

# Decomposing Welfare

## *A Methodological Discourse on Welfare States with Lessons for China*

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### **1 Definition of Welfare**

Welfare can be defined as the conditions that enable people to live a happy life or to 'fare well'. These conditions change over time. For a long time, the idea that welfare was equal to charity, relief and alms occupied a dominant position. Subsequently, theories of equality and the practice of universal suffrage within civil society began to give welfare the content of equal rights. Unlike human rights, these rights are socially determined and have been interpreted in different ways in different countries and at different times. In the post-World War II period, institutional social security prevailed throughout western Europe. Welfare states, marked by massive government spending for the purpose of enhancing social equality, boomed until the early 1980s when Mrs Thatcher's government started to severely cut welfare spending in Britain, since when they have been in decline. In recent years, the concept of equal social rights has increasingly been interpreted as 'the right to equal opportunities', as opposed to the concept of 'the right to equal distribution'. Since 'Third Way' politicians have assumed office in some European Union member states, the word 'welfare' has been overshadowed by the call for 'work-fare'. As some welfare programmes in the field of education and health have proved useful for human resource development, and are believed to be instrumental for bringing out human potential, greater emphasis has been placed on education and health rather than on institutional programmes of distribution. Welfare spending has started to move from institutional redistribution to either means-tested relief or social investment in a variety of services aiming at human development. These are referred to as 'positive welfare' by Third Way politicians and theoreticians.<sup>1</sup>

The composition of welfare programmes varies in different countries, mainly because in conditions of scarce resources people in specific countries and contexts have to decide on the composition of welfare programmes which can best meet their needs. This decision will be greatly influenced by the political situation in a country, as once described by Rimlinger (1971). The demand for preserving and improving human life, for example, can be understood both as the demand for having enough food and clothing and as that for controlling, using and protecting natural resources on which human

beings rely for existence. Suppliers of welfare cannot resist the influences of their times (including natural, economic, social and political specificities) in their policy-making, and welfare provisions in the twentieth century have been strongly determined by national governments.

Emile Durkheim predicted the adverse effects of government intervention in welfare provision. He asserted that social welfare accomplished through governmental policies could not bring happiness to people since the structural changes of a society which would result from social welfare interventions would weaken traditional enterprise associations and violate the social contract and market ethic (Durkheim 1964: 11). Herbert Spencer made a similar point. He opposed the institutionalisation of welfare provision into a relationship of overall responsibility (Spencer 1894), believing that a new form of social integration would appear as social structures became more complex and diverse. However, such integration should not be a mode of collective subsistence because 'socialist' subsistence would restrain individual freedom, making the poor believe that their misery was the only reason for receiving support and holding contributors responsible for this (Spencer 1969: 82). The social integration that Spencer predicted did not become a reality. On the contrary, the welfare state as a model of social responsibility developed rapidly in western Europe after World War II.

Expositions of welfare states are numerous. Many scholars emphasise the relationship between industrialisation and the development of welfare states, regarding the welfare state as the inevitable outcome of industrialisation in contemporary western countries. The welfare state has been regarded as a comprehensive and massive regulator of contemporary western industrialised societies, in which governments can guarantee all citizens a basic standard of income, nutrition, health care, housing, and employment opportunities, in the form of rights rather than as charity (Wilensky and Lebeaux 1965).

According to some analysts, the welfare state in industrialised countries is a supplement to the capitalist market economy and serves to weaken the role of trade unions (Swenson 1991: 379–99). To others, it is a result of long political struggles by the

working class, and therefore depends on the balance of class forces, on the politics of political parties and even on the 'game rules' of political struggles (Kropi 1983). Still others believe that the role of capital is often underestimated, and it is the capital and structural function of business circles, combined with the fluctuations caused by special institutional arrangements and deep-seated changes in economic structures, that has produced the current social responsibility systems among individuals, market and countries (Pierson 1992). The welfare state has also come under severe attack. Max Weber criticised social welfare policies for being bureaucratised because they are partially imposed on the government by interest groups, or the government itself usurps them to serve either power politics or ideology (Gerth and Wright Mills 1961: 213). Herbert Marcuse attacked the welfare state for making labourers 'the slaves of the industrialised civilisation' (Marcuse 1966: 32–33). Fromm argued that men's original inclination is a kind of instinct for 'self-strengthening', and that people can use such inclination to create their own social interdependence (Fromm 1971: 47–48, 289–90).

It would be mistaken, however, to apply the above arguments directly to the evaluation of a concrete welfare system. Instead, we need to look at different types or models of welfare provision before any conclusion can be drawn.

