

The Great Transformation: Double Movement in China

Shaoguang Wang

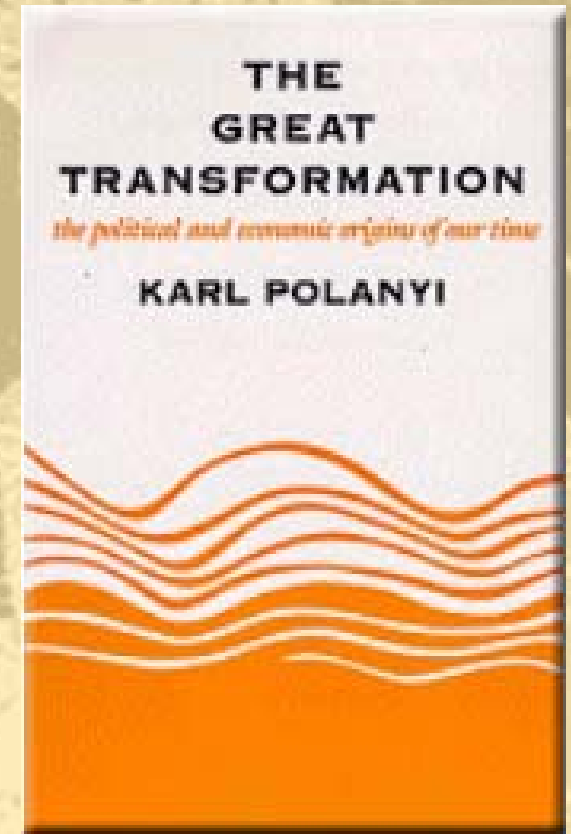
Department of Government & Public Administration

The Chinese University of Hong Kong

Karl Polanyi: Double Movement

“The expansion of market forces would sooner or later be met by a countermovement aiming at conservation of man and nature as well as productive organization, and using protective legislation and other instruments of intervention as its methods”

Karl Polanyi, The Great Transformation, pp. 130-134



Main Argument

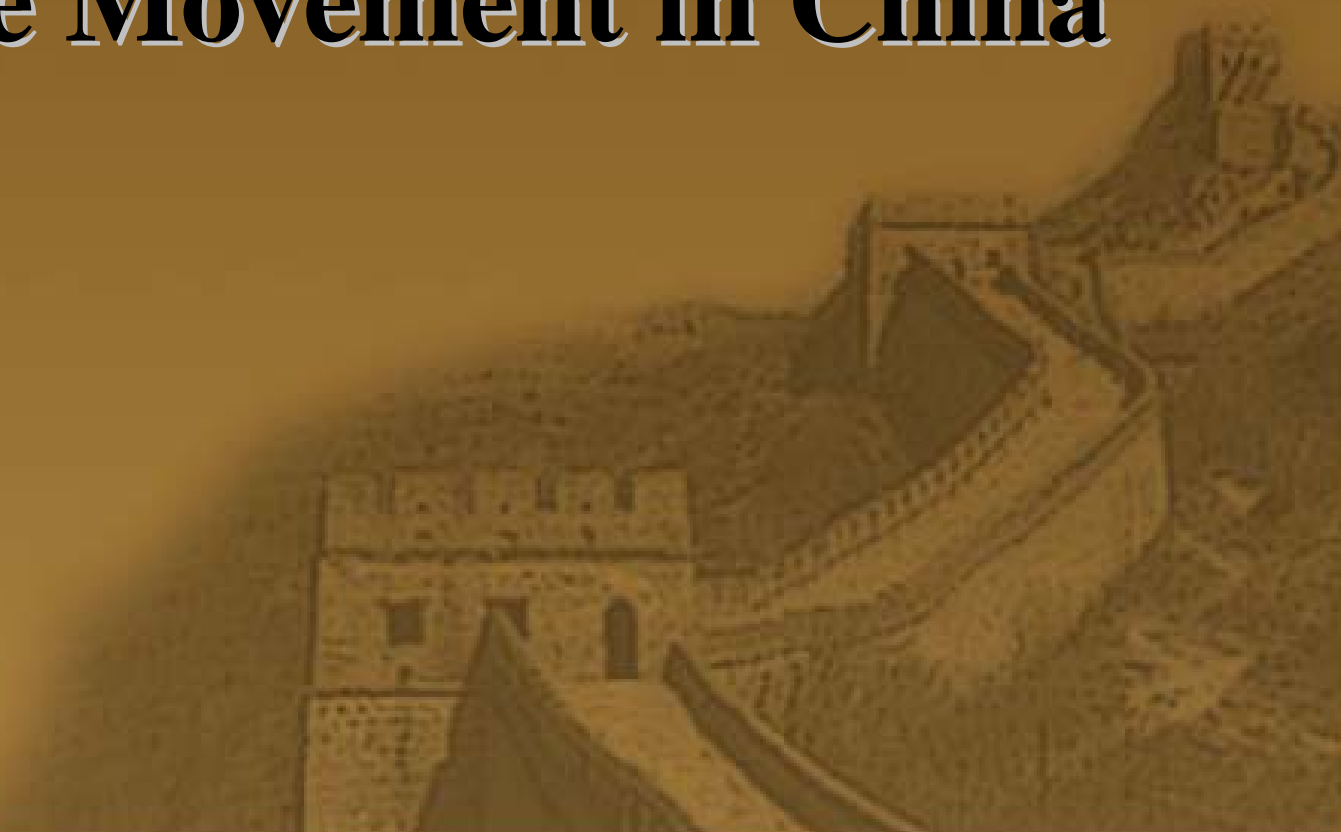
- ⌘ China has undergone a “great transformation” which consists of a “double movement”
 - ⌘ The politically induced transformation to the market system
 - ⌘ The countermovement and self-protection from society



Outline

1. Double movement: Three periods
2. The emergence of social policies
3. Two key explanatory factors

Double Movement in China



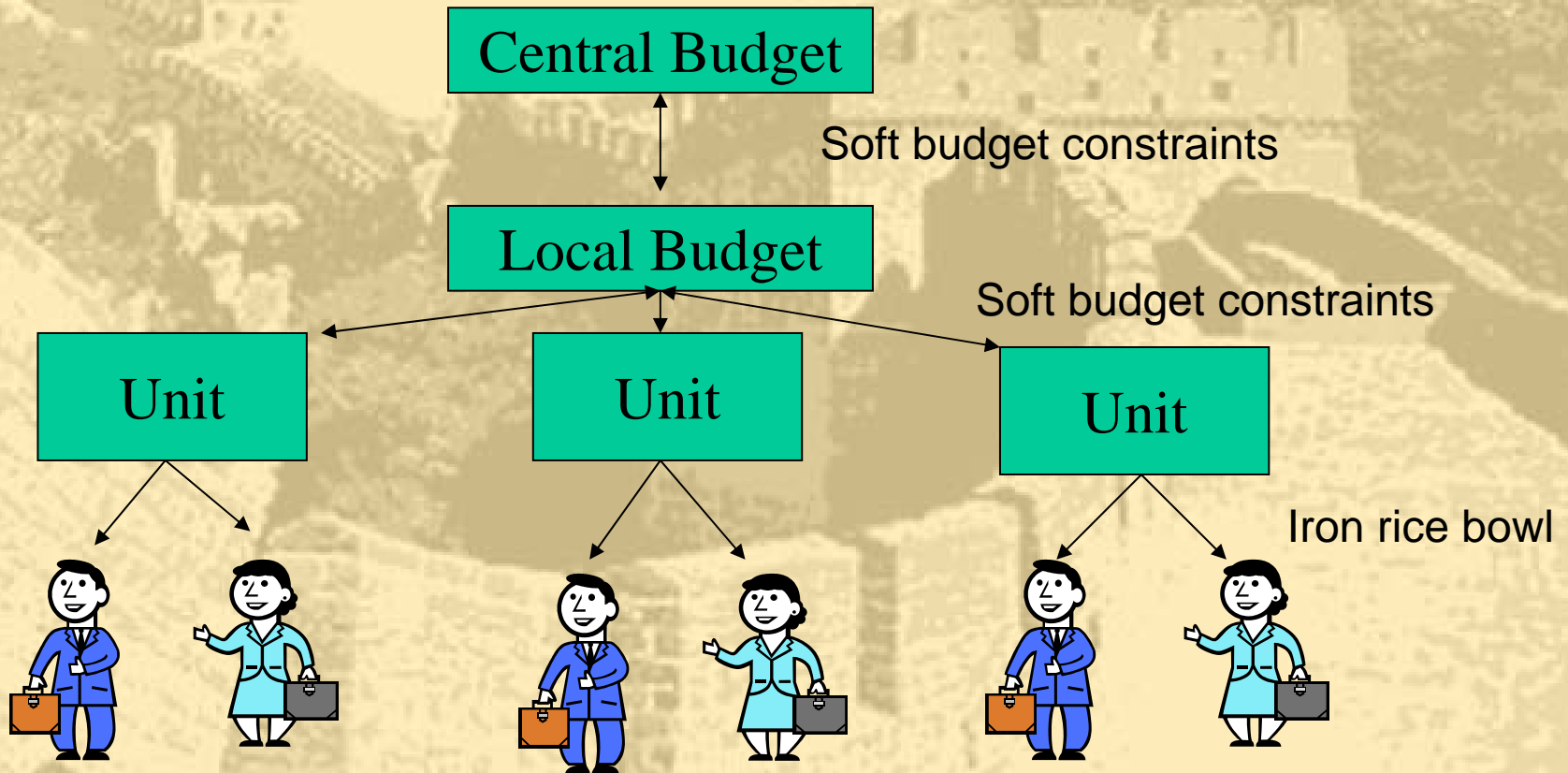
Three Periods

- ⌘ 1949-1984: Moral economy, no need for direct state provision of social policies
- ⌘ 1985-1998: Efficiency (growth) as priority, no attention to social policies
- ⌘ 1999-present: The emergence of social policies

Moral Economy, 1949-1984

- ⌘ The planned economy consciously subordinated the economy to a set of social values.
 - ⌘ The securing of human livelihood was submerged in and determined by a nexus of non-economic institutions (e.g. work-units, people's communes) and institutionalized norms (e.g. equality and solidarity).
- ⌘ Distribution (not redistribution) was the main forms of resource allocation and social integration
- ⌘ Such a distributive system would not be able to proceed without an established center (the state) from which distribution took place
- ⌘ The provisioning of humans—the securing of their livelihood—was located in, or integrated through, urban work-units and rural communes, which were as much social as economic institutions
- ⌘ The logic of the economy was embedded in society through two mechanisms
 - ⌘ Soft-budget constraint
 - ⌘ Iron rice bowl
- ⌘ The market played no vital role in human social life

Distribution under the Moral (Planned) Economy



Paradigm Shift in Ideology: 1984-1999

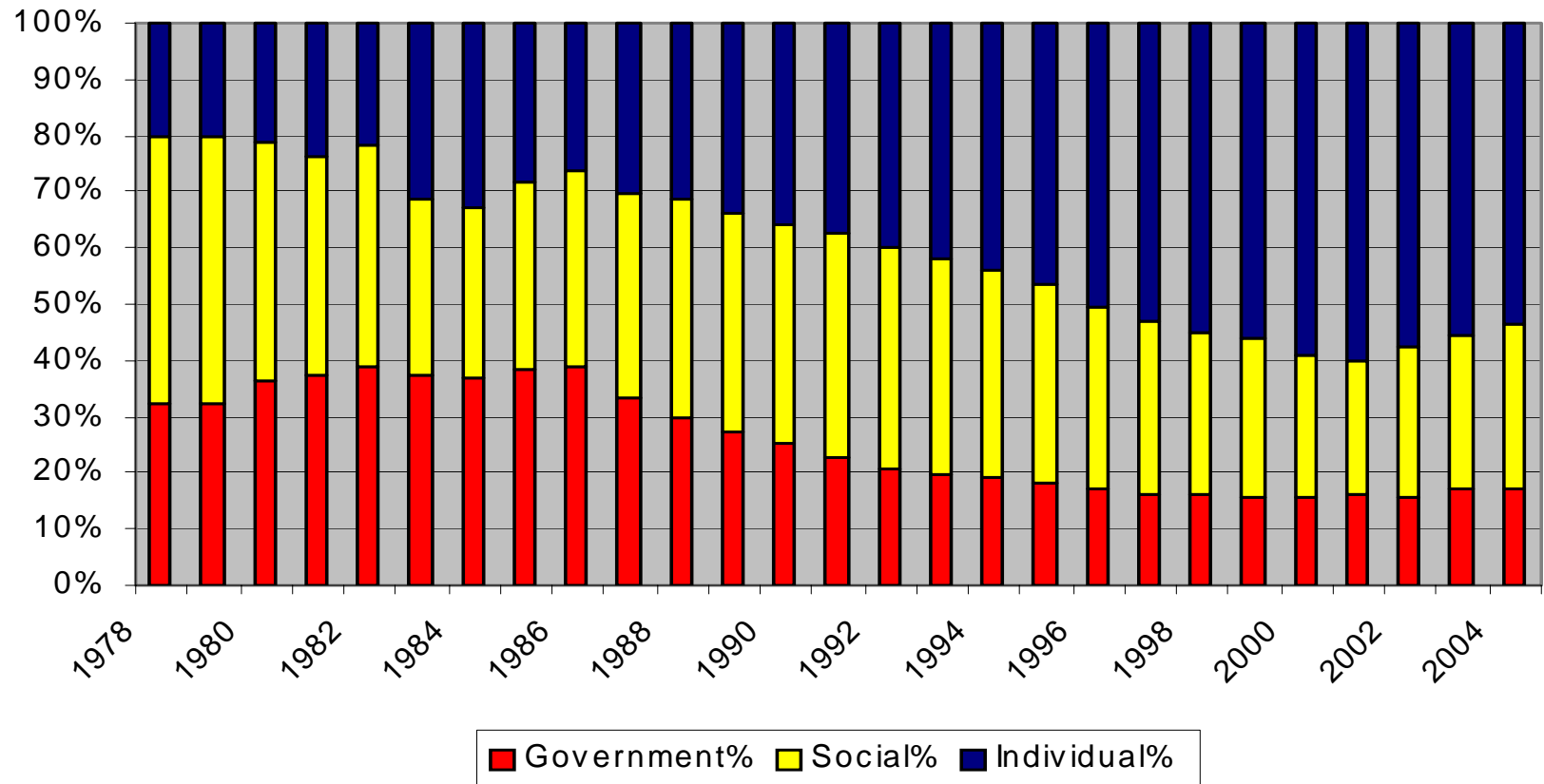
- ⌘ Rather than equity and security, Chinese policy-makers placed their top priority on rapid aggregate economic growth.
- ⌘ The obsession with fastest possible GDP growth rates made them ready to tolerate a certain degree of inequity and to sacrifice some basic human needs, including health care.
- ⌘ It was their belief that, as long as the “pie” continued to grow bigger, all other problems would eventually be solved.

