

Some Social Costs of Transition and Development in China

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China's Human Development

- In **1995**, China's **HDI** rank was **111** of 174 countries.
- In **2006**, it's HDI rank was **81** of 177 countries.
- China should also get full credit for its record of pulling several hundred million people out of absolute poverty.
- This conclusion holds even though new and more accurate PPP estimates of income indicate that the size of the remaining poor population is much larger than had been thought.

China Demographic Indicators

<u>Indicator</u>	<u>Value</u>	<u>(Year)</u>
• Life expectancy at birth (years) - males	71	(2005)
• Life expectancy at birth (years) - females	74	(2005)
• Under-5 mortality rate (per 1,000 live births)	27	(2005)
• Infant mortality rate (per 1,000 live births) *	23	(2005)*
• Neonatal mortality rate (per 1,000 live births)	18	(2004)
• Maternal mortality ratio (per 100,000 live births) **	56	(2000) **
• Population annual growth rate (%)	0.8	(2005)
• Population in urban areas (%)	40	(2005)
• Total fertility rate (per woman)	1.7	(2005)
• Adult literacy rate (%)	90.9	(2004)

Source: WHO World Health Statistics 2007

* China claims its IMR fell to 15.3 per thousand in 2007.

** China claims its MMR fell to 36.6 per 100,000 in 2007.

Yet there have been sizable **social costs** to China's development. These include:

- rapidly increasing income and consumption **inequality**.
- growing **insecurity of farmers' land tenure**, as land grabbing by city officials for urban development has become a common practice.
- the **collapse of the previous public health system** and increasing unavailability of health care to those in need.
- very high **environmental costs** of growth on all fronts, air, land and water, and in China's contribution to greenhouse gas emission.

Inequality.

China has changed with startling speed from being one of the most egalitarian nations on earth in 1978 to being one of the more unequal societies in its region and among developing countries generally.

Income and consumption inequality has increased along several dimensions, but the most striking is the **urban-rural gap**, which is extremely high in China.

This gap has its origins in the **urban bias** of development policy during the collective period; and **rigid separation of rural and urban populations** enforced by a system of household registration, bans on migration, and food rationing.

Although the “great wall” separating urban and rural China has been crumbling, and tens of millions of rural-urban migrants getting city jobs, the urban-rural gap remains very high even today.

Health Care

In the 2000 World Health Report, China is ranked **188th** out of 191 countries in "**fairness of financial contribution!!**"

India is ranked 42nd.

The Report states that Chinese **pay 75% of health care expenses privately out of pocket**; only 25% is paid by the state.

China is ranked **144th** in **overall health system performance**, well below India's rank of 112th.

Yet China's rank for **health status** is **81st** (India, 134th) and for distribution of health, 101st (India, 153rd)

WHO probably exaggerates China's failings in equity somewhat, but they are real.

A 2003 World Bank briefing on rural health in China listed as major problems:

- stubbornly low rural health insurance coverage
- high and rising out-of-pocket medical expenses
- over-provision of drugs [profitable for doctors]
- under-provision of core public health services, and
- unequal access to health care.

- Medical expenditures have risen sharply (14% average annual growth rates between 1998-2003)
- Utilization of health services has declined in both urban and rural areas
- Financial constraint is the most frequently mentioned reason for not using outpatient service
- Lack of money is also a key factor in constraining use of hospital services

China had a simple but effective **rural cooperative medical system** at the end of the collective period. It covered over 80 percent of villages.

Lightly trained paramedics (“**barefoot doctors**”) provided inoculations, basic treatment of common diseases, and screening for referral up to county health facilities.

With decollectivization, this system disappeared and the rural population had virtually no health insurance.

The government is trying to address the health issue. It has set a goal of extending universal health coverage to all Chinese citizens by 2020.

As of September last year, about 730 million farmers had joined a new rural cooperative medical system, which began in 2003.

Under this system, farmers pay 10 yuan (1.37 dollars) a year for basic health care, and the central and local governments each contribute 20 yuan per person to the fund, making a total of 50 yuan per person.

However, the system is still badly under-funded, especially in poor regions, and not adequate to meet the medical needs of its (voluntary) participants.

The Environment

A very heavy social cost is also being paid by the Chinese people in the form of **environmental destruction and pollution**.

China has become the **highest emitter of SO₂** in the world and the **second highest emitter of greenhouse gases**.

A recent conservative estimate by the World Bank put the cost of air pollution in premature death and morbidity at 3.8% of GDP.

Over half the water in the seven main rivers of China are deemed unfit for human consumption.