## 2 Types of Welfare

Western scholars have frequently attempted to make classifications of welfare systems. One widely used classification is to divide welfare into 'institutional' and 'residual' models. The institutional model is typically represented by social security systems in continental Europe, while residual programmes concentrate on dealing with specific cases. According to Robert Pinker

The residual model of social welfare is closely linked to 'optimistic' theories of economic growth, ... It is argued that 'with increasing and more diversified prosperity, the incidence of such problems as poverty is declining. The aim of social welfare under these circumstances should be to focus selectively upon a residual and declining minority of needy groups. In

this way, scarce resources will be used more efficiently and, in appropriate cases, provided at a level sufficiently generous to bring about a marked improvement in social circumstances.' (Pinker 1971: 99)

On the contrary,

The 'institutional' model of social welfare is closely related to differing interpretations of the effects of economic growth, ... The effect of industrialization is so to heighten the risks and consequences of contingencies like unemployment, poverty, illiteracy, disease and homelessness, that these services must be provided on a universal basis. (Pinker 1971: 99–100)

Prior to Pinker, Richard Titmuss tried to create a typology of social welfare. He looked at the 'private market' for services of 'free choice', in addition to universal social services and governmental financial provisions (such as tax reduction or remission). However, he denied the social functions of occupational benefits and welfare markets on the grounds of social justice (Titmuss 1968: 138–152). Harold Wilensky also presented a classification of welfare. He recognised the different functions of both institutional and residual models and observed that Americans preferred the residual model of limited government intervention while Europeans were more inclined to the universal institutional model and comprehensive government intervention (Wilensky and Lebeaux 1965: 138–40).

To sum up the above discussion, at least three models of service provision can be identified:

1. *The residual model* of welfare, which aims to provide basic services for the least privileged, and begins to be effective when the functions of market and family crumble.
2. *The institutional model* of welfare, known as social security, aims at combating market failure and provides universal services based on needs, rights and social justice.
3. The third kind of provision is now beginning to be noticed as a supplement to the public programmes of institutional and residual models. Forty years after Titmuss denied *occupational*

*benefits* on the ground of social justice, Esping-Andersen acknowledged '*defined contribution plans*' as an alternative to public pensions (Esping-Andersen 1996: 26).

Both residual and institutional models of welfare involve government intervention, while the *occupational-defined contribution* model does not.

## 2.1 Types of welfare in China

The concepts of these three models are all useful in understanding the situation in China, with the latter causing most confusion. Since Chinese enterprises are still by and large state owned, a distinction between programmes run by firms and those run by the state proves difficult in many cases. For example, the Ministry of Labour and Social Security took upon itself the responsibility to issue documents on the 'Enterprise Supplementary Pension Programmes'. Enterprises and government agencies manage individual accounts directly.<sup>2</sup> Indeed, occupational benefits are referred to as 'welfare' in China and many Chinese view occupational benefits as public provision.

It is therefore important in China to distinguish not only the residual model of welfare from the institutional model of welfare, but also the occupational benefits, which came to be known as 'work unit welfare', from public welfare programmes. In theory, the two models are very different. The ultimate goal of occupational benefits is for firms to become more competitive by investing in human resource development, while the purpose of social welfare is to reduce social inequality and eliminate social injustice by institutional redistribution or by investing in human development. One aims at improving society, the other at maximising profit.

It is not necessarily wrong to provide services aimed at increasing capital, if the services benefit some and do not harm others. Experience shows that some of the bigger firms, in order to secure a quality labour force, can behave 'compassionately' or 'benevolently', contributing not only to better skills, bigger pensions, safer homes, but also to local education, development and welfare (Wellingham and Cohn 1987: 5–10). Recent studies show how some multinational firms, through the development of codes of conduct within their industry around the

globe, are benefiting their employees across country borders (Snyder 1999). This raises the question of whether greater occupational provision can reduce the demand for public provisions and contribute to the overall well-being of humankind.

### **3 Significance of Decomposing Welfare through Comparison**

Decomposing welfare provisions into different functional units provides a structure for us to understand the composition of social responsibility systems in different countries. For example, compared with British and American public social security programmes, we see that Germany ranks at the top in terms of the extension of coverage. In Germany, the institutional model covers contingencies for old age, disease and industrial injury. All the programmes are defined-benefit social insurance, and eligibility is based on employment and the payment of a fairly high social insurance tax. Social insurance institutions are the main administrative organisations, with the Ministry of Labour and Social Affairs working as a surveillant. The advantages of this model may be found in the universal standards of contribution and benefits, relative stability of the system and better protection of the beneficiaries. Relevantly, it is more difficult to reform the system (US Department of Health and Human Services 1983 and 1991).