How Did the Economy Become Disembedded?

- ⌘ The transition from the embedded economy to market society marked a radical watershed in China's history
- ⌘ The development of markets: 1979-1983
 - ⌘ Markets began to emerge but they were marginal, often heavily administered.
 - ⌘ There was still the dominance of non-market institutions and relations
- ⌘ The development of market system: 1984-1992
 - ⌘ A system of interrelated markets (commodity, labor, financial, etc.)
 - ⌘ Competition and the law of supply and demand did exist, but was not universal or omnipotent
- ⌘ The development of market society: 1993-1999
 - ⌘ No end other than economic ones were pursued
 - ⌘ The market threatened to become the dominant mechanism integrating the entirety of society.
 - ⌘ The magnitude of the market's reach can be measured by the extent of commodification, by the range of goods subject to commercial traffic (healthcare, education, environment, etc.).

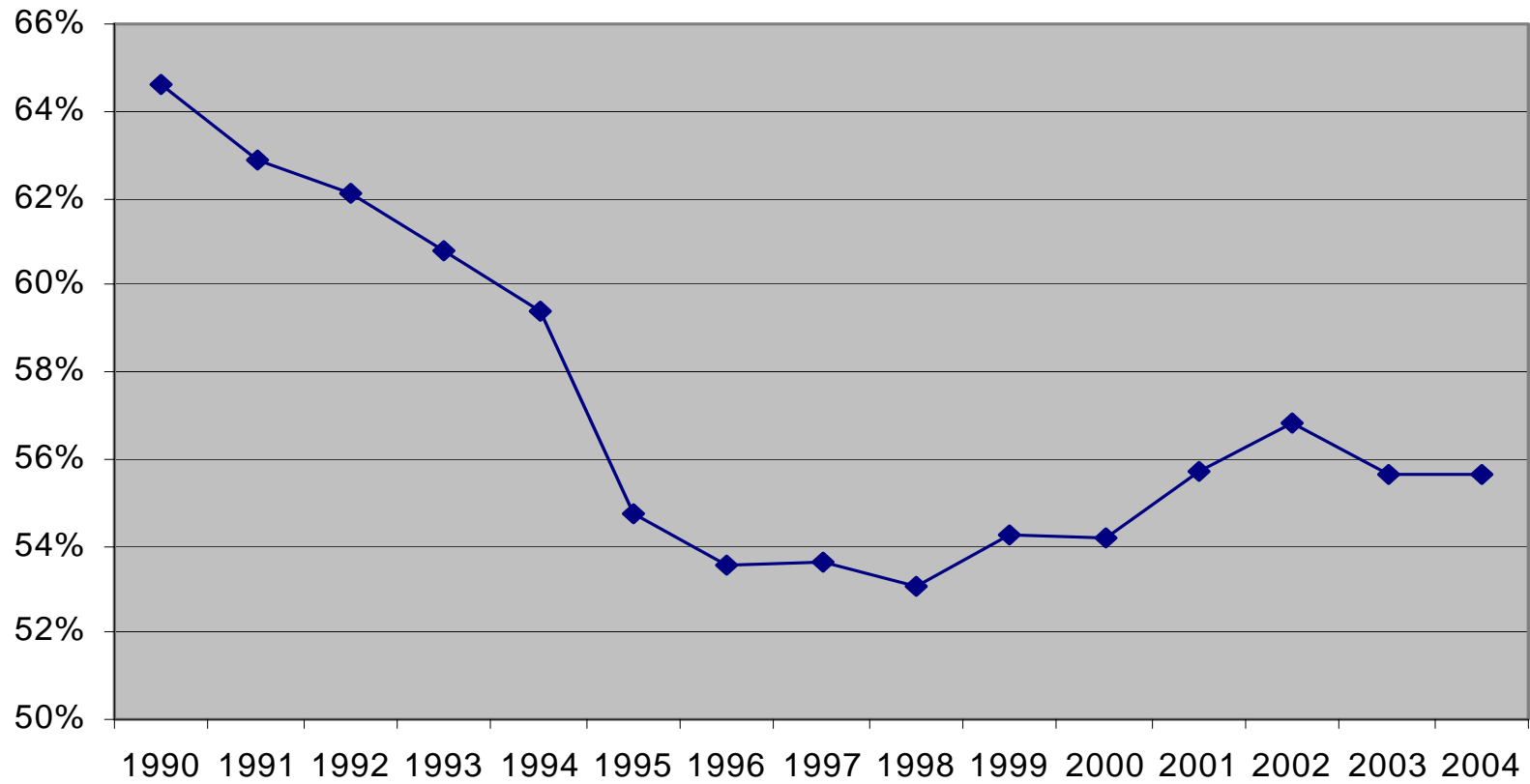
State Retreat from Healthcare

Structure of Total Health Expenditure

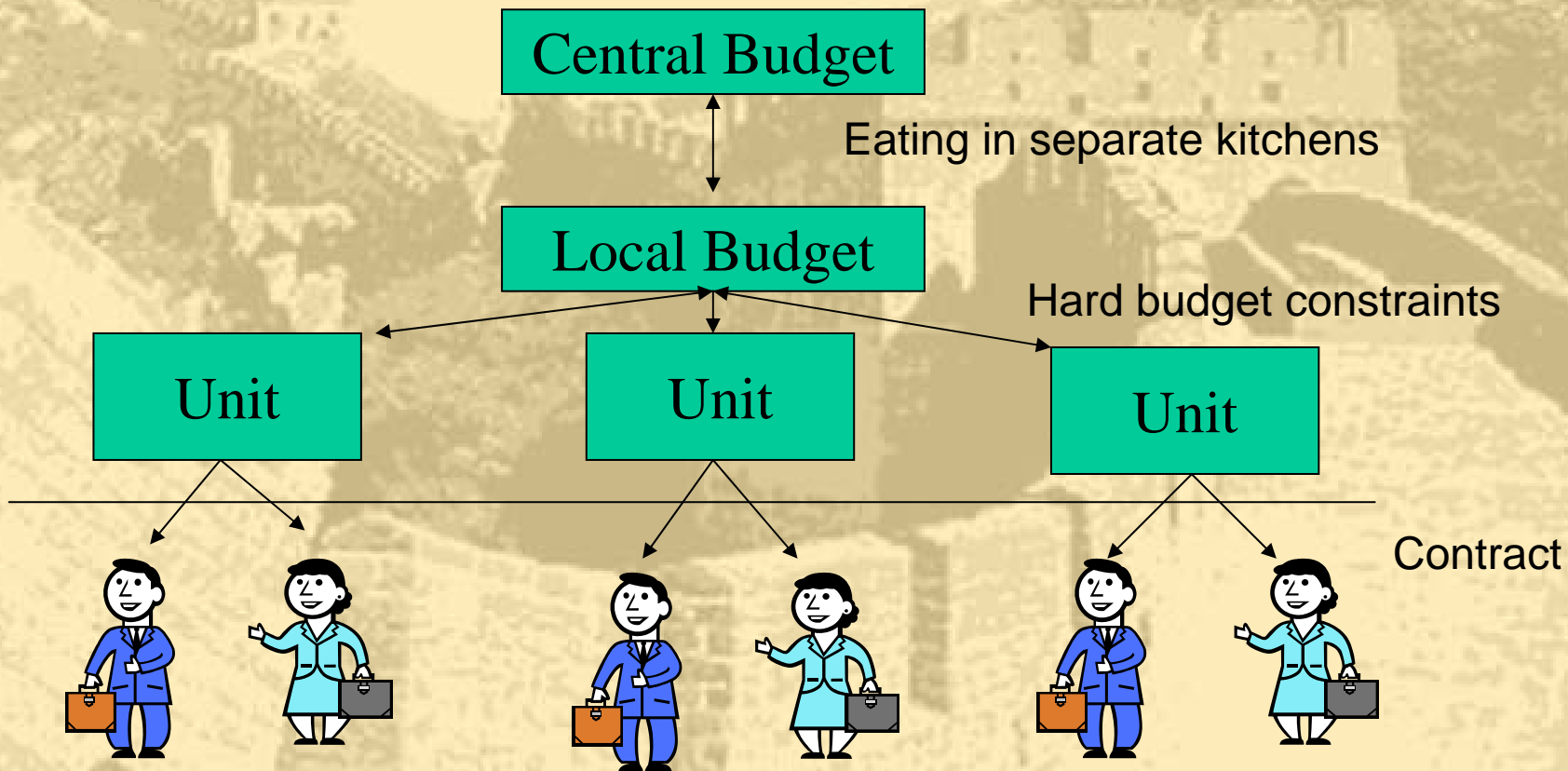


State Retreat from Education

Budgetary Allocations % of Total Expenditure on Education



The Breakup of the Moral (Planned) Economy



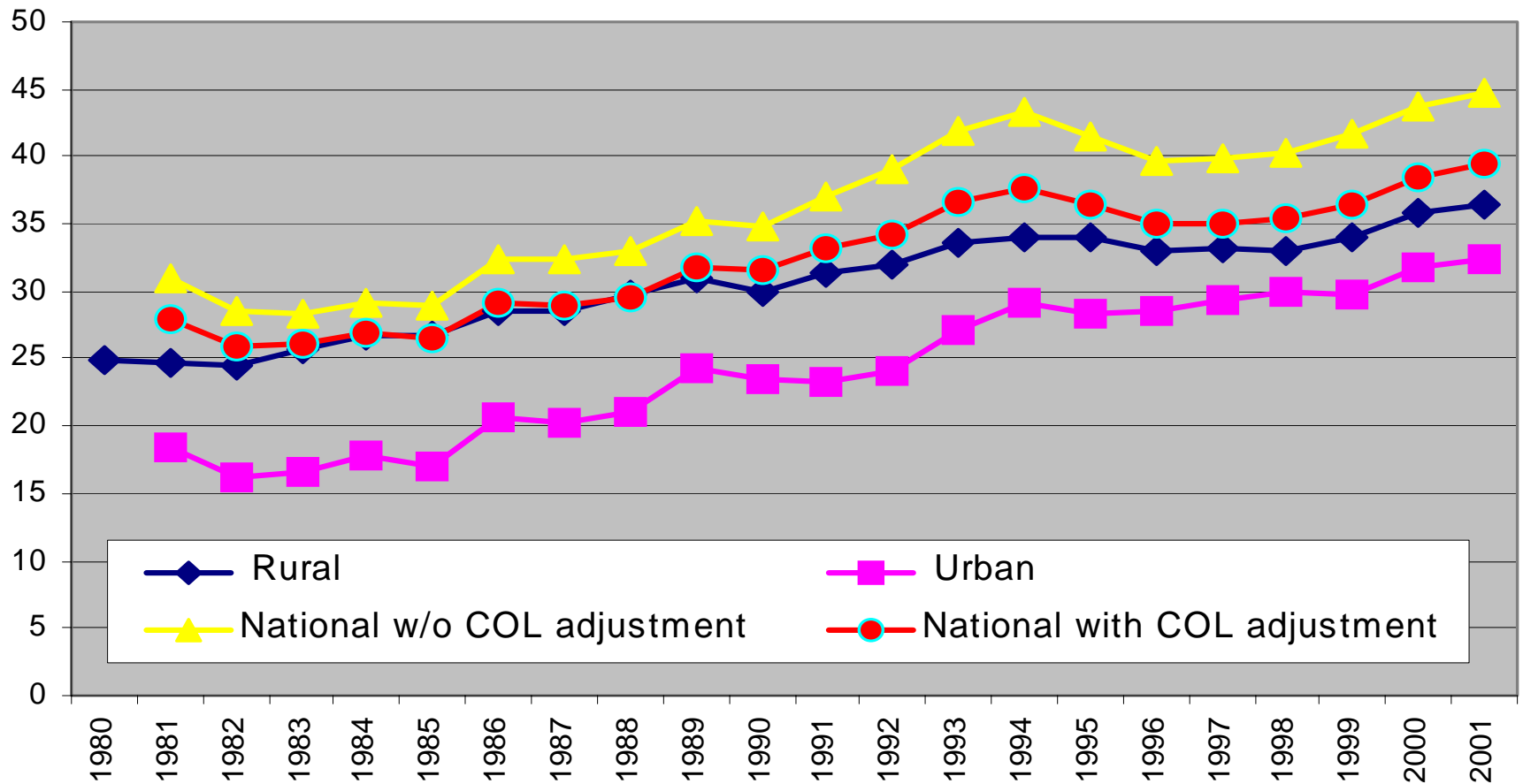
Disembedded Economy

- ⌘ In a market society, the livelihood of human being is market dependent
- ⌘ As markets became universal and hegemonic, the welfare of individuals came to depend entirely on the cash nexus
- ⌘ Consequently, workers and farmers were forced to get by with reduced entitlement to assistance and security
- ⌘ Growing inequalities

	Income	Wealth	Healthcare	Education
Rural-urban				
Regional				
Within rural				
Within urban				

