livelihood Expenditures in GDP: 2000-2020



Note: The data source is the same as that in Figure 1.

In fact, this full-coverage accounting still underestimates the actual situation. Education expenditure does not include budgetary education arrangements under government-managed funds.<sup>20</sup> In terms of health care expenditure, some typical items of public expenditure are also not included in the accounting. For instance, in the case of budgetary expenditure under government-managed funds and social health spending under total health care expenditure, some classic health care expenditures are not included in the figures.<sup>21</sup> The situation is similar for social security expenditure. The most representative example is low-income housing construction. During the 12th Five-Year Plan period, the share of general public budgetary expenditure on social housing construction was only over 50 percent in its highest year.<sup>22</sup> China's quite unique housing provident fund is again a classic expenditure on housing security.

Given all these factors, the actual proportion of livelihood expenditure in GDP in 2020 should be 3-4 percentage points higher than the estimate above. It is actually around 20 percent, or about three times that of 2000. Clearly, in the first two decades of the 21st century, whether evaluated in terms of absolute share of GDP or relative share in public expenditure, livelihood expenditure have risen significantly to become the absolutely principal part of

20 See Social, Technological and Cultural Industry Statistics Division, National Bureau of Statistics of China, *China Social Statistical Yearbook 2021*, p. 9.

21 See Zhang Guang and Chen Xi, "China's Welfare State and Its Structural Construction: Size, Fairness and Affordability."

22 See Jiang Hesheng and Wang Bo, "Sources of Low-Income Housing Funds since the 12th Five-Year Plan."



public expenditure.

### 2. *A brief international comparison*

In the late 19th century, the Western industrialized countries launched the construction of social welfare systems, thus driving the growth of social expenditure. However, the scale of social expenditure in these countries remained very limited until the early 1960s. During 1960-1980, the construction of Western welfare states underwent a great expansion, with the share of social expenditure in GDP almost doubling to an average of about 20 percent.<sup>23</sup> Since the 1980s, developed countries have initiated reforms in an attempt to reduce social expenditure. However, the share of social expenditure did not decline significantly. After 1980, it continued to grow slowly despite slight fluctuations, reaching nearly 25 percent in 2010. But it basically stopped growing after 2010, and has even fallen slightly in some countries.<sup>24</sup>

It can be seen that in the first two decades of the 21st century, China underwent a historical process similar to that of the industrialized West during 1960-1980. Around 2005, China's livelihood expenditure as a share of GDP was already roughly equivalent to that of Western countries around 1960. By 2020, this share was close to 20 percent, almost equaling that of Western countries around 1980.

## IV. Central-Local Fiscal Relations

The academic community has long believed that China's livelihood security system is highly "decentralized/localized." However, this view overlooks the important role of central government transfer payments in local livelihood security since the beginning of this century, and misunderstands the current central-local fiscal relations relating to livelihood security.

### 1. *Livelihood expenditure in special transfer payments*

At present, an important source of local fiscal expenditure is the central government's special transfer payments, of which livelihood expenditures are the major component. The central-to-local special transfer payments mainly focus on livelihood areas such as education, health care, social security, and other vulnerable areas such as expenditure on agriculture, farmers and rural areas.<sup>25</sup> Since 2007, the four categories of livelihood expenditure, i.e., education, health care and family planning, social security and employment, and housing security, have accounted for a minimum of nearly 30 percent and a maximum of over 40 percent of the total special transfer payments (see Table 1).

23 See Vito Tanzi and Ludger Schuknecht, *Public Spending in the 20th Century: A Global Perspective*, pp. 40-41; Peter H. Lindert, *Growing Public: Social Spending and Economic Growth since the Eighteenth Century*, pp. 12-13.

24 See Organization of Economic Corporation and Development (OECD), *Social Expenditure Database (2020)*.

25 Jiao Changquan, "Project Responsibility System and 'Project Pool': Local Practice in Fiscal Distribution."

In fact, this is also an obvious underestimate of their share of the special transfer payments. This is mainly because the central government puts a large number of “quasi-special transfer payments” concerning livelihood security into general transfer payments, such as transfers for urban and rural compulsory education, transfers for basic aged pensions and subsistence allowances, and transfers for urban and rural residents’ medical insurance. All of these are actually dedicated funds for specific purposes that were previously managed as part of the special transfer payments budget. If the three items above are considered as special transfer payments, the proportion of livelihood expenditure in total special transfer payments basically comes to around 50 percent every year and has been rising since 2009, reaching 53.22 percent in 2015. Clearly, the central-to-local special transfer payments are oriented to the improvement of livelihood security.