The cost of groundwater depletion and use of polluted water by industry are estimated at 1% of GDP, and this excludes the cost to human health.

The severity of the air and water problems have diminished the attention paid to other serious environmental concerns, such as loss of **biodiversity** and **desertification**.

China has one of the highest levels of biodiversity in the world, yet species are disappearing at a frightening rate. The Swiss-based World Conservation Union has listed 16,306 species as being under threat - almost 800 of them in China.

As for desertification, a Chinese government survey conducted in the 1990s showed that the total area of land-turned-desert had reached about 1.7 million square kilometers, or 17.6 percent of the country's territory.

In a country already short of arable land, conservation of land is a major imperative. Related to this issues is that of:

“Land-grabs”

An estimated **66 million farmers** had their land expropriated by local governments up to mid-2004, many with grossly inadequate compensation. (Yu Jianrong, Oriental Outlook, 9/9/2004)

Illegal acquisitions of arable land by local government remained rampant after that, as well; authorities have vowed to crack down on exploitation of arable land by local governments for construction of villas, golf courses, and race tracks

-prevalent especially in Zhejiang, Shandong, Jiangsu, Hebei and Guangdong

Land issue is crucial for the rural majority of Chinese.

The **egalitarianism of land distribution** when the collectives were broken up (early 80s) had prevented the development of a class of landless poor. That achievement is now threatened.

China's current leaders, upon coming to power in 2002, put forward a **new development paradigm** calling for building a "Harmonious Society" with more balanced development across regions and sectors.

The paradigm, laid out in detail in the 11th Five Year Plan (2006-2010) stressed sustainable growth, "putting people first", and making development pro-poor and pro-rural.

"The main thrust of the [Harmonious Society Program] is redistribution and rebalancing of the economy, aimed at reversing some of the inequalities that have emerged, addressing social grievances and relieving tensions" (Wong 2007)

China has indeed taken steps in this direction, constructing a rudimentary **social safety net in the cities**, **abolishing the agricultural tax** in 2006, inaugurating the **new rural healthcare system** in the countryside, carrying out a **big infrastructural investment** program in poorer areas of the center and west, etc.

But to have the needed impact, the new strategy must be backed by more resources.

E.g., achieving **universal free, compulsory 9-year education**, requires substantial central subsidies, as do the new **cooperative medical scheme** and the proposal for a **rural minimum livelihood guarantee** (*dibao*).

-The amounts needed would seem to be feasible to provide:

Required Supplementary Costs of Three Largest Rural HSPs

	<u>Cost (Bills. RMB)</u>
Rural compulsory education	50
New Cooperative Medical Scheme 100 yuan subsidy per participant for rural population in the central and western provinces	65
Rural <i>dibao</i> (minimum living stipend) National rural <i>dibao</i> line at \$1/day with 100% overhead	<u>40</u>
-Total	155
-As share of central revenue	9%
-As share of discretionary central revenue	13%

Source: Christine Wong (2007)

However, although the funds required are modest relative to central fiscal resources, **the center's capacity to get them to where they are needed and monitor their use, is very weak** -- a legacy of the extreme fiscal decentralization of the 1980s and early 90s.

As a result, these social programs and others remain badly **under-funded in poor areas** of China that are most dependant on central transfers.

Fixing this problem will require **institutional reform of China's public finance system**.

Also needed will be major **price realignments** (in the case of environmental problems), and **changes in incentive systems** in the fields of health care and education.

Fear of social instability was probably the motivating force behind the change in China's development paradigm.

Burgeoning **inequality**, the emergence of large-scale urban **unemployment** and **poverty**, imposition of **arbitrary fees and exactions** on farmers, and the growing **insecurity of land tenure** in the face of land grabs, have combined to produce **protests** in the tens of thousands per year. In 2003, official websites indicate that some 3,070,000 participated in demonstrations.

Until the late 1990s, China's leaders tried to **grow their way out of** such social problems, creating jobs and higher incomes.

But it became apparent that **growth itself created or exacerbated some of the most pressing social problems**, such as environmental destruction and the growing contradiction between soaring land values and egalitarian control of land by poor farmers.

Conclusion

The **new development paradigm** is a significant shift away from merely trying to grow out of major social development problems, and toward recognizing and facing them.

There are formidable obstacles to success, but China's relatively skillful treatment of the massive urban unemployment problem, at the beginning of the century, is an indication that its **capacity for effecting change** shouldn't be underestimated.

Finally, problems in the area of social policy inevitably raise the question of **political reform**. Can an effective and equitable social policy be pursued without **political reform** that would provide for **democratic participation** in policy making?