Consequences of the Disembedded Economy, 1985-1998

Gini Indices of Income Inequality



The Emergence of Social Policies, 1999-Present



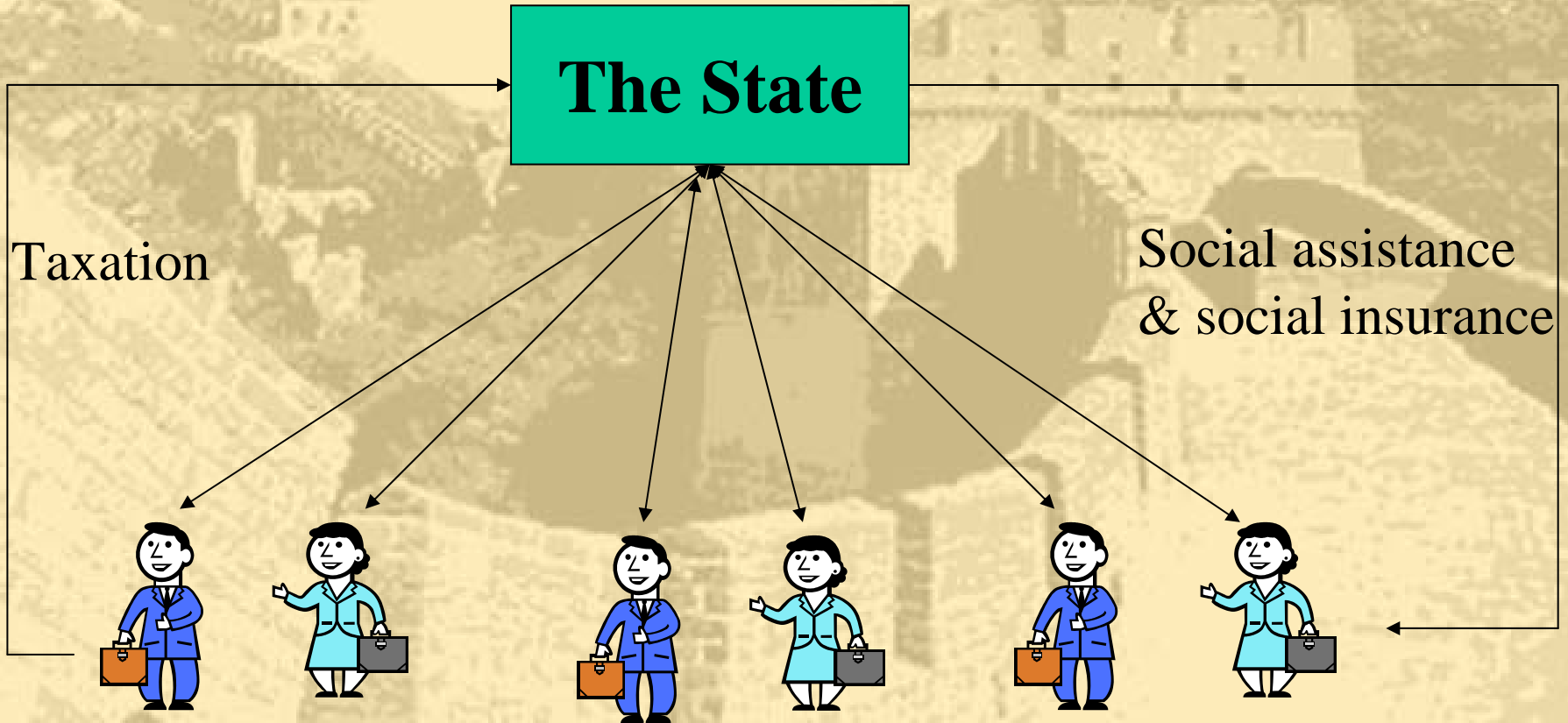
The Reembedding of the Market since 1999

- ⌘ Market liberalism made demands on ordinary people that were simply not sustainable
- ⌘ As such dissatisfactions intensified, social order became more problematic and the danger increased that political leaders sought to divert discontent by somehow reembedding the economy
- ⌘ A countermovement

Decommodification & Redistribution

- ⌘ “De-commodification occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market” (Esping-Anderson, pp. 21-22)
- ⌘ Redistribution entails contributions to the center (e.g. taxes) and payments out of it again (e.g. social assistance and social security)

How does Redistribution Work?



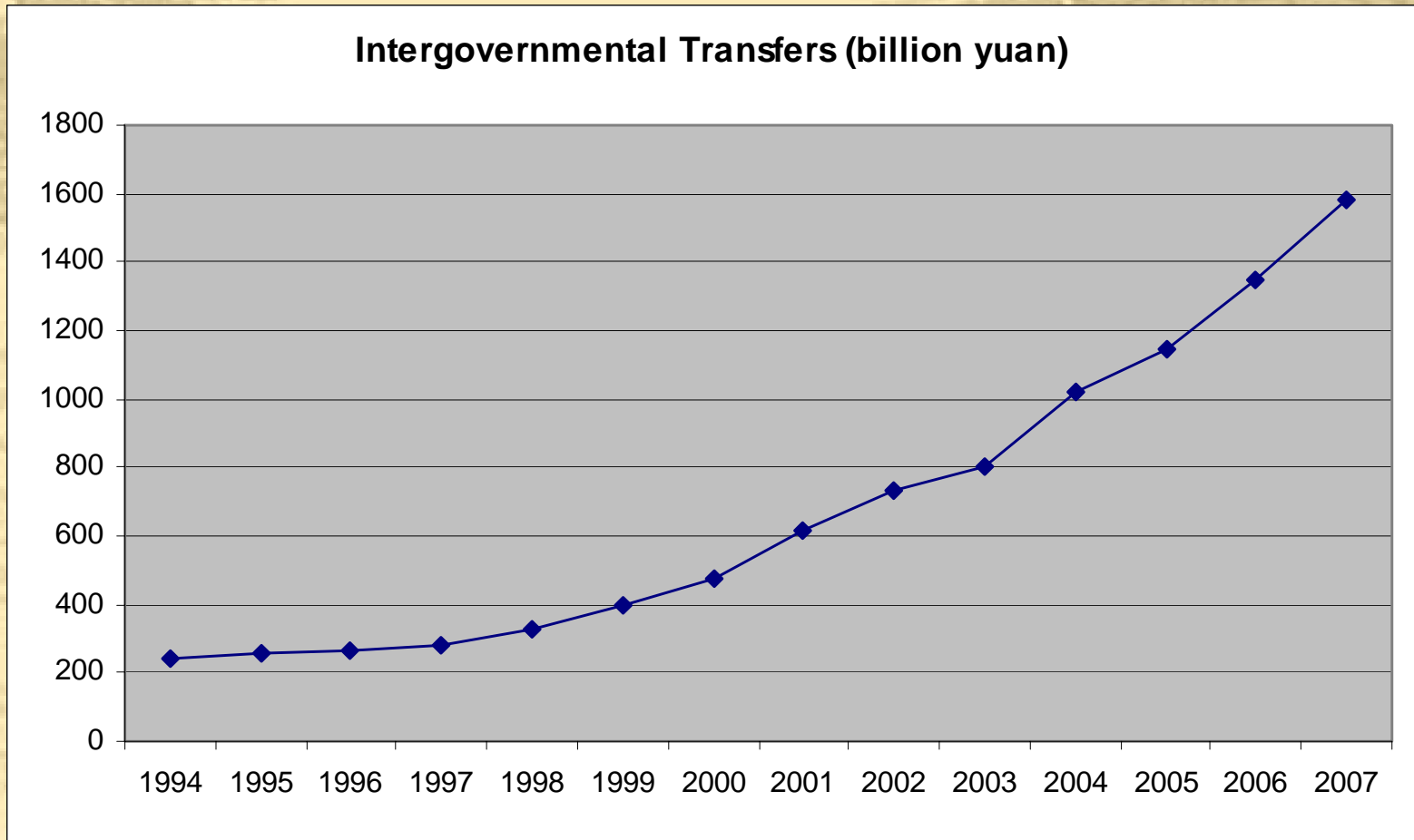
New Social Policies, 1999-2007

Year	New Social Policies
1999-	Go-West program
2002-	Urban minimum income guarantee program
2003-	Rural fee-tax reform; reestablishing rural Cooperative Medical Systems (CMS)
2004-	Lowering agricultural taxes; introduction of 3 types of rural subsidies
2005-	Partially abolishing agricultural taxes
2006-	Abolishing all agricultural taxes; introduction of comprehensive rural subsidies; free compulsory education in western and central rural areas; public housing for urban poor
2007-	Free compulsory education in all rural areas; basic health insurance for all urban residents; CMS for over 80% of rural population; promoting rural minimum income guarantee program, promoting public housing for urban poor

To Reduce Inequalities

- ⌘ To reduce regional income inequality
- ⌘ To reduce urban-rural income inequality
- ⌘ To reduce human insecurity
 - ⌘ Minimum income
 - ⌘ Work-related injury
 - ⌘ Healthcare
 - ⌘ Unemployment
 - ⌘ Old-age pension

To reduce regional income inequality

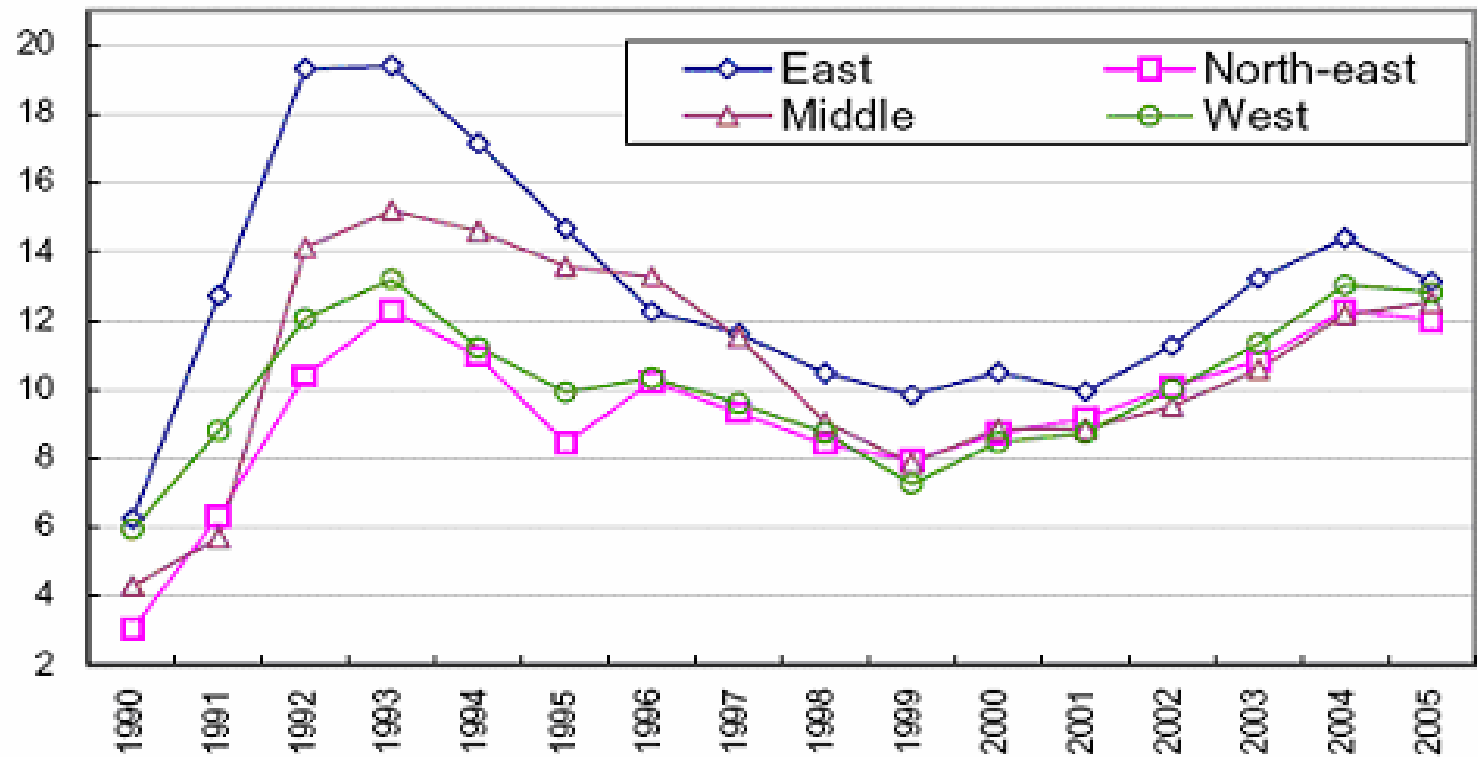


To reduce regional income inequality

- ⌘ During the period of 1994-2005, 10% of the central fiscal transfers went to eastern provinces, 44% to central provinces, and 46% to western provinces
- ⌘ Central fiscal transfers have helped reduce both vertical and horizontal fiscal imbalance and thereby regional inequalities