Table 1 Composition of Central-to-Local Special Transfer Payments (%)

Year Expenditure	2007	2008	2009	2010	2011	2012	2013	2014	2015
Education	5.74	6.95	4.21	6.23	7.15	5.78	5.98	6.53	7.65
Health care and family planning	9.14	7.83	9.75	9.89	5.41	4.85	4.58	5.07	5.58
Social security and employment	28.44	24.08	13.27	13.66	8.83	7.48	8.68	7.52	11.87
Housing security	—	—	—	5.24	8.87	11.66	10.3	11.22	11.33
Total of the above four	43.32	38.86	27.23	35.02	30.26	29.77	29.54	30.34	36.43
Total including “quasi-special transfers”	—	—	37.80	44.44	45.45	47.60	50.04	51.80	53.22

Data source: Calculated on the basis of the yearly “Financial Accounts of Central Government Tax Rebates and Transfer Payments to Local Governments” released by the Ministry of Finance. Since 2016, these data have not been categorized and released by expenditure function, so our data end with 2015.

Note: “Total including ‘quasi-special transfers’” means the proportion of the four livelihood expenditures (i.e., education, health care and family planning, social security and employment, and housing security) plus the three items of “quasi-special transfers” (i.e., transfers for urban and rural compulsory education, transfers for basic aged pensions and subsistence allowances, and transfers for urban and rural residents’ health care insurance) in total special transfer payments (including the newly added three items).

In the above-mentioned livelihood areas, the share of special transfer payments from the central government in local expenditure is significantly higher. Since 2009, special transfer payments from the central government have accounted for more than 20 percent of local social security and employment expenditure (see Table 2). They amounted to about 50 percent of local expenditure on health care and family planning during 2009-2010. There has been a significant decline in this share since 2011, but it has remained at the level of 20-30 percent. The share of special transfers in local education expenditure has always been above 11

percent. From 2010 to 2012, the share of special transfers in local housing expenditure rose from 37.14 percent to over 50 percent, and remained above 45 percent from 2013 to 2015. In total, the share of the center's special transfer payments in local livelihood expenditure has always been above 25 percent.

Table 2 The Share of Central Special Transfers in Local Livelihood Expenditure (%)

Year Expenditure	2009	2010	2011	2012	2013	2014	2015
Education	14.32	15.44	14.64	13.25	13.29	13.07	11.59
Health care and family planning	20.94	22.39	21.14	20.57	23.64	21.64	25.64
Social security and employment	53.41	49.53	31.17	34.92	30.66	25.50	20.56
Housing security	—	37.14	42.11	53.84	47.01	45.80	45.41
Total	25.24	26.93	26.78	27.66	27.93	27.38	25.86

Data source: Data on the central-to-local special transfer payments were obtained from the yearly “Financial Accounts of Central Government Tax Rebates and Transfer Payments to Local Governments” released by the Ministry of Finance. Data on fiscal expenditure derive from various years of the *Finance Yearbook of China*. Education expenditures include transfer payments for compulsory education; health care and family planning expenditures include transfer payments for urban and rural residents' health care insurance; and social security and employment expenditures include transfer payments for basic aged pensions and subsistence allowances.

In addition, we should also pay special attention to regional disparities. For example, if we calculate that 80 percent of special transfers for livelihood security are distributed to the central and western regions and 20 percent are assigned to the eastern regions, then the share of special transfers in livelihood expenditure remains stable at the level of 14-15 percent in the eastern regions and at 33-35 percent in the central and western regions. It can be seen that for China as a whole, one quarter of local livelihood expenditures is dependent on special transfer payments from the central government; but for the central and western regions, this share is as high as one third, indicating that special transfers have become the main source of livelihood expenditure for these regions.

## 2. *The bottom-line support provided by general transfer payments to local livelihood expenditure*

In some of the central and western regions, especially those that are deeply impoverished, the vast majority of fiscal expenditure relies on financial transfers from higher levels due to the low level of local fiscal self-sufficiency. In such circumstances, some livelihood expenditure, although included in local governments' budgets, actually relies on general transfer payments from a higher level.

For example, at present, county-level governments have already assumed absolute principal responsibility for local fiscal expenditure, but the county level of fiscal self-sufficiency

has been the lowest of all levels of local government, with more than 50 percent of fiscal expenditure having long been reliant on transfers from higher level governments. Generally speaking, even with tax rebates, more than half the counties nationwide still have a fiscal self-sufficiency rate of less than 30 percent.<sup>26</sup> Their own fiscal revenues can at best maintain their basic operations, and almost all the various running costs come from higher-level financial transfers, not to mention livelihood expenditures. In other words, in addition to special transfer payments, general transfer payments have also become a main source of local livelihood expenditure. Although livelihood expenditure is covered in the budget arrangements of local governments, it actually comes from higher-level financial transfer payments.