By contrast, the eligibility for social security protection in Britain is habitation and taxation. The old age and public health programmes cover all residents at a certain level. Thus, the relevant British government branches take more responsibilities for administering the programmes than their counterparts in Germany. There is an obvious tendency for the government in such a system to level off the benefits, and to shift from institutional provision back to traditional residual provision. In this case, it is easier to implement reform programmes and lower the standard of public benefits in Britain. Another reason for a more flexible public social welfare system in Britain rests on the fact that the tradition of providing additional company pensions, although declining since the heyday of the welfare state, has never died out. As public social security benefits were cut, private pensions started to rise (US Department of Health and Human Services 1983 and 1991).

The United States is known for its three-pillar system. The government limits its role in social protection, and most programmes have set ceilings for benefits. For example, the practices in health care provisions are diverse, and the residual model of governmental programmes only covers the retirees who have paid their social security taxes and the poor. It is obvious that the American system leaves many responsibilities to the market and other private sources of which occupational benefits account for approximately one-third (US Department of Health and Human Services 1983 and 1991).

To further our comparison to non-western countries, we can draw several conclusions. First, modern industrial societies have reached a consensus on what should be considered as basic human needs to be protected with public resources. It is the responsibility of governments and societies all over the world to provide social assistance to the poor and needy. Industrial injuries are considered as a social responsibility here since the government plays a mandatory role in regulating this insurance. All the listed countries and regions in Table 1 provide industrial injury insurance, which should be seen as a commonality of industrial societies. With regard to medical coverage, practices are widely divergent. In Britain, the public health scheme covers all residents, while in the United States, only the aged and poor are eligible for public coverage. Neither of the two has chosen institutional redistribution as the form for health insurance. In western industrial societies, old age protection is to a greater or lesser degree a state/social responsibility, and the institutionalised public pension programmes are by and large defined-benefit and pay-as-you-go in nature. These programmes differ from each other by wage replacement rates, but are sharply distinguished from the defined-contribution programmes in Hong Kong and Singapore.

Secondly, the comparison of these programmes inspired thinking over the reasons for different choices of welfare policies. The level of industrialisation proves not to be the sole reason for the composition of welfare programmes, since the most developed industrial country, the United States, has the narrowest public coverage among the western economies. Another example may be found in the comparison with Hong Kong and Singapore. Both places have a history of British rule, yet both have developed their unique compositions of welfare

**Table 1: Comparison of social security systems and their responsibilities**

	USA	UK	Germany	Hong Kong	Singapore
<b>Responsibilities of firms and individuals</b>	Private housing	Private housing	Private housing		Provident Fund with housing
	Private pension such as 401 (k)			Private pension	
	Individual medical insurance				
	Occupational health insurance				
	Occupational pension	Occupational pension		Occupational pension	
<b>Responsibilities of states or societies</b>				Public housing scheme	Public housing scheme
	Unemployment insurance	Unemployment insurance	Unemployment insurance		
	Public pension	Public pension	Public pension		
	Medicare/Medicaid (for elderly and poor)	Public health scheme	Health insurance	Public health scheme	Public health scheme
	Industrial injury insurance	Industrial injury insurance	Industrial injury insurance	Industrial injury insurance	Industrial injury insurance
	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance

programmes different from that of Britain. They resembled Britain in providing public medical services for natural, geographical and historical reasons,<sup>3</sup> while remaining distinct in not choosing universal unemployment insurance and pension insurance for social protection. Instead, both Hong Kong and Singapore carried out large-scale public housing programmes benefiting roughly 40 per cent of the residents, a service which is seldom provided in the western industrial countries. Hong Kong enjoys a relatively high rate of employment and a high rate of labour turnover. Of its six million population, many come from mainland China and will leave Hong Kong when they retire. For this

particular labour force on a land of high density, housing became the most urgent need to which the government found ways to respond. Hong Kong's remarkable low-rent public housing scheme was formulated in the early 1950s. The intrinsic logic of introducing this programme is consistent with that of industrial injury and old age insurance in the West. Such analyses suggest that the discussions in China on the 'completion of the welfare state' are untenable and that simple analogy and direct imitation are obsolete. It is time to look at actual conditions, such as population and economic structure, natural environment, etc. to identify the contingencies to which a response is needed.

Another conclusion to be drawn from the above discussion is that social welfare provision from public sources does not have to be comprehensive. Table 1 shows clearly the existence of other channels, including enterprises, organisations, families and individuals, which jointly provide services not provided for from public sources. The benefits provided by enterprises may be business-oriented or mutual aid in nature, the individual account purely personal savings; they can be regulated to meet human needs, and can also serve as pillars of social protection. In this case, human needs are not only provided for by social security and social welfare programmes, but by all three pillars, namely social and public provision, occupational benefits and private sources from individuals and families (Bargo 1994).