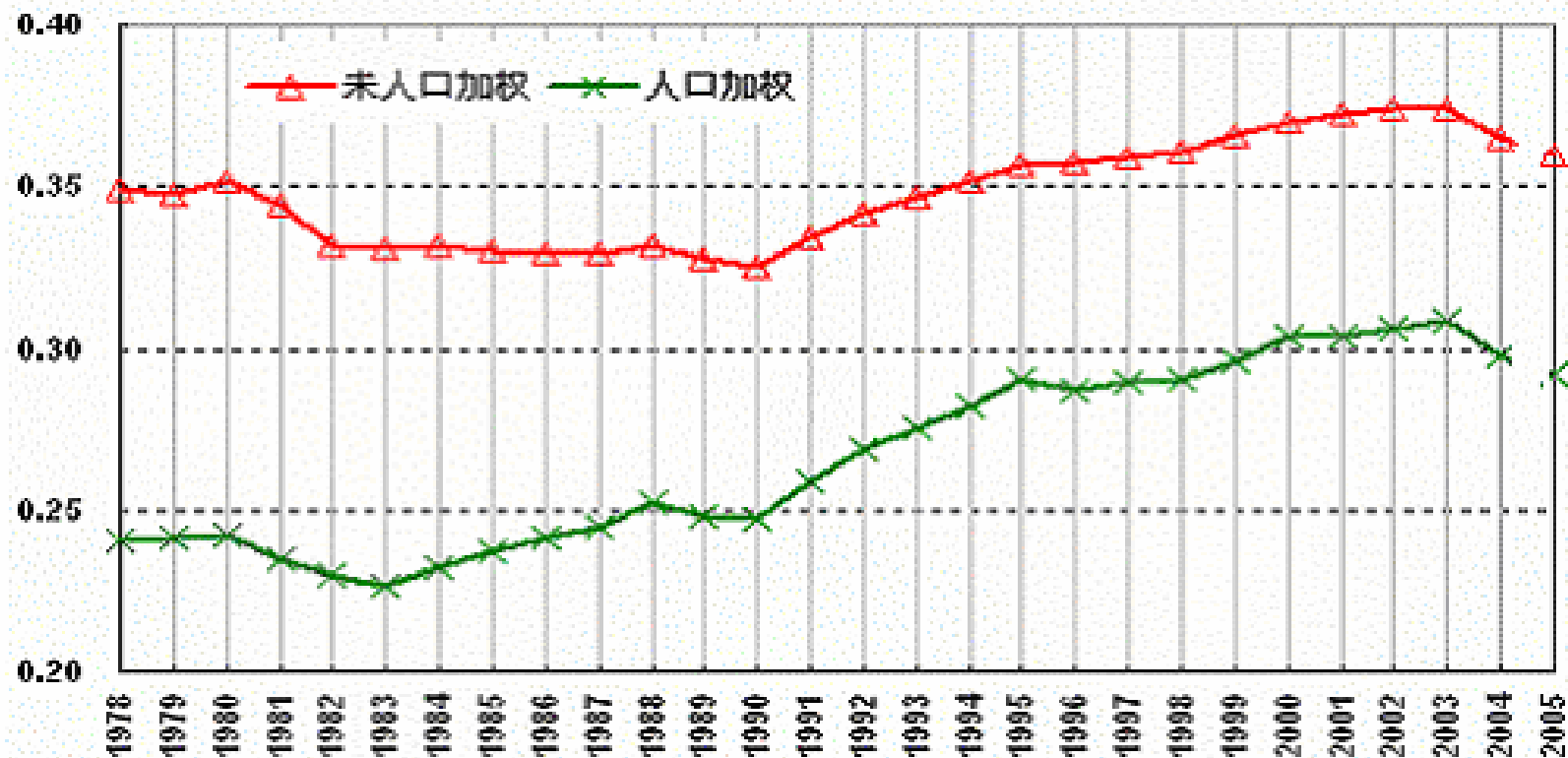
Convergence of Provincial Growth Rates

Figure 6 GDP Growth Rates of the Four Regions During 1990-2004

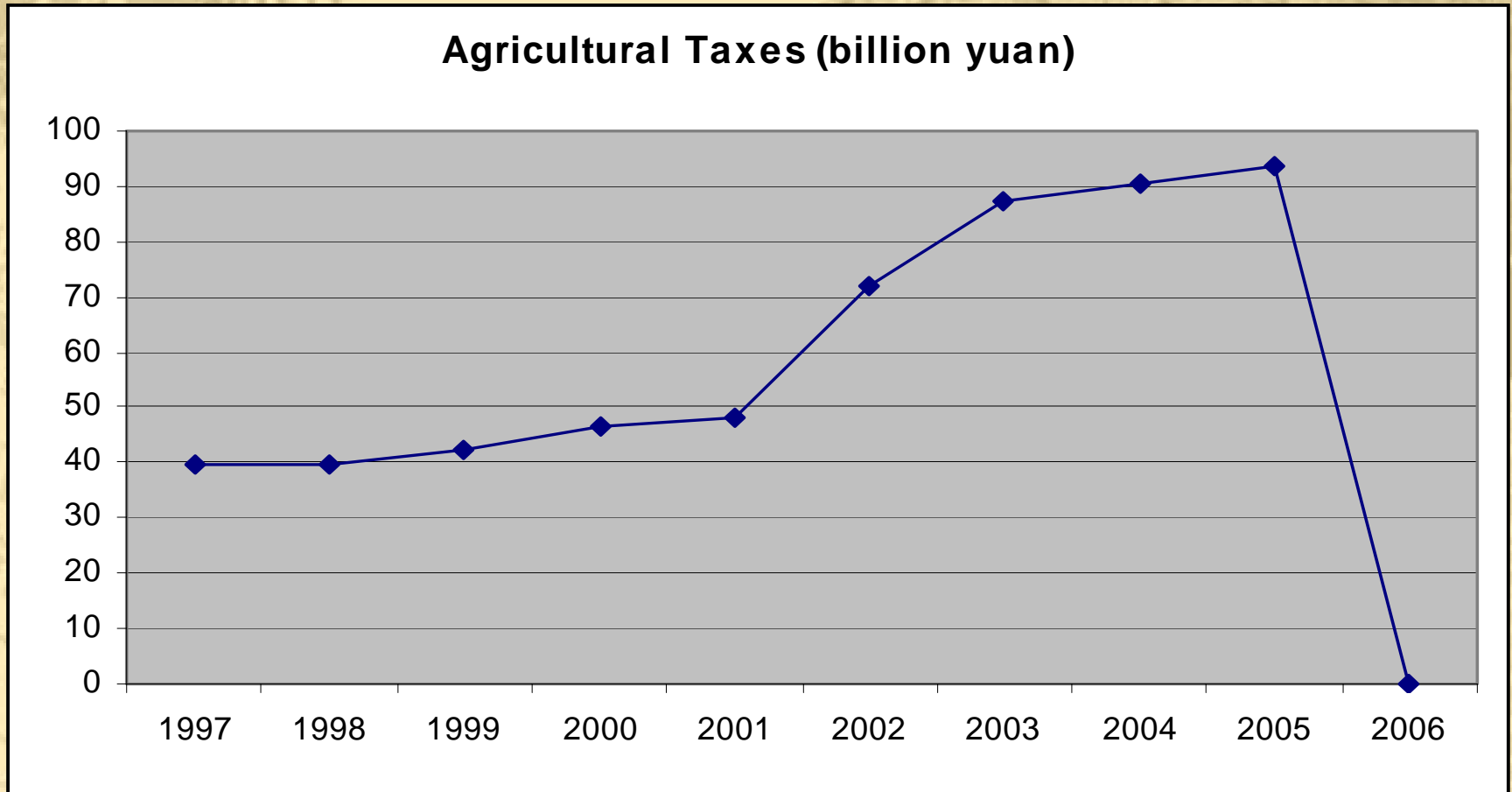


Source: Feng and Xuan(2006), Figure 2.

Gini Coefficients of Provincial Per Capita GDP (1978 constant price)

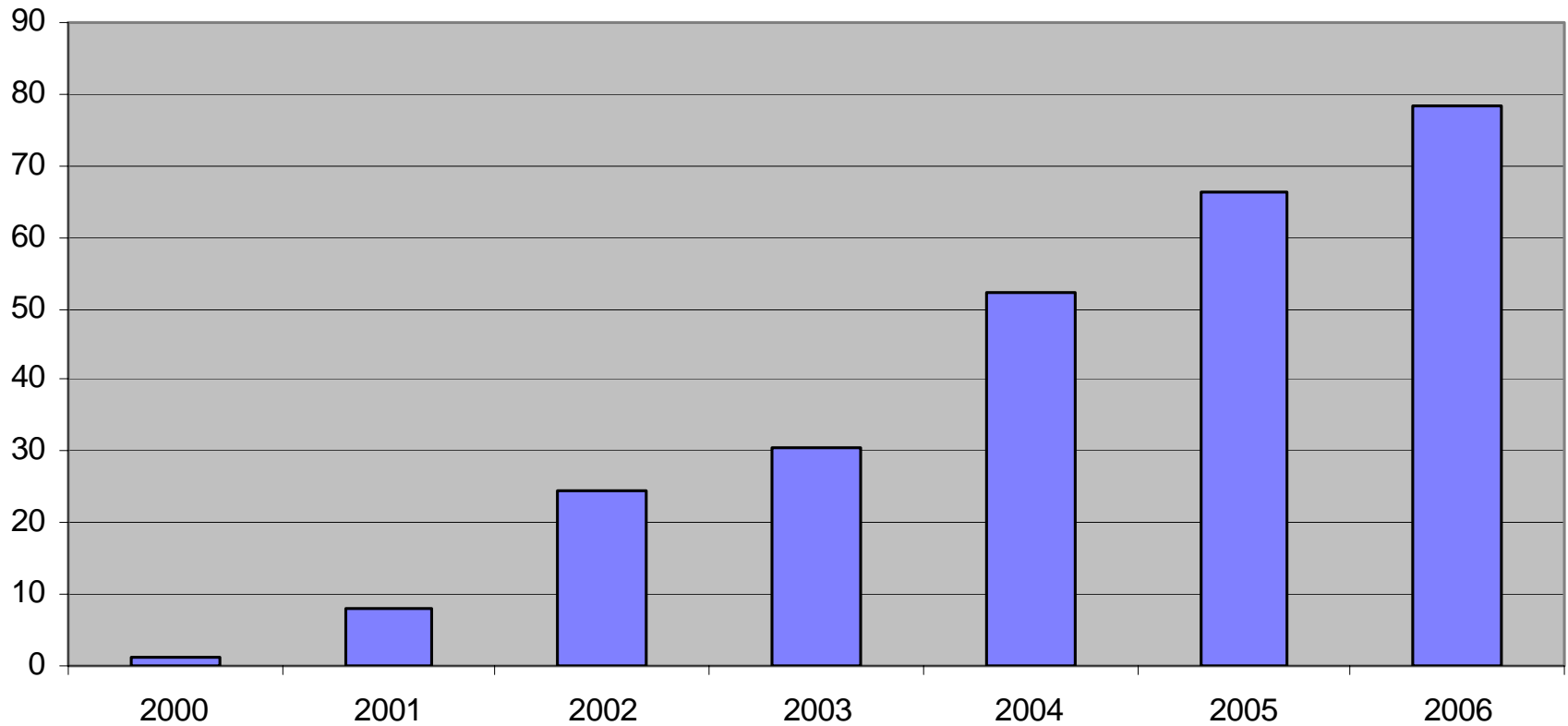


To reduce rural-urban gaps: Taking less



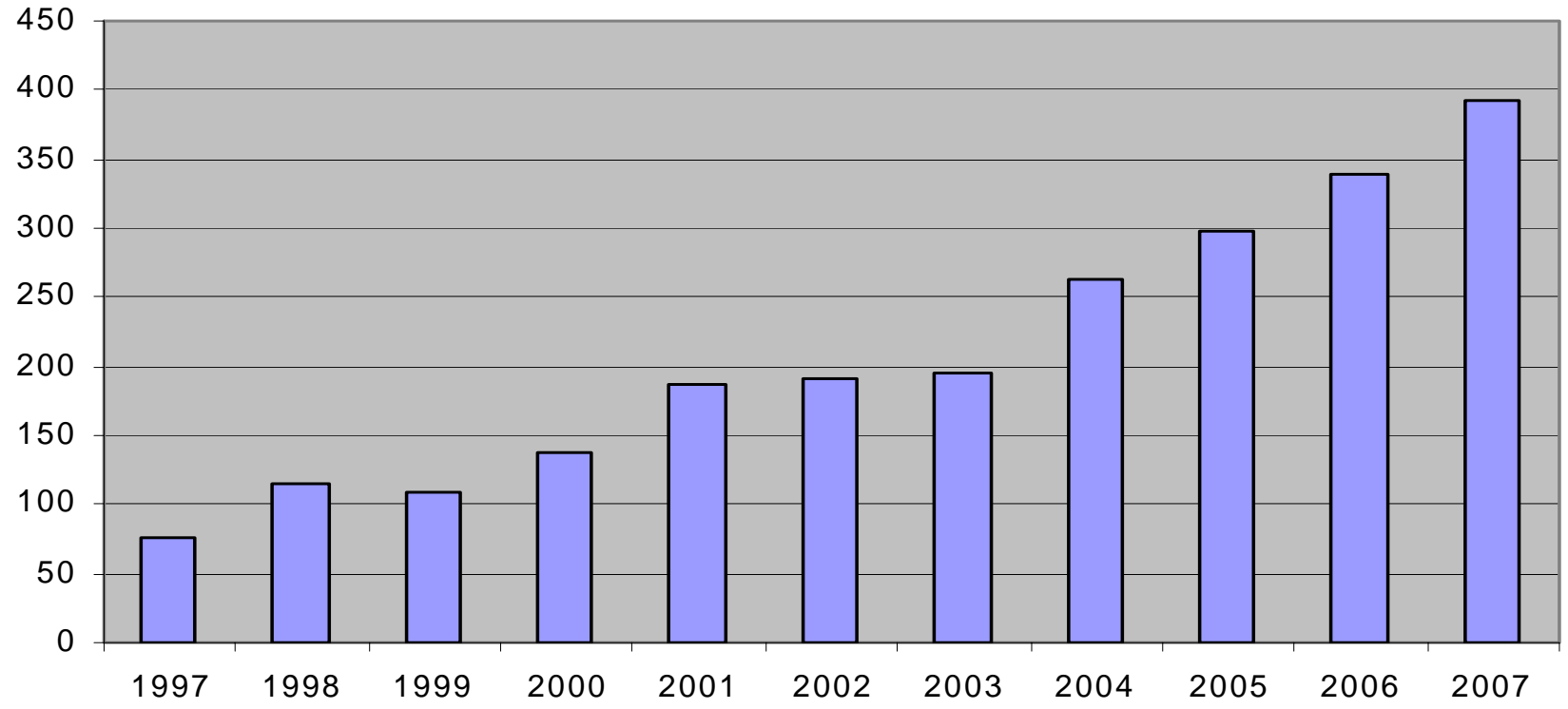
To reduce urban-rural gaps: Giving more

Central Transfers to Support Rural Fee-to-Tax Reform
(billion yuan)