### *3. Central transfers and national coordination for aged pension insurance funds*

In 2018, the central government introduced a central transfer system for basic aged pension insurance funds. Local governments' contribution was 3 percent in 2018, rising to 3.5 percent in 2019 and 4 percent in 2020. As with the funds transfer system, local governments' contribution is mainly determined by the average wages of employees and the number of active insurance participants in the province, while the amount of central-to-local transfers is mainly determined by the number of approved retirees in the province. The main determinant of the difference between the amount contributed to the central government and that transferred to local governments is therefore the average salary of employed wage earners in the province. This is essentially a special kind of special transfer payment from economically developed provinces to less developed provinces.

In 2020, national transfer funds totaled 740 billion yuan. Old industrial bases in Northeast China, such as Heilongjiang, Jilin, and Liaoning, face greater aged pension income and expenditure pressures, and are therefore the major recipients of central transfer payments. Since 2022, China has officially started national coordination of employees' basic old age pension insurance funds, thus significantly strengthening efforts to balance fund distribution across different regions.

### *4. A brief summary*

If measured only by the statistics on national fiscal expenditure, local governments do bear the main responsibility for livelihood expenditure, which is why many scholars believe that China's livelihood security system remains highly "decentralized/localized." However, the analysis above shows that with the massive increase in central fiscal transfers, the central government is clearly beginning to assume significant responsibilities for livelihood security. Why, then, are local governments still responsible for more than 95 percent of expenditures, as calculated from fiscal statistics? This is largely related to China's system of fiscal budgets and financial accounts. The central government's financial transfers to local governments have explicit policy intentions, and one of their important goals is to "ensure people's livelihoods," a goal that is strikingly manifested in the general and special transfer payments.

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26 See Jiao Changquan, "Local Fiscal Self-Sufficiency in China: Historical Evolution and Hierarchical Differences (1990-2014)."

However, the financial accounts all calculate financial transfers as local expenditures, thus failing to reflect the original intentions of the central government. Although fiscal statistics show that 95 percent of livelihood expenditure is borne by local governments, most of the funds are in fact financial transfer payments reflecting the central government's explicit intentions; they are local expenditures in form, but central expenditures in essence. Therefore, it is an obvious misunderstanding of the real situation if one assumes, simply from fiscal statistics, that China's livelihood security system remains highly "decentralized/localized." Today, the central government is playing an increasingly prominent role in livelihood security, as China builds a new livelihood security system with responsibilities shared by multiple levels of government.

## **V. Livelihood Security Moving to a New Stage**

At present, China has ushered in a new development stage of comprehensively building a modern socialist country. "Achieving more visible and substantial progress toward common prosperity for all" is an important goal in this stage. However, as a big country with a large population, China's livelihood security system is challenged by the constraints of unbalanced and insufficient development. This is most typically manifested in the question of how to deal with the following three major relationships.

### *1. Central-local relations*

In the 21st century, massive financial transfers from the central government have played an increasingly prominent role in local livelihood security. This is especially so in the central and western regions, where such transfers have become the main source of local livelihood expenditure. Currently, central-to-local financial transfers account for more than 80 percent of the central government's fiscal revenue and more than a third of national fiscal revenue, a major part of which is the fiscal funding for improving people's livelihoods. The financial transfer payments and aged pension fund transfers from the central government to the central and western regions are essentially a process by which the central government draws fiscal revenue from the eastern regions and transfers them to central and western region expenditure.

The transfer payments for livelihood security that go from the central government to the central and western regions are drawn directly by the central government from the eastern regions. This not only imposes heavy financial burdens on the eastern regions, but also makes the central and western regions' livelihood security more dependent, thus bringing many challenges to the sustainability of livelihood expenditure. Given the high costs for market players and the policy background of "tax and fee reduction" strongly promoted by the central government, we face the practical problem of ensuring the sustainability of such transfers. At the same time, the fact that a large number of such transfers are implemented in the form of special transfer payments also poses many challenges to the organization and implementation of livelihood projects. Many of the case studies conducted on the arrangements for project

practice have powerfully revealed their loss of efficiency and departure from their goals, as well as their many paradoxes, in the course of project organization and implementation.

### *2. Relations between formal and informal employment*

In the 21st century, an important Chinese effort in the field of livelihood security has been expansion of the coverage of social security and the gradual achievement of full coverage. In 2020, health care insurance for urban employees had 345 million participants, while those participating in basic health care insurance for urban and rural residents had reached 1.017 billion. Basic old age pension insurance for employees had 456 million participants, but those participating in basic aged pension insurance for urban and rural residents numbered 542 million.<sup>27</sup> Obviously, people in informal employment<sup>28</sup> are indeed the majority.