Countries choose different compositions of the three pillars: some have a stronger social security pillar, such as Germany; others put more emphasis on employer or individual contributions, such as the United States, or a regulated individual role, such as Singapore. These international experiences provide useful lessons for China in the transition from a condition that is characterised as 'public not public, private not private'<sup>4</sup> to a diversified universal social protection system. The rationale of keeping country-specific balances between institutional social security and residual social assistance are very relevant in China for the division of labour between the Ministry of Labour and Social Security and the Ministry of Civil Affairs. Firms and employers in China should also provide supplementary annuity programmes as a part of their incentive systems. A more comfortable life after retirement can be considered as the responsibility of families and individuals in China too. Charitable organisations could provide mutual aid programmes in replenishing the whole system. Organisation for Economic Co-operation and Development (OECD) research shows that people aged 55 and older in Australia collect 36.11 per cent of their income from public pensions (1981); this number is 32.63 in Canada (1981), 41.84 in Netherlands (1983), 34.71 in Switzerland (1982), 41.69 in Britain (1979), 54.14 in Germany (1981), and only 29.78 in the US (1979) (OECD 1992: 46). Following the social security reforms in continental European countries, the above rates will decline. With the dual system of social security separating the urban workers from

rural, China has been able to secure a fairly high wage replacement rate for urban retirees.<sup>5</sup> Should China move to a universal public pension programme, then given the size of the country and the population, it is unrealistic for China to offer a replacement rate higher than that of European countries. The solution can only be found from sectors other than the public.

Experience in other countries or areas tells us that some of the social responsibilities are movable between institutional and residual models, and also between public and private sectors. The reduction in unemployment benefits parallels the rise of spending on job training and other services. Pension income can come from many sources. The crux is to find the right programmes for the right conditions, as Hong Kong has done with its housing programme. It would be completely irrelevant to take the European welfare models, or American, Japanese, or Latin American models as the criteria for China. Each society has its own natural environment and political, economic, social, cultural and historical background, thus the basic needs of people and the resource components are bound to be different. If Americans had imitated the Singapore or Hong Kong housing programmes, developed for city-states, they would have been doomed to failure.

Moreover, welfare programmes are designed to fit within different boundaries. In an agricultural society, the protective measures for labourers are limited within their narrow scope of activities in the form of services in kind. Life insurance was invented in Italy to protect sailors who were exposed to different contingencies from those at home. National social security is indeed the invention of industrialised societies in which labourers are able to move for jobs within national borders. Again, firms provide occupational welfare only to their employees and employment is seen as the boundary, of eligibility for the benefits. Different welfare and protection schemes follow different people. Since people have different needs, the composition of welfare in a country has to be made up of diversified programmes which combine into a coherent whole. Therefore, it is very important to study the contingencies of Chinese people before designing welfare programmes for them. The classification and the delimitation of welfare, as we have

done in this article, evokes learning about the limitations of contemporary welfare systems. Of course, the frontiers of welfare states are also challenged by the trend of globalisation. Globalisation is accompanied by the growth of private pensions and other occupational benefits. On the other hand, as Esping-Andersen has pointed out, European welfare states have failed to make changes as social and family structures have changed. The institutional model marked by high taxation and high benefits is conducive to late entry and early exit, which causes the shrinking and decline of the system (Esping-Andersen 1996: 18–20). Britain, for example, has seen the decline of the institutional model and the expansion of social assistance in the last decade. Social security must be subject to change, as Munnell once wrote, following changes in economic, societal and administrative institutions, if it is to be successful (Munnell 1977: 11).

Needless to say, the recomposition of welfare systems does not always prove to be rational. In addition to many objective factors, the politics of a country tends to play a very important role. In western European countries we have to understand party politics in order to explain social welfare reforms. In China, the politics between government agencies also play a role in the direction of welfare reforms. This fact does not diminish the usefulness of decomposing welfare; instead, decomposing welfare into different types and models is instrumental for the understanding of different limits and rationales of welfare provision.

## Notes

1. For those arguments, see for example Giddens (1999) and related works and The Joint Manifesto by Blair and Schoeder, *Europe: The Third Way/The New Middle Wing*.
2. References may be found in numerous publications in China, for example see the *Journal of China Social Insurance*, 1998. A recent survey on the opinions of Chinese social security Experts shows that only 63.3 per cent of them believe that the individual account should be separated from social insurance management. See 'Experts' opinions – a survey', *Journal of China Social Security*, March 2000.
3. As the early British colonialist army suffered severely from the humid climate and epidemic pestilence in Hong Kong and Singapore, the British government introduced a public medical system.
4. An official from the Ministry of Labour and Social Security told the author that in Shanghai, the experimental city for social security reform, a public pension scheme is managed by the local Labour Office, additional occupational pension programmes are also managed by the local Labour Office, and the so-called 'individual accounts' again are managed by the enterprises in collaboration with the local Labour Office. There have been cases reported in the television news that some local Labour Offices have used money towards constructing their residence buildings.
5. The current plan is to aim at a 75 per cent replacement rate.

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