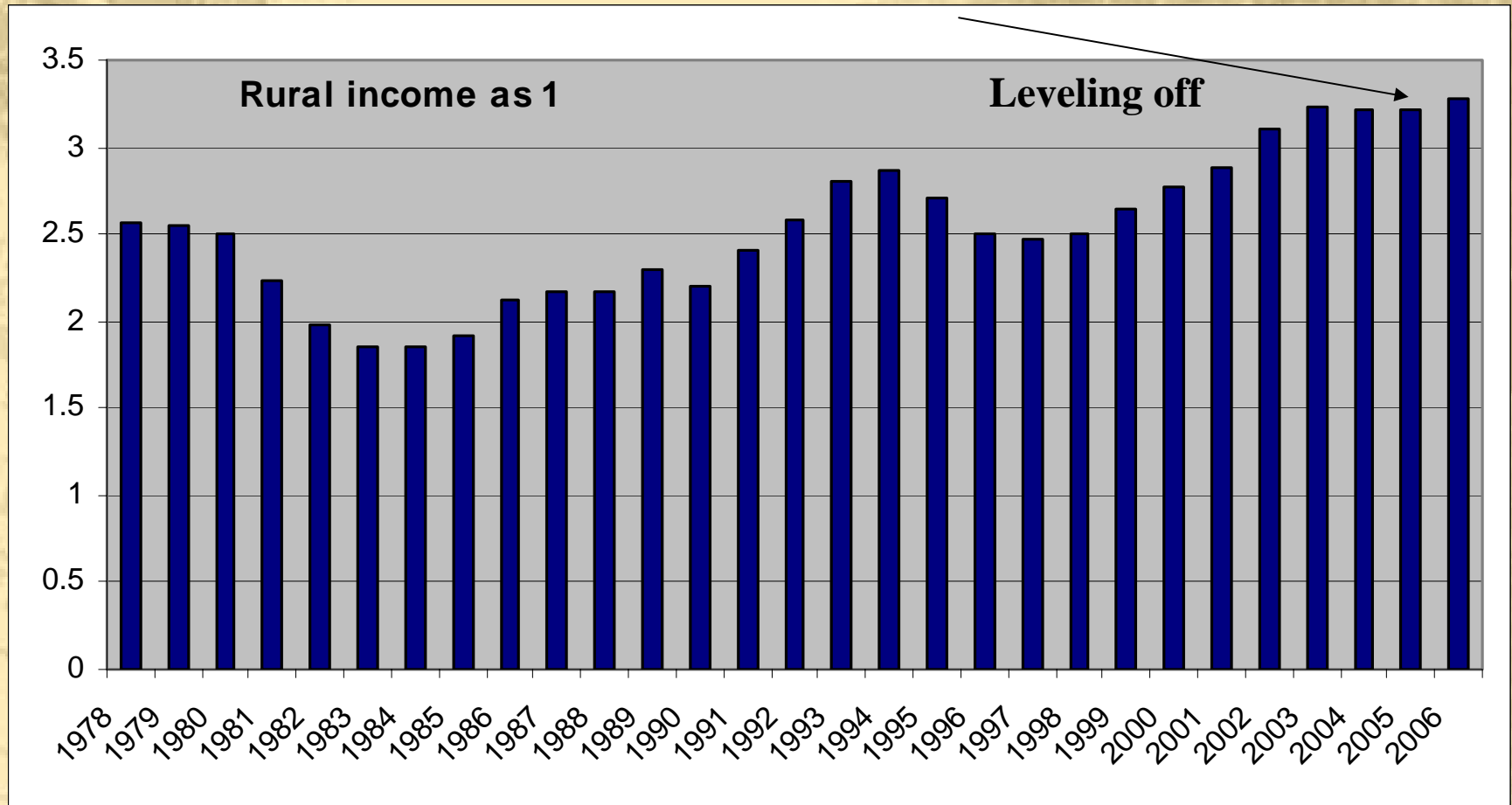


To reduce rural-urban gaps: Giving more

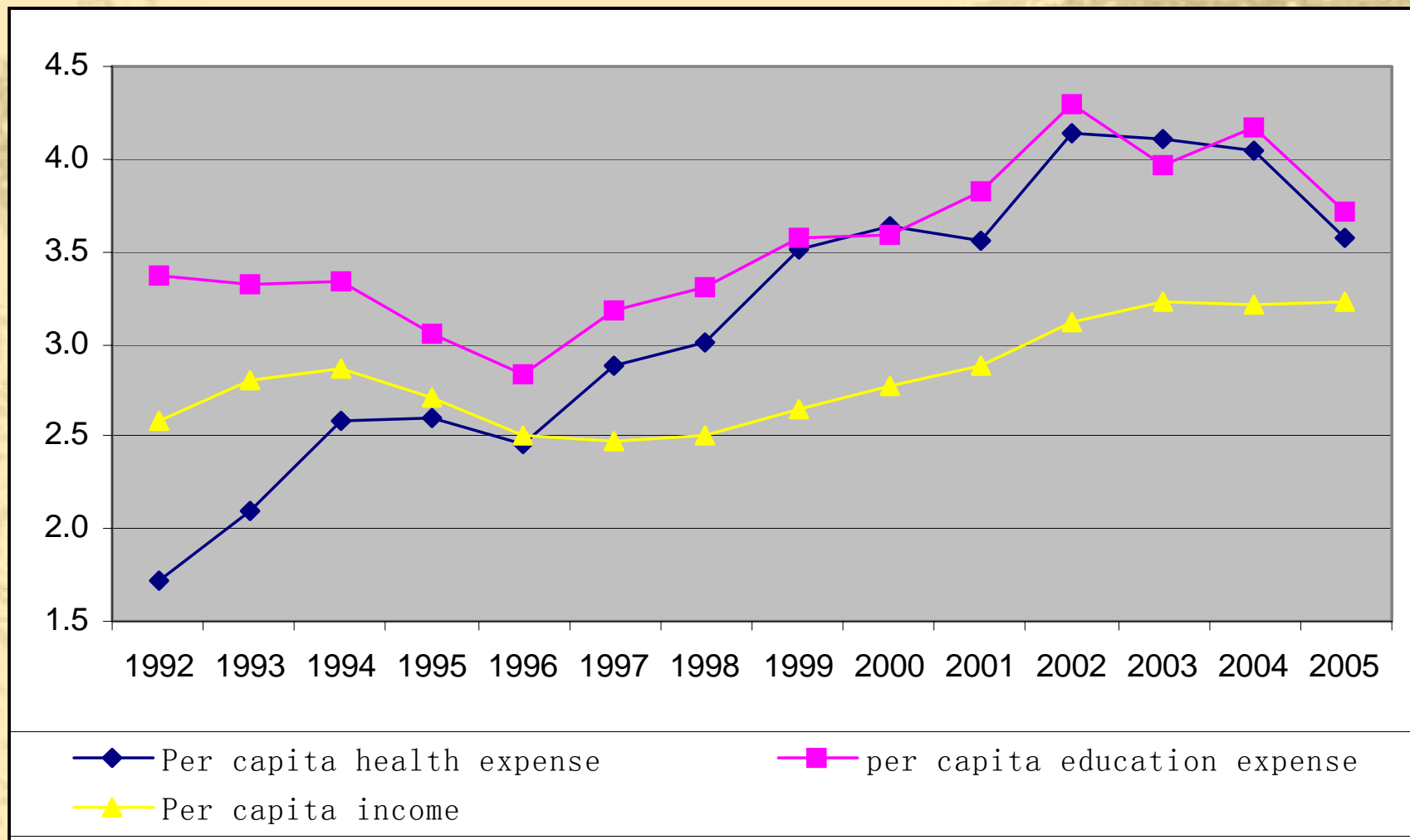
Central Budget for Agriculture, Rural Areas and Farmers
(billion yuan)



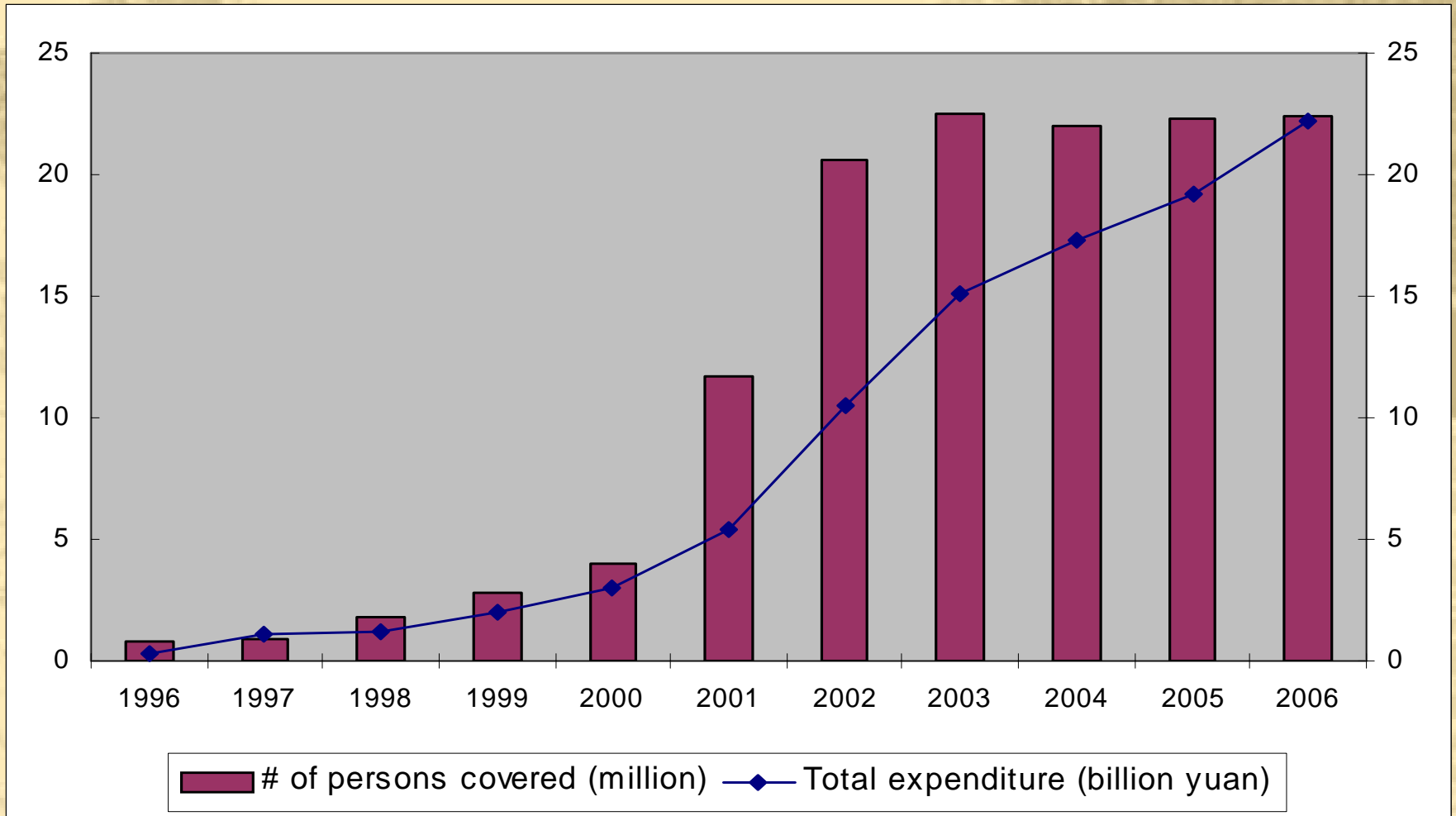
Urban-Rural Income Gap



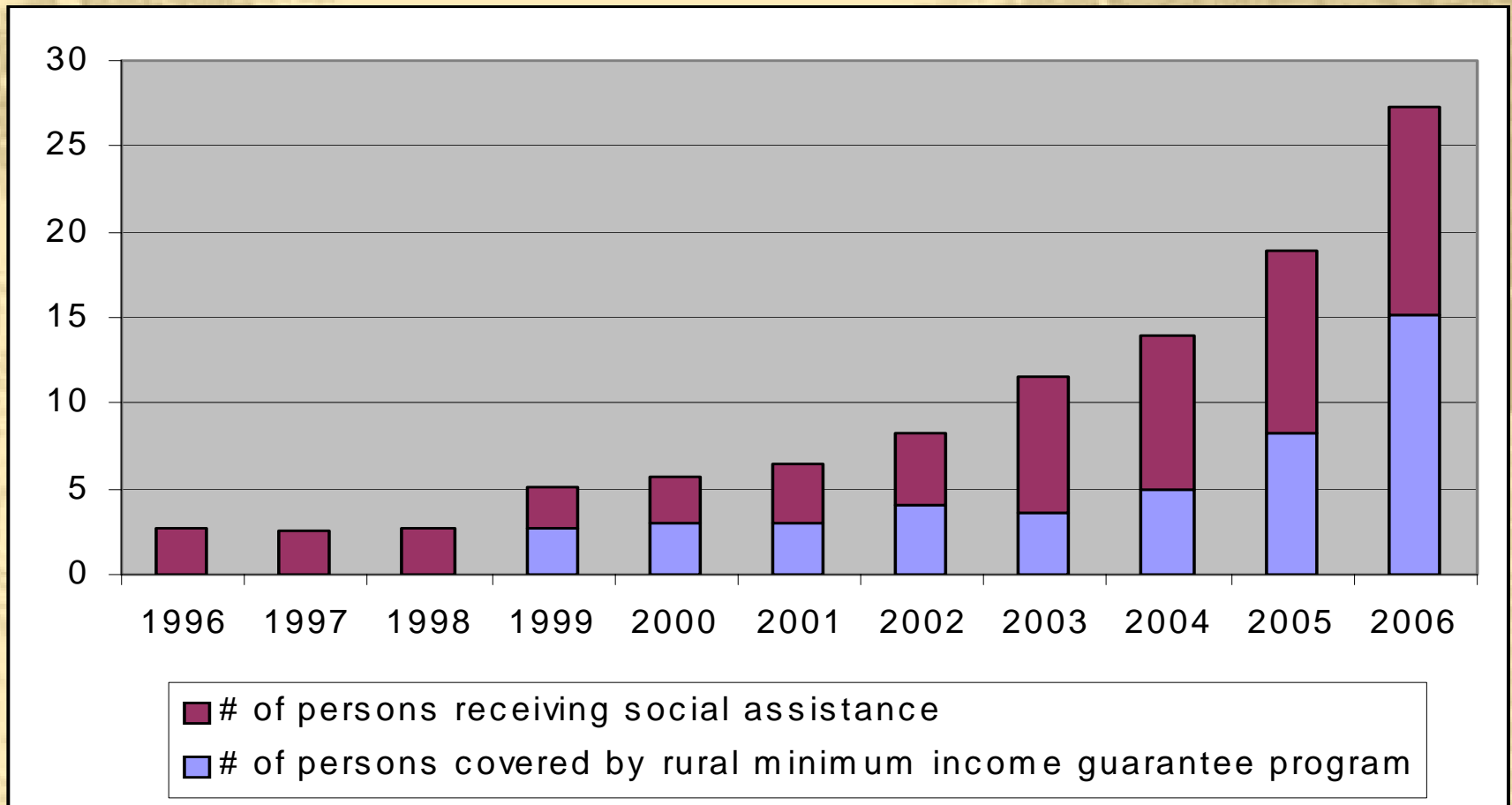
Per Capita Expenditure on Healthcare and Education