The difference between formal and informal employment is a typical manifestation of the uneven development of livelihood security among different groups of people. Although China has established the world's largest social security system to provide basic aged pension and health care protection for people informally employed, there is a wide gap in the level of protection between the formally and the informally employed. At the same time, the state's provision of social security for the large number of informally employed people has also caused considerable pressure on public finances. The most significant difference between the aged pension and health care insurance for employees and that for residents lies in the fact that the former are mainly financed by both employment units and individuals, with some subsidies from the state, whereas the latter get no support at all from employment units; their finance comes only from the state and individuals, with the state taking the major responsibility. At present, the protection level of basic health care and age pension insurance for urban and rural residents remains relatively low, leading to a consensus on gradually improving the protection level and narrowing the disparity between residents and employees. However, due to the large size of the population covered by basic health care and aged pension insurance for urban and rural residents, as well as the fact that the fund's income comes mainly from state financial subsidies, even a small increase in the level of protection will bring considerable financial pressures.

### *3. Relations between economic expenditures and livelihood expenditures*

China is currently facing the double pressures of spending both on the people's livelihood and on economic affairs. The absolute principal part of public expenditures in Western industrialized countries is the social expenditure represented by education, health care and social security. In most developed countries, these categories account for more than 60 percent of total spending;<sup>29</sup> this proportion even reaches or approaches 70 percent in some countries. Although China's spending on education, health care and social security has grown rapidly

27 Social, Technological and Cultural Industry Statistics Division, National Bureau of Statistics of China, *China Social Statistical Yearbook 2021*, pp. 222-224.

28 See International Labor Office, *Women and Men in the Informal Economy: A Statistical Picture*.

29 See International Monetary Fund, *Government Finance Statistics Yearbook (2013-2017)*, Table W6.

over the past two decades, it still accounts for a lower share of public expenditures compared with that of developed Western countries. However, China's expenditure on economic affairs as a share of public expenditure is significantly higher than that of developed countries. According to IMF statistics, the share of China's expenditure on economic affairs was more than 30 percent until 2010, and was still 27.7 percent in 2015. In contrast, the corresponding share in developed countries is much lower than China's: it is around 10 percent in most cases, and below 10 percent in typical welfare states. Clearly, expenditure on economic affairs and livelihood expenditure both place strong demands on China.

With the transformation of China's social and economic structures, economic affairs expenditure as a proportion of public expenditure may further decline, and livelihood expenditure will become more prominent. However, the current pattern will not change fundamentally in a relatively short time, during which China will continue to face the double pressures of expenditure on economic affairs and livelihood expenditure; in fact, it faces the double pressures of ensuring both economic development and the people's livelihoods.

Currently, the major social contradiction in China has become the contradiction between unbalanced and inadequate development and the people's ever-growing need for a better life. This is especially manifested in the field of livelihood security. Some interaction and balancing efforts are necessary to deal with the practical problem of unbalanced livelihood security and the institutional system used by the state to narrow this disparity. Meanwhile, how to handle the relations between the imbalance in and equalization of livelihood security and the relations between livelihood security and economic development is a major issue in this new stage of development.

## VI. Conclusions and Discussions

Over the past two decades, China has undergone a "golden age" of livelihood security similar to that of Western developed countries during the 1960s-1980s. No longer is China a "low welfare" country: the share of its livelihood expenditures in GDP is close to the level of developed countries around 1980, and equivalent to the current average of OECD countries.

Compared with Western welfare states, China's livelihood security construction shows important differences in terms of political philosophy and dynamic mechanisms. It would be hard to analyze state-citizen relations in China using the domination-resistance analytical approach; in China, these relations tend to be manifest as the "unity of family and state."<sup>30</sup> The state and family are basically identical in terms of fundamental interests and ethical norms, and the relationship between the two is ethical rather than contractual. The development of livelihood security in China is strongly driven by the state's initiative in responding to the changes in the social structure and the needs of the people, and in effectively fulfilling its

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30 See Zhou Feizhou, "From Poverty Alleviation to Rural Revitalization: Towards an Integrated State-Farmer Relationship with Chinese Characteristics."



ethical responsibilities and promoting social construction.

However, China's livelihood security system also faces the problem of uneven development. The center's transfer payments have been the main source of livelihood expenditure in the central and western regions and also the rural areas, playing an important role in bridging the regional and urban-rural gap in livelihood security. At the same time, the state has also established full-coverage basic health care and aged pension insurance for the large number of people in informal employment, with the central government assuming the major responsibility. It is clear that the central government is playing an increasingly significant role in addressing imbalances in livelihood security and promoting the equalization of basic public services, and that China is building a new livelihood security system with responsibility shared by multiple levels of government. At present, China is at a critical juncture of marching from an upper-middle-income country to a high-income country, and is also in a crucial period of improving its livelihood security construction. How to overcome the imbalance in livelihood security and ensure that it matches the level of economic development is a major challenge in the new stage of development.

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—Translated by Li Cunna from  
Social Sciences in China (Chinese Edition), 2022, no. 6  
Revised by Sally Borthwick