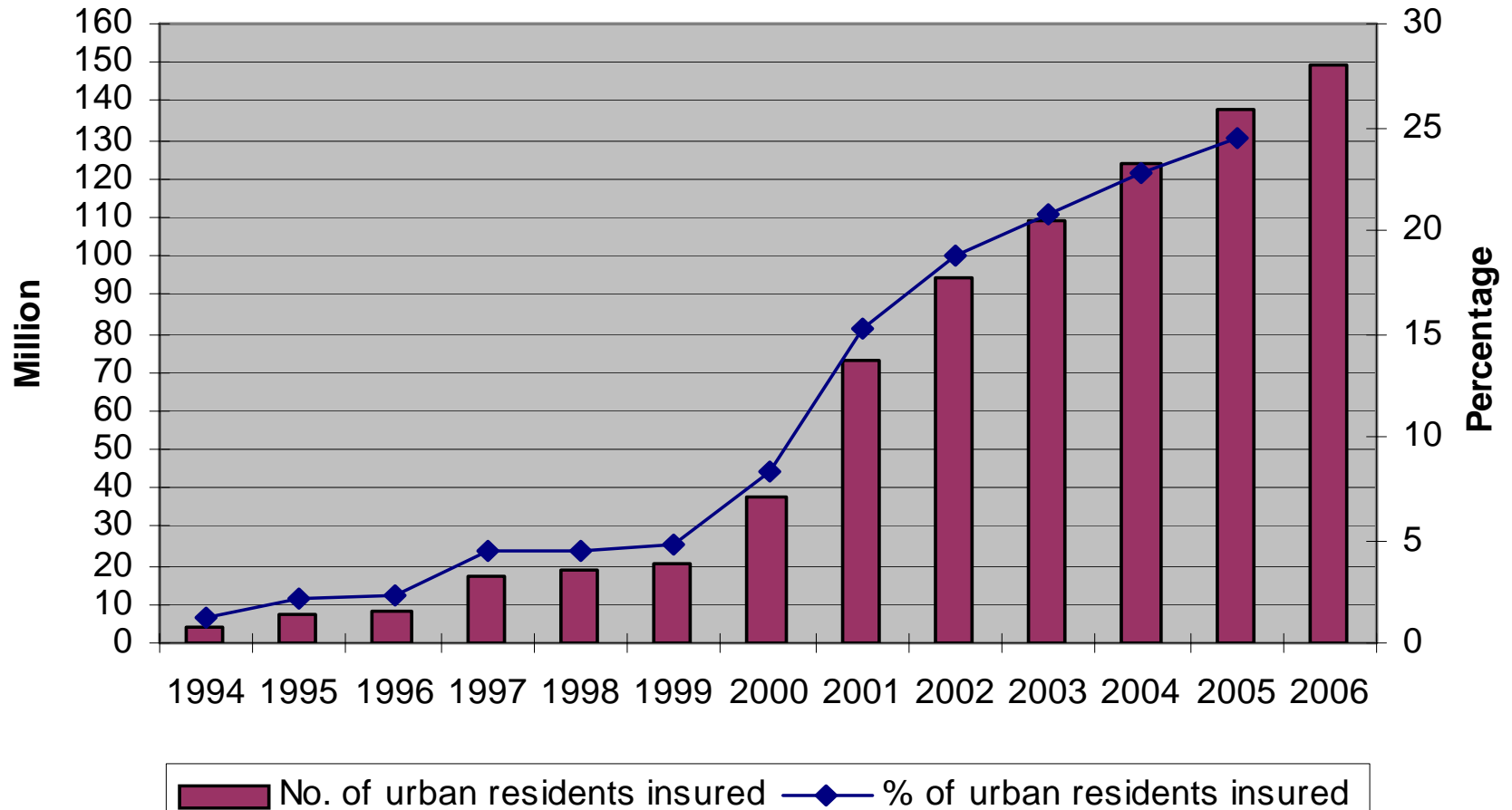
To reduce human insecurity: Urban Minimum Income Program



To reduce human insecurity: Rural Minimum Income

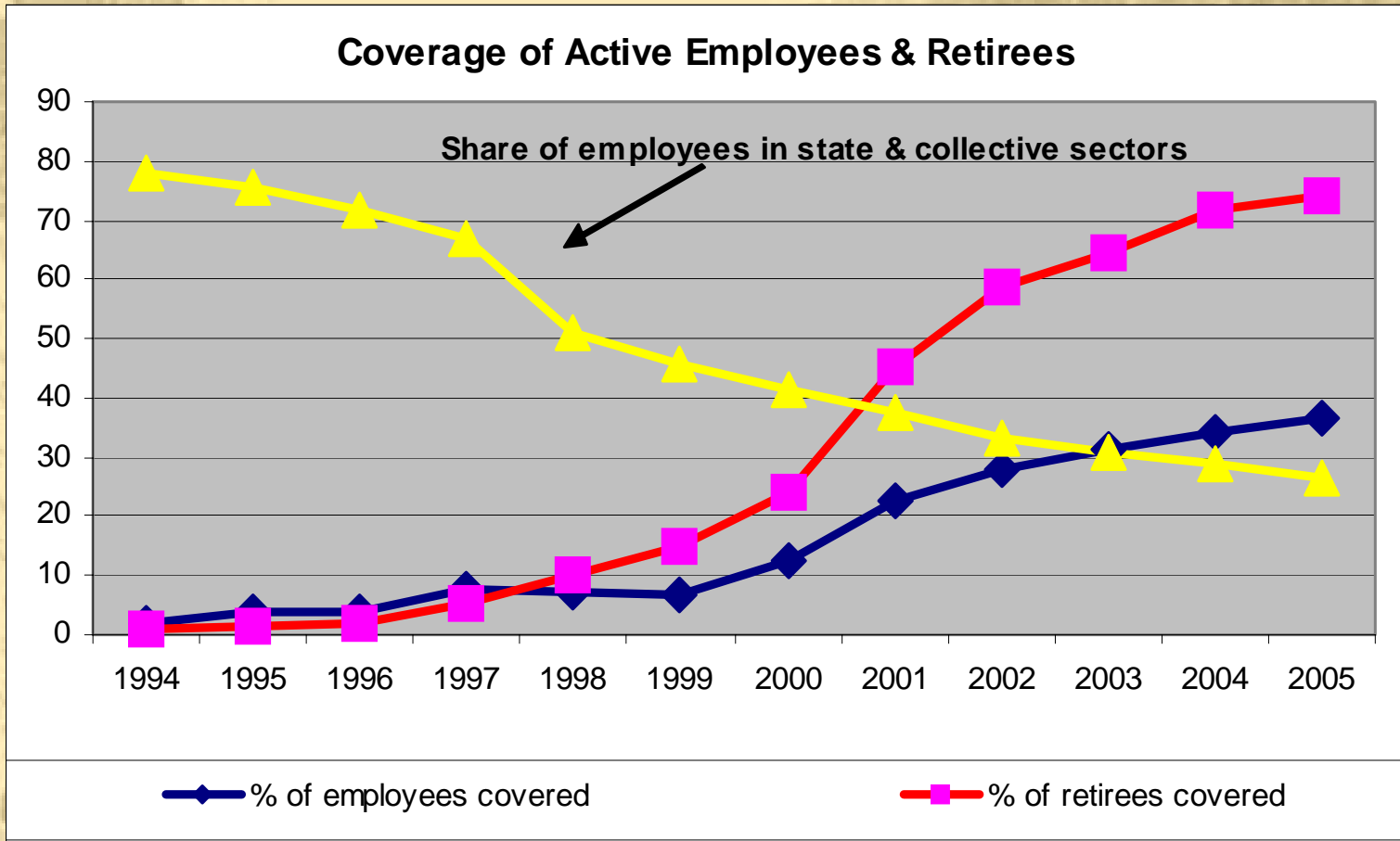


To reduce human insecurity: Coverage of Urban Basic Healthcare Insurance

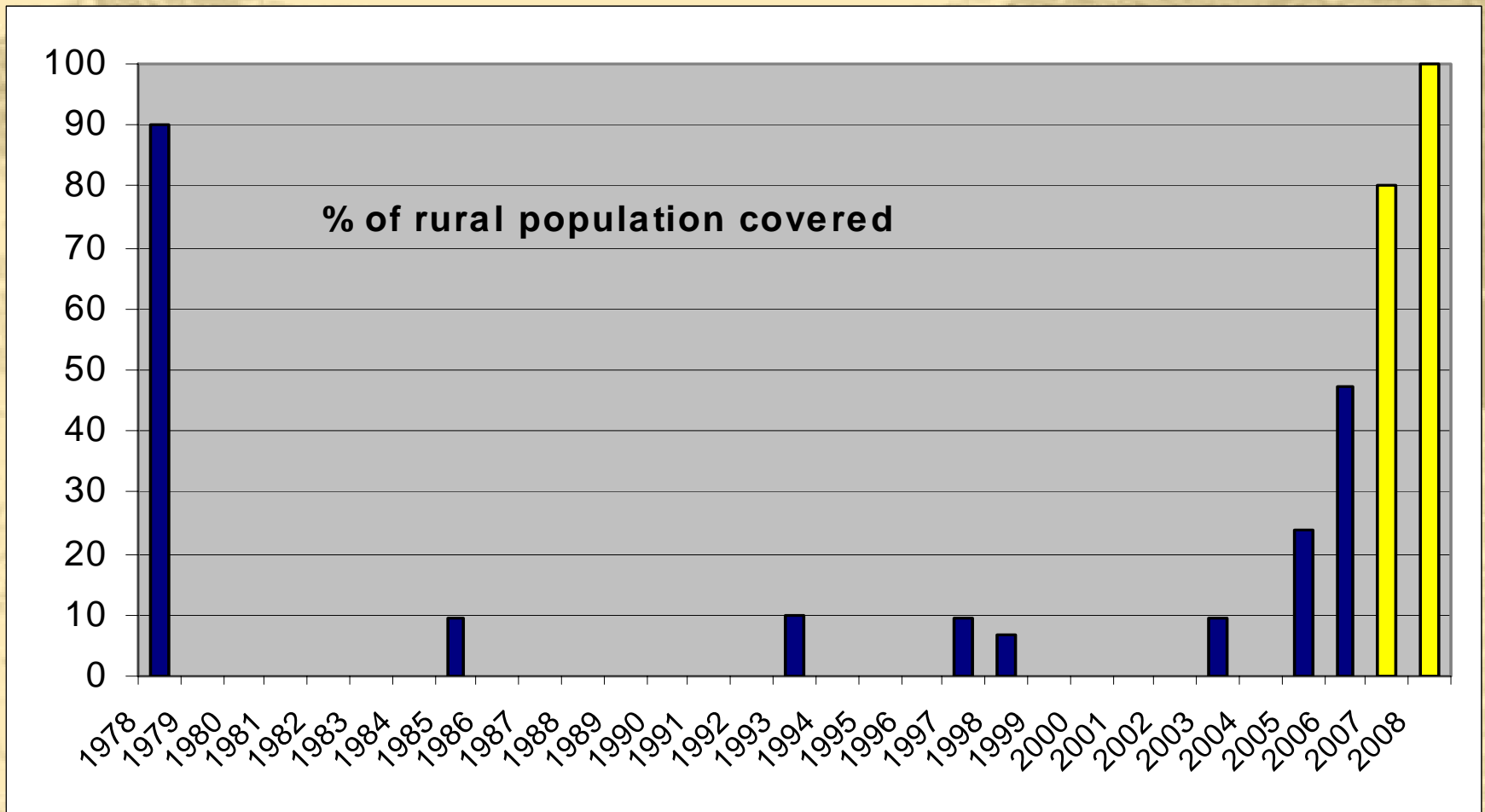


To reduce human insecurity:

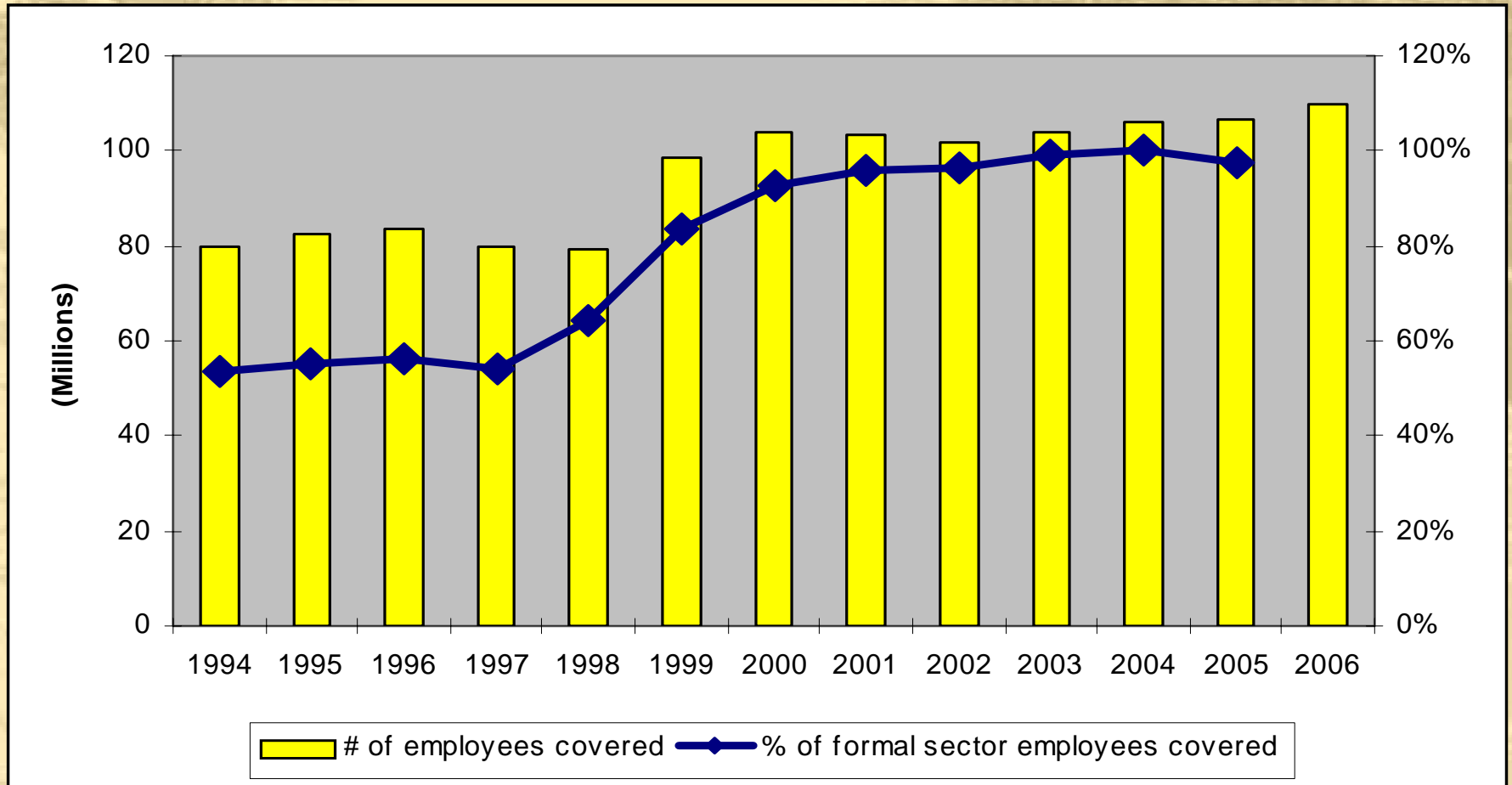
Health Insurance Coverage of Active Employees & Retirees



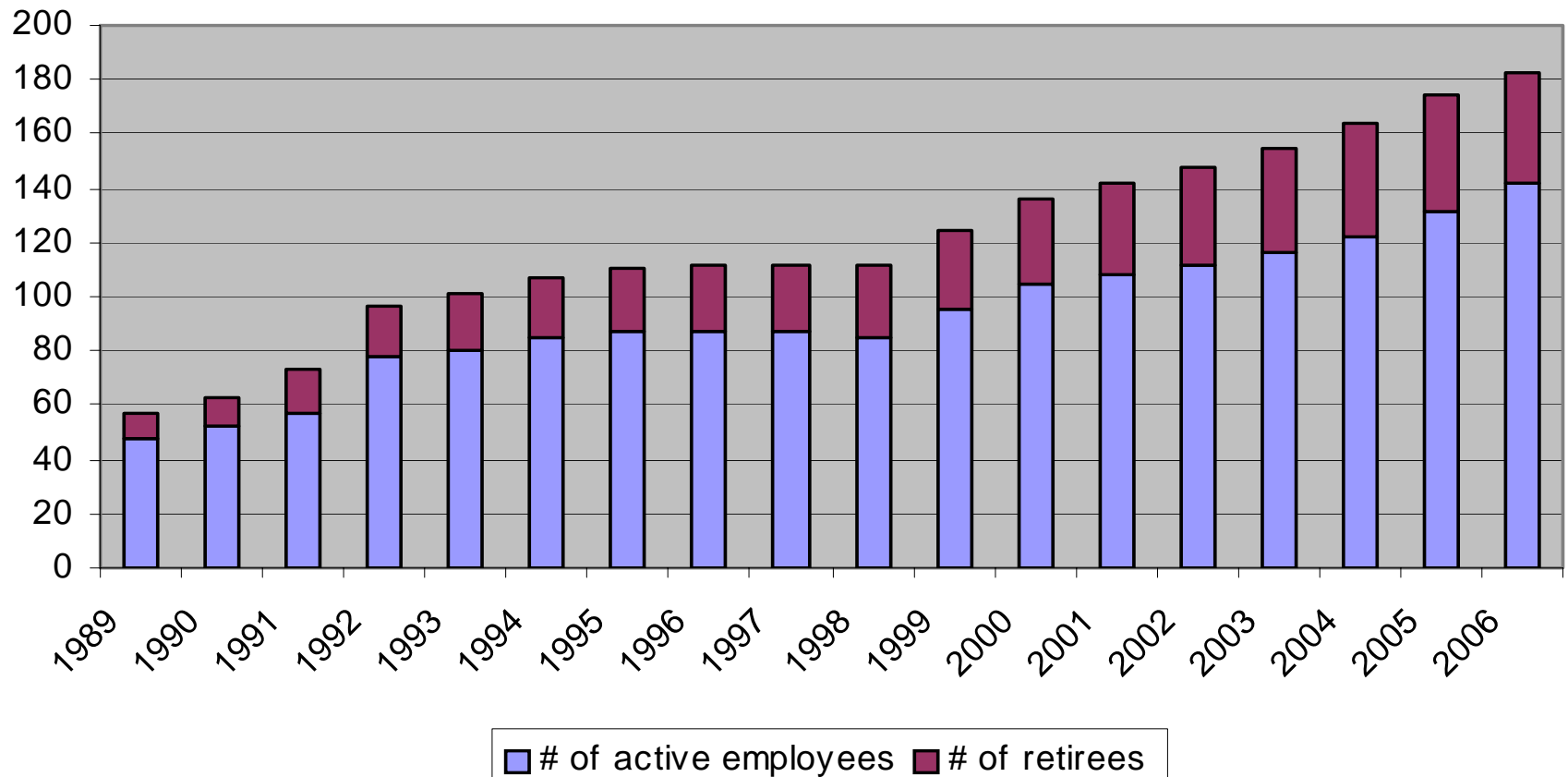
To reduce human insecurity: Coverage of Rural Cooperative Health Insurance



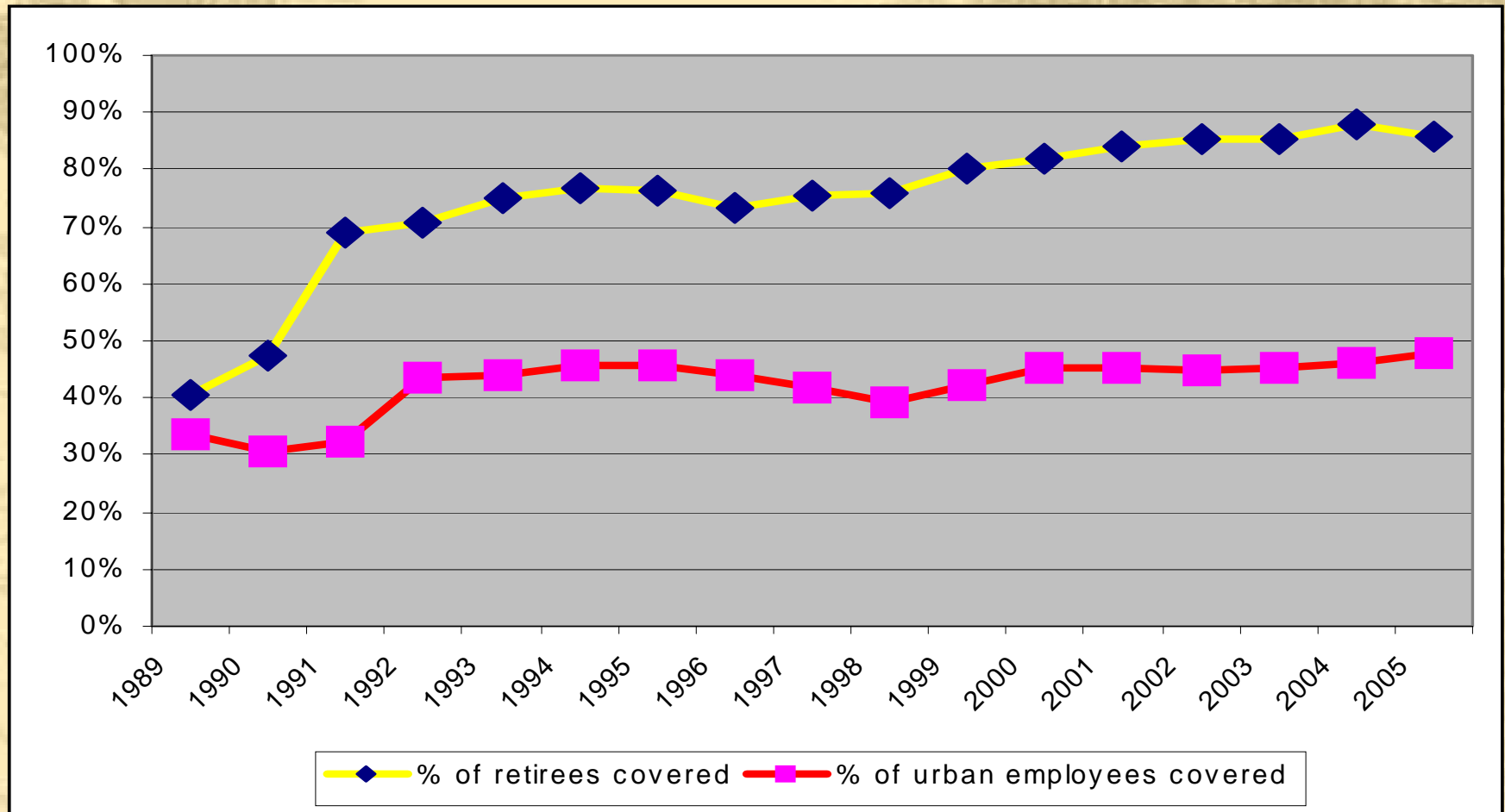
To reduce human insecurity: Coverage of Unemployment Insurance



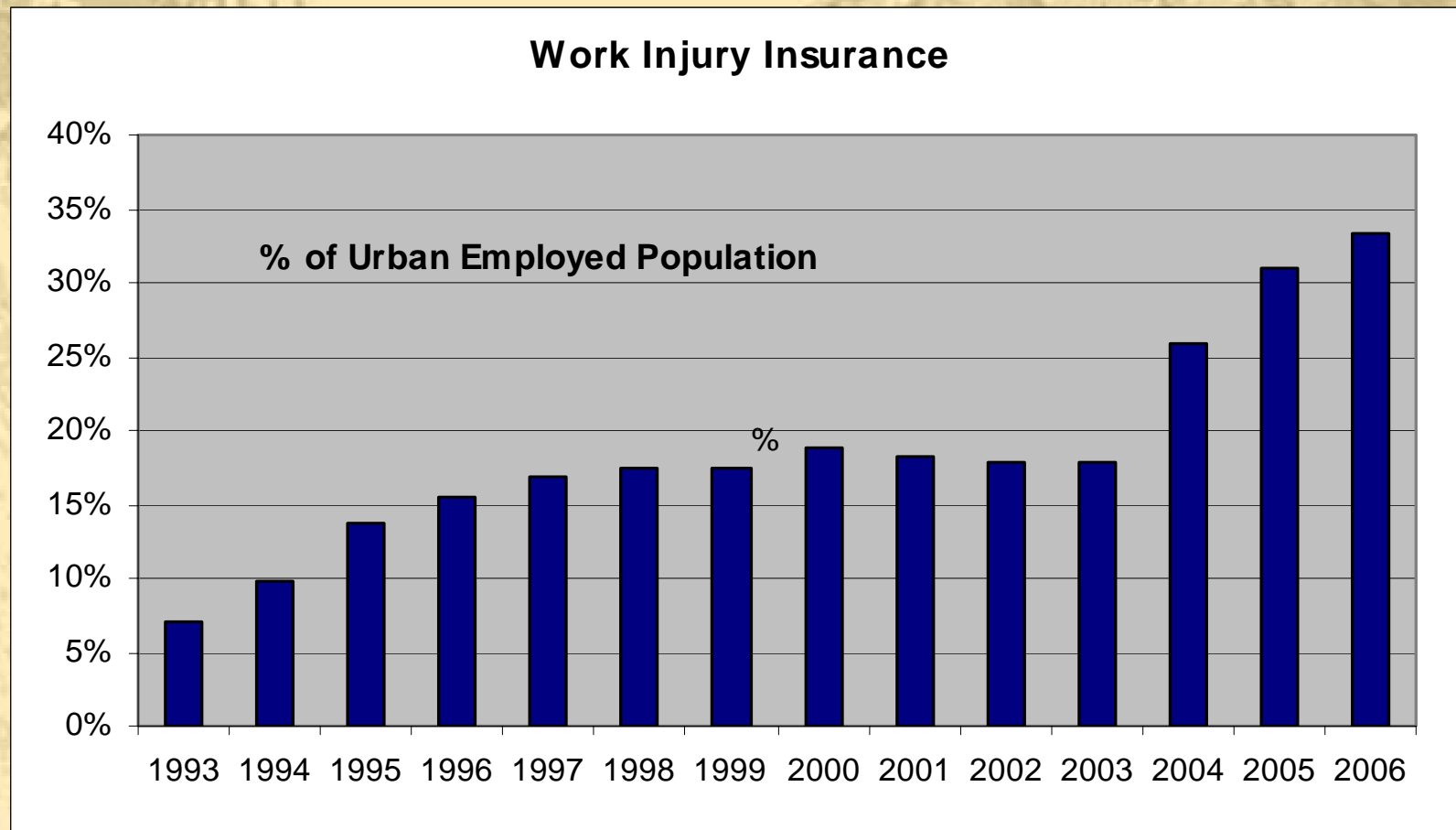
To reduce human insecurity: Urban Basic Pension Program



To reduce human insecurity: Urban Basic Pension Program %

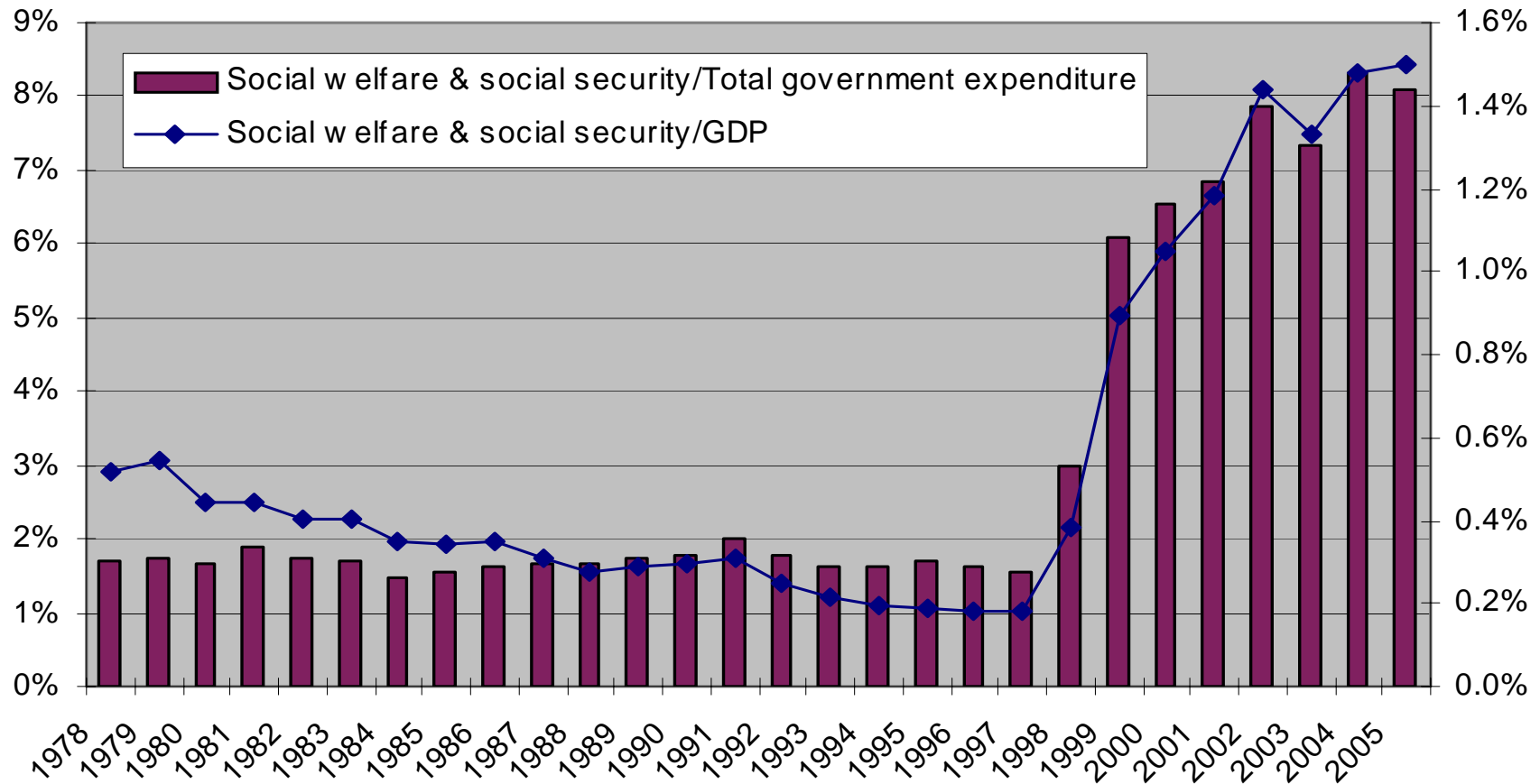


To reduce human insecurity: Coverage of Work Injury Insurance



To reduce human insecurity:

Budgetary Expenditure on Social Welfare/Security, 1978-2005

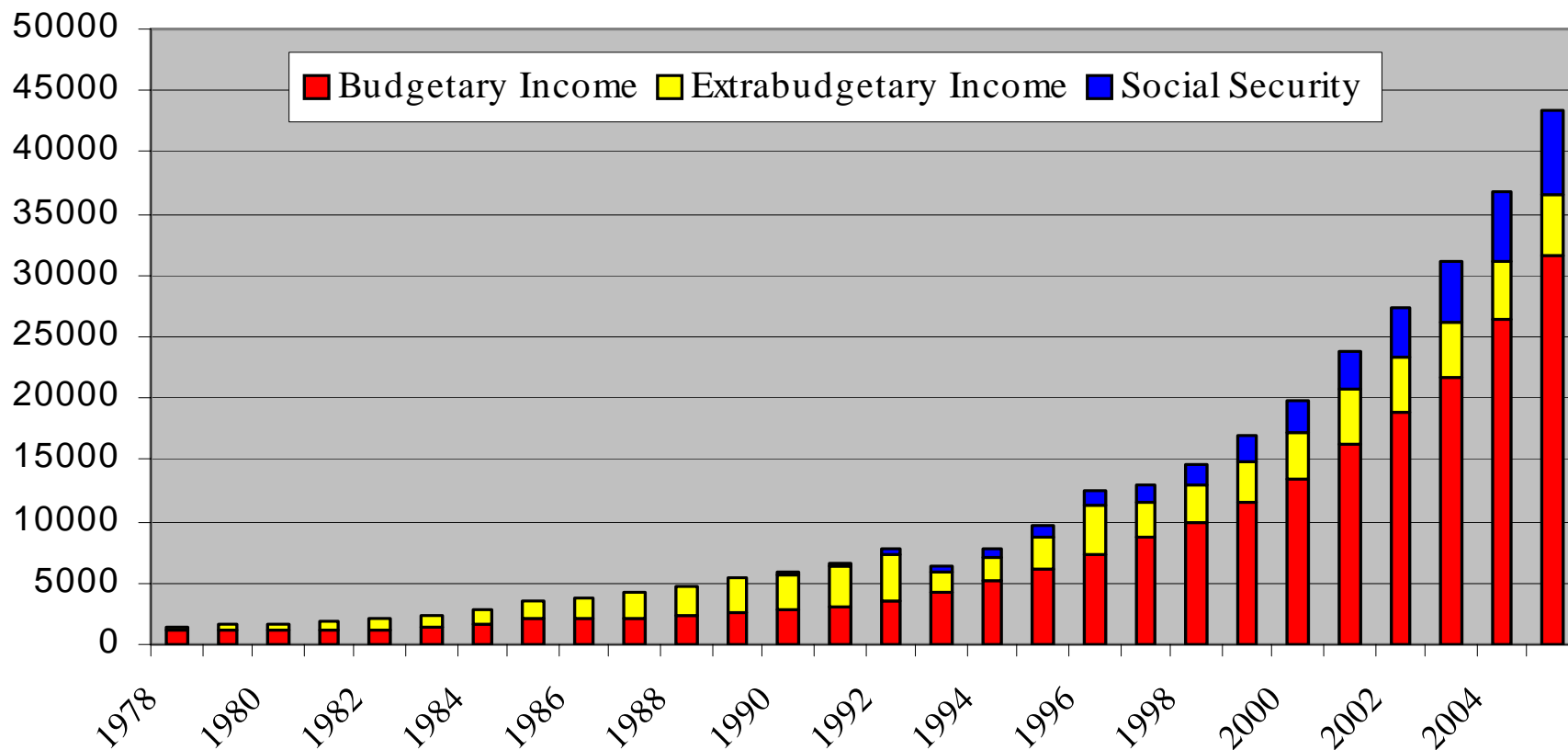


Two Key Explanatory Variables

- ⌘ Ability: Recuperating State Extractive Capacity
- ⌘ Willingness: Changing Model of Agenda-Setting in Policy-Making

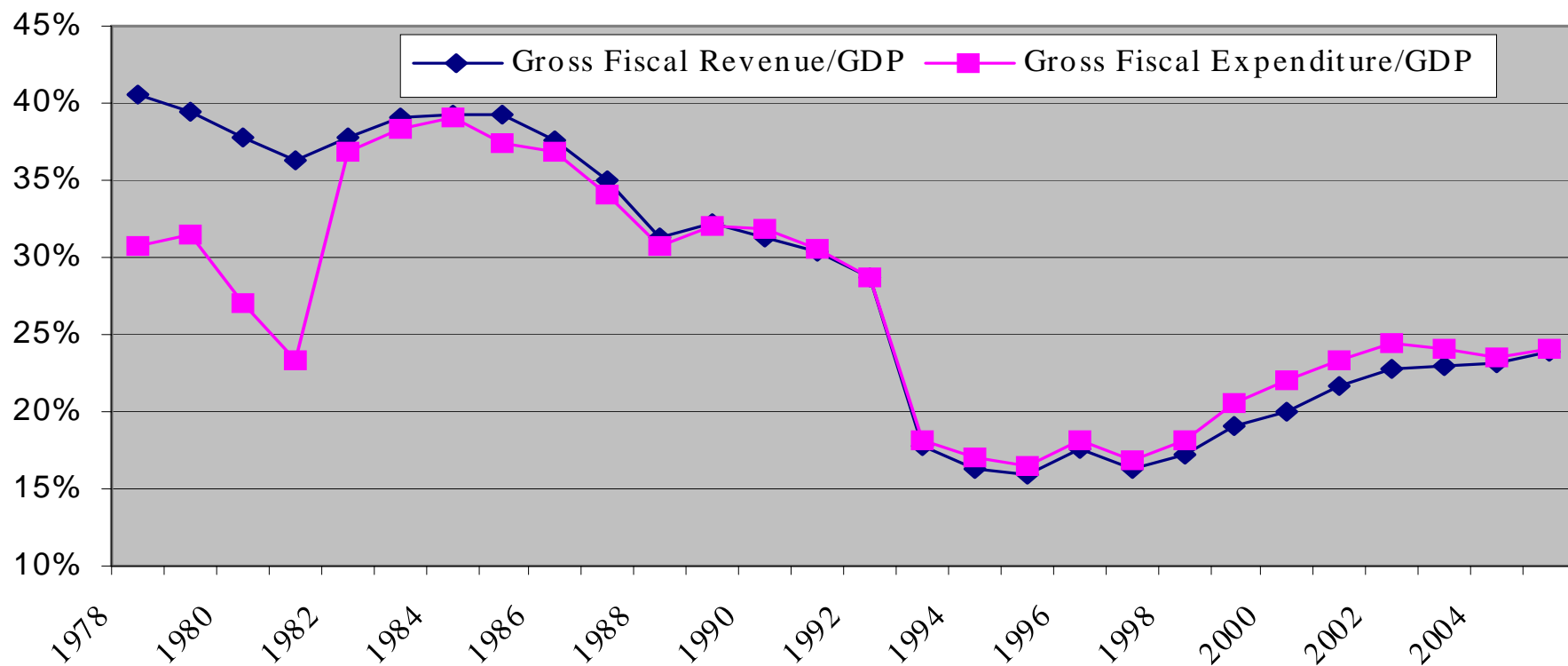
Recuperating State Extractive Capacity: Gross Fiscal Revenue, 1978-2005

Gross Fiscal Revenue, 1978-2005 (0.1 billion yuan)



Recuperating State Extractive Capacity: Gross Revenue & Expenditure/GDP, 1978-2005

Gross Fiscal Revenue & Expenditure/GDP, 1978-2005



Changing Model of Agenda-Setting in Policy-Making: Six Model of Agenda-Setting

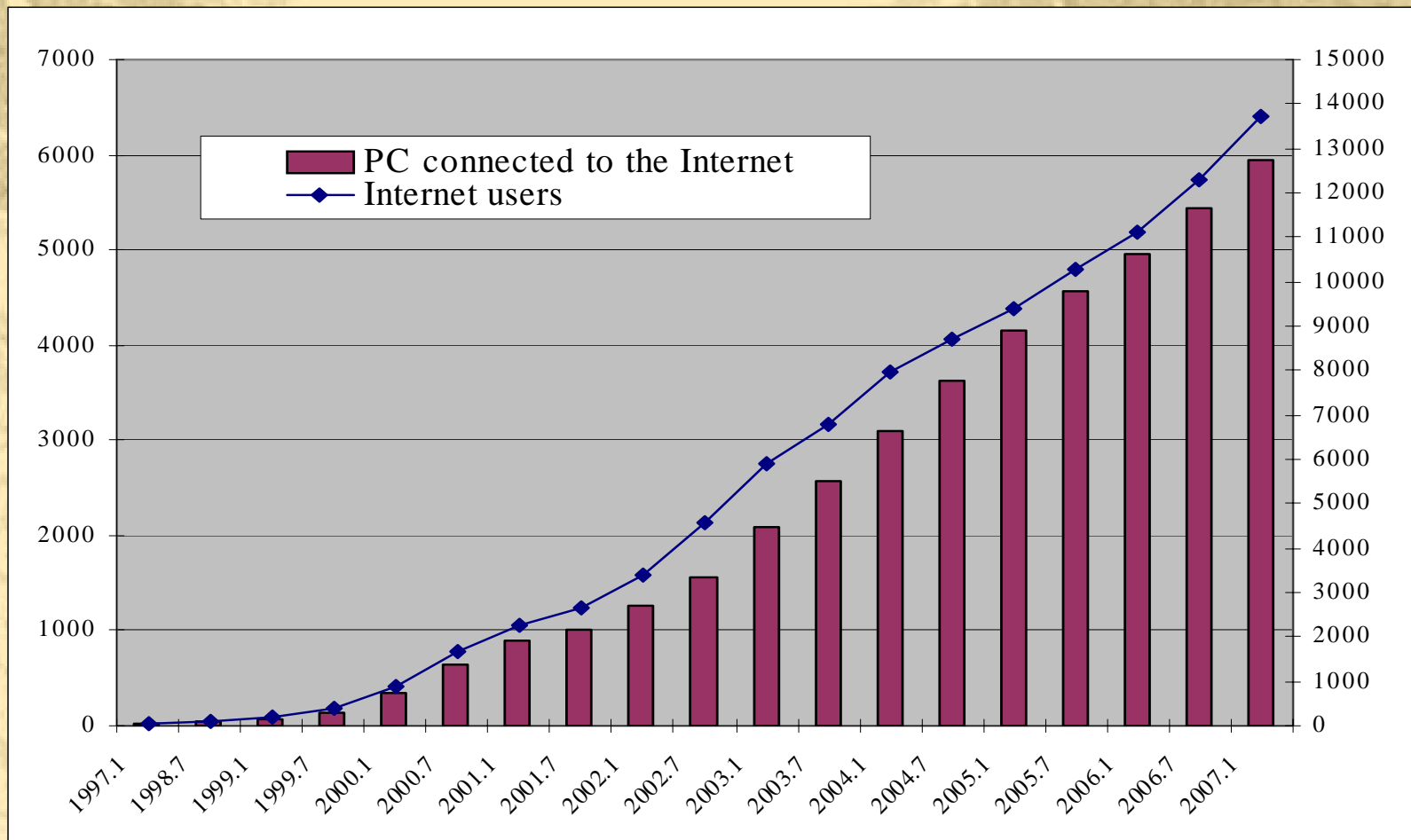
		Initiator of Agenda		
		Decision-Makers	Advisers	Citizens
Degree of Popular Participation	Low	I. Closed Door	III. Inside Access	V. Outside Access
	High	II. Mobilization	IV. Reach-out	VI. Popular Pressure

王绍光, “中国公共政策议程设置的模式”, 《中国社会科学》2006年第5期

The Popular Pressure Model of Agenda-Setting

- ⌘ Where do pressures come from?
- ⌘ Why do pressures have impact on agenda-setting?
 - ⌘ Stakeholders have become more assertive (e.g. regional policy)
 - ⌘ Involvement of NGOs (e.g. environmental policy)
 - ⌘ Changing role of mass media (e.g. work safety, education, healthcare)
 - ⌘ Rise of the internet

The Rise of the Internet



Policy Re-orientation

- ⌘ From “efficiency first” to “Human-being first” to “harmonious society”
- ⌘ Those issues on which people have called for changes (such as environmental crisis, regional disparities, rural problems, landless farmers, urban poverty, unemployment, growing inequality, rising costs of education and health, coalmine safety, skyrocketing housing prices, and the like) have been put on the government’s agenda.

Summary I

- ⌘ Now the government has fiscal capacity and political will to introduce social policies, although neither is sufficiently strong.
- ⌘ There is still big room for improvement on both fronts.
- ⌘ Nevertheless, the emergence of social policies marks a historical turning-point.

Summary II

The case of China seems to bear testimony to Karl Polanyi's insight on the dynamics of modern society:

“The idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surrounding into a wilderness.”

Karl Polanyi, The Great Transformation, p. 3